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Robert Lekachman

In its October 1976 report, *The Future of the World Economy,* a distinguished group of United Nations economists headed by Nobel Laureate Wassily Leontief reached two conclusions of great import. The first concerned the gloomy prospects for narrowing the gap between poor and rich countries in the near future. (In the interests of honesty in language, I shall continue to say rich and poor rather than developed and developing, industrializing and industrialized, or any other pair of euphemisms which soften reality.) The second defined the nature of the limits to economic growth. Here is the way the 1980s and 1990s now look in the absence of substantial changes in the policies of rich and poor societies: "Target rates of growth of gross product in the developing nations, set by the International Development Strategy for the Second United Nations Development decade, are not sufficient to start closing the income gap between the developing and the developed countries. Higher growth rates in developing countries in the 1980's and 1990's, coupled with slightly lower rates in the developed countries (as compared to their long-term trends) are needed to reduce, at least by half, the average income gap by 2000" *(The New York Times,* October 14, 1976, p. 14).

The UN projection accords unhappily with the conclusions of seasoned observers about what has already occurred since the end of World War II. Out of his experience in the World Bank, Hollis Chenery, in his book *Redistribution with Growth,* identified a general "tendency for the benefits of growth to be concentrated in the early stages and spread only slowly thereafter." The vast majority who are poor suffer from "specific disabilities that can be summed up as lack of physical and human capital and lack of access." Policies calculated to share the benefits of growth more equally are difficult to introduce and administer. Elites, as in Brazil and Chile, yield readily to tactics of repression rather than of redistribution. Torture in the short run seems an efficient substitute for social justice. Thus, concludes Chenery, only Tanzania, Taiwan, Yugoslavia, Korea, Costa Rica, and Israel can plausibly claim effectively to have combined growth with redistribution in the direction of equality. Of Tanzania, Chenery concludes: "From 1967 to 1973, wage/salary inequality sharply fell, large-scale landlord holdings experienced a total takeover . . . the retailer profit margin reversed and broadening of rural/urban gap halted." And even here a note of caution was advisable, for the actual distribution of income was "only marginally better in 1973 than in 1967." However, "the trend appears to be positive and built on programs which should sustain it and allow the growth needed to finance it."

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Is there no hope? Are the obstacles to equitable development completely intractable? It is worth here citing the second major conclusion of the UN study: "The principal limits to sustained economic growth and accelerated development are political, social and institutional in character rather than physical. No insurmountable physical barriers exist within the 20th century to the accelerated development of the developing regions." The UN rejection of the limits of growth argument, advanced by the first report of the Club of Rome and popularized in the recent work of Robert Heilbroner, amounts to a statement of possibility. How likely poor nations are to grasp available developing strategies depends above all on their politics, institutions, and sociology. Recent events in India, Yugoslavia, and Latin America speak discouragingly about the immediate future of development within an egalitarian context.

It is no wonder that, again to cite Chenery, "more than a decade of rapid growth in underdeveloped countries has been of little or no benefit to perhaps a third of the population," for "although the average per capita income of the Third World has increased by 50 per cent since 1960, this growth has been very unequally distributed among countries, regions within countries, and socio-economic groups."

To put the matter more bluntly, alliances in the Third World between authoritarian governments and huge multinational conglomerates have promoted historical tendencies toward enclave industrialization. Ill-balanced industrialization has enriched small indigenous elites of entrepreneurs and stockholders of global corporations, but has done amazingly little for the impoverished masses. Unbalanced development has promoted monoculture and turned food exporters into food importers, as Geoffrey Barraclough among others has noted. Premature urbanization has created vast miserably sheltered, unemployed, or underemployed hosts of migrants from the land. Ill-advised, wholesale importation of western modes of crop culture has created a dependence upon petroleum-based fertilizers whose costs have soared in the wake of the OPEC cartel. Indeed the major victims of that cartel have not been the rich countries of the western hemisphere but poor nations without oil of their own in Africa, Asia, and Latin America.

The issue of equality

Within societies and among societies, the overriding issue of the latter half of this century has been and very likely will continue to be, equality. The UN has become a forum in which huge Third World majorities annually present their bill to the rich West plus Japan. The items on the bill vary. They include commodity agreements which stabilize at high levels the raw materials which often are all that the poorest nations have to export. Other items are loans on concessionary terms or actual grants, easy access to western technology, and acceptance by the multinationals of terms of operation favorable to host nations. Even Americans complacent about the merits of American policy and economic behavior tend to become uneasy when Third World advocates point out that Americans, some 4 percent of the population of the globe, gobble up more than a third of the raw materials extracted each year the world over.

It is hard for someone who believes that American income and wealth ought to be less unequally distributed among Americans (as I do) to deny the justice of claims by poor nations upon their luckier neighbors. A good Rawlsian ought to be willing to apply his master's difference principle to relations among nations, as well as among groups and individuals within a given political entity. (Starting from the presumption that equality of income and wealth is a natural state among human beings, John Rawls, in his book, *A Theory of Justice,* argues that the only justifiable departure in the direction of inequality is one which results in the improvement of all members of the community. Where income and wealth already are unequally divided, movement toward still further inequality can be justified by benefits which flow to the least advantaged members of the group.)

Alas, as in most matters of real consequence, justice is not easily and simply served by transfers from rich to poor countries. In 1975 the Group of 77, a loose coalition of poor countries in Africa, Asia, and Latin America, presented its latest set of reparations claims at the United Nations. It won from the United States and other western countries a set of pledges to investigate stabilization of export income in the developing societies, to seek ways of alleviating the crushing burdens of international debt, to provide the Group of 77 with a larger (and louder) voice in the International Monetary Fund, and to increase aid in support of industrialization by liberalizing access to established capital markets.

General and unspecific as they were, these promises marked a small advance in the responses of the rich to their impoverished brethren. Fifteen years ago, twenty-five tons of natural rubber bought six tractors, but in 1975 only two. So it went in trade between raw material suppliers and exporters of finished goods and the artifacts of high technology, until OPEC achieved its vast success and the bauxite producers made their substantial gains. At that the United States, though voting for the 1975 UN resolution, objected to any tampering via indexation or commodity agreements with what the Ford administration laughably insisted on calling free markets. Nor did the United States promise to increase the proportion of its GNP devoted to foreign aid or, for that matter, promise to diminish the percentage of existing aid wasted on armaments.

The Group of 77 had a case against the West, based on the extensive history of trading and investment between rich and poor nations. Nevertheless, the UN resolution, a simplistic demand by the poor for more from the rich, barely scratched the surface of the issues of economic justice which are implicit in any serious rectification of institutional arrangements among and within nations. Let me try to sketch some of the more important complications as a series of queries:

—Since the burden of OPEC pricing policy has afflicted most dangerously the poorest communities of the globe, upon whom ought the burden of aiding India, Bangladesh, Pakistan, and nations similarly circumstanced, be placed? OPEC? The West? International agencies essentially funded by the West? If on two or more, in what proportions?

—Is the cause of justice served by shifting resources collected by unfair, regressive taxes on low- and moderate-income workers in rich countries for the benefit of small, wealthy elites of politicians, landowners, and speculators in poor countries? Specifically, ought Murray Finley's clothing workers pay higher taxes to enrich the Shah of Iran and his entourage, or the elites of oil-poor countries?

—If growth in the West is likely, for a variety of reasons, to slow down, is it fair to ask ordinary citizens to surrender what prospect of improved living standards may remain for the benefit of foreigners, even if the foreigners are much poorer?

There are contained in this collection of hard questions three closely related issues of equity:

—justice as redistribution between

rich and poor societies;

—justice in the treatment of the average citizen of the rich society;

—justice in the treatment of the average citizen of the poor society.

In other words, there is no escape from this realization: any private investment in poor nations or public aid to those nations from international agencies and developed countries which is likely simultaneously to benefit poor and working class residents in the receiving countries and attract the continuing support of electorates in rich countries, is inextricably entangled in the politics of rich industrialized nations, the more affluent OPEC members, and the less fortunate portions of the Third World without oil.

In what follows, I shall attempt to sketch the major lines of policy which offer the prospect of realizing the goals of the UN Commission—which are to encourage sufficiently rapid economic growth in poor countries to narrow the gap between them and the rich countries.

Policy for the rich

Alone among wealthy societies, Sweden has persistently exceeded the target contribution to foreign aid set by the UN. Why has the Swedish public steadily supported the transfer of something more than 1 percent annually of their GNP to less fortunate neighbors? Why have other western countries, and especially the United States, been considerably less generous and why have their voters often responded to political assaults upon foreign aid programs?

Consider for the moment the leading characteristics of Sweden's economy and public policy. During the 1973-1975 world mini-depression, Swedish unemployment never rose as high as 2 percent. In spite of the fact that as a small country which exports a very high percentage of its industrial output, Sweden is extremely sensitive to fluctuations in world commodity prices, Swedish inflation was moderate by West European standards. Swedish social services are extensive. Swedish labor market policy responds sensitively to local erosions of employment. Swedish taxes are genuinely redistributive. By some measures, the Swedish standard of life is higher than the American. Within this climate of social protection and egalitarian pressure, Swedish business flourishes.

Although for the first time in 44 years a coalition of conservative parties is now in office, they won power largely on the adventitious issue of nuclear power and its potential threat to an environment Swedes properly cherish. The shift in popular vote from the previous election was a trifle over 1 percent. More to the point, even Swedish business opinion is resigned to a continuation of the policies of the momentarily displaced Social Democrats. In the immediate wake of the Swedish election, the Federation of Swedish Industries made this prudent statement: "Nobody in the business world expected that a right-wing victory . . . should lead to a drastic revision of economic policy—at least not on a short term basis. In the development of the economic policy of recent decades, the main factor has been compromise. The fight for the middle voter seems to have given a very small margin for defining economic policy. . . . Experience from neighbouring countries in Europe shows that periods of right-wing government have not led to any diminution in demand for socialization or national economic planning."

Sweden is distinguishable from utopia. Its homogeneous population of 8 million, about that of New York City, is scarcely comparable to the 215 million-odd Americans who occupy much of a continent. There is a moral for Americans all the same, indeed a familiar cliché: it is the rich who can afford to be generous. Slightly to amend the cliché, in democratic societies generosity to foreigners is likely to be premised, wartime alliances aside, upon the prosperity and the security of ordinary working families, earning median incomes and paying what they regard as no more than their fair share of taxes for public services which they generally esteem.

Generosity abroad begins with justice at home. Hence liberals, social democrats, and socialists, even intelligent conservatives (in whom the United States has never abounded), ought to begin with a serious commitment to full employment. Full employment is the engine of advance to equality on the part of the poor, black, female, young, and urban (my categories manifestly overlap). In the United States as elsewhere full employment requires at least intermittent job creation and job training by government. The Humphrey-Hawkins Full Employment Bill, much amended in the course of the last Congress, has been reintroduced in the current Congress, but with as little prospect of passage now as there was earlier.

One great barrier to effective action against unemployment in the United States has been fear of inflation, a fear that has been fed by learned talk by economists of so-called Phillips curve trade-offs between unemployment rates and price increases. There is much empirical evidence which casts this asserted relationship in serious doubt. But common observation reveals that there is indeed a connection between rising prosperity and price escalation. It is not connected with the tendency of unions to push wages up so rapidly that corporations perforce hike their prices, set off a new round of wage claims, and put in motion a wage-price spiral. Rather, the culprits of recent experience have been large corporations which, in pursuit of high profits even during recessions, stubbornly hike prices even though the customers sulk. (1974 and 1975 were two of the worst years since the 1950s for new car sales. They were also years in which General Motors and its friendly rivals raised sticker prices $1000 per chariot on the average. Assuming that demand was inelastic and aiming at a decent return on investment, GM simply decided to sell fewer vehicles at higher prices rather than more vehicles at lower prices. It is not the sort of choice that garment manufacturers on Seventh Avenue are free to make.) During the so-called recovery from the 1973-1975 mini-depression, the steel companies, operating substantially below capacity, several times raised their prices in an effort to widen profit margins.

The record contains the message that the necessary complement to national commitment to full employment and federal job creation programs is mandatory controls over the prices set in concentrated industries. I am aware that my friends in the labor movement, with good reason, have opposed controls on the ground that Congress will inevitably impose them upon both prices (ineffectively) and wages (effectively). So it was during the Phase 2 period; so, union leaders fear, it will be again. All I can do is express the hope that unions will make the effective case open to them that in the 1970s inflation started with prices and profits and that unions, as even business media have often conceded, behaved so responsibly that in real terms average factory earnings have declined, not risen. It is highly unlikely that effective full employment policies will long be followed or even initiated unless they are accompanied by credible measures against inflation.

My Swedish solution for the United States requires as a third element effective tax reform—at last. There are many routes to reform and I am no tax expert. Let me simply identify one four-part possibility: (1) dismantle our present Rube Goldberg tax code, discard *all* existing exemptions and deductions; (2) tax all income from every source at gently progressive rates somewhat lower than present rates; (3) substitute for present inheritance levies Lester Thurow's suggested wealth acquisition tax, which would limit the sums an individual might inherit during his lifetime; and (4) turn the social security tax into a progressive levy on total earnings. It is not my intention to sketch a total domestic program. I shall say nothing here about health, land use, environment, and housing policy. My point is single and simple: a worried population is likely to devote little thought and scant sympathy to people in distant lands.

Let me shift to another aspect of relations between rich and poor societies. One of the standing irritations between the rich and the poor focuses on the role of the multinational corporations. What is badly needed among the richer societies is formulation of an appropriate code of conduct for these mobile corporate and financial giants which currently all too often play regions and governments off against each other, slip between the crevices of variegated legal systems, and shift resources from high-wage unionized countries to low-wage nonunion countries. More than once, multinationals have defeated public policy both in the countries where they are chartered and in those where they operate.

For the United States a minimum program includes federal chartering of large corporations (a Ralph Nader revival of an old approach), licensing and justification of capital exports (an old United Automobile Workers scheme), repeal of unfair tax advantages, prohibition of participation in boycotts of nations friendly to the United States, and use of anti-trust statutes to inhibit further growth by acquisitions.

Finally, if morality rather than *Realpolitik* is to guide western policy, aid should be focused upon governments which treat their own citizens responsibly and withheld from the tragically numerous regimes which oppress their own poor. (Almost immediately after the Pinochet regime took power in Chile, we resumed aid. The lesson was surely widely understood in the Third World.)

Policy for the poor

Obstacles to growth in poor countries are numerous. Countries like Bangladesh and Egypt stagger under the burden of a very high ratio of population to arable land. In these countries and in much of Latin America, Africa, and the remainder of Asia, rapid population growth consumes the fruits of improvement in agricultural methods. Generalizing about such lands and others in which resources are relatively plentiful relative to numbers of inhabitants is rash, but unavoidable. Let me list *seriatim* a number of considerations:

1. As democrats we naturally prefer growth to take place within the context of representative government. As realists we must perforce settle for governance by elites which, at least, show reasonable concern for the prosperity of their constituents. We daren't exclude India by this criterion. We ought to exclude countries like Brazil and Chile where deliberate policy has worsened the condition of working men and women.

2. There is indeed a recrudescence of Malthusian population problems, in some instances accentuated by public health triumphs in controlling malaria and other infectious diseases. For westerners it is convenient to urge population control upon poor nations as the prerequisite to growth. It is more realistic to recall that birth rates in the West began to drop sharply *after* improvement in living standards became reasonably general.

3. Tax reform and improved tax administration are even more badly needed in poor countries than in the United States, where most people

pay their taxes more or less voluntarily.

4. In future economic development, more attention must be paid to agriculture, particularly of a variety which emphasizes decent diet for urban and rural residents and employs some of the intermediate technologies which E. F. Schumacher has elegantly argued for in *Small Is Beautiful.*

5. It seems futile to say so, but wastage of scarce resources on military and nuclear equipment ought to be minimized. The prospects of such limitation are obviously better in situations of détente between the superpowers, and still better when the United States ceases to press expensive military toys on potential buyers all around the world.

6. If the connection between growth and declining population rates is really as described in (2), then genuine land reform, and encouragement of unions and other democratic institutions, should be recognized not only as equitable but as offering the rewards in the near future which will lead parents voluntarily to limit the size of their families.

One pillar of justice, then, between the rich and the poor is the equity with which the poor distribute the little that they possess.

Policy for the nouveaux riches: *the case of OPEC*

Here it is difficult to be cheerful, at least about the Middle Eastern members of the oil cartel. (Venezuela, a devoted member of OPEC, is engaged in genuine efforts at social reform. It is not embroiled in the anti-Israel politics of its Arab colleagues.) In the Middle East an ominous arms race is in progress. During the 1975 fiscal year ending June 30, 1975, the Pentagon exported $9.5 billion, compared to a mere $3.9 billion in 1973. Together, Iran, Kuwait, and Saudi Arabia purchased nearly half of this huge total. Latin American countries in the last three years have vastly expanded military acquisitions from the United States and elsewhere. Arms races can absorb even OPEC's billions and slow economic development to a walk.

Thus far their oil bonanzas have done desperately little for poor Iranians and Saudis. In Algeria, major oil fields already are approaching exhaustion and that country's balance of payments turned into deficit before substantial improvement in the daily life of the Algerian peasant or proletarian had even begun.

OPEC needs desperately to distribute its resources more fairly among its citizens. It should participate systematically in aid programs addressed to the needs of poorer nations without oil. It is unlikely to do either until present emphases on armaments are altered.

The different preconditions

Aid and international investments are inseparable from the politics of resource transfer from the rich to the poor among nations. But this international redistribution can only become politically feasible when the several difficult preconditions already sketchily noted have been approximated. Within advanced nations full employment and social equity are necessary but not fully sufficient conditions for more generosity abroad. Popular resistance to foreign aid initiatives will be great and decisive unless such help is seen to assist human beings poorer than most blue- and white-collar families in the West. I am inclined to go further and say that trade union, liberal, and radical opposition to foreign aid is appropriate so long as the aid flows to closed groups of foreign politicians, military leaders, and well-connected entrepreneurs. It is especially appropriate when unions are outlawed and political opponents languish in prison.

One can do no more than hope that these parallel advances toward economic justice in the component parts of the noncommunist world are feasible. One can do no more than to press for such policies in one's own country and urge such pressure as this country can bring to bear upon the policies of other countries.

Of one thing I fear it is possible to be almost certain. If such advances are long delayed, the alternative is likely to be Robert Heilbroner's grim vision of wars of redistribution, urban violence, and replacement of democratic institutions by authoritarian regimes.

As matters stand, the only important human groups capable of promoting either humane capitalism or democratic socialism here and elsewhere are trade unionists, liberal intellectuals, and the political parties which they influence. I hope we are enough.