

World Economic Crisis : Some Paradoxes And Fundamental Issue

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World economy is now passing through a phase of unprecedented crisis, which is multifold in its dimensions. At one end is the long-term perspective of the crisis with the thesis of population explosion, food shortages and total depletion of raw materials, energy and non-renewable resources-spearheaded by Dennis L. Meadows and his colleagues in the Limits To Growth. This group of experts came to the conclusion: "If the present growth trends in world population, industrialisation, pollution, food production and resource depletion continue unchanged, the limits to growth on the planet will be reached some time within the next one hundred years. The most probable result will be a rather sudden and uncontrollable decline in both population and industrial capacity." At the other end of the perception of the crisis is the most immediate and pressing problem of debt burden of the developing countries. The estimated figure of debt at the end of 1982 was \$ 626 billion and debt servicing cost was \$ 131 billion (interest=\$ 60 billion and amortisation=\$71 billion). Two-thirds of this debt and 3/4th of the debt servicing were accounted for by twenty countries. The aggregate debt of developing countries (long, medium and short-term, public and private)reached nearly\$ 800 billion. The incidence of debt burden on some of the developing countries is quite staggering: Brazil \$ 87 billion; Mexico \$ 85 billion; Argentina 38 billion; South

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Korea \$ 39 billion. These four countries account for almost 1/3rd of developing countries' total debt. Low-income countries have the debt of \$ 110 billion. Debt-service ratio (service/export earnings) reached 23 per cent in 1982 for these countries. The other dimensions of the world economic crisis include (a) slow growth of world output - in particular output of the developed countries, (b) slow growth of world trade, (c) decline in the productivity growth of the developed countries, (d) sharp increase in the unemployment rate in the developed countries, (e) high rate of inflation, (f) sharp decline in the commodity prices and the consequent deterioration in the terms of trade of the developing countries, (g) persistence of acute poverty, destitution, low purchasing power among the millions of the Third World population, (h) persistence and even further widening of the gaps in regard to income levels, technology, resources, etc. between developed and the developing countries, (i) continued disillusionment with the abilities of the international institutions such as World Bank, IMF, UNCTAD and GATT to deal with the problems of the developing countries, (j) uncertainties in the international monetary and financial arrangements including the exchange rate fluctuations, volatility of the Capital Markets, high interest rate, etc. (k) rising tendencies of protectionism.

Each of these aspects of the crisis could be documented with statistical materials and arguments. On world output growth, the following table tells the story:

| Country or Country Group | Annual Average | | Estimate | | Forecast | |
|--------------------------------|----------------|------|----------|------|----------|--|
| | 1975-80 | 1980 | 1981 | 1982 | 1983 | |
| 1. World | 3.9 | 1.9 | 0.9 | 1.2 | 3.7 | |
| 2. Developed Market Economies: | 3.4 | 1.2 | 1.3 | 0.9 | 3.0 | |
| North America | 3.5 | -0.2 | 2.1 | 0.0 | 3.8 | |
| West Europe | 2.9 | 1.4 | -0.2 | 1.3 | 2.5 | |
| Japan | 5.1 | 4.2 | 2.9 | 2.0 | 4.0 | |
| Others | 2.6 | 2.2 | 0.7 | 1.4 | 2.6 | |
| 3. Developing Countries: | 5.0 | 2.8 | -0.8 | 1.6 | 5.5 | |
| Major Oil Exporting Countries | 3.7 | -3.4 | -6.4 | -2.6 | 6.3 | |
| Net Oil Importing Countries | 5.3 | 4.9 | 1.5 | 3.8 | 4.7 | |
| Exporters of Mfrs. | 6.6 | 6.7 | -1.5 | 3.6 | 5.2 | |

It should be noted that this is not the first time that crisis has been perceived for the world economy. As Rostow points out, there have been at least four earlier occasions, when the world economic crisis in the form of pressure on food or raw materials supplies and relatively high or raising prices for basic products was perceived.

The first was triggered by Malthusian pessimism about the consequences of Britain's population increase and Ricardo's pessimism about the productivity prospects in agriculture. Both views generated with the population-food tension during the French Revolutionary and Napoleonic war time were rooted in concept of diminishing returns to investment in agriculture. The second debate, centred on the future of Britain's coal supply, especially the most easily accessible, seems and raised issued with some force by W S Jevons in an 1860's. He projected forward the then-current rate of increase in consumption (3.5 per cent) emerged with palpably impossible levels of British coal requirements, and, like Meadows, concluded "our motion must be reduced to rest." A more general subject of debate at this time might have been the question of the population-food balance, in the wake of the Irish famine and Europe's problems of the early 1950's; but the potentialities of the American Middle West and railroads were obvious. The third occasion for concern arose out of the relative rise of foodstuff and raw-material prices in the pre-1914 generation and the consequently unfavourable shift in the British terms of trade. In 1912 Keynes, looking at relative export and import prices, re-evoked the classic specter: "There is now again a steady tendency for a given unit manufactured product to purchase year by year a diminished quantity of raw material product. The comparative advantage in trade is moving sharply against industrial countries. D. H. Robertson, using A L Bowley's terms-of-trade calculations, strongly reinforced Keynes' anxiety: "...the normal tendency for the ratio of exchange to alter against the manufacturing and in favour of the agricultural communities was in force in the sixties was suspended in the seventies,.....and is now once more on the whole triumphing. This is perhaps the most significant economic fact in the world today." This was the anxious view of the position of the industrial nations which Keynes took to the Versailles Peace Conference and which strongly shaped Chapter 2 in his **Economic Consequences of the Peace** (1919). But just as the wheat price tumbled after the Napoleonic Wars and the coal price after 1873, so, as we saw in Chapter 15, the British terms of trade turned so favourably after 1920 as to impoverish export markets and contribute to Britain's chronic interwar unemployment. A fourth period of anxiety came after the World War when food and raw-materials prices continued to rise relatively. In the United States the apparent scarcity stimulated the massive report in 1952 by the President's Materials Policy Commission Chaired by

William S Paley. The commission was luckier than some of its predecessors in this field. Relative prices broke favourably for the industrial nations in 1951, and the commission's final report (Resources for freedom, 1952) was written in the altered price setting. It took the temperate view that resources should be viewed in terms of the cost acquisition rather than in terms of absolute depletion, and that the unfolding of technology was a powerful force in fending off classical diminishing returns. In its wake, permanent institution to monitor the problem was created. Resources for the Future, Inc., which continues to do authoritative studies in this field.

It is worth noting that the debate about resource constraints was opened for the fifth time in the past two centuries before the publication of **The Limits to Growth** and before the price revolution of 1972-1977. In October 1970 the US congress passed the National Materials policy Act. "Its primary underlying concern at the time on supplies of food, energy, or raw materials, but the pressure was not pressure / of the American economy on the environment." (W W Rostow, *The World Economy - History and Prospect*).

In regard to the current economic crisis, statistical materials alone do not provide good insight into the intricacies of the current economic crisis, factors responsible for it and the remedies necessary to deal with them. We must first ask the question as to where does the origin for the current crisis lie ? What is the epicentre or what are the epicenters for the current explosive situation ? There are several misconceptions and wrong perceptions some of which have been deliberately sponsored by the vested interests - in tracing the origin of the current crisis or the factors contributing to them. In the midst of these several misconceptions a number of fundamental issues are lost sight of. I would like to take the opportunity of this forum to reiterate some of the fundamental issues and put forth some of my views in dealing with the current crisis. I hope you would forgive me if some of my ideas are rather provocative and unconventional. I presume some radical approach is useful to deal with the stubborn maladies.

Some Paradoxes

Let me first list some of the paradoxes of the present crisis:

1. Firstly, the whole economic situation was never considered as a crisis as long as the phenomena of high unemployment rate, poor resources, high incidence of poverty,

adverse terms of trade, difficult market access problems, etc; were confined to the developing countries even though they accounted for 2 / 3rd of the world population. The situation becomes a crisis as soon as these phenomena engulf the so called developed countries who are in near total command over the management to the world economic system.

2. Strangely enough, the problems which the South presents to the North – such as protectionism, restrictive trade practices, poverty resource constraints etc. are being experienced by the North itself. EEC, for example, has been experiencing the agonies of protectionist policies of USA against steel exports and also those of Japan against a number of export products. The following paragraphs from the Bulletin of Economic Community (February, 1982) make interesting reading:

“The constraints placed on economic and monetary policy in Europe by the high level of interest rates in the United States were the determining factor in relations between the Community and the United States in 1981. In addition, there were further sources of tension at the end of the year involving steel and the common agricultural policy.

In the steel sector, which was already a source of serious difficulties in 1980, anti – dumping suits covering a considerable proportion of Community Exports to the United States have been filed by a number of American steel firms: the Commission, supported by the Industry Ministers of the Ten strongly contested the grounds for these suits. As regards agriculture, the very foundations of the common agricultural policy are being questioned, with the American Administration systematically challenging the export refund machinery.

As Mr Thorn stated before Parliament, this situation ‘could escalate into something much more serious than the present trade dispute, which has been exacerbated by the economic crisis and by domestic problems, and it was in this context that the high – level consultation between the Commission and the American authorities took place at the beginning of February.’”

EEC’s trading relations with Japan are far from satisfactory. Bulletin of March, 1982,

reported that "these relations remained a matter of serious bilateral concern and which raised numerous multilateral issues affecting the functioning of the international trading system. Very low propensity to import in Japan and her highly competitive export thrust have caused serious concern to the EEC.

Thus, the interest of the developed countries in restructuring the world trading system stems from their own intra-North concern but not from the concern for the interests of the South.

It is interesting to note that there is also discussion about poverty line in the European Community as reported in the following columns of Euroforum of May, 1982.

"Poverty not only still exists but is on the increase in all member states", Ivor Richard, the Social Affairs Commissioner, recently told members of the European Parliament.

He provided statistics showing that 11.4 per cent of households in the Community have an income level lower than half of the national income. Ireland has the highest poverty rate with 23 per cent of households living below the officially set "poverty line" according to the statistics which refer to 1973.

In Italy, 21.1 per cent of households were below the poverty line according to the statistics relating to 1978. In the UK, 6.3 per cent of households were deemed to be in poverty and the lowest figure was for the Netherlands, 4.8 per cent of families were deemed 'poor'. According to the Social Affairs Commissioner, no decision will be taken to renew the combat poverty programme which expired last year until there has been some debate on the problem by the Council of Ministers.

The conclusions from the final report on the combat poverty programme, suggest that future "specific measures" should be part of "a wide range of social and economic policies" according to Mr. Richard.

This should indicate that as long as this "poverty" persists in the Community, concern about the poverty prevalent in the South, for which so much noise is raised, is only crocodile tears .

3. The third paradoxical feature of the crisis is that precisely at the time when the South

was pushing its concerted efforts to realise better and fairer returns to the producers of primary products, through the demands for Integrated programme of Commodities, Common Fund, etc, ironically the South has been further punished by significant falls in the commodity prices. The dollar price index of principal non-oil primary commodity exports of developing countries fell by 35 per cent between October 1980, and October, 1982. Food prices declined by 61.4 per cent, vegetable oils and oil seeds by 48.8 per cent, tropical beverages by 32.1 per cent, mineral ores by 31.8 per cent and agricultural raw materials 28 per cent. The consequent deterioration of the terms of trade for the South has implied tremendous loss of external resources for the south.

4. The fourth paradox is that the countries which claim to be leaders of intellectual rigour and depth of analysis have responded to their internal crisis by adopting such restrictionist policies as have further aggravated their own crisis. Further, those very countries which professed liberalism and free environment for production and trade have themselves adopted highly protectionistic policies. In this context, Prof. Galbraith's outright criticism of the US policies is worth noting.

"The most important – there is no question – thing from the point of view of the poor countries of the world is a much better functioning of the economics of the rich countries, particularly the USA. The whole world is suffering from the recent economic policies of Administration..... We do need a drastic reversal of the economic policies, the extreme monetarism, the so-called supply side aberration, which has brought our present difficulties. I am sorry to say that I don't immediately see a reversal of those policies; we have learnt how bad they are. We have not yet learnt what the alternatives are." (Interviews with Prof. John K Galbraith published in the *Third World Quarterly*, April, 1983)

Even as back as 1977, many thoughtful men had pleaded before the Joint Economic Committee of the Congress of the United states that the Government need not take drastic measures in response to the trade deficits of 1976, 1977. Prof. Cohen, for example, argued that:

"For all these reasons, then I do not view the present US trade deficit with alarm, nor do I feel that radical revision of current US economic policies is warranted..... The present trade deficit signifies neither a serious deterioration of our competitive-

ness in international markets nor a significant loss of a capacity of world economic leadership, the fact of a deficit remains – and because of that deficit the fact remains as well that we are facing here at home a ground swell of protectionist pressures on many of our own exporting and importing – competing industries, from shoes and textiles to electronics and specially steel. This I do view with alarm. Those protectionists pressures must be resisted and, if possible defused.”

Discussion of the sub-committee with Prof. Cohen also revealed that much of merchandise trade of military relevance was suddenly shifted (in 1975, 1976) to the “service” heading with the result that merchandise trade showed deficit while the service sector showed significant surplus. Despite these sensible advices from experts the US policy maker has over-reacted to the “crisis” by adopting restrictionist policies which have triggered of world-wide crisis further.

Thesis of Dependency Versus Independency

The presence of paradoxes, as illustrated above, is a clear reflection of the difference in the perceptions of the crisis. The North perceives the crisis as emanating from the oil prices hikes of 1973–74 and 1979, and believes that once the oil power is on the wane, normally world economic situation would return. Some analysts of the North trace the malady beyond the oil crisis but only to the internal imbalances in their economies, slow productivity growth in them and advocate that the health of the world economy is hinged to the health of the Northern economies and once they are recovered the crisis becomes, defused. They would essentially advocate dependency hypothesis between the South and the North. Hitherto, the demand for NIEO is strongly based on the interdependency thesis as advocated, eloquently, by the Brandt Commission and also UNCTAD. At back of this Interdependency thesis is the whole gamut of issues of NIEO ranging from massive resource transfer to the South, to the question of the more effective participation of the South in the international institutions.

The stalemate in the North–South dialogue is largely due to this divergence in the perceptions of the crisis. North, in particular USA, seems to stick to the dependency thesis (while giving lip sympathy to the Interdependency thesis) and would only like to bide time for establishing its own recovery so that pressures of the South for some fundamental changes in the world economic order could become diffused. Unfortunately, the recent speech of Mr J. de Larosiere, Managing Director of the IMF at the UNCTAD session, in presenting a rosy picture of the world recovery and playing down the fundamental issues of NIEO also falls in tune of the advocates of the dependency thesis.

Partial Delinking with the North Necessary:

In the context of such divergencies in perceptions, how should the South pursue its objectives? South has lived long with the illusion that North has an attitude of benevolence towards it. Throughout the 70's, the South has tried various methods of putting across its demands for NIEO. The period of 70's could be grouped into three phases: Firstly 1970-74 is the period of realisation of the inequities of the world economic order and building up pressures for introducing fundamental changes in them. The second period 1975 - 77 could be characterised as a period of some action by the international bodies such as World Bank, UNIDO, UNCTAD, United Nations, in the form of various declarations and action programme. This is also the period when some of the major countries of the North were exposed for their intransigent attitude towards NIEO issues. This period sowed the seeds of hope and also frustration in the minds of Southern policy-makers and analysts. The next period 1978-80 clearly saw the frustrations of the South along with the failure of the international bodies such as UNIDO and UNCTAD. It is evident that the 80's should see a change in the strategy of the South. The approach of partial delinking with the North and more effective South-South co-operation should be adopted. The recent NAM Summit held in Delhi and the G-77 meeting held prior to UNCTAD have recognised the importance of this strategy but they do not go far enough in this direction. The strategy of partial delinking should include the steps such as establishment of a separate Third World Secretariat (located at a Third World Country), holding of independent Third World Summit meetings, encouraging preferential arrangement for intra-South flows of goods, manpower and resources.

Strategic Role of ECDC and TCDC

This brings us to the various areas in which the ECDC and TCDC could be fostered and also as to how the past history of ECDC and TCDC has been of a dismal kind. Let us consider some of the resolutions of the New Delhi summit of NAM. There has been a proposal since the Sixth Summit to establish a Center for Science and Technology for the non-aligned and other developing countries. The Seventh Summit could only reiterate its approval for the proposal and express its happiness on the point that the statutes for such a Centre have been drawn and they need to be examined. Why is such a slow progress on such a crucial proposal of TCDC? Some concerted effort prior to the Seventh Summit could have enabled the Seventh Summit launch such a Centre. The proposals of bank for developing countries, establishment

of Research and Information System, constituting of a Solidarity Fund of the non-aligned countries for economic and social development, have all been advocated in good faith and spirit but they would only provide "paper satisfaction" unless they are followed up by concrete action programmes. Similarly, the idea of Consortium of debtors needs to be vigorously pursued. sub-regional economic blocks such as the ASEAN should be fostered for effective co-ordination of the efforts in regard to investment, production, trade, financial flows, services, information, etc, among them. Given the political will, many such subregional blocks are feasible on the basis of collective self-reliance.

Need for a New Strategy for Development

South should also respond to the present crisis by adopting an altogether new approach to its developmental urges. Hitherto development is totally identified with industrialisation. In fact, and at one time, development was defined in terms of shift of so-called surplus labour from agriculture towards the industrial sector. This lop-sided conception of development, not consistent with the factor endowments of many developing countries has, led to total neglect of the agricultural sector and its consequent stagnation with low productivity, lack of modernisation etc. It is time that developing countries perceive development in terms of building a most efficient sector of agriculture and some select agro-based industries. W. W. Rostow in his elegant analyses of the World Economy also argues for such a shift in development strategy.

North-South Dialogue

Finally, fundamental issues of the world economic crisis should be debated on concerted action programme identified in the framework of global negotiations. The NGNS are today blocked largely due to the intransigent attitude of some countries of the North. There is need for better political will on the part of the North to view the world economic crisis in its wider perspectives and agree for effective global round of negotiations on various inter-related issues of trade, technology, investment and resources.