THE TRILATERAL COUNTRIES

IN THE INTERNATIONAL ECONOMY

OF THE 1980s

THREE ESSAYS

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Prepared for

The Trilateral Commission
A Private North American-European-Japanese
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These essays were prepared for the Trilateral Commission and are released under its auspices. They were discussed at the Trilateral Commission meeting in Washington on March 29–31, 1981. The authors, who are experts from Western Europe, North America and Japan, have been free to present their own views; and the opinions expressed are put forth in a personal capacity and do not purport to represent those of the Commission or of any body with which the authors are associated. The Commission is making these essays available for wider distribution as a contribution to informed discussion and handling of the issues treated.

The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

THE TRILATERAL COMMISSION

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THE TRILATERAL COUNTRIES
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I. "Trilateralism" and the Governance of the International Economy in the 1980s

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II. More Interdependence, More Diversity: Trends and Issues in Trilateral Relations with Centrally Planned and Third World Countries

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III. The Inflation-Unemployment Nexus: Policy Choices and Growth Prospects for the Trilateral Countries in the 1980s

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FOREWORD

The broad purpose of this project has been a reexamination of "trilateralism" in the prospective world economy of the 1980s—a world economy that has already changed in considerable ways since the Trilateral Commission was conceived in the early 1970s.

"There are grounds for questioning some of the assumptions underlying the 'trilateralism' of the 'seventies and for suggesting that we may be better served by a somewhat different conception in the 'eighties,'" Miriam Camps writes in the opening essay; and she goes on to sketch six broad "propositions" about the governance of the international economy in the 1980s. First is the need for a "new multilateralism" that reaches for a modified set of rules acceptable to almost all countries (particularly rules for the management of money and conduct of trade) while allowing special or additional arrangements for various clusters of countries, consistent with the global framework. A few relatively effective global organizations—the IMF, IBRD and GATT in particular—need to be strengthened to provide overall surveillance of these special or additional rules and also to help provide the kind of "leadership and steering" the system requires, buttressed by "key countries" (not always trilateral ones) that will vary over time and according to the issue at hand. "Gradually moving some of the advanced-country consultation and coordination of policy that is now carried on in the OECD and at the Summit to inner groups within the IMF and GATT should help to ensure that the needs of the wider system and of other countries are given more adequate consideration. It should also make it rather easy to add, and perhaps subtract, countries from these key-nation inner groups as changes in the economic weight of countries make this desirable."

The Camps argument rests partly on the perception that the trilateral countries are becoming less distinguishable from the rest of the world. Continuing differentiation within the "First World" group—and Second and Third Worlds as well—is making it less useful to think of countries in these terms. Important new actors are emerging beyond the trilateral countries—sometimes with different ideas about how the world economy should be organized. These themes are also prominent in the essay by Ryokichi Hirono. "The traditional intragroup bonds that have bound the OECD countries, the Group of 77, and the centrally-planned economies will continue to be eroded away in the 1980s," he argues. "Attempts will certainly be made by those central to these traditional
international groupings to re-cement the old ties. The logic of the growing multi-polar world, however, will continue to brush aside such attempts. Nations will negotiate in different coalitions on different global issues, cutting across existing power groupings." Hirino projects a higher degree of economic interdependence between trilateral and both centrally-planned and Third World countries, and he sees increasing economic and political diversity in both of the latter groupings. Within the Third World, he concentrates on the OPEC countries, the NICs, and the low-income countries, laying out some of the challenges each will present in this decade. "The 1980s will be an era of negotiation among countries and groups of countries and we will experience continuing birthpains in seeking a new set of principles and rules suitable for governing international conduct in a more multi-polar world economy."

While the Hirino and Camps essays both stress the intensification of interdependence beyond the trilateral regions, the Karsten Laursen essay suggests a new dimension of interdependence among the trilateral countries: Recent empirical analysis indicates "a large international element in the rate of wage inflation" in OECD countries. Such a link among the OECD economies carries important policy implications. For instance, "if a country pursues contractionary policies to reduce inflation, the international wage link operates in such a way that the process becomes even more painful" because the wage inflation imported from abroad necessitates even sharper contractionary policies to accomplish the domestic inflation-reduction goal. At the global level, a wage link of this nature casts additional doubt on some of the supposed economic virtues for the industrial countries of international "pump-priming", such as through massive transfers to developing countries. "While it is true that an increase in demand from the developing countries will have an expansionary impact in the industrial countries, it does not follow that this expansion will be any less inflationary than domestic 'pump-priming'." In fact there will be a reverse tendency if, as suggested above, there is an external element in wage inflation in the OECD countries. This international linkage will hold back the inflationary impact of expansionary measures in an individual country, whereas this brake will not be at work if the increase in demand is distributed over the whole OECD area, as will be the case if it originates in the developing countries as a result of international 'pump-priming'." Laursen makes these points about OECD-level and global-level interdependence in the course of an essay on the inflation-unemployment nexus in the industrial countries. He is very critical of the current emphasis on contractionary measures to bring down inflation, and argues "an urgent need for supplementary policy instruments. Most important among these is a policy of wage restraint. . . . To the extent that expectations in wage formation contain an international element, a national wages policy is likely to be greatly facilitated if it becomes an integral part of the policy arsenal in all industrial countries."
* * *

We have departed from our usual practice in this booklet and present three essays—the first by the North American author; the second by the Japanese author; and the third by the European author. Each author acknowledges his or her debt to the range of individuals with whom they each discussed the general themes or actual drafts of their separate papers, though the responsibility for each paper remains that of the individual author alone. Unlike our usual practice, the authors share no collective responsibility for each other’s views.

The authors first met in June 1980 in Paris to discuss the overall outline of the project. In the early fall of 1980, Hirono prepared his first draft, on which some consultations were held in each of the three regions. Laursen prepared his first draft in November, which was discussed at the meeting of European members of the Trilateral Commission in Dublin late that month. Camps’ first draft was completed in early January 1981. Revised drafts of each of the three papers were discussed at the Trilateral Commission meeting in Washington at the end of March. In the months that followed, each author completed the final draft of his or her essay. Laursen held consultations in Tokyo at the end of June. Camps came to New York for a discussion of her draft in October. The editing of the three papers was completed in January 1982.

CHARLES B. HECK, North American Secretary

PAUL RÉVAY, European Secretary

TADASHI YAMAMOTO, Japanese Secretary

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I. "TRILATERALISM" AND THE GOVERNANCE OF THE INTERNATIONAL ECONOMY IN THE 1980s

by Miriam Camps

A. INTRODUCTION

The need for new forms of close cooperation among the highly industrialized, market-economy countries of Western Europe, North America and Japan became apparent during the early 'sixties and was explicitly recognized—in institutional terms—by the transformation of the OEEC (Organization for European Economic Cooperation) into the OECD (Organization for Economic Cooperation and Development) in 1961, and by its expansion to include Japan shortly thereafter.* By the 'seventies it was clear that the collaboration that was needed was of a far-reaching kind, extending deep into policy areas hitherto thought of as matters of mainly domestic concern. In the 'seventies, too, close cooperation among the "trilateral" countries came to be seen not simply as of central importance to the welfare of each of them but to the health and stability of the wider international economic system as well.

The formation of the Trilateral Commission and the inauguration of the series of economic summits in the mid-'seventies were, in their rather different ways, reflections of an awareness that the relationship among these countries had become qualitatively different from the cooperation of the 'sixties. The change in character of the relationship was the product of many factors: the new distribution of economic power, with the European Community supplanting the United States as the world's largest trader and Japan completing the process of "catching up" and becoming the second largest industrial power in the non-Communist world; the increased vulnerability of the trilateral countries to one another as the economic networks binding their economies together multiplied and thickened; the fact that for these and other reasons the United States could no longer play alone the part of "leader," "steerer" and "underwriter" of the system that it had performed for the first two decades after World War II; the

* The United States and Canada had been associate members of the OEEC; they became full members of the OECD.
shared challenge from the OPEC (Organization of Petroleum Exporting Countries) and the dislocations caused not only to the trilateral countries but to the international economic system as a whole from the sharp increase in the price of oil; ever louder and more forceful demands from the “Seventy-seven”* for a new distribution of power and wealth; and, as the decade wore on, the shared problems of slow growth and high inflation.

There is always something artificial about detecting shifts in attitudes and spotting new trends as a new decade opens. Nevertheless, as one looks at today’s world and the problems we seem likely to confront in the next few years, there are grounds for questioning some of the assumptions underlying the “trilateralism” of the ’seventies and for suggesting that we may be better served by a somewhat different conception in the ’eighties, although one that still calls for close and harmonious relationships among this important group of countries.

Implicitly, if not explicitly, “trilateralism” in the past frequently seemed to be based on four assumptions: first, that there was a natural perimeter that could be drawn around the trilateral countries; second, that among these countries a continuing process of “growing together” was in train; third, that ever closer and more intensive intergovernmental collaboration was the right, indeed the essential, prescription; and fourth, that the economies of the trilateral countries were so dominant that if their own relationships were conducted sensibly the system as a whole would prosper. As one looks ahead, various developments—both internal to the group and external to it—raise questions about some aspects of these premises. Trilateralism as we have known it in the past was also essentially a concept that put the trilateral, or “first world,” countries at the center of the international system, gave primacy to the rules and customary forms of behavior that governed their relationships and assumed that other countries should and would, in time, “graduate” into this central system. Today both the assumed primacy of the “first world” system and its relevance as a model which other states should seek to join are vigorously challenged by the developing countries (LDCs).

In reality it has never been easy to say just which countries constituted the “trilateral countries.” What might be called the core countries of the group could be fairly easily identified as the United States, Japan and the countries of the European Community. But is Portugal a trilateral country, is Turkey, is Iceland, is New Zealand? All are members of the OECD, and “OECD countries,” “trilateral countries” and “first world countries” are terms that are frequently used interchangeably, membership in the OECD often being taken as the defining criterion. But membership in the OECD was the result of the va-

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*Group of 77, the grouping of developing countries that came together first with a Joint Declaration at the conclusion of the UNCTAD conference in 1964 and has kept this designation although its numbers have grown considerably beyond one hundred.
gories of history. If one were today establishing a new intergovernmental
economic institution responsive to the needs of the "first world" countries—
defining "first world countries" as the advanced, industrial democracies—it is
safe to predict that the membership would look rather different. It is also safe to
predict that the task of deciding which countries should be members would be
an extremely difficult one. Moreover, today's group would in all probability
not be precisely the right group for tomorrow.

Looking to the future, it seems likely to be increasingly difficult to draw
sharp dividing lines and progressively less useful for many purposes to think of
countries as belonging to today's three (or four) "worlds" than it is to think of
them as lying along a continuum, with clustering along the continuum but few if
any easily identified, discrete groups. A few states will lie at one end of the
continuum or the other—some are very rich and very highly developed and
some are very poor and just starting down the development road—but in be-
tween those extremes there is no hard and fast rank ordering. There are clusters
of countries, but positions change with time and depending on the measure
being used or the attributes being examined. Thus Saudi Arabia is a power to be
reckoned with when considering the management of money or the politics of
energy, but it is of little importance when considering trade questions; South
Korea and Taiwan are just the opposite.

The nature of the relationships and the number and variety of networks that
link together the old industrial states of Western Europe and of North America
and the new industrial giant of Japan are in some ways still unique and of a
character that imposes rather more need for rule-making, for close and con-
tinuous consultation, and for other forms of collective action on this group of
countries than on most other states. But other states are becoming important to
many of the networks that bind the trilateral countries (however that group is
precisely defined) so tightly together. In other words, the "perimeter" or
"scope" of many economic problems is expanding, and as this happens other
states must be included when the problem is one that can only be satisfactorily
dealt with by some form of collective intergovernmental action.

The emergence of other states as important new actors in some aspects of the
international economy not only raises questions about the scope of "trilateral-
ism" but also about the "rules" and "norms" of the international economic
system, giving new force to some of the old arguments of the "Seventy-seven"
about the need for change in the distribution of power and in the rules of today's
international economic institutions.

Changes within the trilateral group also pose questions about the scope and
nature of the "collective management" that should be sought through interna-
tional institutions of various kinds. Increased differentiation is not confined to
what used to be called the "third world," although it is most conspicuous in that
grouping. Moreover, many differences which present few difficulties when
countries are not closely linked become troublesome as economies become joined. For a time it was assumed that when economies were as closely joined as they are today within the European Community there would inevitably be similarity in economic performance. This has not been the experience either within the Community or, more broadly, among the OECD countries, and continuing differences in economic performance point to one source of strain, probably a growing source of internal strain, on the trilateral relationship. The great differences in reliance on external energy resources point to another. The very different economic philosophies that now prevail within the trilateral group about both the management of their own economies and the assistance that can best be given developing countries create additional strains. And so, too, do differences in attitude toward the Soviet Union and differences in levels of defense expenditure.

The assumption that the countries of the European Community would steadily move to adopt common policies and speak with one voice in wider international forums—an assumption that gave substance to “trilateralism” as an appropriate short-hand term for cooperation among the advanced, industrial democracies—also looks rather shaky; the process has proved to be far slower than once seemed likely and the expansion of the Community to include three countries (Greece, Spain, Portugal) that in economic terms are probably more akin to the NICs (newly industrializing countries) than any other group will add fresh complications.

In many of the industrial democracies the early years of the 1980s have been marked by new doubts about the ever-increasing role of national governments in the management of national economies and in the provision of social benefits. Today there is much emphasis on the importance of removing constraints on the private sector if productive investment is to be maintained, and on increasing the responsibility of the individual for basic decisions about his own welfare if a rentier mentality is to be avoided. Similarly, on the international stage the emphasis is shifting perceptibly toward the importance of appropriate national policies and away from the assumption that the answer to the economic problems that are apparent everywhere—in rich and poor countries alike—lies in new arrangements for international collaboration. In both cases some shift in emphasis was desirable. But pendulums once given a push tend to swing too far. In the international arena, which is what concerns us here, the welcome emphasis on the need for more responsible and more appropriate national policies can easily become a preoccupation with national interests defined in ways that are too parochial and that go too far in excluding wider concerns. Wise national policies are of paramount importance, but when, as now, we face a harsh and uncertain international economic environment, the task of defining national policies so that they not only respond to urgent national needs but give due weight to the legitimate concerns of others becomes far harder than it is in easier
times. Even at the best of times it is difficult enough.

Interdependence may have become a cliché, but it is a fact that cannot be ignored. We do live in a highly interconnected world with rapid transmission belts and far fewer of the useful insulators, such as time and space, which reduced or eliminated friction in the past. It is difficult for almost all states to shield themselves from the actions of others and it is difficult for almost all states to limit the consequences of their actions to those who live within their boundaries. Lines between domestic policy and foreign policy are increasingly hard to draw and many issues that until recently were generally regarded as being matters of purely domestic concern can no longer be viewed in this way. Interest rates are a recent case in point. High U.S. interest rates designed to fight domestic inflation have drawn funds from other markets, posing problems for other countries—contributing substantially, for instance, to the weakness of the German mark. Managing interdependence is made immensely difficult by the disjuncture—the lack of congruence—between the economic world which is becoming truly global and the political world which remains dominated by the nation state. Moreover, not only is the web of interconnectedness denser but we now live, and really for the first time, in a world that has become a closed system. Until recently there was always an “out there”; frequently problems such as pollution and unemployment could apparently be “solved” by being exported. Now we are experiencing the problems of living in a world with much feedback. The intensity and the inescapable nature of this feedback, not the finiteness of things, was the real lesson of the first report of the Club of Rome.* Finally, of course, new problems are posed and old problems are intensified by the fact that we are living in a world that is becoming increasingly crowded.

These are some of the factors that suggest the need for reexamining the concept of trilateralism and for trying to define a little more sharply than is frequently done how that concept should be related to international action at other levels—both regional and global. This is a large task for a short paper and can only be done in a cursory way. To put as much content as possible into a few pages, six broad propositions are put forward below, and then each is discussed in a little more detail in the pages that follow.

B. SIX PROPOSITIONS

The New Multilateralism: It is important to have some rules, principles and procedures that are widely accepted to govern certain aspects of the international economy, in particular the management of money and the conduct of trade. But consistent with this overarching framework of rules and procedures,

there should be arrangements for additional and different rules and procedures to meet the needs of countries at different stages of development and with differing economic systems. Not only must developing countries have some special arrangements to meet their special needs but also those highly industrialized countries whose economies are most closely joined must be free to adopt closer forms of cooperation and more far-reaching rules to govern their relationships with one another. However, in all cases additional or special rules and procedures should not only be consistent with the basic "global" rules but should be brought under surveillance by the global organization to ensure that they do not simply shift problems onto other countries.

Leadership and Steering: The international economic system needs more steering, leadership and underwriting than was supplied in the 'seventies. This can no longer be supplied by the United States, acting alone, as it was in the 'fifties and 'sixties, nor could it be supplied by the European Community or Japan, alone. In the future it will have to be supplied partly by "key countries" and partly by international institutions. How it is supplied and who the "key countries" are will vary with the function.

Regionalism: There is a role, probably a growing one, for many kinds of regional cooperation. But the need for and scope of regional action vary enormously from region to region. Regional organizations are not best thought of as symmetrical building blocks of an international system but as elements in a more pluralistic, more decentralized, more differentiated world.

Overloading: There has been a tendency in the past to proliferate international organizations and to assume that intergovernmental action was the right prescription for many problems that could better be handled nationally or by non-governmental organizations. A more discriminating approach is needed, informed by a clearer view of the priority needs at all levels and marked by a willingness to reform and upgrade a few key institutions and to prune (or abolish) many less essential ones.

National Policies: There is no substitute for appropriate national policies, but in the future even more than in the past those countries that can importantly affect the system as a whole must give weight to the systemic impact of their policies; and all countries must recognize that policies adopted essentially for domestic reasons frequently impinge on other countries and, where this is the case, ways must be found to give some "voice" to those affected. Where a high level of interdependence requires a high level of policy coordination, new ways of organizing governments and of coordinating policies may have to be tried.

Experimentation and Improvisation: The international economy needs the discipline of rules—both procedural and substantive—and strong, efficient, durable organizations to help implement them. But it also needs a measure of ad hocery, of improvisation, of messiness if it is to be capable of responding rapidly to unforeseen developments, and if it is to evolve and change as the world changes.
1. The New Multilateralism*

The 1970s were marked by pressure from the LDCs for a new international economic order, strong resistance by the advanced industrial countries to the concept of a “new” order but considerable piecemeal reform of existing arrangements. Among the more important changes made in the system in the last few years have been the following:

- agreement on the establishment of a Common Fund for commodities:
- agreement in the MTN (Tokyo Round of multilateral trade negotiations) on several new codes, in particular those on subsidies and government procurement, and on schedules for further tariff cutting;
- the amendment of the IMF (International Monetary Fund) Articles to legitimize the new system of floating exchange rates, improvements in the characteristics of Special Drawing Rights (SDRs) and the agreement to resume issuing SDRs, an increase in quotas and some redistribution of quotas, the establishment of a number of new facilities to meet special problems, and substantial liberalization in the arrangements for drawing on the Fund by, inter alia, extending the period of repayment and authorizing far larger drawings in relation to quotas than previously;
- shifts in World Bank (IBRD-IDA) lending away from the previous emphasis on project lending and toward more program lending, more concentration on soft loans to the poorest LDCs, inauguration of a new type of loan to facilitate structural adjustments, and the establishment of new funds for the encouragement of food production and perhaps, although this is still to be agreed, for energy exploration and development.

The task for the 1980s will be to break out of the confrontational stance which still characterizes the North-South relationship and to complete the process of reform of essential aspects of the system so that it will respond more adequately to the needs of all countries. Charges of deliberate bias in the rules of the system are difficult to sustain, but the LDCs were on solid ground in maintaining that much of the post-war system was constructed with the concerns of the developed countries (and the problems of the ’thirties) uppermost in the minds of those who were then responsible and that some adjustments both in rules and in organizational arrangements were called for with the advent of many new countries with difficult new problems. A willingness to see further changes in the rules and in the distribution of power in the existing system is needed on the part of the advanced countries; what is needed on the part of the LDCs is more recognition of the fact that changes are being made and that further reform, not some totally new system, is what is now required, and that full participation in “the system” means the acceptance of obligations as well as an enhanced voice.

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*I am grateful to William Diebold (Council on Foreign Relations, New York) for suggesting this term for the more pluralistic and differentiated system here described.
in its governance. And both groups need to look at the system as a whole, to concentrate on improving a relatively few essential functions, and to see that the necessary institutions are efficiently organized and that they complement and reinforce, not duplicate and undercut, one another. Thus, for instance, the need for larger amounts of official development assistance should be met not by over-extending the role of the IMF, nor by distorting the trading system to secure resource transfers by the back door, but should be met directly by more generous funding of the IBRD-IDA and the regional banks.

Further improvement in the global rules and procedures for trade and industrial policy is one aspect of the kind of reform that is still needed. A brief look at this area will also serve to illustrate some aspects of what is meant by the term “the new multilateralism.” Although substantially improved during the MTN, today’s rule system for trade is still defective in several important respects: First, the arrangements that should govern the use of safeguards remain in dispute; second, too few LDCs accept the rule system of the GATT (General Agreement on Tariffs and Trade); third, agriculture, services and international investment largely escape from any international rule-making; fourth, although some of the new codes agreed upon in the MTN take a first step in that direction, the GATT system does not now deal adequately with what promises to be the major problem in this general field in the 1980s, namely the need to find ways to encourage the adaptation of industrial production in the old industrial countries to technological change, to the new economics of energy, and to the rapid shifts in comparative advantage that are taking place in the global economy. There are also difficult organizational problems arising from the uneasy competition between the GATT and the UNCTAD (United Nations Conference on Trade and Development), and to some extent with the OECD.

Many LDCs have a legitimate need for special treatment of certain kinds. But a backward step was taken in the MTN when legal standing was given to sweeping claims for “special and differential treatment,” with the result that all the LDCs—even the NICs—were largely exempted from the central obligations of the GATT. Rather than having a rule system which applies fully only to the industrialized market-economy countries, it might well be better to have a set of rules and procedures to which almost all of the world’s countries would feel able to adhere and then additional, tighter and more far-reaching rules for those prepared to play by them. Today the two cardinal rules on which the GATT rests—the principle of non-discrimination and the requirement of reciprocity—are rejected by most of the LDCs, and the principle of non-discrimination is strained by most GATT members in one way or another. For this and other reasons, I have suggested elsewhere that it might be wise to think of superseding both the GATT and the UNCTAD with a new global trade organization which would have as its guiding principles modified formulations of these two rules: what might be called a “like treatment” rule and a rule making it clear
that a state was only entitled to the privileges of a given code if it adhered to that code.* Under this new "umbrella organization" there would be several special purpose groups, some of them specifically succeeding to the commitments already entered into in the GATT, others concerned with broader questions of trade policy and intra-LDC trade. There would be a general right of complaint if actions taken pursuant to the codes, or, indeed, for other reasons, adversely affected another member country. Thus the common overarching set of rules and procedures would be somewhat looser but more widely applied than in today's system and any additional rules or special arrangements among sets of countries would be subject to more international surveillance than is the case today.**

The next few years are not likely to be propitious for as bold a move as this—desirable though that might be—and it seems probable that the only feasible way to work toward the more comprehensive and yet more differentiated system that seems to be needed will be to move further down the road pioneered in the MTN. The codes agreed upon in the MTN, in fact, already go some way toward reinterpreting the GATT principles in the way suggested above since—the basic rule of non-discrimination notwithstanding—the privileges of the new codes apply only to the signatories of the codes and are not to be generalized to the other members of the GATT. And it might be possible to encourage the process of trade liberalization by the LDCs, both among themselves and between them and the old industrialized countries, by this new device of a code that was attached to but not integrally part of the GATT.

In addition to taking action to breathe life into the newly-agreed codes and perhaps to negotiate a few new ones for LDC trade and maybe also for certain services and some aspects of international investment, other steps will be needed: In particular, the GATT and the UNCTAD must work more closely and more harmoniously together than has been the case in the past, and better ways must be found to deal with problems connected with shifts in comparative advantage and policies designed to affect the structure of production.

The international problems posed by industrial policies, particularly defensive industrial policies designed not to encourage adaptation to changing

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**Non-discrimination is today widely honored in the breach by both industrialized countries and the LDCs. A "like treatment" or "equal treatment" rule requiring countries in "like situations" to be treated in the same way might well be adhered to more strictly. If it were coupled with surveillance arrangements and complaints procedures, the result might be less discrimination than there is today. It would be disingenuous to imply that a "like treatment" rule would be an easy one to apply; obviously distinctions could not be drawn too finely.
circumstances but to postpone the need for adjustment, were looked at in some detail a few years ago by another Trilateral task force.* In its report, the task force stressed the importance of giving more international attention to these problems, and suggested that the new institutional arrangements that were needed should be part of, or loosely linked to, the OECD. That task force recognized that if the problems were to be adequately dealt with, ways would have to be found to associate with this work some of the newly industrializing countries that are now not members of the OECD. That is one possible approach. But both in general and in this specific case I should favor a rather different one. Rather than adding countries to particular activities of the OECD it would be better to establish limited-member groups within the framework of global organizations when the participation of some countries that are not members of the OECD is highly desirable, and when, as in this case, the activities are ones for which it is important that there be some global oversight if the temptation simply to shift problems onto other countries is to be resisted. This alternative procedure should, however, only be adopted where there are efficient, widely respected global organizations. But a somewhat reformed GATT and the IMF would qualify.

In sum, the general concept in the field of trade and industrial policy that we should try to work towards would be broadly as follows: Ideally the original Bretton Woods conception should be "completed" by a new global trade and production organization which would supersede both the GATT and the UNCTAD while retaining much of importance now done by both organizations. If that is not feasible, a close and harmonious relationship should be established between UNCTAD and GATT; GATT should be the main rule-making body but should be further modified along the lines initiated in the MTN. Rather than continuing to adhere to today's contention that there is little wrong with the GATT and that the LDCs and the CPEs (centrally planned economies) should soon "graduate" into the "first world system," the advanced countries should be willing to look seriously at proposals for further reform of the GATT to move it in the direction of the "new multilateralism," based on the following general principles: some basic and controlling rules and procedures that are applicable to practically all countries; stricter rules and more discipline where this is needed because economies are tightly linked and highly interdependent, and other special rules where special circumstances—such as low levels of development—make this necessary, but always provided that these additional or special rules are consistent with the basic "global" rules and procedures; transparency and international surveillance of these additional rules or special rules; and arrangements for investigating complaints and taking remedial action if problems are being "solved" by shifting them onto others.

Another aspect of the "new multilateralism" should also be noted. It becomes extremely difficult to agree on any hard and fast substantive rules as one moves from the comparatively straightforward task of removing tariffs, quotas and other border controls to the far more difficult task of finding ways to resolve problems that arise from the fact that countries—in pursuit of legitimate domestic goals—adopt economic policies that have damaging consequences for other countries. In today's complicated world, the line between domestic and foreign policy is not easy to draw (nor can it always be drawn in the same place) and frequently the only way forward will be to agree on a few general principles and on procedures for international surveillance and for dealing with complaints. In other words, many of today's and tomorrow's problems seem likely to be ones that cannot be regulated by the quasi-legal approach which has been characteristic of the basic post-war international economic rule system (as embodied mainly in the GATT and in the IMF) but will have to be settled by a process of case-by-case negotiation guided by a few general principles. In time this process should yield some new substantive rules. But the likelihood that in many cases discipline will only come through negotiation underlines the importance of giving international staffs, or other impartial groups, a role in this negotiation process, in part to safeguard the position of small and weak countries, in part to ensure that the overarching general rules are not gradually eroded by the negotiating process, and in part to identify new principles that might eventually be codified.

2. Leadership and Steering

In suggesting some of the ingredients of the "new multilateralism" the discussion above was centered on trade questions, for this is the area where reform with these new principles in mind is most important. But much of what was said is relevant to other fields as well—for example, to international monetary matters. In looking briefly at the leadership/steering question, the "management of money" is used as the main example, but, again, many of the general points have a wider application, although in the monetary field, rather more than in most others, the policies pursued by a handful of highly industrialized countries go far to determine the essential character of the system within which all countries must operate—the appropriateness and stability of the key exchange rates to which other rates are linked and the amount and distribution of liquidity within the system.

There were many reasons why the 'fifties and 'sixties were marked by economic growth and relative stability, but some part of the economic prosperity of those years was undoubtedly attributable to the fact that the United States acted in a responsible way both in managing its own economy and in playing the central role of "underwriter" of the international monetary system. Ironically, although this U.S. role was not foreseen at Bretton Woods, the commitment to
par values that was at the center of the system collapsed when for a number of reasons—some of its own making, some external to it—the United States ceased to play this role at the center of the system. Today there is much dissatisfaction with the disorder and the instability that has prevailed for much of the time since the par-value system was abandoned, but no country, including the United States, advocates a return to the U.S.-centered system of the 'fifties. Views remain very far apart about how to improve the existing system, and, despite repeated rhetorical support for an SDR-centered system, it seems reasonably safe to predict that for the period with which we are here concerned the current mixed exchange-rate regime will continue: the key currencies will float in relation to one another, save for those participating in the EMS (European Monetary System) which will float as a group vis-à-vis the dollar and the yen; most other currencies will be pegged either to the dollar, or to another key currency, or to some basket of currencies like the SDR or the ECU (European Currency Unit); and the United States will increasingly share its role as a reserve-currency country with Germany, and, to a lesser extent, with Japan, and, residually, with the United Kingdom and France. In this new system, or nonsystem, the key to better exchange-rate management lies in improved and strengthened IMF surveillance, as has been widely acknowledged. Adequate surveillance of some countries' exchange rates can be carried on by the IMF as an aspect of its annual reviews and periodic consultations with individual countries. But for those countries whose currencies dominate the system, the process of surveillance needs to be rather different, for the exchange rates of these currencies must be looked at not separately but in relation to one another. Moreover, the process of surveillance cannot sensibly be separated from the process of consultation about, and harmonization of the macroeconomic policies that underlie the exchange rates.

For many years, the need for close consultation among the key industrialized countries about monetary and other macroeconomic policies has been recognized and pursued with various degrees of intensity in the OECD's Economic Policy Committee and its subsidiary bodies (in particular Working Party 3) and also, for a time, in the roughly parallel Group of Ten.* Since the mid-'seventies the process of close economic cooperation and policy harmonization among the key industrialized countries has been further strengthened by holding a series of economic summits.

Consultation and cooperation on exchange-rate policies and on monetary and other macroeconomic policies among the key countries—the United States,

*Monetary policy has been the province of the G-10, which is composed of treasury officials from the United States, Canada, Japan, the United Kingdom, France, Germany, Italy, the Netherlands, Belgium, Sweden, and, as an eleventh member, Switzerland. The G-10 is much less active than it was in the 'sixties.
Japan, and the major countries of the European Community—is important not only to themselves but to the orderly functioning of the international economic system. Partly for this reason, and partly because policy harmonization and exchange-rate surveillance logically belong together, rather more of this consultation and cooperation should take place within the IMF as a part of the intensified "surveillance" that all IMF countries agree is desirable. But the kind of discussion of sensitive domestic policies that is needed could only take place within a group composed of the few countries directly concerned; it could not take place in as broad a forum as the IMF’s Executive Board. Nor are the IMF Executive Directors the right individuals for these discussions. The most appropriate group would be a sub-group of the still-to-be-established IMF Council, for the participants must be people responsible at a high level for the conduct of policy. * And the Managing Director of the Fund should be an active ex officio member of any special group of this kind.

This suggestion is another example of the point made in the preceding section: In the more differentiated, more pluralistic world we now live in, it is important to have both some widely accepted general rules and procedures and some additional, tighter arrangements among those countries that need to go further than most countries do in coordinating policies. It also illustrates one way some of the necessary "leadership and steering" can be given to the wider system: through close "key-country" cooperation within the context of global institutions and with the top staff of the global institution actively participating to ensure that the interests of other countries—and of "the system"—are taken into account. Today there are few global institutions that are efficient enough and tough-minded enough to make "steering" by collective action from within a global organization a wise prescription. But the IMF would seem to be one place where it could be done, and a strengthened and improved GATT might be another. Gradually moving some of the advanced-country consultation and coordination of policy that is now carried on in the OECD and at the Summit to inner groups within the IMF and GATT should help to ensure that the needs of the wider system and of other countries are given more adequate consideration. It should also make it rather easier to add, and perhaps subtract, countries from these key-nation inner groups as changes in the economic weight of countries make this desirable.

Even if some of the discussions that now take place in the OECD and at the Summit meetings were transferred to the IMF and a strengthened GATT (or, preferably, a new global trade organization), both the OECD and the Summits would still have roles to play. But the OECD should shed some of its peripheral functions and concentrate on identifying new problems that are not being adequately handled elsewhere and exploring ways of dealing with them, and on

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* Pending the establishment of the Council, the process could be started by a sub-group of the existing Interim Committee.
handling the (comparatively few) issues where common action among the OECD countries, and only those countries, is the right course of action—or the only feasible course of action. (A little more is said about the role of the OECD under 4 below.)

So far as Summitry is concerned, it is not well-suited to the kind of continuing consultation on macroeconomic policy that could usefully be carried on by a restricted group within the Fund; the visibility is too high, the meetings too infrequent, the agenda too broad and inevitably too crisis-oriented. Moreover, particularly at a time when relationships with the Soviet Union are difficult, dangerous and potentially divisive, the Summits must be "political," and must be concerned with seeking to reach agreed appraisals of the nature of the challenges confronting the West and with the economics of defense. Although it is (and always has been) unrealistic to believe that economics and politics can be kept totally on separate tracks, collective action among the key countries that is needed to "steer and lead" the international monetary system should be kept as separate from politics as possible—another strong argument for establishing and using a restricted group within the IMF.

3. Regionalism

In a world of 150 or so disparate nation states, in which value systems are far apart and the sense of global community is still shadowy and inchoate, both feasibility and prudence suggest that there are advantages and strengths in a decentralized system. But in a world in which science and technology have eroded the insulation of time and space and enterprises operate on a global basis, "decentralization" cannot be carried as far as some would like. There are, of course, many tasks that call for international action that do not require any action at the global level—e.g. regional cooperation in the development of a river basin, industrial production agreements among a group of LDCs, many agreements on environmental protection, many aspects of development assistance—and many others that require some form of global oversight but can best be mainly handled at other levels—e.g. health controls, customs unions, clearing arrangements. In a short paper of this kind the scope for regional action and the relationship between it and action at other levels cannot be discussed in any detail. But two kinds of "regionalism" that are frequently advocated as "organizing principles" deserve brief comment.

At times in the past, some people have felt that the "right" world structure would be one composed of several large regional groups: These four or five large groups might cooperate on a few essentials, but most problems calling for some form of international action would be dealt with separately within each region. Wholly apart from the immense difficulty of defining the composition of the regional groups—some countries belong logically to several groups, others to none—the building-block view of regionalism is too at odds with the
way economies are actually linked to have attracted much support. A variant is, however, frequently heard today, a concept that is more "real" for it extrapolates trends that are visible in today’s world.

There are signs that the international system is becoming organized around several poles with the strongest industrialized centers each dominating (or leading and being responsible for, in some formulations) a less-developed hinterland: the United States and Latin America; Western Europe and Africa; Japan and South-East Asia; the Soviet Union and the countries of the CMEA (Council for Mutual Economic Assistance). And some would argue that this is a desirable pattern and should be strengthened by trade preferences, special aid arrangements, and the formalization of monetary blocs. Obviously there are special ties of various sorts that run between the countries in these groupings, but, except in the case of the Soviet bloc, these have not hardened into exclusive arrangements, and even the CMEA is far from being a watertight arrangement as the expansion of East-West trade testifies. Some clustering around poles is unavoidable, and perhaps even desirable if it increases awareness in the rich countries of the plight of the poor, but for both economic and political reasons it is not a trend to be encouraged. It seems likely to lead to competition instead of collaboration among the leading industrial states and, as indicated above, a substantial measure of harmony and cooperation among these leading states is essential to the health of the system. Moreover the breaking up of the international system into competing blocs each "led" by a major industrial power (or by an industrial grouping such as the European Community) is likely to feed the already strong LDC concern about the inevitability of the periphery being exploited by the center in inter-state relationships. A more pluralistic system with many cross-cutting relationships, strong regional groups among LDCs where shared problems and shared purposes make these natural and useful, and a few efficient global institutions combining in new ways common rules and procedures with special arrangements to meet special problems seems likely to be a more efficient, a safer, and a more widely acceptable pattern.

4. Overloading
In recent years both the LDCs and the advanced countries have been guilty of proliferating international institutions. Sometimes the easiest way out of a policy deadlock has been to agree to establish a new organization. Creating new organizations has usually seemed to be easier than reforming existing institutions. And, too often, agreeing to establish a new organization or to assign new tasks to an existing organization has been the soft option chosen by national leaders anxious to be seen to be responding to problems yet unwilling or unable to make the difficult policy decisions that were required. The issue-areas of food and energy are replete with recent examples.
The LDC demand for a larger voice in the management of the international economy should be treated seriously, on grounds of both equity and prudence. But the right response is not the proliferation of one-nation, one-vote organizations, nor the shifting to institutions like the General Assembly that are already organized on that basis of functions now performed in organizations, like the IMF, which operate by weighted voting. Rather, there should be continuous reform of the most effective and essential global-level institutions to enable them to respond more adequately to new problems, to reflect shifts in economic weight, and to give greater recognition to the fact that dependence on the system as well as ability to affect it deserves adequate "voice" in its governance.

Priority should be given to continuing to reform the IMF, the World Bank group and the GATT to make them more responsive to emerging new problems; some further reweighting of voting arrangements should be accepted; and closer day-to-day collaboration among these three institutions should be encouraged. Much of the global level "governance" that the international economy requires could be supplied by these three working in close cooperation. In addition there needs to be reform of the international food and agriculture institutions, considerable slimming down of most of the specialized agencies and some reorientation in their work, and far more drastic pruning of the central UN institutions than has yet been attempted.* The General Assembly is a useful "world forum," but efforts to convert it into a negotiating body or to give it direct power over the operation of the "Bretton Woods three" should continue to be resisted.**

The advanced countries, too, need to be more parsimonious in their own approach to institution-building. The advanced industrial countries have much to learn from each other and the OECD has usefully sponsored interchanges on many common problems—urbanization, transport, health, education, etc. But much of the interchange among specialists that is desirable and beneficial should be done by non-governmental organizations (NGOs). If the pendulum now swings toward less government involvement in some of these areas, the process of pushing too many things to the plane of intergovernmental consideration will tend to be self-correcting. But the forces of inertia are difficult to overcome, and it is probable that not enough effort to slough off functions that

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*Energy is a large issue which cannot be examined here: it has been the subject of several Trilateral reports. Some aspects of the energy problem are best handled by the "Bretton Woods three," e.g., recycling by the IMF and special assistance for the LDCs in the development of energy resources by the IBRD. Summit meetings and discussions within the OECD-IEA complex can help promote sensible national policies and agreements on sharing arrangements and other measures that might be required in a crisis. But, in addition, serious negotiations between the principal producers and the principal consumers of oil on the interlinked issues of prices and supplies are long overdue.

**The effect of yielding to LDC pressures for this kind of change would in all probability be to encourage the advanced countries to deal with more problems by ad hoc arrangements with one another, which is the exact opposite of what the LDCs rightly want, i.e. more participation in the management of the global economy.
can now be handled in other ways will be made unless there is a clear decision on the part of the OECD Council to reorient the work of that organization. The role of the OECD should be redefined to emphasize its importance as an innovator and pathbreaker and to encourage it to shift functions—upwards to global intergovernmental organizations, particularly the IMF-GATT-IBRD, when because of the importance of new states these organizations should now logically be the locus of the work, and outwards to NGOs when exploration has demonstrated the need for cross-frontier collaboration but governmental involvement is no longer needed.

5. National Policies

Even though the pendulum may swing toward less government involvement in some aspects of economic life, the wide range of public goods modern governments are expected to supply to their citizens means that the governments in all the trilateral countries will remain deeply involved in many facets of economic life. There seems likely to be rather more change in the forms of intervention than in the scope of intervention. As indicated above, the policies pursued by the trilateral governments will continue to be crucial not only to their own well-being but to the well-being of much of the rest of the world as well. Given the lack of congruence between our political structures and the areas over which many economic problems have to be managed, there is no alternative to close policy cooperation among our governments save an impoverishing and perhaps now impossible breaking-up of economic networks, as Richard Cooper pointed out more than a decade ago.** But this policy cooperation must be handled in new ways in the future if it is to be adequate to the need. It must be informed with a more cosmopolitan view than has always been the case in the past. In some cases, as discussed above, key-country consultations can be made more aware of and sensitive to the needs of the international economic system as a whole by imbedding them in a global institution like the IMF.

*Given the deterioration in East-West relations that has taken place and the likelihood that strained relationships will endure for some years, the question arises whether the OECD should do more to coordinate economic policy vis-à-vis the Soviet Union and Eastern Europe. Past experience and the fact that the OECD includes neutral countries—e.g., Sweden and Switzerland—and has Yugoslavia as an associate suggest that efforts to propel the organization very far in this direction would meet with scant success. Politically charged issues of this kind are better handled at the Summit—which, as indicated above, should in any case become more concerned with political/security issues. If Agreement were reached at the Summit to go very far down this road, some new group for the detailed discussions this would entail would probably be needed. Alternatively, COCOM (Coordinating Committee for Exports to Communist Countries) might be given rather wider responsibilities.

Consultation within formal intergovernmental institutions must be supplemented by much informal contact and new ways must be found to encourage policy consultation and harmonization on a continuing basis and while policies are being formulated. Some of this already takes place, but more often among central bankers and finance ministers than among those concerned with other questions. The technology of communications has far outrun the willingness of any trilateral country to exploit the opportunities it offers for shaping national policies in concert with others. Adequate policy consultation and coordination, like more “cosmopolitan” national policies, depend on far greater willingness on the part of national leaders to override particular parochial interests and to give more weight in policy formation to longer-term, system-oriented concerns. And this, in turn, depends on far greater public understanding of the nature of the world in which we live.

6. Experimentation and Improvisation

“Trilateralism” as it has been given institutional expression officially in the Summits and unofficially in the Trilateral Commission has been an experiment in new forms of collective action, and it is appropriate that this short essay should conclude by underscoring the need for continuing experimentation and improvisation both among the trilateral countries and on a wider basis. New and as yet poorly understood forms of interconnectedness between economies (e.g. the transmission of inflation*), the erosion of the theoretical consensus that underlay both some of the old certainties about domestic economic management and also the rules of the “Bretton Woods” international economic system, the emergence of new states with huge problems, shaky political structures and different value systems from the old industrial states, and the decline of U.S. economic predominance are among the factors that make a willingness to experiment and to learn through trial and error essential. They also mean that resort to ad hoc arrangements, and sometimes even rather messy improvisations, is frequently a wise prescription rather than a counsel of despair. But a word of caution is needed as well, for unless there is some general “vision” or “concept” of the kind of system it is desirable to be working towards, improvisations and ad hoc arrangements can lead by little steps to end points no one wants or would have chosen had the end of the road been clear at the time the first steps were taken.

Today’s economic difficulties, today’s uncertainties about the usefulness of various economic tools, and today’s disputes about the priority to be accorded to competing goals have tended to breed an overly conservative stance on the part of the trilateral countries and an unwillingness to experiment lest any change will unravel the conventions and institutional structures that have been

* Cf. Karsten Laursen’s discussion of the international wage link in his essay herein, pp. 45-64.
painfully built up over the years. But uncertainty can also be a reason for open-mindedness and a willingness to experiment, and economic difficulties can make possible forms of collaboration that would be unthinkable in happier times. All countries bear some responsibility for determining whether the international economy will become an orderly "system" or degenerate into a more disorderly and impoverishing "non-system." But the trilateral countries cannot escape the major responsibility for the choices made in the next few years, for the international economic system is still very largely their system and collectively they still dominate the world economy.
II. **MORE INTERDEPENDENCE, MORE DIVERSITY:**
**TRENDS AND ISSUES IN TRILATERAL RELATIONS**
**WITH CENTRALLY PLANNED AND**
**THIRD WORLD COUNTRIES**

by Ryokichi Hirono

A. **INTRODUCTION:**

**INTERDEPENDENCE, MULTI-POLARITY, DIFFERENTIATION**

Developments during the 1960s and 1970s have truly reshaped the major premises on which national governments base their internal and external economic policies at the outset of the 1980s. In the international arena, three distinct phenomena have dominated: growing economic interdependence among nations, the steady emergence of a multi-polar world economy, and, at least in the last decade, a continuing process of differentiation within traditional industrial, developing, and centrally planned country groupings.

Irrespective of the types of national economies and their stages of development, exports and imports as a percent of gross national product have grown to be extremely significant under the liberal international trade regime. The rising importance of transnational corporations, precipitated by the equally liberalized international investment regime and fairly stable international monetary system, has accentuated this worldwide trend toward economic interdependence among nations. In this increasingly interdependent world, policy measures taken by the government of a major economic power primarily to deal with its own domestic economic problems are more likely to affect the well-being of the rest of the world community in a significant way. Hence there is an increased need in each of these countries to select those domestic measures that will minimize adverse impact upon the international community. This need—to the extent that the government of any liberal democracy is politically more vulnerable to domestic pressure groups than to foreign ones, and to the extent that governments continue to externalize domestic problems and blame other countries for failures at home—may remain accepted only in theory rather than
in practice. The diversification of national goals and the presence of domestic pressure groups fighting for their narrow economic and social interests have made it more difficult for the government to maintain such self-discipline.

With regard to the increasingly multi-polar structure of the world economy, the erosion of United States dominance will persist, in spite of the efforts of the Administration to restructure or reindustrialize its economy. In contrast, the proportion of the gross world product originating in the Federal Republic of Germany, Japan and several newly industrializing countries (NICs) will continue to rise, as will that of some centrally planned economies and oil-exporting developing countries. It is quite likely that there will be a second round of NICs emerging on the international economic scene by the middle of this decade. The impact of economic measures in the traditionally powerful industrial countries, while still more seriously felt by the rest of the world community, will no longer be as decisive as before. The increased weight of those emerging powers challenging the old international economic order will meet resistance from those industrial countries that represent the old order, thus slowing down the pace of world trade and economic expansion.

The traditional intra-group bonds that have bound the OECD countries, the Group of 77 and the centrally planned economies will continue to be eroded away in the 1980s. Attempts will certainly be made by those central to these traditional international groupings to re-cement the old ties by means of linkage and group politics. The logic of the growing multi-polar world, however, will continue to brush aside such attempts. Nations will negotiate in different coalitions on different global issues, cutting across existing power groupings. Such issue-oriented coalitions will be primarily dictated by domestic priorities facing different nations on the basis of their own cost-benefit analyses and trade-offs between short-term and longer-term considerations. For instance, consultation and cooperation may be intensified between commodity-exporting OECD and Third World countries on ways to stabilize commodity prices and export earnings, against the apparent interests of commodity importing countries in their respective traditional groupings. From the experiences of the 1970s, it is not unlikely that energy-importing OECD and Third World countries may be united in proposing a certain global formula for energy pricing and supply/demand balance, whereas OPEC countries may propose another in their own interests. Continued discussion of seabed resources will in the 1980s bring out different configurations of countries concerned with different aspects of global resources management, depending upon their respective interests.

Linkage politics may also become more common in a more differentiated, more multi-polar world. In an effort to gain concessions on certain economic issues, politically and militarily powerful nations may use these strengths vis-à-vis other countries whose economic power is rising rapidly and threatening their economic base. Similarly, economically powerful nations may use their strong
economic bargaining position to gain concessions on certain economic and/or political issues from those countries that they assist. Furthermore, as seen at the time of the 1973-74 energy crisis, those countries with strategic commodities may attempt to gain concessions of an economic and/or political nature, even from economically powerful nations. The decade of the 1980s will be an era of
for important modern technologies and exploiting natural resources (including energy resources) will remain important during the coming decade, if not more so.

With regard to the People's Republic of China, the 1980 cancellation by the government of several heavy and chemical industry projects which had already been negotiated with private enterprises in Japan, West Germany and other Trilateral countries came as a surprise blow to the rising expectations among the latter for rapidly expanding their trade and economic relations with China. It still remains true, however, that the basic Chinese political-economic reorientation toward promoting the Four Modernizations (in agriculture, industry, science/technology and defense) is expected to expand trade and economic cooperation with Trilateral countries to a far greater degree during the 1980s than hitherto observed. During the coming few years of economic adjustment, the real rate of economic growth and investment expansion will be much lower than the one projected under the Ten-Year Development Plan announced several years ago. Thus, for instance, the rapid growth of trade between China and Japan during the years 1976-78 (from US$3,034 million to US$5,079 million) will not be repeated for some time. By the late 1980s, however, once the current period of economic adjustment is over, and with the financial and technical assistance of Trilateral countries (and assuming China continues its current foreign policy posture of rapprochement with the West and its Four Modernizations), a major expansion in trade and economic cooperation between the Trilateral countries and China is quite likely.

Continuing stagflation in most industrial countries will help the expansion of trade and economic cooperation with China, the Soviet Union and Eastern Europe, and the private sectors in Trilateral countries are likely to press their respective governments to ease various restrictions imposed on such trade and economic cooperation. The continuing need for diversifying sources of energy and raw materials and increasing their availability will also be among the important factors favoring expanding trade and economic cooperation with many centrally planned economies. Pressures will increase in most Trilateral countries for far greater amounts of Eximbank loans at a lower cost to buyers of capital goods exported and suppliers of energy/raw materials imported. Under certain conditions (e.g., centrally planned economies which can qualify as developing countries), the provision of official development assistance and/or other official flows at still easier terms may be urged. Furthermore, government guarantees may be urged for private bank loans of sizeable magnitude. Progressive decontrolling of the COCOM list, which prohibits the participating Western countries from exporting the listed products and technologies of a strategic nature to the Communist countries, will be carried on as part of the multilateral measures for expanding trade and economic cooperation with the East.

From the perspective of the centrally planned economies, there will be a
growing need during the 1980s for importing Western capital goods and technology to improve agricultural and industrial productivity, which has seen a declining rate of increase over the last decade or so. Overall economic growth rates will have to be raised both to meet the rising expectations of their own peoples and to increase their domestic investment for further growth. The centralized system of economic planning and slow progress in institutional reforms (including incentives schemes) have been working against innovation at the enterprise level, and will have to be compensated for by the import of Western technology and innovations, since little can be done in the foreseeable future with these growing institutional constraints. The import and application of Western capital goods and technology will also allow the centrally planned economies to specialize in those areas in which they have a comparative advantage, thus recouping gains from the international division of labor. For these reasons, it is quite obvious that most of the centrally planned economies will be interested in concluding more inter-governmental agreements (with better terms) on scientific and technical cooperation, and also more industrial cooperation agreements with firms in Trilateral countries (including licensing agreements); in importing more and better turnkey plants and capital goods; and in entering into co-production, joint venture, tripartite cooperation, subcontracting, joint tendering or joint project arrangements.

Resource-rich Communist countries will continue to be interested in expanding their industrial/technical cooperation with Western countries with a view to exploiting their abundant natural resources and earning foreign exchange necessary to pay for expanding food and capital goods imports from the West. As the development of energy and other resources will require huge sums, centrally planned economies will be seeking external sources of financing for their development projects on reasonable terms. Many Trilateral countries will be ready to provide both technological and financial resources in return for the energy supplies and raw materials resulting from such development projects.

Both governments and private enterprises in the Trilateral countries will have to weigh possible costs alongside the possible benefits and gains accruing from the expansion of East-West trade and economic cooperation. Western governments will certainly have to consider the broad implications for the military balance between East and West and for their other foreign policy goals. In spite of the lure of bigger markets, greater employment possibilities, and access to energy, raw materials and products needed for industrial growth, Western governments would not like to see their economies and private enterprises become excessively dependent upon the centrally planned countries. There will also be a host of more concrete continuing problems associated with East-West trade and economic cooperation—among others, questions of product pricing, financing (including creditworthiness and growing indebtedness), countertrade (including barter agreements), growing competition from the East in competi-
tion-sensitive sectors, and dumping and other unfair trading practices. Above all, it remains to be seen if the expansion of East-West trade and economic cooperation will in fact contribute to establishing mutually complementary economic relations between Trilateral and centrally planned economies, accelerating healthy structural adjustment and reorganization on both sides. This worry stems from the basic characteristics of economic management and external transactions of centrally planned economies, whereby political pricing and other noneconomic considerations tend to prevail.

2. Increasing Diversity Among Centrally Planned Economies

The decade of the 1970s saw increasing economic and political diversity among the centrally planned economies in terms of domestic economic approaches and performance (per capita gross national product*, economic structures, manufacturing development, technological sophistication, export capabilities, institutional reforms) and in terms of external economic and political relations. Most CMEA countries and China were compelled to reassess their domestic and external economic policies due to declining economic growth rates. Given continuing difficulties in lifting domestic growth constraints (such as reduced rates of return from capital invested, bureaucratic red-tape, institutional rigidities, shortages of skilled and qualified manpower, shortages of low-cost supplies of fuel and other natural resources, and changing social values, particularly among the younger-generation workforce), the expansion of East-West trade and economic cooperation was turned to as a crucial element of modernizing the civilian economy, improving consumer wellbeing and raising the effectiveness of national economic planning and management.

While it may be true that expanded trade and economic cooperation between Trilateral and centrally planned economies has not involved the former in the basic core of the latter, the associated increase in the exchange of high-level bureaucrats, industrial managers, scientists, engineers, academicians and other professional personnel between the East and the West should have had a considerable impact upon the climate of public opinion that has been ultimately responsible for a cautious, yet steady change in the economic and political stance of an increasing number of CMEA countries and China.

Several CMEA countries have joined wider multilateral economic organizations. Czechoslovakia had never left GATT (General Agreement on Tariffs and Trade), though its membership had become dormant. Poland, Romania, and Hungary joined respectively in 1967, 1971, and 1973, and Bulgaria has re-

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*While Cuba and the Mongolian People’s Republic experienced negative or negligible annual growth rates of per capita GNP during the period 1960-79, Romania and North Korea grew much faster than any Trilateral country except Japan. The supposedly rapid economic growth rates of the People’s Republic of China during the 1970s is now in doubt, as revealed by the Chinese government. The range of economic growth rates among the CMEA countries was similar to the range for OECD countries.
tained an observer status since 1967. Romania joined the International Mone-
tary Fund (IMF) and the International Bank for Reconstruction and Develop-
ment (IBRD, World Bank) in 1973. The Socialist Republic of Vietnam (the
only Asian CMEA member aside from Mongolia) retains membership in the
Asian Development Bank, as do the People’s Democratic Republic of Laos and
Democratic Kampuchea. The Peking government assumed China’s seat in the
IMF and IBRD in 1980.*

Individual CMEA countries have concluded a large number of trade, eco-
nomic cooperation, and/or scientific and technical cooperation agreements
with a wide range of Trilateral and Third World countries. For fear of domina-
tion by the U.S.S.R., most CMEA countries have repeatedly stressed at various
sessions of their Council that the extension and improvement of economic inte-
gration among the CMEA countries must be carried out on the basis of respect
for national sovereignty and independence, non-interference in internal affairs
of the member countries and equality of interest among the Council members.

It is likely that the decade of the 1980s will continue to be an era of increasing
diversity in the economic and political stances of the various Communist coun-
tries, primarily dictated by growing differences in domestic conditions and
requirements of development, and partly facilitated by the continuing expan-
sion of East-West trade and economic cooperation. Undoubtedly, serious at-
ttempts will be continuing made by the U.S.S.R. and its staunch allies to
strengthen bilateral and multilateral measures for further economic integration
among the CMEA countries and for their political solidarity. However, to the
extent that the U.S.S.R. and other resource-rich CMEA countries are not able
to completely dispel the uncertainty of supplies of fuel and other raw materials
crucial to resource-poor CMEA countries, and to the extent that the U.S.S.R.
and other industrially more advanced CMEA countries are unable to supply the
necessary quantity and quality of capital goods and technology required by less
developed CMEA countries, the latter will continue to look elsewhere to meet
their domestic requirements. Trilateral countries, together with resource-rich
Third World countries, will increasingly be asked by these resource-poor or
less-developed CMEA countries to cooperate for their continued economic
growth, industrial development and scientific and technological improvement.

It is wishful thinking that closer East-West economic ties will contribute to
sowing seeds of disunity among the Communist countries that may grow to
bring a collapse of CMEA solidarity. Moreover, it is an unfounded fear that
closer economic ties among CMEA countries will accelerate the process of
economic integration among these countries in competition with the Trilateral
economies. In fact, further economic growth and integration among the CMEA
countries may be, contrary to a widely held view in some quarters, beneficial to

*Hungary joined the IMF early in 1982.
the fulfillment of the objectives of the Trilateral countries for world trade and economic expansion, just as growth and integration among the European Community nations has been beneficial during the last two decades. My view of CMEA integration presupposes, first, that the CMEA countries would share the objectives of world trade and economic expansion with the Trilateral countries and do their best to expand trade and economic cooperation between East and West as well as among themselves, and, second, the genuine acceptance by all nations in both the East and the West of a belief that nations must for their own survival promote peaceful co-existence in this ever smaller world, irrespective of their political ideologies. The re-emergence of the antiquated Cold-War mentality will be intensely against the genuine interests of both Trilateral and centrally planned economies in promoting the expansion of world trade and the steady growth of the world economy and thus the maintenance of peace and stability in the 1980s.

3. Growing but Limited Economic and Political Penetration by CMEA Countries into the Third World

The U.S.S.R. and East European countries have in the past been able to gain a friendly entry into many Third World countries by joining the latter in their fight against colonialism and neo-colonialism. The U.S.S.R. in particular has poured into these emerging nations a large amount of financial and technical assistance, oftentimes including military equipment and supplies needed by liberation forces fighting for national independence.* Even today many Third World countries are obtaining such assistance from the U.S.S.R. under bilateral treaties and agreements. While the series of diplomatic and military offensives undertaken by the U.S.S.R. in Angola, Ethiopia, Afghanistan and Vietnam has scared off many Third World countries in Asia, Africa, the Middle East and Latin America, those in the Non-Aligned Group in particular are still seeking economic, technical and military assistance from CMEA countries, though usually to supplement rather than replace foreign assistance coming from the West. The economic and technical assistance from CMEA countries has been mainly flowing into the development of physical infrastructure and heavy industry.

Although the U.S.S.R. officially refutes its obligation to assist Third World countries on the ground that it has never been a colonial power, it has in fact provided many Third World countries with economic and technical assistance,

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*On Soviet assistance to the Third World countries in 1954-75, see the United Nations, *Statistical Yearbook*, 1976. It is reported that, on a commitment basis, Soviet assistance to developing countries rose from US$1,016 million in 1971 to US$1,642 million in 1975, and that the total amount of assistance during the period 1954-75 came close to US$12,280 million. The figures on Soviet assistance include all economic assistance to developing countries, socialist and market economy. It is estimated that roughly one-third of this assistance has been to market-economy developing countries including mixed economies (such as Bangladesh, India, and Iraq.)
partly to ensure a steady supply of petroleum, natural gas and other raw materials needed by expanding industries in the Soviet Union and other CMEA countries and partly to mobilize the support of the Third World in the Soviet Union's incessant struggle for political power and supremacy against the Trilateral countries in general and the United States in particular.

The growing economic and political penetration by CMEA countries into the Third World will probably continue during the 1980s, though with somewhat greater vicissitudes. The penetration will be an increasing financial burden to the U.S.S.R. and other CMEA countries, particularly insofar as the Communist developing countries in Asia, Africa, the Middle East and Latin America are concerned. The CMEA countries will also have to risk further alienation of many Third World countries if they continue to support allies in the Third World which continue to meddle in the internal affairs of non-Communist neighbors. (This may also invite retaliatory actions from Trilateral countries, as in the case of the Afghan incident.) In the minds of many political leaders in the Third World, further economic and political penetration by CMEA countries, particularly the U.S.S.R., may threaten national security and encourage subversive activities against ruling elites that are often either monarchial regimes or military juntas. Closer economic and political ties with the U.S.S.R. may also mean reduction in the magnitude of foreign assistance from Trilateral countries, with a disruptive impact upon their national economies. For these reasons there may be stronger resistance in Third World countries to the further growth of political and economic penetration from the CMEA countries.

The greater presence of the U.S.S.R. and other CMEA countries in Third World countries may mean a narrowing of product markets and even an eventual loss of sources of fuel and other raw materials for the Trilateral countries, and may also lead to more political instability and military conflicts. In such circumstances, the Trilateral countries may be called upon by the United States to cooperate and adjust their respective external policies vis-à-vis the U.S.S.R. and other CMEA countries so as to present united positions concerning Soviet and CMEA activities in the South. Efforts would be expanded by the Trilateral countries not to permit closer economic and political relations between CMEA and Third World countries to develop into something like an economic union against Trilateral interests.

The U.S.S.R. may find it increasingly difficult to round up other CMEA countries to take united steps vis-à-vis Third World countries under its political leadership. Likewise, it will be increasingly difficult for the United States to pull together other Trilateral countries into united positions concerning Soviet or CMEA activities in the South, since external policies will continue to be dictated by different economic requirements and political constraints in different Trilateral countries. The best that can be done will be to maintain a full exchange of views and opinions among the Trilateral countries, and to a limited
extent to coordinate external policies so as not to jeopardize each other’s national interests severely. Anyway, any attempts by the U.S.S.R. to form an economic and political union between CMEA and Third World countries at a regional/subregional level will be a total failure for the foreseeable future, because Third World countries are and will increasingly be too diverse in their economic and political stances, even in the same geographical region.

C. TRENDS AND ISSUES IN TRILATERAL RELATIONS WITH THIRD WORLD COUNTRIES

1. A Higher Degree of Economic Interdependence between Trilateral and Third World Countries

The postwar Bretton Woods system contributed enormously to the growth of economic interdependence between Trilateral and Third World countries (through GATT, IMF and the World Bank group); and transnational corporations accelerated this trend. This growing economic interdependence is reflected not only in trade figures* but also in the rapid expansion in the flow of financial resources from Trilateral to developing countries. During the period 1960-64, the annual average flow of direct investment to developing countries from OECD countries belonging to its Development Assistance Committee (DAC) was about US$1,700 million, while total private flows (including direct investment) averaged about US$2,900 million. In 1978-80, the corresponding annual averages had risen to US$11,700 million and US$44,400 million, a seven-fold increase for direct investment and a fifteen-fold increase for total private flows.

The DAC countries increased their official development assistance from an annual average of US$5,500 million in 1960-64 to US$23,100 million in 1978-80, and increased other official flows annually from US$370 million to US$4,400 million during the same period. The total new flow of resources from DAC countries to Third World countries thus expanded from an annual average of US$8,700 million in 1960-64 to US$73,900 million in 1978-80.**

A number of aspects of recent economic experience have compelled the governments and peoples of both Trilateral and Third World countries to realize the growing economic interdependence between them. Inflationary pressures, strong for nearly a decade, have had their origin both at home and abroad, thus requiring anti-inflationary measures at the national and international level. Closely related to this (and mutally reinforcing) is the energy issue, involving


both pricing and long-term supply/demand balance measures in countries heavily dependent upon imported energy supplies. The accumulating current account deficits in many Trilateral and Third World countries have been the product of both domestic and external factors, and solutions have to be both domestic and international. Consistently high levels of open unemployment in many Trilateral countries and underemployment in many Third World countries, while predominantly a domestic matter, have in recent years taken on increasingly international dimensions, with some countries criticizing others for "exporting" underemployment and unemployment across the oceans. As a result of all these phenomena, as the Brandt Commission report states, "human society is beginning to have a clearer perception of how it is interrelated and of how North and South depend on each other in a single world economy."

The growing economic interdependence between Trilateral and Third World countries, while its extent may vary among countries on both sides, poses some serious problems of national economic management in both the former and the latter. Increasingly, Third World countries will be affected adversely by various economic policy measures taken by the governments of Trilateral countries in coping with the latter's growing economic illnesses, such as inflation, unemployment, balance of payments deficits and stagnation. To the extent that these illnesses remain serious all through the 1980s in most of the Trilateral countries, the adverse impact on some Third World countries may become nearly intolerable, even generating profound political crises, unless preventive measures are taken by the Trilateral countries at the domestic and international level. As part of such preventive measures, all the Trilateral countries will be called upon to continue their efforts to reduce or eliminate tariff and non-tariff barriers, further liberalize their Generalized Systems of Preferences vis-à-vis Third World countries, improve access to their markets for manufactured exports from Third World countries, expand their financial and technical assistance at easier terms and conditions to borrowers, augment their private financial flows (including direct investment) to Third World countries, and effectively devise and implement major positive adjustment policy measures in favor of increased agricultural/food production and a higher level of industrial development in Third World countries.

In addition, the Trilateral countries, being more powerful economically than most Third World countries, will be expected to refrain from taking any domestic policy measures that will be likely to augment the magnitude and depth of domestic economic problems facing Third World countries, such as stagflation, unemployment and balance of payments deficits. Otherwise, Third World countries may be forced, without any choice, to rely more heavily upon

economic assistance from CMEA countries, thus creating an international economic and political climate that could be hostile to the national interests of the Trilateral countries. Furthermore, some Third World countries armed with a strategic commodity (such as those belonging to the Organization of Petroleum Exporting Countries) may resort to certain retaliatory measures that could be harmful not only to the Trilateral countries but also to oil-importing Third World countries and thus to the international economy as a whole. The Trilateral countries will therefore be required to take such monetary and fiscal measures as appropriate not only for the management of their own domestic economies, but also for the steady growth of the world economy in general and Third World economies in particular. It is worth remembering that the "South cannot grow adequately without the North. The North cannot prosper or improve its situation unless there is greater progress in the South."* The growing economic interdependence between Trilateral and Third World countries is here to stay not only through the decade of the 1980s but most likely into the 21st century.

2. Increasing Economic and Political Diversity Among Third World Countries

Behind the relatively steady expansion of world trade, investment and development cooperation during the last three decades or so, there has been a growing differentiation among the constituent countries of the world in terms of economic growth rates, per capita GNP and other indicators. The extent and intensity of differentiation is most conspicuous among Third World countries, particularly since the 1973-74 energy crisis. Table II-1 on the facing page, taken from the World Bank's 1980 World Development Report gives some indication of this. The GNP per capita of the capital-surplus oil exporters has risen to such levels — US$4,614 million in 1980 — that they are no longer grouped with other developing countries. At the other end of the scale are the low-income oil importers with an average GNP per person of US$216 in 1980 and the lowest growth rate of GNP per person in the 1960s and 1970s. In between are the middle-income oil importers and the oil-exporting developing countries. There are striking differences within the middle-income oil-importing group, with those in East Asia and the Pacific having grown remarkably quickly relative to the others, particularly in the 1970s.

The process of differentiation among Third World countries is expected to continue during the 1980s, as the World Bank projections on Table II-1 indicate. The low-income oil importers once again grow least rapidly. Within the middle-income oil-importing group, countries in East Asia and the Pacific continue to grow most rapidly, approaching the average level of such countries in Latin America and the Caribbean and leaving the others farther behind. The

*ibid., p. 33.
<table>
<thead>
<tr>
<th>Country group</th>
<th>Population 1980 (millions)</th>
<th>GNP per person, 1980 (current dollars)</th>
<th>Average annual percentage growth*</th>
<th></th>
<th></th>
<th></th>
</tr>
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<tr>
<td>Low-income oil importers</td>
<td>1,133</td>
<td>216</td>
<td>-70</td>
<td>0.9</td>
<td>1.0</td>
<td>1.3</td>
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<tr>
<td>Africa (Sub-Saharan)</td>
<td>141</td>
<td>239</td>
<td>1.6</td>
<td>0.2</td>
<td>-0.3</td>
<td>0.1</td>
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<tr>
<td>Asia</td>
<td>992</td>
<td>212</td>
<td>1.6</td>
<td>1.1</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Middle-income oil importers**</td>
<td>701</td>
<td>1,638</td>
<td>3.6</td>
<td>3.1</td>
<td>2.0</td>
<td>2.4</td>
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<tr>
<td>East Asia and Pacific</td>
<td>182</td>
<td>1,175</td>
<td>4.9</td>
<td>5.6</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>256</td>
<td>1,775</td>
<td>2.7</td>
<td>3.5</td>
<td>2.2</td>
<td>2.4</td>
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<td>North Africa &amp; Middle East</td>
<td>30</td>
<td>667</td>
<td>-0.2</td>
<td>0.4</td>
<td>0.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Africa (Sub Saharan)</td>
<td>125</td>
<td>867</td>
<td>2.4</td>
<td>0.9</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>Oil exporting</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>developing countries</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Capital-surplus oil exporters</td>
<td>456</td>
<td>968</td>
<td>2.8</td>
<td>3.5</td>
<td>3.0</td>
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</tbody>
</table>

*Calculated in 1977 dollars.

**The totals for this category include four countries in Southern Europe (Greece, Portugal, Spain, and Turkey) which we have not included in the breakdown for purposes of this table.
World Bank's higher growth scenario brings not only higher growth but also a somewhat slower pace of differentiation.

With such differentiation continuing, it will be increasingly difficult to lump all these countries together into the "Third World", as done in the last two decades, in attempting to devise rules of international economic conduct. While it is "understandable that the United Nations hesitated for some time to differentiate between the OEDCs (oil-exporting developing countries) and the rest of the developing countries for fear that such differentiation should be interpreted by the Group of 77 as 'conniving with industrial countries' to divide the developing world so as to weaken its political base,'"* the increasingly differentiated domestic requirements of these different groups of Third World countries will inevitably give birth to growing diversity in economic and political stances vis-à-vis the Trilateral countries and, for that matter, centrally planned economies as well.

The domestic economic priorities of the OPEC countries are, and will increasingly be, different from those of the low-income oil-importing countries. Likewise, those of newly industrializing countries will be different from those of less industrialized middle-income countries. In this interdependent world the priorities of each will have to be met in order to maintain a steadily growing world economy, and any bilateral and/or multilateral attempts to meet the economic requirements of one group of countries at the expense of another will be a source of international strains and conflicts that could, if we are unfortunate, lead to the world's impoverishment. In the spirit of mutual interest, the Trilateral countries will be called upon, together with centrally planned and Third World countries, to formulate a new and dynamic international development strategy for the 1980s and 1990s which is based upon a full recognition of increasingly differentiated domestic requirements and priorities.

3. The OPEC Countries: Huge Petro-Dollar Reserves, High Tempo Internal Development, Increasing Stake in Wider International System

The sudden quadrupling of oil prices in 1973-74 and subsequent increases have resulted in a huge expansion in oil revenues for OPEC countries, totaling US$135 billion in 1977 and coming close to US$250 billion in 1980. At the end of this decade, OPEC oil revenues are expected to reach somewhere between US$500 and US$600 billion per annum.

The two large boosts in oil prices and in the OPEC current account surplus have each been followed by a drop in the OPEC current account surplus in the following few years. The fall in the OPEC surplus in this fashion after the 1973-

74 rise reflected both a continued huge increase in imports of consumer dura-
bles and capital goods (resulting from a rapid pace of economic and social
development), and decreases in oil production partly planned and partly in
response to decelerated oil consumption in major consuming countries. The
erosion of the U.S. dollar relative to other major currencies and the rapidly
rising unit price of merchandise and service imports due to global inflation were
also responsible for the behavior of the OPEC surplus in 1975-78. Increases in
the prices of crude oil by OPEC countries may not occur in the same fashion
during the 1980s as during the 1970s. Since inflationary pressures in Trilateral
countries are likely to remain a perennial feature of this decade, there will
probably be an attempt among the OPEC countries to increase crude oil prices
not in a few great leaps but at regular intervals and at rates consistent with the
rate of inflation for merchandise and service imports coming mainly from the
Trilateral countries and with the real rate of GNP growth in the latter countries.

Net imports of oil by oil-importing developing countries are expected to rise
from 5.3 million barrels per day (MBD) in 1980 to an estimated 6.9 MBD in
1990, and the current account deficits of these countries are projected to rise
from US$61 billion to US$104.2 billion in current prices (assuming an increase
in the price of crude oil from US$29.80 to US$78.30).* With oil prices rising
faster than this, other things being equal, the current account deficits of the oil-
importing developing countries will go far beyond US$100 billion by 1990.
Whereas oil price increases will also inflate the import bill of the Trilateral
countries significantly during the 1980s, some of these countries will be able to
balance that bill with rising merchandise and service exports, thus registering
current account surpluses of varying magnitudes, as during the last decade. It is
also likely that there will be further efforts in the Trilateral countries to develop
alternative sources of energy, to improve the technical efficiency of energy
saving—all leading to lessened consumption and imports of oil per unit of GNP
produced.** Thus, the brunt of increases in oil prices by OPEC will fall most
heavily upon the oil-importing Third World countries, particularly those low-
income countries that have few exports to pay for the oil and some middle-
income oil-importing countries whose oil consumption will rise rapidly with a
high tempo of industrialization. These low-income and middle-income oil-im-
porting developing countries will suffer an additional blow if the amount of
official development assistance flowing to them declines relative to financing
requirements in the 1980s.

The tempo of internal development efforts in the OPEC countries during the

*Figures describing net oil imports are from World Bank, World Development Report, 1980 (Wash-
ington: The World Bank, 1980), Table 2.4, p.8. The figures describing current account deficits are
from the same source, Table 2.6, p.10.

**The consumption of petroleum for the OECD countries as a whole, reaching its peak of 1,953.9
million tons in 1978, has been declining absolutely every year (0.15 and 17.12 percent in 1979 and
1980, respectively), in spite of positive growth of GNP.
1980s will be high, though slower than in the 1970s. The high tempo will primarily reflect continued huge increases in oil revenues and for some the still low level of development of physical and social infrastructures and various manufacturing and service sectors. Short of nearly every kind of raw material and other input, particularly in the OAPEC countries, the fast rate of internal development efforts should mean a rapid expansion in merchandise imports, but the rapid pace of imports of foreign manpower (both skilled and unskilled) observed during the 1970s will nearly disappear in this decade due to the huge expansion of such foreign resident labor and some socio-cultural problems associated with it in many OAPEC countries. Transportation bottlenecks, including port and airport facilities, may continue to be serious and delay the pace of construction and development. Housing shortages may also remain acute, pushing up housing costs. Lessened labor shortages will slow down the rapid rises hitherto observed in wages and salaries, and thus should decelerate increases in not only labor costs but other costs as well, resulting in lower average annual rates of inflation than experienced by most of the OAPEC countries during the 1970s.

Due to the relatively rapid pace of internal development, particularly in major urban areas, income differentials and asset maldistribution will become increasingly apparent, not only between urban and rural areas but between different strata of the urban population. Such differentials may lead to conspicuous disparities in lifestyles and personal consumption patterns. As literacy spreads and higher levels of education are attained, more people will begin to question whether the traditional, somewhat feudalistic social structures and institutions (including monarchical regimes) can provide long-run stability, promote development, and respond effectively to the rising expectations of masses of people for higher standards of living, a better quality of life and self-realization. In some OPEC countries the political foundation of society has already been transformed from monarchical to republican, with masses of people participating in a democratic form of government in one way or another.

The decade of the 1980s will see a continuation of these socio-political changes inevitably associated with the rapid pace of economic development in most OPEC countries. Increased imports of military equipment (hardware and software) and possible defense alliances with major military powers will not be able to halt the process of socio-political transformation of feudalistic societies. Indeed, defense alliances seem likely to complicate and confuse the process of transformation. And political confusion may even invite foreign military intervention detrimental not only to the peace, stability and development of those countries, but to the continuing steady supply of crude oil at reasonable prices —of crucial importance to most major powers, including the two superpowers.

On the international front, OPEC countries in the 1980s will be (as in the
past) cautious investors of their financial surpluses, since the improper use of monetary assets can have serious consequences for their future economic wellbeing. All OPEC countries will be confronted with the problem of optimizing the rate of converting their natural resources into financial assets, goods and services. There will, however, be inherent problems of OPEC countries having very different time horizons for this conversion, due to very different levels of oil reserves in different countries. In 1974 OPEC countries invested most of their financial surplus of US$59 billion in the Eurodollar market ($22.5 billion), the United States ($12.5 billion) and the United Kingdom ($7.2 billion), primarily because these were then the only money and capital markets that could absorb such massive inflows of cash and were considered to be safe and profitable to OPEC investors. While the overwhelming bulk of the financial surplus invested by OPEC countries may continue to go into these traditional markets, there will be expanded OPEC efforts to diversify their investments to more countries: Japan, additional European nations and some newly industrializing countries. Also, a new trend observed since 1975 will grow stronger in this decade: the shift from bank deposits toward longer-term investments (in treasury bonds and notes, other domestic bonds and equities) and also the shift from government securities towards private sector investments. While seeking longer-term investments with higher degrees of risk but with greater possibilities of future benefits, OPEC countries are likely to expand their balance-of-payments support and project loans (both bilaterally and multilaterally) to needy developing countries—ranging from such less industrialized developing countries as the Philippines, Thailand, Vietnam, Egypt, Ghana, Kenya, Morocco and Jamaica to low-income countries such as Bangladesh, Burma, India, Nepal, Pakistan, Sri Lanka, North Yemen, Guinea, Mozambique, Madagascar, Sudan, Tanzania and Zaire.

Greater emphasis on longer-term investments in many countries (in real estate, manufacturing, and financial institutions), together with their rising volume of external assets, suggests that OPEC countries will become increasingly concerned in the 1980s with maintaining an international economic and political environment conducive to expanding international trade and investment, and that they will be willing to pay certain political and financial costs in order to maintain a favorable environment. For this reason, they seem likely to be much more careful not to bring about international monetary disorder through quick, massive transfers of their financial surpluses from one key currency to another, not to destabilize the international investment climate through rapid acquisition of transnational corporate shares for control purposes, not to disrupt international trade regimes through dual export pricing schemes, not to dampen international development assistance efforts through lowering their OPEC Special Fund allocations and disbursements, and, above all, not to plunge the world economy into a standstill once again by resorting to an oil embargo, as once
done by the OAPEC countries in connection with Arab-Israeli conflicts. By the same token, major oil-consuming countries will be expected to do their best to improve and enhance their cooperative efforts, at the bilateral and multilateral level, to assist OPEC countries on the one hand to optimize the rate at which they transform their limited natural gas and oil resources into financial and real assets, while on the other promoting without disruption their internal economic and social development and socio-political transformation.

4. The NICs: Continuing Industrial Growth, Growing Socio-Economic Imbalances, and Mounting Pressure for International Industrial Relocation

Newly industrializing countries have experienced growing socio-economic imbalances in the process of their rapid economic development, urban-oriented industrial development under an open-door trade policy. The type and intensity of regional disparities are increasingly apparent in large countries such as Brazil and Mexico between metropolitan/urban and rural communities and between central and distant districts. In the case of small city-states such as Hong Kong and Singapore, such regional disparities are nearly non-existent, but income and asset disparities continue to increase (for example, between those with family connections and better educational attainment and those without). In the past a high rate of industrial development and economic growth has allowed workers to move from lower- to higher-paid jobs/occupations and from lower- to higher-productivity firms and industries. However, continued stagflation in major Trilateral countries in this decade will certainly slow down employment growth in various industries and lower upward labor mobility, particularly in those developing countries with export-led industrialization strategies. As a result, workers in lower-paid jobs, occupations, firms and industries would feel wage and other disparities much more sharply than they did when their income opportunities were both plentiful and rising.

Foreign firms, whether in the manufacturing, trade, finance, service or extractive sector, have been both firmly established and large in number in most of the newly industrializing countries. By virtue of their transnational capital ownership, technology, management knowhow and markets, foreign firms have usually been able to attract better qualified and more highly motivated employees than have smaller national firms, thus contributing inadvertently to the growing income disparities between workers. However, with rising wages and labor costs, foreign firms are now beginning to substitute capital for labor in an effort to maintain their competitiveness on both domestic and international markets. In the case of NICs endowed with large domestic markets foreign firms (and for that matter national firms too) will have greater room to maneuver, as long as their domestic markets are somewhat protected from open
international competition. However, those firms operating in newly industrializing countries that do not have large domestic markets will have small chance of survival unless they are allowed to compete freely on international markets and have access to markets in major Trilateral countries.

Although levels of unemployment, both open and disguised, have been substantially lowered as a consequence of the rapid pace of industrial development and economic growth, the steady growth of educated manpower in newly industrializing countries will in the 1980s sharpen the problem of underemployment in the sense of workers being employed on jobs requiring fewer skills and qualifications than they command. More education and training will also continue to raise workers’ expectations on jobs and incomes. Under such circumstances it will become essential for the government to provide employment opportunities that are attractive to educated manpower; and a failure to do so will create growing dissatisfaction with government policies among articulate strata of the working population.

One of the most conspicuous economic imbalances in newly industrializing countries has been a consistent trend towards growing trade and current account deficits, along with steady rises in external indebtedness in both the public and private sectors. In fact, it is no exaggeration to say that these countries have been successful in industrializing rapidly and sustaining high rates of economic growth largely because of their success in financing their merchandise and service imports not only by increasing exports, but also by heavy external borrowing from commercial banks, from public-sector financing institutions (in both industrial and OPEC countries) and from multilateral institutions like the World Bank and the regional banks.* As a result, the external debts incurred by newly industrializing countries have grown by leaps and bounds, exceeding US$80 billion as of end 1979, close to one third their combined gross national products. In some countries, repeated devaluation through the 1970s of their national currencies relative to the U.S. dollar and other key currencies inflated their external indebtedness in terms of their national currencies and contributed to domestic inflation by increasing the local prices of imported commodities. The very fact that external indebtedness grew so fast, however, was evidence of the confidence among lenders in the capacity of these newly industrializing countries to carry the debt and not to default.

It is expected that these various socio-economic imbalances in newly industrializing countries will be intensified in the 1980s if they continue their high-growth and rapid industrialization policies. Such policies seem likely to be pushed through with renewed vigor in part to deal with the very socio-economic imbalances they have helped create: Fast economic growth enables govern-

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*Direct investment by transnational corporations—which have come in droves to these countries—has also helped to finance expanding imports of capital goods, as well as bring packages of technology, management know-how and, often, access to well-developed external markets.
ments to ease the adverse impacts of such imbalances by spreading them more evenly across the population and over time. High-growth and rapid industrialization policies will also continue to be required to stay ahead of those less industrialized developing countries now starting down the same road; and also, as they hope, to catch up with some of the old industrial countries in terms of per capita GNP and personal consumption levels and patterns. All this will require the NICs to diversify their export markets, to expand their domestic markets (particularly in those countries with large populations), to transform their industrial structures from labor-intensive to capital- and technology-intensive, to modernize their distribution systems and financial and service sectors, and to improve the output and productivity of their extractive sectors. Pressures will therefore increase from the governments of these countries for encouraging the relocation of industries from Trilateral to Third World countries and for access to markets in Trilateral countries for their increasingly diversified manufactured exports. If their demands are to be satisfied, Trilateral countries will have not only to improve their GSP arrangements (i.e., to widen their coverage and to raise existing limits on volume), but also to accelerate their own industrial restructuring through various positive adjustment policy measures and perhaps by more forward planning. While Trilateral countries will doubtless continue to take some actions unilaterally to restructure their own economies for their own economic benefit, actions at the multilateral level will be needed if the process of international relocation of industries is to be accelerated in an organized fashion and also to sustain and improve the existing open international economic regime. As a step toward these goals, it seems quite likely that regional efforts may be intensified in the 1980s among countries sharing common characteristics, such as the European Community, the African Economic Community, the Association of Southeast Asian Nations (ASEAN), the South Pacific Bureau for Economic Cooperation (SPEC), and the Latin American Association for Integrated Development (ALADI). Where regional bodies do not exist, efforts to set up such bodies are likely to be intensified, as in the case of the proposed Pacific Economic Community, now contemplated by those around the Pacific rim.

5. The Low-Income Countries: Inadequate Food Production, Rising Unemployment/Underemployment, Growing Current Account Deficits and External Debt

In spite of expanded national development efforts and considerable international assistance, many low-income countries have had very slow economic growth. The annual average growth rate of the gross domestic product in this group of countries was 3.9 percent during the 1960s, declining to 3.6 percent during the 1970s. High rates of population growth have meant miserable rates of per capita GDP growth, which have been averaging only 1.6 percent annu-
ally during the last two decades.* Industrial development has proceeded much more slowly in these countries, with the result that a majority of the population still lives in rural areas, and is engaged in primary sector production, particularly in subsistence agriculture.

For this reason, it is all the more tragic that inadequate domestic food supply will continue throughout the 1980s to be the most crucial problem in most low-income countries. It has resulted from many closely related factors, but central to this persistent problem have been traditional patterns of land ownership, concentration of political power in the hands of the few, the persistence of traditional values and rigid social institutions, and inadequate government policy emphasis on increased food production and improved productivity. It will take time to bring about the needed institutional reforms. Expanded international food aid and assistance for increased food production—although vitally important—will alone not be able to solve the problem.

Growing unemployment and persistent underemployment are also very important. While high rates of population growth are partly responsible for this, low rates of economic growth are central—particularly in rural areas associated with subsistence agriculture, low agricultural investment, and high rates of migration from rural to urban areas. The high rates of rural-urban migration have resulted mainly from push factors rather than pull factors—i.e. they have been caused by loss of farm ownership and tenancy rights, reduced on-the-farm earnings and nonfarm incomes and displacement of jobs by farm mechanization. The factors responsible for inadequate food supplies are also major contributing factors to growing unemployment and underemployment. As with food production, the people and governments of low-income countries must themselves revise their development strategies and seek to alter the practices that are largely responsible for growing unemployment/underemployment. International assistance alone, however expanded, cannot solve the problem, though it can act as a pump primer and encourage measures such as government deficit spending in depressed national economies, if the low-income countries have the capacity to respond to such pump priming operations in a productive manner. This remains a big ‘if’ in most low-income countries.

Growing unemployment and underemployment might be slightly reduced if more labor-intensive methods of production and technology were to be adopted by producers in both rural and urban sectors. To the extent, however, that governments of these countries maintain policies (including overvalued exchange rates) that make labor more expensive relative to capital, they will not be able to force private enterprises—national or foreign, large or small—to adopt more labor-intensive technology. Greater possibilities for employment expansion seem likely to be found in traditional sectors where labor-intensive technolo-

gies have long been prevalent. There seems to be increasing recognition on the part of governments in low-income countries of the need for developing appropriate technology consistent with the twin objectives of expanding employment and meeting other social objectives while increasing the competitiveness of industries in domestic and foreign markets. Transnational corporations and governments of Trilateral countries, as well as international development institutions, will be asked more than ever to assist low-income and other Third World countries to develop appropriate technology and methods of production.

The third major problem in low-income countries in the 1980s will be further deterioration in current account deficits and growing external debts. During the 1970s, mainly due to the stagflation in Trilateral countries and the rapid rise in the cost of imported energy, the average annual real growth rate of imports of the low-income countries (3.3 percent) considerably exceeded that of their exports (which actually absolutely declined in constant dollar terms at an average annual rate of 1.1 percent). The total current account deficits of the low-income oil-importing countries stood at US$7 billion in 1975 and rose to US$8.6 billion in 1980 (constant 1978 dollars), while World Bank projections of these deficits for 1985 and 1990 show them rising to US$12-15 billion (high growth case) or remaining relatively steady at US$8-9 billion (low growth case). An overwhelmingly large portion of these current account deficits will have to be financed by official grants, concessional loans, and medium- and long-term commercial loans from the outside; since net factor incomes, direct investment capital inflows and private transfers will continue to be negligible to most low-income countries. As a result, external debts outstanding will inevitably grow, and annual repayment burdens increase to an intolerable level in most low-income countries.*

It is no wonder, therefore, that the low-income countries, along with other Third World countries, will continue to press industrial countries to accommodate their demands for special preferences and for better access to markets for their manufactured exports, including processed primary products. Further improvements in international commodity arrangements will also be urged by those countries, for most of them are heavily dependent upon a few selected commodity exports for their export earnings.

The recent agreement on the establishment of a Common Fund (with the first window financing international buffer stocks for selected commodities and with the second window financing the development of processing technologies, markets and diversification) is a step forward by the international community towards a new international commodity trade regime, although its effectiveness remains to be seen. Several international commodity agreements already in

*op. cit., World Development Report 1980, Table 2.12, p. 19 and box on p. 58. Developing country debt servicing ratios rose from an average of 8.9 percent in 1970 to 12.6 percent in 1979.
effect, the IMF’s compensatory financing arrangement, and the STABEX arrangement in the Lomé Convention (revised recently by the European Community and the ACP countries) should complement the Common Fund arrangement.

To cover rapidly growing current account deficits (and the rising savings-investment gap) in the 1980s, low-income countries will redouble their efforts to press Tri lateral and centrally planned economies to increase their official development assistance (ODA) and improve its terms and conditions. The OECD/DAC countries, essentially agreeing that there is a pressing need for more assistance, long ago set for themselves a target of 0.7 percent of GNP for ODA, with an 86 percent grant element. The DAC flows of ODA have in toto fallen far below the 0.7 percent objective, but there has been a small rise from 0.34 percent in 1970 to 0.37 percent in 1980. The Netherlands, Denmark, Norway, and Sweden are the only DAC countries to have reached the target, although France is not far behind. Progress on the grant element target of 86 percent of ODA has been better. This target has already been reached by the DAC countries as a whole (a little above 90 percent in 1979 and 1980), with Japan the only major donor falling short (74.3 percent in 1980). It should be noted that concessional assistance from OPEC countries as a percentage of GNP has substantially exceeded the international target for several years, representing 1.35% of GNP in 1980. The possibility of OECD/DAC countries as a whole reaching the target of 0.7 percent of GNP by the end of the decade seems to be low, let alone reaching it by 1984 and one percent of GNP by 1990 as demanded by the Group of 77 in the Eleventh Special Session of the United Nations General Assembly in 1980. One area in which there may be some progress is in concentrating more assistance on the least developed countries in the wider Third World grouping.

In response to growing requirements, a number of new measures were introduced by the World Bank, the IMF and regional development banks during the 1970s. Between 1970 and 1978 the World Bank expanded its lending steadily from US$1,050 million to US$6,466 million (IBRD, IDA, and IFC gross disbursements), while the four regional banks expanded their total lending from US$414 million to US$2,136 million (gross disbursements). The same increasing trend has characterized the European Investment Bank, the European Development Fund, the United Nations (including the United Nations Development Programme) and other international development and finance institutions. Arab countries set up the Arab Fund for Economic and Social Development and the Gulf Egypt Development Organization, while OPEC countries instituted the OPEC Special Fund, all for assisting oil-importing developing countries with grants and concessional loans. Recently the World Bank introduced a new type of development loan program designed to facilitate industrial restructuring programs in developing countries in response to changing patterns of interna-
tional specialization; and the IMF has also diversified its financial and monetary assistance programs in a number of ways. After the energy crisis of 1973-74, the IMF set up a special oil facility for oil-importing developing countries to help pay for rising oil import bills; and it has also established a supplementary financing scheme to help the most seriously affected countries, issued additional Special Drawing Rights (SDRs), and agreed to an increase in quotas. Some improvements have also been made in the terms and conditions under which compensatory financing is available to developing countries running balance of payments deficits due to declining export commodity prices and earnings.

Low-income and other countries will undoubtedly intensify during the 1980s their collective efforts to get multilateral financing institutions to increase the volume, and ease the terms, of their lending; and they will also seek to enhance their own participation in decision-making within the World Bank group and the IMF, where voting power has long corresponded with the size of a country’s subscription of capital (IBRD) or a country’s quota (IMF). With Saudi Arabia and other capital-surplus oil-exporting countries increasing their capital subscriptions and quotas, a beginning has already been made in redistributing voting power, but the process of redistribution will be a long drawn-out one.
III. THE INFLATION-UNEMPLOYMENT NEXUS: POLICY CHOICES AND GROWTH PROSPECTS FOR THE TRILATERAL COUNTRIES IN THE 1980s

by Karsten Laursen

A. INTRODUCTION

An examination of economic policies in the trilateral* countries in the 1970s indicates that reducing inflation was generally given top priority and that overall contractionary measures were the primary instrument used toward this end. This paper argues that to the extent this order of priorities and choice of instruments continues, the course of developments in the industrial countries for the rest of the decade could be rather different and even more dismal than that which appears in most medium-term projections. There is an urgent need for supplementary policy instruments—wages or incomes policies in particular—to moderate inflation without such negative employment consequences. And given the extent of interdependence among trilateral countries, including what appears to be a strong international element in rates of wage inflation, more coordinated international efforts are important in making a success of wage or income restraints.

B. POLICY PRIORITIES IN THE 1970s

Developments in the OECD countries over the past decade or so have been crucially influenced by large increases in the price of petroleum and by intensified competition from a number of developing countries and from Japan. Without implying that all would have been well in the absence of these influences, one may perhaps say that the crux of present problems originates in the reluctance to accept the burden of the former and the blessings of the latter.

* "Trilateral", "OECD", and "industrial" are used synonymously throughout this essay.
Responding to Oil Price Explosions: Contractionary Measures

The immediate impact of the quintupling of oil prices in 1973-74 was an exacerbation of the inflation already in progress (which in itself had encouraged at least in part this dramatic increase), a downward pressure on economic activity, and a deterioration of the balance of payments. Consequently, the governments in the industrial countries (and the oil-importing developing countries alike) were faced with a difficult policy dilemma: The acceleration of prices and the adverse balance of payments shift called for contractionary measures, whereas the reduction of economic activity called for expansionary ones.

By and large the developed countries (with the possible exception of Japan) opted for contractionary measures, putting the emphasis on fighting inflation and improving the balance of payments. Nineteen seventy-four and 1975 became the worst recession years in the postwar period. In 1976 there was a modest resumption of economic growth, which lasted until 1978 when a new recession began. This recession was aggravated when the oil price increases in 1979 and 1980 led to further contractionary measures.

For the 1970s as a whole, the average annual rate of growth in the industrial countries was little above 3 percent as compared to about 5 percent during the 1960s.* Paradoxically, this slower growth has been accompanied by an overall rate of inflation which, though it has fallen substantially below the peak rate reached in 1974, is still well above earlier postwar levels. Few countries experienced average inflation rates higher than 5 percent during the 1960s, whereas double-digit inflation rates were common during the 1970s.** In other words, the trade-off between price stability and growth (or full employment) seems to have changed quite dramatically. In economics jargon, the Phillips Curve seems to have shifted or broken down—an issue scrutinized below in Section C.

A high degree of exchange-rate instability has accompanied this situation of stagnation, inflation, and external imbalance. To a considerable extent fluctuations in exchange rates have reflected changes in the pattern of relative inflation rates in major trading countries, which again in some measure reflect differences in demand management policies. Some would argue that the main impact of fluctuating exchange rates has been an exacerbation of inflation rather than changes in competitive positions among countries, and that there is now an increasing awareness of the need for more stable exchange rate regimes. Evidence of this awareness includes the measures taken by the United States in late 1978 to strengthen the dollar as well as the establishment of the European Monetary System. On the other hand, more recent developments indicate that exchange rate stability is not given a high priority by the United States.

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* Growth rates for individual countries are presented in the statistical appendix, Table 1.
** See statistical appendix, Table 2.
In addition to general economic measures, the governments of industrial countries took a number of specific measures to reduce dependence on external oil supplies. In general, however, and from the point of view of establishing a countervailing buyers’ position vis-à-vis OPEC, the measures taken were inadequate. Thus, for instance, most governments—the United States in particular—were reluctant to add to inflation by letting the increases in international oil prices be fully reflected in the final prices paid by consumers. Further evidence of this tendency for the concern with inflation to take precedence over energy conservation was reflected in the generally declining importance of gasoline taxation.*

General contractionary measures and the, albeit inadequate, measures directed specifically against oil consumption and imports did help bring about some erosion of the real price of oil in 1975-78. This weakening of one important source of inflation was then dramatically reversed by the second oil price explosion in 1979-80.

Responding to Intensified International Competition: New Protectionism

Higher real oil prices amount to a redistribution of the world’s income. For the oil-importing countries it is a burden which eventually they must bear in some form or other, and attempts by one group to shift it onto others are likely to make matters worse.** The other challenge of the 1970s, however, namely the intensified competition in a number of products from Japan and from the developing countries, is essentially a blessing. Thus, if proper adjustments were made in Europe and North America, both they and the exporting countries could derive benefits from the changing international pattern of comparative advantage.

Such adjustments as have been made leave much to be desired. In fact one of the damaging consequences of the slow-down of economic growth in the North during the 1970s has been an inward-looking, defensive reaction epitomized by the “new protectionism”. In the main this takes the form of quantitative restrictions (including “orderly marketing arrangements” and other devices), but it also includes countervailing duties and antidumping actions, minimum prices for imports and government aids to ailing industries.

The factors behind this protectionist wave are not fully understood. It is not quite clear for instance that protection is granted particularly to labor-intensive industries, as often assumed, or to industries where import penetration has been particularly rapid.† It is important to note also that protection as it exists does

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* See Alan A. Tail and David R. Morgan, “Gasoline Taxation in Selected OECD Countries”, IMF Staff Papers, vol. 27, no. 2 (June 1980) and Karsten Laursen, “Den økonomiske balance i verden (The World Economic Balance)”, Nationaløkonomisk Tidsskrift, vol. 117, no. 3 (1979) and statistical appendix, Table 4.

** Unless of course they manage to reduce real oil prices through taxation, tariffs or a similar coherent and countervailing consumer action.

† A current World Bank study is devoted to an analysis of factors influencing protection in the industrial countries.
not seem to have any positive impact on the level of employment in the OECD countries. In fact most studies on the employment impact of trade between industrial countries and developing countries conclude that although protection will save jobs in the protected industries, it will lead to the loss of even more jobs in the exporting industries. Thus the overall employment impact is negative.*

This result is perhaps surprising, but the mechanism at work is clear enough. The import capacity of the developing countries is reduced in step with the reduction of their access to the markets of the industrial countries. Therefore, exporters in the industrial countries will see their markets in developing countries recede, precisely as a consequence of protection. Whether the net employment impact is actually negative, as suggested by most empirical analysis, or neutral or perhaps even slightly positive is relatively unimportant. It is clear in any event that the resurgence of protectionism has been a policy mistake even granted its limited objective of protecting employment. It could only be rationalized if for some reason the jobs saved in the import-competing industries are more important than those lost in the exporting industries. Such "externalities" may of course be argued to exist in certain "strategic" areas but not as a general proposition. The automobile industry in Europe and North America, for instance, is hardly such an area.** Happily, although the "new protectionism" is serious in a number of products, it has not spread as much as one had reason to fear just a few years ago.

Priority Given to Reducing Inflation
Economic policy in the industrial countries is generally concerned with three targets—(i) external balance, (ii) full employment and (iii) stable prices—and with the trade-off among them. Under conventional policy regimes, they will normally be consistent only two at a time, at least in the short to medium term and perhaps even in the long run. Thus conventional economic policies may ensure either external balance and full employment at the cost of price stability, external balance and stable prices at the cost of employment, or full employment and stable prices at the cost of external balance, or of course some combination of these trade-offs.† Consequently the higher the priority attached to

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**Furthermore, a more transparent and economically more rational measure would be to subsidize such industries which, rightly or wrongly, are considered to be too important to be exposed to too much international competition.

†By conventional economic policies, I mean Keynesian monetary and fiscal policies influencing total demand and exchange rate policies influencing relative competitive positions. Thus if expansionary demand policies are used to reduce unemployment, and exchange rate policies are used to
price stability, the lower will normally be the priority attached to either external balance or full employment. One could argue that this "trilemma" has been the crux of policy controversies in the 1970s.

As mentioned above, the policy response of the OECD countries to the first oil price explosion in 1973-74 was to apply strong aggregate-demand restraints, and this reaction was even more unanimous after the second oil price explosion in 1979-80. At the same time more of these countries were pushed into balance-of-payments deficits after the second than after the first oil price increase. All in all, and perhaps to an increasing degree, this shows their pronounced concern with inflation at the cost of production and employment. * This has aggravated protectionist claims, but the fact that these claims have been resisted to a considerable extent is a further indication of the predominant priority given to reducing the rate of inflation. Finally, both policy pronouncements and available empirical research on public opinion demonstrate convincingly, at least for the United States, both the public aversion to inflation and the fact that this aversion is not lost on policy makers.**

C. TRADE-OFF BETWEEN FULL EMPLOYMENT AND STABLE PRICES: THE INTERNATIONAL ELEMENT IN THE PHILLIPS CURVE

In the preceding section we discussed the inflation-unemployment nexus from the perspective of the preferences of the public and of policy makers. The question there was, how do politicians view the "discomfort" created by various combinations of inflation and unemployment? Or in economics jargon, what is the preference function of society? The United States and several countries in Europe have emphasized bringing down inflation, even if the price is an increase in unemployment, at least in the short-to-medium term.

* But the trade-off between price stability and employment differs significantly among the industrial countries. An indication of such differences is provided by a comparison of Tables 1 and 2 in the statistical appendix.

** See Douglas A. Hibbs, Jr., "The Mass Public and Macroeconomic Performance: The Dynamics of Public Opinion Toward Unemployment and Inflation, 1978", American Journal of Political Science, 23, 1979. From Hibbs we quote: "What is discouraging about these results from the perspective of someone who believes that the social welfare is best served by a major policy assault on unemployment, is that when the unemployment rate is stable (albeit high) an expansionary policy is not likely to command great public support if the inflation rate stands at 6 percent per annum or higher. . . . The main casualty at least in the short-to-medium run, will of course be the administration's earlier commitment to achieving a sustained low rate of unemployment."
In this section we ask a different, more analytical question: What is the nature of the inflation-unemployment nexus? How do markets, in particular the labor market, work; or in other words, what level of unemployment must actually be maintained at any given moment and over time in order to reduce inflation to the desired level? In economics jargon, what does the Phillips Curve of society look like in the short, medium and long run? This curve in a way constitutes the constraint within which policy makers must make their choices.

It is true that theoretical economists have often declared the Phillips Curve to be void of economic theory and a mere statistical coincidence. Even this statistical relationship as conventionally specified seems to have broken down during the 1970s or perhaps already in the late 1960s.* Nevertheless we should beware of "throwing the baby out with the bathwater." Recent empirical analysis seems to confirm an inverse relationship between inflation and unemployment, although the trade-off may be somewhat more complicated than hitherto assumed and it remains rather unstable.**

In particular, there may be a large international element in the rate of wage inflation in any given country. Furthermore, this international element is much larger than that which may be explained by imported inflation through import prices, by the portion of total demand generated by exports, and by models of international competitiveness. Expectations regarding wage inflation in a given country seem to be related to wage inflation in other industrial countries through some mechanism over and above international trade. In a broad sense one may talk about the impact of a Hegelian Zeitgeist which in this case is both operational and measurable through the explanatory power in regression analysis of average wage inflation in other OECD countries.

In traditional Phillips Curve analysis it is often argued that the unexplained part of wage increases in each country is generated by shifting expectations, and a great deal speaks in favor of such a hypothesis. We would then extend this argument to contend that expectations have a strong international element. How to explain that element is of course a different matter. It seems rather obvious that socio-political and -economic behavior has tended to proliferate across national boundaries in the postwar period. Examples abound: the years of student unrest, the growth of the public sector since the early 1950s, the

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*One should not attach too much importance to the alleged wage explosion during the decade following 1967. Actually there has been a fairly steady acceleration of wages throughout the OECD area ever since the early 1950s.


1. \[ \dot{w} = 2.59 - 0.63u + 0.52 + 0.77\dot{p} \]
2. \[ \dot{p} = 1.76 - 0.61\dot{u} + 0.15p_{d} + 0.35\dot{w} \]

where \( \dot{w} \) is domestic wage inflation in the average OECD country, \( u \) is unemployment, \( \dot{z} \) is the unweighted wage inflation in 16 other OECD countries, \( \dot{p} \) is domestic price inflation, and \( p_{d} \) is inflation of import prices. The analysis covers 17 OECD countries.
increase in female participation in the labor force in the 1970s, the abrupt increase in crime rates, etc. Furthermore, the almost parallel increase in labor conflicts in the OECD area tends to confirm a deteriorating climate in the labor market, and that union behavior may be international to some extent.*

On the other hand the particular statistical result cited above—attributing considerable explanatory power to the rate of wage inflation in other OECD countries—should be taken with a grain of salt. While international wrinkles in wage formation are intuitively plausible, it is perhaps surprising that they should take the form of a direct linkage between wage inflation rates in the industrial countries. One might rather expect wage comparisons with other countries to be made after adjusting for exchange rate changes rather than in terms of nominal increases in domestic currencies. This would mean that wage claims would be intensified in countries with depreciating currencies and moderated in countries with appreciating ones. This linkage is indeed picked up by the transmission of international inflation through import prices, but the international element in wage inflation appears to be much stronger than suggested by the import price mechanism alone.**

It should be stressed also that the correlation obtained from regression analysis like the one used to identify the international element in the Phillips Curve is no proof of a causative link in any strict sense of the word. But if one accepts such an international element in wage formation, a number of quite important policy implications follow. First of all, as mentioned above, the Phillips Curve trade-off is confirmed. This is to say that, contrary to the view of some economists, it remains true that demand policies do have an impact on the inflation rate through their impact on employment. Second, however, if a country pursues contractionary policies to reduce inflation, the international wage link operates in such a way that the process becomes even more painful than it would have been without such a link tending to hold wage inflation at levels prevailing in other OECD countries. The cost in terms of unemployment of reducing inflation by a certain amount will be higher than without this international linkage. Conversely, the inflationary impact of economic expansion will be held back by the international wage link. It is still true, of course, that exchange rates will move against expanding countries and towards contracting ones. These linkages reduce the effectiveness of domestic contractionary measures and consequently highlight a need for international cooperation if inflation is to be controlled. Some kind of international incomes or wages policy is suggested by the identification of the "missing link" in the Phillips Curve (if in fact it has been identified). I return to incomes or wages policies below.

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* Japan seems to be a clear exception to this trend.
** This of course is not to say that the international element is equally strong in all OECD countries.
D. TWO POLICY IMPLICATIONS

This section is devoted to further discussion of the policy implications of the developments and behavioral relationships discussed above.

International "Pump-Priming"

Since international trade during the postwar period has grown considerably more rapidly than world production, an increasing share of total demand in most countries comes from exports. In that sense most countries have become increasingly dependent on the rest of the world for their expansion. When this view is combined with the fact that domestic expansion may be inflationary and/or lead to import leakages, it follows, the argument goes, that international "pump-priming" must assume an increasing role relative to domestic "pump-priming". This conclusion has led to recommendations by the Brandt Commission* and others of massive transfers to the developing countries. Through such transfers the developing countries would be able to grow more rapidly. They would increase their demand for imports from the industrial countries and thereby provide an expansionary impetus. The end result would be advantageous to both developing countries and industrial ones.

For several reasons, some of which follow from the analysis above, the rationale for such an approach is questionable. While it is true that an increase in demand from the developing countries will have an expansionary impact in the industrial countries, it does not follow that this expansion will be any less inflationary than domestic "pump-priming". In fact there will be a reverse tendency if as suggested above there is an external element in wage inflation in the OECD countries. This international linkage will hold back the inflationary impact of expansionary measures in an individual country, whereas this brake will not be at work if the increase in demand is distributed over the whole OECD area, as will be the case if it originates in the developing countries as a result of international "pump-priming".

Even without international wage linkage, there is still no reason to believe that export demand is less inflationary than domestic demand. It is true that exchange rates will move against any country expanding alone, and this will be inflationary in that particular country; but it is not clear that this inflation would be any higher than that which would occur in the international price level through an international expansionary process. Furthermore, there is no empirical documentation to substantiate the often-heard argument that demand from the developing countries is directed primarily to those sectors in the industrial countries where capacity is particularly excessive.

All in all I think it is fair to argue that the Brandt Commission overplayed international Keynesianism and demand interdependence—and underplayed international solidarity—as an argument for capital transfers.* If the effort to bring down inflation is the binding constraint on economic expansion in the industrial countries, these countries will react to increased demand for their exports by imposing countervailing contractionary measures. If inflation is not the binding constraint, they are in a position themselves to generate additional demand.

To the extent that the industrial countries pursue synchronized expansionary policies, only a comparatively small part of the additional demand would leak into imports from outside the area, and consequently there would be no significant deterioration of the balances of payments of the industrial countries, some of which do have balance-of-payments problems. Some deterioration in their external balance is unavoidable as a result of price increases of both oil and non-oil raw materials brought about by the increase in demand, and this again would mean higher inflation. It must be stressed, however, that these effects would not be avoided by capital transfers to the developing countries. If such transfers work according to expectations, they would also be expansionary in the industrial countries, and once this expansion is underway, the same effects on raw material prices would follow.

In sum, both a tandem expansion in the industrial countries and an expansion initiated by capital transfers to the developing countries are likely to be quite inflationary; and if there is an international wage link, this inflation will be exacerbated. The fact that neither policy is being pursued is further evidence of our earlier point about the high priority being given by governments of industrial countries to a reduction of inflation.

It should also be mentioned that a massive transfer of resources to the developing countries might have an entirely different effect from that of stimulating import demand from the industrial countries. It is conceivable that the limited import capacity of the developing countries constitutes a certain restraint on OPEC’s price policy. If this is the case,** increased capital transfers to these countries could stimulate additional petroleum price increases whereby the expansionary impact would be neutralized, and the end result would be tantamount to a subsidy from the industrial countries to OPEC.** Admittedly this possibility is quite speculative, but it underscores the necessity of including OPEC in any kind of compact which aims at influencing the world’s income distribution.†

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** I owe this point to Professor Hans Singer of Sussex University.
† This conclusion is further and strongly borne out by the increase in land rents created by the improved competitiveness of ethyl alcohol vis-à-vis oil. An extrapolation of this tendency shows dramatic consequences for food prices and hence also for the world’s income distribution if the production of food is to yield the same return as the production of gasohol.
Wages or Incomes Policies

Many advocates of restrictive demand management as an anti-inflationary tool would concede that, in the short to medium run, the price of such contractionary measures may be quite high in terms of employment. According to some estimates, unemployment may be increasing for a period of perhaps 5 to 6 years. In the longer run, however, it is argued, inflationary expectations which lie behind the "cost-push" components of inflation will be dampened, and it then becomes possible again to expand in a reasonably uninflationary manner. There is a certain amount of empirical evidence to substantiate this view, and recently inflation in the OECD countries has been considerably below most forecasts.

Nevertheless a certain skepticism is justified with respect to the possibility of a lasting reversal of inflationary expectations through a restrictive demand policy; and there is no certainty that non-inflationary expectations can be maintained during a future economic expansion. At any rate the process is painful for several years, and consequently there is an urgent need for supplementary policy instruments.

Most important among these is a policy of wage restraint, although the history of such policies is not particularly encouraging. They were used in a number of OECD countries through much of the 1970s without any appreciable impact on inflation rates, and each attempt eventually broke down. Keynes' concern that only socialist countries are in a position to prevent a progressive increase of wages* seems to have been justified.

Nevertheless, certain lessons may perhaps be learned from the incomes policy experience of the 1970s.** First, incomes policy measures have usually been "slammed on" in crisis situations. They have never been applied as a planned, systematic and integral part of economic policy. Second and perhaps more importantly, they have not in any consistent way taken account of the need for flexibility of relative wage rates in order to improve the mobility of labor. It is sometimes argued that a wages policy is bound to be harmful precisely because it cannot deal effectively with the structure-of-wages problem and hence with the allocation of labor. But this argument misses the point, because current labor market mechanisms are also failing to solve the structure-of-wages problem.

In most cases "incomes policy" is a euphemism for wages policy.† But this does not mean that labor must bear the burden of reducing inflation. In an overall sense there is of course no burden, because an effective wages policy will facilitate a non-inflationary economic expansion. Furthermore, precisely because rela-

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† For a further discussion see Peter Wiles, "Ideology, Methodology and Neoclassical Economics," *Journal of Post Keynesian Economics*, vol. II, no. 2 (Winter 1979-80).
tively stable money wages will lead to relatively stable prices, there is no reason to believe that income distribution will move against labor in favor of capital. Nevertheless, the implementation of a policy of wage restraint may be facilitated by combining it with profit-sharing and labor participation with a view to gradually eliminating the barriers between labor and capital.*

It is obvious that measures to improve the mobility of labor, and thereby reduce some of the structural labor market problems pointed out by supply-side economists, are needed in most countries. Whether such measures should also include some erosion of existing unemployment compensation is of course a delicate political problem. If taken to their logical extreme, measures to improve mobility should be extended to labor movements across national boundaries, but such a recommendation would of course meet with even more formidable opposition. The precise design of a wages policy will vary from country to country, to reflect particular characteristics of national labor markets.

To the extent that expectations in wage formation contain an international element, a national wages policy is likely to be greatly facilitated if it becomes an integral part of the policy arsenal in all industrial countries, or at least if wage claims are in fact restrained by demand policies in those countries which continue to rely on such policies.

E. PROSPECTS FOR THE 1980s

In the fall of 1981 the Western industrial countries are still in recession, and the outlook is uncertain if not gloomy. It seems rather certain that the present doldrums will remain for some time, and the rapid recovery envisaged by some in the course of the next few years appears more like wishful thinking than actual prognosis.

For the OECD as a whole, a modest growth may be expected for 1981, perhaps on the order of 1-1.5 percent. This average is the result of characteristic differences among the trilateral countries. The United States entered 1981 with a relatively strong growth, but during the year its growth rates became negative. In Western Europe growth rates have been close to zero throughout the year. Only Japan, with a growth rate of perhaps 3-4 percent, will contribute significantly to positive growth from the industrial countries as a whole. While it still seems possible that some improvement may occur in 1982, even that has become problematic; and for a few years beyond there is no boom in sight in the traditional sense of the word. A return in the near future to growth rates like those experienced in the 1960s seems out of the question, and even modest growth rates like those of the latter half of the 1970s are becoming increasingly implausible.

The oil price increases of the past are still the main reason for the adverse

balance-of-payments position of the industrial countries as a whole (even more acute for the non-oil developing countries), but their contractionary impact on demand is beginning to ebb. One might, therefore, expect the underlying growth potential of these economies to be more fully utilized. However, in almost all countries economic policies have become increasingly austere. There is now an almost universal tendency to view deficits in public budgets as an evil in itself; and in most European countries fiscal policy measures are being taken with a view to increasing taxes and reducing expenditures, in spite of the clear negative impact of such measures on the level of economic activity. In the United States budgetary balance is also a dominant theme, although against a somewhat different background than in Europe. Furthermore, monetary policies throughout the Western world continue to be based on “monetarist” views with the result that interest rates have reached exorbitant levels.

It is difficult to judge both whether present policies will continue to be implemented with unchanged rigor, and whether they will eventually have a significant impact on inflation. A brief discussion of developments in selected countries will serve as background to some concluding comments.

**Selected Countries**

For the United States, it is uncertain whether fiscal policy will be expansionary or contractionary over the next few years. If carried out according to the policy pronouncements, its net impact will be contractionary through a reduction of both taxes and expenditures. It is quite possible, however, that the reduction of expenditures in a number of sensitive areas will not be approved, in which case U.S. fiscal policy will have the characteristics of a conventional Keynesian stimulative policy. Given, however, the high priority attached to a reduction of inflation, a fiscal expansion will require additional monetary contraction, which will push interest rates even higher.

It is possible of course that the strict monetary policy will eventually have an impact on inflation, in which case some reduction of nominal interest rates may be expected. But it is quite uncertain whether this reduction in interest rates will exceed the reduction in inflation, and consequently real interest rates are likely to remain high. All in all it is hard to avoid the conclusion that no significant stimulus can be expected from U.S. policies during the coming years.

In the Federal Republic of Germany, both monetary and fiscal policies have recently become appreciably more restrictive as a reaction, among other things, to the increasing deficit in the public budget. In the course of the coming years a reduction in interest rates is envisaged precisely as a result of an improved budget-

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*Somewhat erroneously public deficits are often viewed as a cause of low levels of private investment. This is the so-called “crowding-out” effect. However, most frequently the chain of causation goes the other way: private investment drops, as a result among other things of high interest rates and receding markets, and this leads to lower tax revenues and higher transfer payments and consequently to increasing budget deficits.
ary situation, but whether German interest rates can in fact be significantly below U.S. levels remains an open question. In any case it seems obvious that no expansion is in sight in Germany in the near future.

In the United Kingdom, monetary policy has proved far less efficient in reducing inflation than its proponents had presumably expected, and the consequences of the corresponding low level of economic activity in terms of unemployment and social unrest have become clearer than in most other countries. Economic growth is now significantly negative, but there are no clear signs that economic policies will be reversed in the coming years.

France is one exception to the contractionary trends in the trilateral countries. French fiscal policies are strongly expansionary, but their effect is in part neutralized by high interest rates. Growth rates of about 3 percent per year are envisaged for the coming years. It remains to be seen, however, whether inflation can be contained to even present high levels. So far money wages are still increasing rapidly, but there are certain signs that incomes policy measures will be taken in order to reduce inflation and alleviate the pressure on the franc. The situation in France resembles that which prevailed in Germany a few years ago when the Federal Republic yielded to international pressure and initiated quite expansionary fiscal policies.

Another exception to general contractionary trends is Japan, although by its own historical standards its present growth rates of 3-4 percent are quite modest. As a result primarily of the "incomes policy" which is implicit in the organizational structure of the Japanese labor market (where wage increases are tied closely to profitability), the inflation-expansion dilemma is much less pronounced in Japan than in most other industrial countries. Recently fiscal policies have become more expansionary, and the conflict between fiscal and monetary policies which exists in the United States and Europe does not apply to Japanese policies to the same extent, one reason being that inflation is less of a problem. But the economic situation in Japan is not quite as bright as it used to be, and the stagflation problem could become acute in Japan as well. All in all, the Japanese "engine" does not have quite the power that it used to have.

Gloomy Outlook Unless Policies Revised
It is possible that the combination of strict monetary policies and budgetary balance—which is becoming the strategy not only in the United States but also in other Western countries—will eventually reduce inflationary expectations and real interest rates; and it is possible therefore that the industrial countries may return to a path of non-inflationary expansion during the latter half of the decade. But the experiment is unorthodox, and a favorable outcome is essentially a matter of belief. So far, economic indicators such as the New York Stock Exchange indices do not suggest any widespread confidence in the success of the present policies.
It is quite conceivable that oil prices will move upward again through the rest of this decade and beyond. This means that the contractionary and inflationary (that is, stagflationary) tendencies associated with the “oil shocks” in the 1970s may be expected to re-emerge, bringing present policies under additional strain. If these policies are maintained or even strengthened in order to reduce the inflationary impact of increasing oil prices, the industrial countries may plunge even deeper into recession than at present, and the possibility of a worldwide depression cannot be excluded.

In sum, if one’s theoretical point of departure is a Keynesian or neo-Keynesian one, as mine is, one sees a gloomy picture when looking into the crystal ball. Unless policies are drastically revised, the trilateral countries must live with very low growth rates, high and perhaps increasing unemployment and substantial rates of inflation. This could lead to increased protectionism, other kinds of beggar-thy-neighbor policies, and increased economic tension.

If one takes monetarism and supply-side economics as one’s theoretical point of departure (essentially a classical view), one sees a much more rosier picture at least a few years hence, when the necessary adjustments—such as the lowering of inflationary expectations—are over. I do not wish to argue that inflationary expectations cannot be influenced by assiduous austerity measures like those implied by monetarists and supply-side economists. But even if the incentive structure improved, it may take a long time for restrictive monetary policies to turn inflationary expectations around. As noted earlier, estimates go as high as five to six years, during which unemployment will be on the rise; and even after that it is not clear that the industrial countries will be able to expand in a non-inflationary manner. Influencing inflationary expectations through demand restrictions was Dr. Schacht’s nostrum when he stopped the German hyperinflation in 1924, and the costs in terms of unemployment and social and political upheavals are well known.* I do not mean to imply a similar reaction to modern monetarism, but history does provide grounds for concern. In absolute numbers, unemployment in the industrial countries is now approaching the same level as during the depression years of the 1930s.

The reliance on restrictive demand management to bring down inflation, at least in the short to medium term, is an issue not only for the individual country imposing such measures, but for the world economy as a whole. It leads to a reduction in international trade which is far more serious than that which results from protectionist measures, and possibly also to an increased use of such trade restrictions.

The international repercussions of restrictive measures affect not only trade, however. To the extent that they lead to high interest rates in the industrial countries, they distort the international allocation of capital. Even if the import

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propensity of the OPEC countries increases in the course of the present decade, these countries will still be in surplus so that the recycling problem will continue to exist. The present use of monetary policy in the Western countries prevents interest rates from signalling relative scarcities, and consequently surplus capital is not necessarily channelled to countries where its productivity is highest. This is not to argue that all these funds would go to the developing countries in the absence of such distortions, because it is quite possible that, for instance, the return to investment in energy production or saving in the industrial countries could be very high. The argument is that, although the recycling process apparently runs much more smoothly than many had feared, this should not be taken as an indication that the allocation of surplus capital is particularly rational. Given present negative trends in the attitude in the industrial countries towards development assistance, it becomes even more important that distortions in the international capital market be reversed, and that the developing countries gain access to markets which are operating at full capacity.
F. STATISTICAL APPENDIX

The most important statistics underlying the preceeding analysis are presented in tables 1-6 below.

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Note: Countries listed in ascending order of per capita income in 1978.
*for period 1970-77 only
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Source and Note: As Table 1, Table A1, p.111.
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Source and Note: As Table 1, Table A.13, p.134.
Table 4

SEVEN MAJOR INDUSTRIAL COUNTRIES: EFFECTIVE RATES OF GASOLINE TAXATION, 1970-79
(in percentage terms)

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Table 5
ANNUAL AVERAGE GROWTH RATES
OF PER CAPITA OIL CONSUMPTION
(percent)

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Table 6
DEVELOPMENT OF OIL PRICES
(dollars per barrel f.o.b.)

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<th>Year</th>
<th>Current prices</th>
<th>Constant 1979 prices$^a$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>2.1</td>
<td>4.9</td>
</tr>
<tr>
<td>1974</td>
<td>11.2</td>
<td>17.9</td>
</tr>
<tr>
<td>1977</td>
<td>12.8</td>
<td>16.0</td>
</tr>
<tr>
<td>1978</td>
<td>12.9</td>
<td>14.0</td>
</tr>
<tr>
<td>1979</td>
<td>17.7</td>
<td>17.7</td>
</tr>
<tr>
<td>1980</td>
<td>30.0$^b$</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

Source: As Table 5
Notes: a) Inflated by manufactured export prices
       b) Provisional
THE TRIANGLE PAPERS

Recent Reports of Task Forces
to The Trilateral Commission

13. Collaboration with Communist Countries in Managing Global Problems: An Examination of the Options (1977)
   Authors: Chihiro Hosoya, Henry Owen, Andrew Shonfield

   Authors: Richard N. Cooper, Karl Kaiser, Masataka Kosaka

15. An Overview of East-West Relations (1978)
   Authors: Jeremy R. Azrael, Richard Löwenthal, Tohru Nakagawa

16. Reducing Malnutrition in Developing Countries:
    Increasing Rice Production in South and Southeast Asia (1978)
    Authors: Toshio Shishido, D. Gale Johnson, Umberto Colombo

    Authors: John C. Sawhill, Keichi Oshima, Hanns W. Maull

18. Collective Bargaining and Employee Participation in Western Europe, North America, and Japan (1979)
    Authors: Benjamin C. Roberts, George C. Lodge, Hideaki Okamoto

    Authors: John Pinder, William Diebold, Takashi Hosomi

21. Trade in Manufactured Products with Developing Countries: Reinforcing North-South Partnership (1981)
    Authors: Albert Fishlow, Jean Carrière; Sueo Sekiguchi

    Authors: Garrett FitzGerald, Arrigo Levi, Hideo Kitahara, Joseph Sisco
The Industrialized Democratic Regions in a Changing International System

The Trilateral Commission, launched in July 1973, is a non-governmental, policy-oriented discussion group composed of about 300 distinguished citizens from Western Europe, North America, and Japan, drawn from a variety of backgrounds. Its purpose is to encourage mutual understanding and closer cooperation among these three regions, through analysis of major common problems and consideration of policy proposals for addressing them. Commission activities have stirred wide interest and made some important contributions.

The historical roots of the Commission can be traced primarily to serious strains early in the 1970s in relations among Japan, North America, and Western Europe. As the decade proceeded, however, it became increasingly clear that the strains and shifts in the international system are global as well as trilateral in scope. The renovation of the international system is thus a task of global as well as trilateral dimensions, and the work of the Commission, as evidenced in its meetings and reports, has moved accordingly.

In this global effort, the industrialized democratic regions remain an identifiable community and a vital core. Their focus, however, must not be on the preservation of the status quo, but on arrangements which increasingly embrace the Third and Fourth Worlds in a cooperative endeavor to secure a more equitable world order.

The renovation of the international system will be a very prolonged process. The system shaped after World War II was created through an act of will and human initiative in a relatively restricted period of time. One power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation—much longer and more complex—in which prolonged negotiations will have to be initiated and developed. In nurturing habits and practices of working together among the trilateral regions, the Commission should help set the context for these necessary efforts.