From New Era to Neo-liberalism: US Strategy on Trade, Finance and Development in the United Nations, 1964–82

Abstract

This article charts the history of the US strategy and tactics on issues of trade, finance and development in the UN from 1964 to 1982, to explain how initial diplomatic defeats in the Kennedy and Johnson eras had been neutralised by the 1980s. Many saw the birth of UNCTAD as the start of a new era in international cooperation in the field of trade and development. For the US, however, it was a set-back to its traditional trade policy, sustained because of fears of Soviet expansion in the Third World and the uncooperativeness of de Gaulle's France. When the oil price crisis put the US under greater immediate pressure, the Nixon and Ford administrations responded more robustly. Yet it was not their more aggressive responses that saved the US. Rather, it was disunity within Third World ranks, and the economic circumstances that made debtors of many formerly militant developing countries.

Keywords: United States, international economy, trade, development

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1. Introduction

When the US no longer commanded a natural majority in the UN General Assembly, President Kennedy adopted a strategy of bold leadership and rhetorical persuasion, designed to rally sympathetic nations to support his global anti-communist objectives. From the start such a strategy carried the risk of the US being carried along by the very political tides that it was trying to channel and to harness for its own purposes. After Kennedy's assassination, the birth of UNCTAD, a new UN body in the sphere of trade, finance and development, demonstrated the reality of this problem. The US was afterwards forced to withdraw its opposition to one of UNCTAD's key demands – for a General System of Preferences (GSP). Yet despite subsequent military failure in Vietnam, the US

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succeeded, by the 1980s, in blunting the practical impact of UNCTAD's policy initiatives on commodity schemes, trade preferences and Special Drawing Rights in the IMF. Then when the Latin American debt crisis, maturing undetected during the late 1970s, surfaced publicly in 1982, President Reagan (with Mrs Thatcher) had enough economic leverage to be able to insist on developing countries following the 'sensible economic policies' of neo-liberalism.

This article charts the history of the US strategy and tactics on issues of trade, finance and development in the UN from 1964 to 1982, and explores how it was able to turn initial defeats in the Kennedy and Johnson eras into effective rejection of Third World demands in the 1980s. The story begins with the birth of UNCTAD, which many contemporaries saw as a historical turning point, 'the beginning of a new era in the evolution of international co-operation in the field of trade and development'.[1] This new UN body did not come into being because the United States or its Western allies had changed position on the question of which institutions ought to regulate world trade. Dismissing it as 'one of the most unpleasant propaganda efforts of the decade', the Kennedy State Department was still wedded to the General Agreement on Tariffs and Trade (GATT) as the sole instrument of international trade cooperation (Zeiler, 1992: 195). Therefore, one has to ask: how was it that the US and other countries of the Organization for Economic Cooperation and Development (OECD) were unable to prevent the creation of this new organisation, which had radical aspirations for a new era in trade and development, and which was potentially destabilising of some Western economic interests?

The first part of an answer lies in the entanglement of international trade issues with Cold War diplomacy. The USSR used trade issues to challenge US hegemony and to recruit new allies and sympathisers. In 1954, the Soviet Union called for a world meeting of trade experts; in 1955, for the ratification of the Havana Charter; and in 1956, for a conference on international trade, all unsuccessfully (Robertson, 1969: 263). When the Treaty of Rome inaugurated the European Economic Community (EEC) of France, West Germany, Italy and the Benelux countries (1958), many developing countries, especially in Latin America, feared that trade diversion would cost them their traditional European export markets. The USSR tried to play on these fears to divert them from the Western

1 *Proceedings of the UNCTAD I*, Vol. I, pp. 66–68.

orbit. At a UN General Assembly meeting in 1961, a Soviet spokesman denounced 'closed Western economic groupings' as inimical to international economic cooperation.[2] On 30 May 1962, Chairman Khruschev coupled another denunciation of the Common Market with a renewed call for an international trade conference (Rubinstein, 1964: 170–1).

Another part of the answer lies in the grandiose nationalism of French foreign policy in the era of President Charles de Gaulle. French policy dominated the positions taken up by the EEC and was unpredictable in most things, except its hostility to the US and the idea of an Atlantic community. The Soviet challenge on trade was made in the context of the expected enlargement of the EEC to incorporate the United Kingdom. Everyone believed that this event was imminent, and few, if any, suspected that de Gaulle's veto would delay British entry by a further decade. The expected expansion of the EEC raised anxieties in other countries. For developed countries outside the Common Market, such as the US, the lowering of internal tariffs made an equivalent lowering of external tariffs urgent, to avoid the diversion of trade away from their exports and towards the exports of other Common Market members. Lower tariffs were imperative if the US was to be able to reverse its balance of payments deficit. This was a major motivation behind Kennedy's decision to launch what became the Kennedy Round of tariff reduction negotiations in the GATT, an aim that remained second in priority only to the containment of communism.

For the developing countries, one problem was how British adherence to the Common Market would affect the system of Commonwealth preferences that Commonwealth developing countries still enjoyed, despite their anomalous position in the philosophy of the GATT.[3] This system provided privileged access to Commonwealth producers of agricultural commodities to markets that were dominated by British farm support policies. They questioned whether Commonwealth preferences could be made compatible with the treatment that, under French pressure, the EEC had just accorded to its own Associated Overseas Territories, in the Yaoundé Convention of 1963. For the US, the problem was different: how could any newly forged system of preferences be accepted as compati-

2 UN General Assembly, 1961 Session, 720th Meeting, speech of M. Lavrichenko.

3 For an account of how Commonwealth preferences survived, despite the extreme hostility of the US at the time of the negotiation of GATT, see Toye (2003).

ble with the GATT principles of multilateral non-discrimination? The US government saw one possible way around the latter problem as being to construct entirely new global arrangements for agricultural trade. As George Ball suggested in a memorandum to President Kennedy, 'these preferential systems can be adequately disposed of only if we are in a position to cooperate in the development of global arrangements for important agricultural commodities'.[4] At high levels, the Kennedy Administration began to flirt with the idea of new international commodity agreements for both temperate and tropical products.

Third World countries had another demand that clouded the prospects for a successful new round of GATT negotiations. Even if new arrangements could be made for agricultural trade, the demand from developing countries that the industrial countries absorb more of their manufactured goods was increasing in strength. This demand was encouraged when the UN, at Kennedy's instigation, launched the Decade of Development. The US was, however, quite unwilling to agree to such a demand. Until the Trade Expansion Act of 1962, the US government simply did not have the power to compensate domestic industry or assist its structural adjustment when protective tariffs were lowered. The problems of North–South trade were thus set to be a complicating factor in an already difficult GATT round.

A third reason why the US was unable to resist new institutions in the field of trade was that the developing countries were forging a new and higher level of solidarity. In July 1962, a Conference on Problems of Developing Countries was held in Cairo. Organised outside the auspices of the UN, it was attended by 36 countries. This was not a vast number, but its significance lay in its composition. The participants included African, Asian and Latin American countries. The Cairo conference marked the first joint initiative of countries from all three regional groups. The willingness of Latin American countries to join the Afro-Asian group, notwithstanding the US's gesture of reaching out to them through the Alliance for Progress, would prove to be an event of great significance. The Cairo Declaration called for an international conference on 'all vital questions relating to international trade, primary commodity trade and economic relations between developing and developed countries' within the framework of the UN (UN, 1964: 10).

4 George W. Ball, Memorandum to the President, 23 October 1961, US National Archives, RG 59, Records of Under-Secretary George Ball 1961–66, Lot 74D272, Box 20.

In the General Assembly of autumn 1962 (Resolution 1785 (XVII)), the US ambassador to the UN, Adlai Stevenson, effectively reversed the previous negative stance of the US towards the conference. He seems to have concluded that, since the plan for a conference could not be directly blocked, it was preferable to accept it positively rather than embitter the developing countries and play into the hands of the Soviets (Zeiler, 1992: 198). By doing so, the US could retain the hope of exercising some influence over the conference's timing and content. Once the US position switched, so did that of the other OECD and Latin American countries, and the existence of UNCTAD in some shape or form was assured (Robertson, 1969: 268).

2. The US Approach to UNCTAD

The US government had several anxieties about the approaching UN Trade Conference. The most serious of these concerned domestic politics. Unless the developing countries could be diverted from the demand for industrial preferences, the Kennedy Administration would have to address it at precisely the time when domestic pressures for protection would be strongest – at the start of an election year (Zeiler, 1992: 195). A related worry was the international repercussions of the developing countries' demand for industrial preferences. It held considerable potential for causing further disunity on trade issues among the OECD countries. The UK and France (and, through French influence, the rest of the EEC) would have no difficulty with the principle of granting preferences, given their existing preferential schemes. This could leave the US isolated in the face of developing-country accusations that it was, for example through the Long Term Agreement on Cotton Textiles, actively discriminating against them.[5]

Dr Raúl Prebisch, designated Secretary of the conference, met George Ball, the US Under-Secretary of State for Foreign Affairs, on 1 November 1963. Prebisch argued that the target of growth of the UN Development Decade could not be met by the developing countries unless their trade gaps could be reduced. This in turn required that existing trade barriers be reduced, and that 'additional measures' – such as preferences for industrial exports of develop-

5 George W. Ball, Memorandum to the President, October 29 1963, NA, RG 59, Lot 74D272, George Ball records, Box 32. Although this memorandum is marked 'not sent', it gives an insight into Ball's concerns about the Conference.

ing countries – be granted for a transitional period. The share of these exports in the industrial countries' increment to consumption would be small, he argued, not exceeding 5 per cent, and perhaps some overall limit could be placed on the effect of the preferences in order to safeguard industrial countries' interests. Ball pointed out the problem of adjustment of old US industries, and concerns about the level of employment. He claimed that even small quantities of a product offered at a low price could cause 'market disruption', so that even a limitation on the volume of trade receiving preferences would not be seen as an adequate safeguard. He thought it would be a mistake for the industrial countries 'to endorse ideas or say «pious» things at UNCTAD that they could not live up to'.[6] Prebisch suggested a compromise on the shape of the future international trade machinery. He suggested the retention of the GATT as an autonomous institution reporting to another larger body, with state trading, commodities and manufactures dealt with by committees that also reported to a regularly recurring world conference, serviced by its own secretariat. Ball left the meeting with the machinery issue unresolved.

The weekend before he was assassinated, President Kennedy received a memorandum from Ball.[7] Dated 12 November, it begins by referring to Kennedy's 'interest in the United Nations Trade Conference'. Ball explained to the President that the forthcoming conference was the resultant of two forces, both external to the US: the discontent of the developing countries with the GATT, and the Soviet Union's interest in undermining the GATT for its own political purposes. Ball saw the danger that 'some well-intentioned people – encouraged by others less benign – can do considerable mischief'. However, he thought that the damage could be limited. The memorandum identified the USSR as having two interests. One was to get onto the conference's agenda subjects such as East–West trade and disarmament, which could be used for propaganda advantage. The other was to disrupt the GATT, in which practitioners of state trading had little material interest. In the first aim, Ball advised, it would not press its point, and in the second it would succeed only if the US could not educate the developing countries out of the most foolish of their proposals. The bulk of the rest of the

6 The Secretary's and the Under-Secretary's memoranda of conversations, 1953–64, NA RG 59 Lot 65D330, Box 28.

7 Reproduced in *Foreign Relations of the United States*, 1961–63, Vol. IX, pp. 622–627. All quotations in this section, unless otherwise identified, are from this document.

memorandum indicated which of the trade proposals supported by the developing countries the US found 'the stickiest' and suggested the lines on which the 'education and persuasion' of developing countries should proceed.

The proposal that Ball found most objectionable was that the developed countries should grant special preferences to the industrial exports of the developing countries. Ball advised that it would be unwise to hold out any hope to the developing countries that the US would support any form of industrial preference. The primary objection to it was political, that the Administration did not want to have to defend it at the same time that it would have to resist domestic interest groups seeking trade preferences. It was safer and easier to hold the centre ground of tariff reduction on a non-discriminatory basis in both domestic and international arenas. The economic arguments were secondary, with the slogan of comparative advantage being pressed into service. The US would call for the formation of free trade areas for regional blocs of developing countries, so that the US would not seem to be turning a deaf ear to the requests of developing countries.

Apart from industrial preferences, the US was unhappy about the possible use of commodity agreements to transfer resources to developing countries. Kennedy had shifted policy on commodity agreements early in his Administration from doctrinaire opposition to measured support for them. (Adlai Stevenson, Kennedy's ambassador to the UN, had stated: '…little things, like stabilization of commodity prices, can mean more than economic assistance. The change in the price of coffee by half a cent per pound can wipe out all of the economic assistance that we [i.e. the US] could hope to give… for a long time' (Rubinstein, 1964: 170).) Ball, however, made a firm distinction between international mechanisms that address the volatility of commodity prices and mechanisms that permanently raise them above the long-term average market price. While conceding that US agricultural price support did exactly that, Ball warned against permitting it on the international scene. He thought that participating in negotiations on that basis ran the risk of having to recommend commodity agreements that Congress would not ratify.

Finally, the developing countries' discontent with the GATT had led to two different ideas for reform. One was the idea that a single encompassing trade organisation should replace the GATT. It would both accept as members the Soviet bloc countries that used state trading and attend to the interests of developing countries. The other was the idea of a new organisation, separate from the GATT but dedicated to promoting the interests of developing countries in the international trade system. Ball wished, whatever happened, to preserve the GATT. In a passage from the Memorandum that conveys well the tone of the whole, he concluded:

> We must, of course, be concerned to preserve the GATT against efforts to transform it into a debating forum for special interests or to supplant it with a more diffuse organization. Fortunately, I think this problem is manageable. Already there are signs that the more stable leaders in the developing countries are having second thoughts on the value of the GATT, and I am confident that with a steady American policy we should have little difficulty in saving it from serious impairment.

3. The First UNCTAD and Its Achievements

The UN Conference on Trade and Development was held in Geneva from 23 March to 16 June 1964. It was the largest international trade conference ever convened, attracting 2,000 delegates from 121 of the 123 countries eligible to participate. That the coalition of developing countries would act in the conference as a large and powerful caucus (known as the Group of 77, or G77) came as a rather unpleasant surprise to the developed countries. The Group proceeded at the start of the conference by presenting jointly only resolutions that had been previously agreed among themselves, even on issues where they had important conflicts of interest (Johnson, 1967: 34). Their adoption of this tactic was therefore not determined by their economic interests, which often conflicted. Rather, it demonstrated the degree of their commitment to the conceptual framework set out by Prebisch in his report to the conference, *Towards a New Trade Policy for Development*, and their resolve to make the conference a historic event (Robertson, 1969: 272).

The conference got off to a slow start. Ball's opening speech for the US was a deliberate attempt to strike a note of realism, but it came over as essentially defensive. Sidney Dell, one of Prebisch's Executive Assistants, thought it was 'the most disappointing speech' and 'a negative blast'.[8] *Newsweek* detected in it 'more than a hint of paternalism'.[9] By contrast, Edward Heath, the British President of the Board of Trade, sounded a much more positive note (Heath, 1998: 602). Britain and the EEC countries, as Ball had feared, demonstrated a greater willingness than the US to reach

8 PRO BT 241/1348 Minute by J.R.S. Guinness, 1 April 1964.

9 *Newsweek*, 6 April 1964, p. 28.

accommodations with the developing countries. In the conference hall, the US and other industrial countries constantly made the charge that the developing countries should do more to help their own development, but 'took a fairly thorough beating' each time they tried to divert attention from international to domestic policy issues by this tactic (Robertson, 1969: 273). The proceedings of the conference ground on slowly, but soon got bogged down (Hagras, 1965: 93). Drift was succeeded by deadlock in the First, Second and Fifth Committees, relieved only by American-inspired progress on aid in the Third Committee.[10] According to Heath (1998: 602), Ball 'tired of the constant haggling that went on and gradually dropped out of the arguments'.

By the time the conference came to a close, agreement had been reached on hardly any of the specific proposals in the Prebisch Report. The Final Actof the conference consisted of a series of declarations of agreed principles in those areas where wording could be agreed, recommendations for action remitted to international organisations and governments (as appropriate) and programmes of work on further studies to be made on trade problems.[11] Many of these recommendations were voted on rather than adopted without a vote. It is true that consciousness of the interdependence of trade and development issues had been raised. It was also the case that the unity of the G77 countries had thrown the industrial countries into division and disarray, and increased their willingness to support piecemeal reforms of existing international arrangements. Nevertheless, Prebisch admitted, when asked later, that 'nothing important' was achieved in terms of world economic policy by the first UNCTAD meeting (Prebisch, 1967: 748–754).

4. Commodities. International Monetary Reform and Trade Preferences

The wording of the Final Act of UNCTAD 1964 did not clarify whether UNCTAD was merely an interim step on the way to setting up an International Trade Organization (ITO) or intended to be a permanent fixture (Robertson, 1969: 270–271). Also, dispute continued about whether UNCTAD should be a forum of international negotiation. The US and other industrial countries continued to maintain that UNCTAD was a deliberative body only, and that all

10 PRO BT 241/1348, J.R.S. Guinness, minute distributed to UK delegation, 7 May 1964.

11 *UNCTAD I*, Vol. I, pp.3–16.

trade negotiation must take place within GATT. They saw UNCTAD as a body for exchange of views on commercial policies and development, but they were not willing to accept it as a source of legal obligations.[12] When, in 1965, the UN transferred to UNCTAD all its responsibilities for the negotiation of commodity agreements, the industrial countries decided to drop their objection to UNCTAD being a negotiating forum (Berthoud, 2001: 56–57). The UNCTAD secretariat now had a stronger incentive to develop a strategy on the commodity issue.

Significantly, negotiations for an ICA (international commodity agreement) had been successful for only one additional commodity – coffee – in the entire period between the signing of the Havana Charter and 1964. In these the role of the United States had been crucial. In the 1950s, the US had resolutely opposed an international coffee agreement.[13] In 1958, however, the US decided 'as an exception to policy' to agree to discuss an international coffee agreement if this issue were raised by other countries.[14] The first Coffee Agreement, in 1963, came about only because the US saw it 'as a way of improving our relations with a number of key Latin American countries (particularly Brazil, Colombia and Central America [*sic*])', and an instrument of foreign policy complementary to the Alliance for Progress.[15] Nevertheless, the Coffee Agreement quickly ran into disagreements between producers and consumers on the level and distribution of export quotas (Rangarajan, 1978: 107–108).

The US, supported by the UK, Sweden and West Germany, voiced their opposition to ICAs that provided price support. They 'repeatedly stressed the difficulties of attaining a practical definition of *remunerative prices*' unless these were taken to be the long-term equilibrium price. They also argued that the concept of 'import purchasing power' should not be a determinant of international pricing policy, because it confused international action on commodities with action that was the responsibility of countries. Furthermore,

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12 J. Stavnovik to Prebisch, 'A Note on the Secretariat's Policy with Respect to Implementation of UNCTAD's Recommendations', 31 August 1965, Office of the Secretary-General of UNCTAD: Inter-office Memoranda 1965, UNCTAD archive.

13 Harold M. Randall (US representative on IA-ECOSOC) to Don Armado C. Amador (Chairman, IA-ECOSOC), 27 April 1956, DDRS.

14 Extract from the Minutes of the Council on Foreign Economic Policy Meeting, 20 May 1958. DDRS.

15 'The Third International Coffee Agreement: an Analysis', no date but probably December 1975, p. 1. Declassified Documents Reference System (DDRS), Farmington Hills, Michigan, Gale Group, 2003.

they refused to countenance any direct policy link associated with changes in the terms of trade. Finally, they stressed that each commodity was a unique case in itself, and hence no valid negotiable principles should be accepted for commodity trade overall.[16]

As the discussion of principles of commodity trade was dogged by disputed definitions that reflected larger policy differences, the pursuit of a commodity-by-commodity approach also ran into difficulties. Prebisch reported to Secretary-General U Thant in June 1966 that the Sugar Conference had stood adjourned since September 1965, frustrated by US–USSR conflict over the fate of Cuban sugar. Prebisch was also 'deeply distressed' by the collapse of the Cocoa Conference, given his belief that it was 'sound from the point of view of economics and finance'.[17] The failure to achieve an agreement was a serious setback, since cocoa was not the commodity that gave rise to the most difficult negotiating problems. The stumbling blocks were the minimum price, with the US holding out for the lowest option: whether or not the buffer stock would buy directly from the producers and the question of how to finance the buffer stock when neither the US nor the World Bank would provide funds.[18]

At this point, the idea of a 'central fund', rather than separate financing arrangements for each commodity, began to emerge. The plan for the commodities document for UNCTAD II, to be held in 1968, included this idea:

> [I]n addition to examining specific market tendencies of individual commodities, [it] should also present the basic principles of a buffer stock; broad orders of financial magnitudes but no specific dollar requirement; the need to be prepared for entering into new commodity agreements; the establishment of a central fund (including its financial and operating functions); whether such a fund could form part of the IBRD supplementary financing scheme (perhaps as a separate department, since successful operation of a buffer should reduce the level of drawings on the latter scheme).[19]

16 D. H. Pollock to Prebisch, 'Permanent Sub-Committee on Commodities (First session)', 21 July 1966, UNCTAD archive.

17 Unpublished talk to the World Council of Churches, July 1966, p. 7, UNCTAD archive.

18 'Directors Meeting – 28 June 1966', UNCTAD archive; Prebisch to U Thant, 'Recent Developments in UNCTAD', 12 August 1966, UNCTAD archive.

19 Pollock to Prebisch and P. R. Judd, 'Meetings at La Pelouse', 2 November 1966, Interoffice Memoranda September [sic] 1966, UNCTAD archive.

Thus, by October 1966, despite the coolness of professional economic opinion towards these schemes, the secretariat had embraced the aim of price stabilisation, using the method of an extended series of buffer stocks, joined to the new concept of a central fund.

At UNCTAD I, notwithstanding the US wish to avoid any action by the conference on international monetary reform, the Third Committee passed a recommendation calling for further study of measures related to the complementary credit system of the IMF (Corea, 2000: 26). Following this recommendation, a new expert group was convened 'to study the international monetary issues relating to problems of trade and development'. The basic purpose of the conference recommendation was to consider how the developing countries would be affected by nascent plans of the Group of 10 (G10) industrial countries to create additional liquidity (Proc. UNCTAD I, Annexe A. IV. 19). Prebisch highlighted the main points for consideration in the following terms:

(a) the nature of the liquidity problem of developing countries, and possible methods of dealing with it;
(b) the possibility of creating a link between the solution of the world liquidity problem and the bridging of the trade gap of developing countries;
(c) the possibility of payments arrangements for developing countries that might facilitate the liberalisation of their trade with one another.[20]

The expert group established that the developing countries did have a need for extra unconditional liquidity, and not merely a need for additional aid. Prebisch campaigned on two propositions that came out of the experts' report. The first was the basic procedural issue that the G10 countries should not simply make changes in the international monetary system on their own, when such changes would have consequences for others. He demanded the participation of the developing countries, together with the developed countries, in the creation of additional reserves. The second was the substance of the matter; he wanted the allocation of any new monetary reserve units to be on a universal basis and not confined to the G10. On these points, UNCTAD was actually supporting the position of the management of the IMF against that of the G10. The G10 eventually gave way in August 1966. The UNCTAD-sponsored

20 Prebisch to Kaldor, 24 June 1965, Kaldor papers, NK/3/112/298–299.

experts' report, along with a similar one from the Inter-American Committee of the Alliance for Progress, does seem to have had an impact in forcing the Group of 10 to retreat, and to agree that the new form of liquidity (the Special Drawing Right, or SDR) would be created through the IMF on a universal basis (de Vries, 1976, 95–99, 104, 159). When the outline scheme for SDR creation was presented in September 1967, the developing country members were able to support it.

The industrial countries were still in disarray in their response to the demand for industrial trade preferences. The British were willing to extend existing Commonwealth preferences to all developing countries; the EEC – under strong French influence – wanted to safeguard the existing preferences of its African associated territories; while the US was opposed to granting preferences altogether. For a while, in the mid-1960s, Prebisch was very concerned that the US, attempting to strengthen its alliance against Castro's Cuba, might accede to Latin American requests 'for a preferential system to be exclusive to Latin American countries'.[21] Such a development would have gravely damaged the solidarity of the G77, and Prebisch repeatedly spoke out against it. The US was not seriously tempted to try such a divisive manoeuvre, which would have contradicted its opposition to the EEC associated territories scheme.

The Johnson Administration was aware, however, that it needed to end its isolation in one way or another. If it were not going to give the Latin Americans a regional preference scheme, it would have to go along with a Generalised System of Preferences (GSP) scheme. When Australia applied to GATT for a waiver to allow them to introduce a GSP, and the US was the lone dissenter in a 51:1 vote, Ball finally threw in his hand (Zeiler, 1992: 204–205). In April 1967, at Punta del Este, President Johnson announced that he would explore with other industrial countries the possibility of a policy of preferences in favour of all developing countries, and not merely Latin American countries. Work had already been done in the OECD to design the principles of a Generalised System of Preferences for exports of manufactures and semi-manufactures. Prebisch saw this as an event of 'paramount importance'.[22] As it turned out, a specific solution could not be agreed at UNCTAD II in New Delhi in

21 UN doc. no. TD/B/9, cited in Sidney Dell, 'UNCTAD: Retrospect and Prospect', *Annual Review of United Nations Affairs*, 1964–1965, pp. 52–85, at p. 66.

22 Statement by Prebisch to Thomas Hamilton of the *New York Times*, 16 May 1967, UNCTAD archive.

1968, but that conference did adopt Resolution 21 (II), which recognised 'the unanimous agreement in favour of the early establishment of a mutually acceptable system of generalized, non-reciprocal and non-discriminatory preferences'. It was a remarkable achievement to have reached agreement on the principle of the GSP, and it stood out in the otherwise barren landscape of the New Delhi UNCTAD.

5. The Turbulent Seventies

However, the international scene of North–South relations was turning stormy, stirred by the huge US military build-up in Vietnam. President Nixon began restoring normal diplomatic relations with China, after more than 20 years of refusing to deal with its communist government. Though hailed by some as a geopolitical masterstroke, it could not hide the fact that the US was undergoing a military humiliation at the hands of a small Third World country – Vietnam. When final defeat of the US intervention arrived with the fall of Saigon in April 1975, it sent a message to the world that immense technological superiority could not guarantee victory against a dedicated peasant army supported by the local population. There were limits, even for a superpower.

Economically, the collapse of the gold-dollar peg in 1971 marked the end of the post-war international economic system, and of the West's 'golden age' of post-war prosperity. The twin evils of unemployment and inflation, in the theoretically unexpected combination of 'stagflation', beset the US and other OECD economies, and were passed on to the developing countries in the form of falling demand for their exports and higher prices for their imports The developing countries and the intellectual champions of their interests responded with a new spirit of militancy. Partly, they were emboldened by the difficulties that they believed were weakening the West; partly they were moved by fears of dangers that the changing world scene could harbour for them[23]; and partly they responded to a sense that, because of all the reversals and uncertainties, the world order was increasingly losing legitimacy.

Onto this increasingly turbulent international scene burst another Middle East war in late 1973, followed by a dramatic increase in

23 See Henry Kissinger's (1999: 936) recollection that President Julius Nyerere of Tanzania 'feared great-power collusion [in Africa] as much as he feared great-power conflict'.

the price of oil. OPEC, a group of major oil producing states, succeeded in using the oil weapon against an oil-dependent West that had already been alarmed by warnings of rapidly depleting exhaustible resources (Club of Rome, 1972). This crisis produced major challenges to both developed and developing countries alike. The industrial countries faced the prospect of having to find ways to stabilise their economies after a massive external shock, and in the longer term to decrease their dependence on oil. Moreover, they also had to face the more threatening problem that other groups of commodity producers might take similar action, and find ways of preventing this. The developing countries were divided into those that could produce oil, which would benefit from the price rise, and those that could not, which would, like the industrial countries, also face a large external shock. The latter would need increased balance-of-payments financing while they struggled to adjust their economies, and the immediate question they faced was how and by whom their increased indebtedness should be managed.

Yet the increased militancy of the developing countries in matters of trade, finance and development in this period was not triggered by the oil price rise. Although powerfully reinforced by it, militancy had built up gradually from accumulating frustrations over the whole previous decade. Prebisch's successor as Secretary-General of UNCTAD after 1968, Manuel Pérez-Guerrero, found it difficult to make significant progress on facilitating new commodity agreements, so he poured much diplomatic energy into securing for developing countries industrial trade preferences and aid linked to new forms of international liquidity. As the industrial countries found various ways of minimising the benefits of these two initiatives, this gave further discouragement to those in the G77 who were willing to work within the existing world order.

Pérez-Guerrero was well aware of the 'meagre results' that were being achieved in the commodity field.[24] He invested his diplomatic skills more heavily in the other two issues of policy that he had chosen as priorities. The first of these was the attempt to turn the agreement of principle at UNCTAD II to grant industrial trade preferences to developing countries into reality. In October 1970, arrangements for the establishment of a GSP were completed in the UNCTAD Special Committee on Preferences after intensive consultations. Among the developed market economies, 18 took part as prefer-

24 'Notes on the Meeting with Prime Minister Heath on 20 Oct. 1970', 'Confidential Correspondence and Memoranda, 1970', UNCTAD archive.

ence-giving countries – Austria, Canada, Denmark, the EEC member states, Finland, Ireland, Japan, New Zealand, Norway, Sweden, Switzerland, the UK and the US. During the consultations in UNCTAD, Bulgaria, Czechoslovakia, Hungary, Poland and the USSR made a joint declaration describing the tariff and/or other commercial measures they intended to take in favour of the developing countries' exports. Concurrently with the adoption of the GSP, the prospective preference-giving countries agreed to seek as rapidly as possible the necessary legislative or other sanction. Accordingly, in June 1971, these countries sought and obtained a waiver of their obligations under Article 1 of the GATT – the principle of most-favoured-nation treatment – for a period of 10 years.[25]

Around this time, however, the mood in Washington was 'isolationist and anti-foreign', especially in Congress, according to US officials.[26] At Pérez-Guerrero's Washington meetings in November 1970, Commerce Department officials were defensive about the extent of protectionist sentiment in the US Congress. At the State Department, Nathaniel Samuels (Deputy Under-Secretary for Economic Affairs) told him that the administration would seek legislative approval of the preferences system as soon as possible, but he explained that 'no decision had been taken concerning the precise manner in which the system would be submitted to Congress'.[27] This prevarication was necessary because there was so little Congressional support, either among free traders or among protectionist legislators, for developing-country preferences. It was not until 1976 that the US was able to pass a Trade Act that incorporated industrial trade preferences, and even then the legislation was loaded with protectionist-inspired limitations. Exclusions related to the types of developing countries that could benefit, and the product categories that could benefit (not textiles and clothing, footwear, watches, 'sensitive' steel or electronics, for example). The benefit was phased out as exports to the US of the relevant item increased, on the grounds that it was then no longer 'needed' (Langhammer and Sapir, 1987: 16–19).

25 See Raúl Prebisch, 'The general preferential system against the background of changing views of international trade', given at UNCTAD III symposium, The Hague, January 1972, Hart papers, 8/33.

26 C.R. Carlisle to Pérez-Guerrero, 'Conversations with US officials', 1 September 1970, 'Confidential Correspondence and Memoranda, 1970', UNCTAD archive.

27 Xxvii Diego Cordovez, 'Notes on Meetings', 16 November 1970, 'Confidential Correspondence and Memoranda, 1970', UNCTAD archive.

The issue in which Pérez-Guerrero invested perhaps most heavily of all was the pursuit of a link between the monetary innovation of SDRs in the IMF and development finance. In 1970, when donors subscribed to new capital to replenish the International Development Association (IDA), the shift of attention to the SDR–aid link was reinforced, because this move further dimmed any prospects of their also agreeing to a supplementary finance scheme.[28] The novel aspect of the SDR was that it was the first form of 'money' that had been created by an international agreement, and it was attractive to the developing countries that their need for development finance could be linked with an international negotiation, rather than dealt with *ad hoc* in 20 or so national ministries of finance.[29] The question remained as to what form the link should take. Initially, two versions were up for discussion – the organic link and the non-organic link. The former meant the direct allocation of SDRs to the IDA, which would require minor changes in the IMF Articles of Agreement, to permit multilateral agencies to hold SDRs. The latter meant the voluntary subscription to the IDA of national currency equivalents of a proportion of SDRs, and not the SDRs themselves. The non-organic link faced the obvious objection that, since donors would actually give their aid separately and independently of SDR allocation, any link would be contrived and artificial. Attention thus focused on the organic link, and Pérez-Guerrero and Dell visited Washington, as well as Paris, London and Bonn, to solicit support for it.

In Washington, although the Joint Economic Committee of Congress supported the organic link proposal, the Nixon Administration maintained its opposition. Its main objection was that the link would impair confidence in the SDR and thus should be deferred until such time as the SDR was out of its 'infancy'. US officials also claimed that the link would result in fewer SDRs being created, and that this would hamper US plans to untie its aid. The negative US view towards the link proposals dominated the G10 discussions. The Nixon Administration wanted consideration of the link proposals to be postponed beyond 1972, when the next SDR distribution was due

28 'Notes on the Meeting with Prime Minister Heath on 20 Oct. 1970', and Dell to Pérez-Guerrero, 'Copenhagen Meeting on the Link', 28 September 1970, 'Confidential Correspondence and Memoranda, 1970', UNCTAD archive.

29 The word 'money' is put in inverted commas because SDRs are not a medium of exchange between private actors, but only for official transactions; and because, since SDRs must be reinstated after use, they function like credit.

and when UNCTAD III was scheduled to take place. Pérez-Guerrero was not so easily persuaded and told the emissaries of the G10 that the developing countries would raise the issue of the link at the Trade and Development Board and later at UNCTAD III.[30]

In November 1971, in Lima, the G77 succeeded in organising itself to participate in the forthcoming negotiation on international monetary reform. It set up the Group of 24 on International Monetary Affairs, representing eight countries each in Africa, Asia and Latin America, to be its 'financial arm', and a point of liaison with the IMF (de Vries, 1976: 607, n. 20 and 617–618). Its task was, among other things, to recommend coordinated policy positions for its members to follow in international bodies. The policy that the G77 eventually adopted was to press for a change in the basis of the SDR allocation, so that developing countries would receive a greater proportion than they would have been entitled to by their IMF quotas, and the least developed countries would receive an even more generous share. They had the voting power to refuse to ratify any reform that did not include the link, but the potency of that threat depended on the industrial countries needing to secure a change in the IMF Articles of Agreement for their own purposes (Williamson, 1977: 91–95). Would the SDR have been damaged if it were linked to development finance, as the US claimed? Would the link have led to a series of allocations that were excessive from a purely monetary viewpoint? Would the developing countries press for artificially low interest rates on the SDR? Pérez-Guerrero worked hard publicly, and privately in discussions with G10 central bankers, to reassure the international financial community on the first point. [31] There is not much evidence that the developing countries would have tried to hold the SDR interest rate down, or could have done so on their own. In fact, if anyone were going to try this tactic, it would have been the US government itself, which did not want the SDR to replace the dollar as the principal international reserve asset, because of the resulting loss of seignorage.

The lack of any strong American motivation to construct a new international monetary system to replace the Bretton Woods system was, indeed, a major factor in the failure of the Committee of 20's negotiations on international monetary reform in 1972–74. The

30 Dell to Pérez-Guerrero,'Copenhagen Meeting on the Link', 28 September 1970, 'Confidential Correspondence and Memoranda, 1970', UNCTAD archive.

31 Pérez-Guerrero to participants in the Taormina discussions, 9 March 1971, 'Interoffice Memoranda 1971: 1 May to 31 Aug.', UNCTAD archive.

spirit of cooperation and compromise did not prevail. The Europeans were the only group to show much flexibility: they (except for the Germans) compromised by accepting the link. The developing countries themselves remained inflexible in their demands, and the US adamantly opposed the link. It was a straight confrontation throughout, unyielding on either side. When the industrial world gradually discovered, after May 1973, that flotation of the major currencies was a tolerable alternative to a system that was established in a multilateral agreement, further efforts to negotiate such a system faded away. With them the idea of the SDR–aid link effectively disappeared from the international agenda (Williamsom, 1977: 143–147; 173–176).

6. Kissinger Responds to Demands for An NIEO

In October 1973, Egypt attacked Israel in an attempt to recover territory lost in 1967. After the Yom Kippur war, the OPEC countries unilaterally introduced a massive increase in oil prices. The price of oil rose from $3.02 to $5.12 on October 16 and to $11.6 in December 1973. Supply cuts and embargoes on the US (and the Netherlands) were announced, as Arab countries punished the West for its support of Israel. By 14 February 1974 the required majority of member states had requested that the General Assembly hold its Sixth Special Session on Raw Materials and Development, in New York between 9 April and 2 May 1974. This was the first special session of the UN to be devoted to an economic issue.

Alarmingly, from the point of view of the developed countries, some developing country delegates praised OPEC's 'brilliant victories in bringing about a just and more harmonious equilibrium in international economic relations', as the delegate from Guinea put it.[32] OPEC countries in turn emphasised their own status as 'developing countries, which believe that their first and foremost duty is to raise the standards of living of their peoples in all spheres, in order that they may keep pace with world progress…and make an effective contribution to international development in general.'[33] Thus during the Special Session the oil price rise did not fracture the unity of the developing countries, although the majority of them were oil importers. Instead, it united them even more strongly than before in pursuit of a new international economic order.

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32 *Ibid.*, 2211th plenary meeting, 11 April 1974, pp. 5–6.

33 These were the comments of the delegate from Qatar. *Ibid.*, 2219th plenary meeting, 17 April 1974, p. 12.

The initial US reaction was threatening. Henry Kissinger, Nixon's Secretary of State, dealt out heavy warnings to primary commodity producers. They would soon discover, he said, that they are not insulated from the impact of supply restrictions or price escalation, since a recession in the industrial countries would sharply reduce demand and higher prices for raw materials would accelerate the transition to alternatives.[34] Nevertheless, on 1 May 1974 the General Assembly adopted without a vote a Declaration on the Establishment of a New International Economic Order (NIEO), together with a Programme of Action, in Resolutions 3201(S-VI) and 3202(S-VI). The US, together with many other industrial countries from Group B, entered a reservation stating that it strongly disapproved of some of the provisions of the Programme, but it did not vote against what it called 'a significant political document' (UN, 1985: 62). The Charter of Economic Rights and Duties of States followed in December 1974, adopted in Resolution 3281 (XXIV) by 120 to six, with 10 abstentions (*ibid*.). However, their largely consensual adoption masked a problem: what could the substance of an NIEO be, when its protagonists had no proposals and its antagonists were playing a defensive game?

Gamini Corea, the newly appointed as Secretary General, seized the initiative for UNCTAD.[35] Without having been given a mandate, he presented the UNCTAD Trade and Development Board with his 'Outline of an overall integrated programme' for commodities in August 1974.[36] So the die was cast. UNCTAD was committed to championing the idea of creating a new official agency that would own a multi-commodity stock, although most of the details of such an agency remained to be defined. The surpluses of the oil producers were expected to be a major source for the Fund, as well as investments from industrial countries and multilateral agencies, but 'UNCTAD was inclined to leave it to the developing countries as a group to persuade the oil exporters' to invest (Corea, 1992: 37). Every country hung back, for its own reasons: members of existing

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34 *Ibid*., 2214th plenary meeting, 15 April 1974, p. 5.

35 'The NIEO period was the period when the UNCTAD forces really did try to compete and did try to lead. That was…the product of a new mood in the developing countries and they [the UNCTAD Secretariat] responded to it…I think they were always perceived as a developing country organization, whereas the Bretton Woods institutions certainly were not. So when the mood kind of altered, they took full advantage of it and probably overshot in their aspirations in responding to it and trying to lead it and direct it.' The Oral History Interview of Gerald Helleiner, 4–5 December 2000, p. 60–62.

36 UNCTAD TD/B 498, 8 August 1974.

ICAs were worried that under a Common Fund other countries would be able to influence the regulation of their commodity; the oil producers were importers of non-oil commodities and did not want to commit to any investment before the Common Fund was better defined. In the end, the G77 made no concrete moves until early 1976, and then they moved in contradictory directions.

The developed countries did not refuse to discuss the commodity issue. In the US, however, the Ford Administration was afflicted with a siege mentality. Daniel P. Moynihan, the US ambassador to the UN, told Ford: 'for the next generation, the US will be a beleaguered garrison in international forums… We must play hard ball.'[37] What Ford particularly feared was that developing countries would use salami tactics, reproducing, for commodity after commodity, the OPEC effect of price rise and supply restriction (Corea, 2001: 45). Henry Kissinger recalled that, in the wake of the oil crisis, fear of producer power was at the heart of the American approach toward the poorer non-oil-producing developing nations (Kissinger, 1999: 677–678):

> To keep their grievances from coalescing with OPEC, we sought to create alternatives to policies of extortion. We put forward sweeping proposals for stabilizing raw material prices and enhancing food security for the world's poorest nations. Our strategy was to give the non-oil commodity producers a stake they would be jeopardizing by following in the footsteps of OPEC or supporting it.

The US motivation for its action presumably was that a Common Fund, financed by oil surpluses, would no longer be subject to Western control. The Conference of Developing Countries on Raw Materials in Dakar had stimulated this fear in February 1975, when it resolved to set up a fund for commodity market intervention owned exclusively by the developing countries.

In order to find agreement on the substance of an NIEO, a Seventh Special Session of the General Assembly met from 1 to 16 September 1975. The agreement on commodities was, however, a half-baked solution. While it acknowledged the need to build up buffer stocks for commodity price stabilisation schemes, it did not recognise the need for a Common Fund for financing them. Later that autumn, President Giscard D'Estaing of France endorsed the

37 Box 14, National Security Adviser. Memoranda of Conversations, Gerald R. Ford Library.

call for a new world economic order.[38] He had convened a preliminary meeting of what became the Conference on International Economic Cooperation (CIEC), in which the US, the EEC and Japan confronted four OPEC countries and three non-oil developing countries. In November 1975, he called the Rambouillet Summit, between France, West Germany, Italy, Japan, the UK and the US, where Kissinger (1999: 678) repeated the American game plan:

> We should try to break…the unholy alliance between the LDCs and OPEC. This can happen, and we can achieve our results, if they know that their disruptive actions could stop discussions on commodities or that they will pay a price in terms of cooperation, or military exports. In this way we can combat our dependence with a coherent strategy.

At the fourth UNCTAD Conference in Nairobi in March 1976, Kissinger's address was the central episode. He happened to be in Africa anyway, at the end of an extended tour, the key purpose of which had been to trade US support for majority rule in Rhodesia and South Africa for a refusal by African leaders to allow Soviet or Cuban involvement on the continent. Even so, his decision to address UNCTAD was very striking, as no previous US Secretary of State had done so, nor indeed has one done so ever since. In his memoirs, he recalled: 'I chose to speak on behalf of the United States in order to symbolize the political importance we attached to the need for new cooperative international arrangements' (Kissinger, 1999: 941, 953). However, his commodities proposals were shaped by the US game plan, and conflicted with UNCTAD's modified Integrated Programme. Kissinger duly paid lip service to it: 'While the United States of America could not accept all of its elements, there were many parts which it was prepared to consider.' He expressed willingness to study the suitability of buffer stocks on a commodity-by-commodity basis, and offered to review the adequacy of IMF lending resources for poorer countries to offset short-term price fluctuations and long-term declines in commodity earnings.[39] The centrepiece of his speech, however, was a proposal to establish an International Resources Bank with a capital fund of $1 billion, 'which would mobilize capital for sound resources development

38 Talk by Valéry Giscard D'Estaing at the Ecole Polytechnique on 28 October 1975, Hart papers, 8/22.

39 'Summary of US Initiatives at the Fourth United Nations Conference on Trade and Development (UNCTAD), in Nairobi, May 6, 1976', p. 2, DDRS.

projects to secure direct financing and by a partial guarantee of bonds which could be retired through delivery of a specific commodity'. Its advantages, he said, would be the encouragement of the creation of conditions for project development consistent with internationally accepted standards of equity; multilateral guarantees for host countries and investors; production sharing arrangements; the contribution of the commodity bonds to stabilisation of commodity earnings and of commodity supply and demand; and promotion of the transfer of technology.[40]

Although Gamini Corea had hoped only to secure agreement to do further work on the Common Fund, a more militant mood animated the developing country delegations. They wanted to make the setting up of the Common Fund a precondition for negotiation on the other parts of the commodity programme. Although this was unacceptable to the industrial countries, they were divided (Corea, 1992: 53). Kissinger had tried to upstage the Common Fund by focusing on his own proposal, but the EEC countries were split on the merits of the issue.[41] While West Germany opposed the Common Fund concept, France was more pragmatic and the Netherlands strongly supported the Common Fund and Integrated Programme, coalescing with 13 'like-minded' nations (including, notably, the Scandinavians). A deal was finally struck. The Group B countries were willing to approve further negotiation of the Common Fund proposal, in return for agreement by the G77 to refer the US proposal of an International Resources Bank to the permanent machinery of UNCTAD for further study. The willingness of the US to move to this compromise derived not from conviction of the merits of commodity price stabilisation through international action, but from a strong desire to prevent a deterioration of North–South relations in the post-oil-crisis era (Corea, 1992: 57–60). The Nairobi conference thus passed without vote Resolution 93 (IV), entitled the Integrated Programme of Commodities. The resolution requested the Secretary-General of UNCTAD to 'convene a negotiation conference open to all members of UNCTAD on a Common Fund no later than March 1977'. Then, the anticipated *quid pro quo* was not delivered: none of the G77 regional groupings was willing to endorse the draft resolution that the US resources bank proposal

40 'Proceedings of the United Nations Conference on Trade and Development: Fourth Session, Nairobi, 5–31 May 1976', (henceforward *UNCTAD IV*), Vol. II, pp.122–3.

41 Iain Guest, 'Huge Rich Split', *Cosmos*, 10 May 1976, copy in Hart papers, 8/36.

should be referred for further study. The US delegation nevertheless pressed for a roll call vote, and subsequently it was defeated by 33 to 31 with 44 abstentions. This, understandably, soured the atmosphere at the close of the Nairobi conference.

Yet the developing countries' victory at Nairobi proved to be hollow. A huge effort was devoted over the subsequent four years to many meetings to negotiate individual commodity agreements, alongside laborious negotiations for the Common Fund. While agreement on the constitution of the Fund was reached in 1980, only one new commodity agreement emerged from all the post-1976 activity, namely the natural rubber agreement of 1979. Moreover, these meagre results cannot simply be attributed to US obstruction. The Carter Administration took the line that 'we should continue to push along with price-stabilizing commodity agreements where there is some promise of success', and was prepared to contemplate an ICA for copper as well as natural rubber.[42]

Worse was to come in the 1980s, when most of the existing commodity agreements – for sugar, tin, coffee and cocoa – collapsed or were suspended. The Common Fund thus had only one customer commodity for price stabilisation purposes, rubber, and two for other purposes of marketing and export diversification, jute and tropical timber. If the paucity of new ICAs resulted from the slow progress on the Common Fund, the reverse was also true – that the absence of new ICAs made the Common Fund negotiations non-urgent. Originally, this kind of parallel negotiation had never been intended, since the Common Fund had been designed for getting around the need to negotiate many individual agreements, but this was torpedoed by G77 decisions in Manila before UNCTAD IV ever began. The fallback argument that finance was the only factor inhibiting the creation of many more ICAs remains unconvincing, not least because, after the Common Fund was finally ratified in 1988, no spate of new ICAs emerged. As Gilbert has argued, 'the tin [agreement's] collapse in 1985…has undermined the willingness of producers to look for resolutions of difficulties within ICAs and has reinforced suspicions of consumer governments that these agreements were in no-one's interests' (Gilbert, 1996: 1–19).

In the developed world, while Europe was as usual divided, in the US the Carter Administration, though not unsympathetic, was reluctant to invest time and political capital in unrealistic schemes

42 Memorandum from Richard N. Cooper to Jimmy Carter, 3 July 1978, p. 4, DDRS.

merely to mollify the G77. It regarded many of the G77 proposals (for example, the regulation of all synthetics competing with natural commodities) as 'extreme', and it bemoaned the G77's adoption of a political strategy that 'leaves them practically no negotiating flexibility'.[43] This was fair comment. Nourished with very little input from their national capitals, except on commodities of direct interest to them, G77 delegations would come to these negotiations in reactive mode, assuming that either the developed countries or the UNCTAD secretariat would have prepared some scheme in advance. Unity in favour of the NIEO was a façade behind which lay many different shadings of commitment to the Common Fund. Some of the biggest oil producers, such as Saudi Arabia, did not want to complicate their relations with the industrial world, where most of their surpluses were invested and from which they wished to buy modern armaments (Corea, 1992: 80–81); the Latin Americans did not want to lose the control that they had established over the commodities of interest to them, such as coffee; and the Asia–Pacific–Caribbean countries feared that the level of their special arrangements with the EEC might be eroded by more global measures. As one UNCTAD official put it: 'On both sides of the market, many countries that would be affected by direct price control of one or more of the core commodities were sceptical about the possible benefits to themselves' (Brown, 1978: 211).

7. The Conservative Counter-Revolution of the 1980s

In 1977, Willy Brandt, the former Chancellor of West Germany, agreed to head an Independent Commission on International Development Issues to chart the way ahead on development issues and the North–South dialogue. The Commission was also to be independent of the UN, to which it would present its report and recommendations. The Brandt Commission finally published its first report in February 1980 (ICIDI, 1980). It was a brave attempt to re-energise the North–South dialogue and to create a consensus in the international community on desirable future policies to support global economic development. It placed international development issues in the broader context of disarmament and the search for world peace, reviving the original conception that had inspired the founding of the United Nations. It argued a moral case for the

43 Memorandum of Richard N. Cooper to Carter, 3 July 1978, p. 2, DDRS.

wealthy nations shouldering additional responsibilities for alleviating the poverty of the poor countries. In addition to this moral case it argued that, from a national perspective, to do so would be a matter of self-interest for all, given the dangers of war, poverty, famine and exhaustion of resources.

The report's recommendations did not fulfil the hope that they would contain entirely new policy ideas. Instead, they covered a range of issues familiar from the NIEO negotiations, indicating support for the positions of the South. On commodities, they endorsed the setting up of the Common Fund and called for the swift conclusion of the series of international commodity agreements envisaged at UNCTAD IV. On development finance, the report advocated increased transfers of resources to the South, arguing, in line with UNCTAD's framework of interdependence, that such transfers would in turn produce economic growth in the North. Institutionally, the report reverted to the idea of UN-based development finance outside the Bretton Woods institutions. Transfers, funded by 'automatic' long-term bilateral aid flows and by taxes imposed on the international arms trade, would be made through a new 'World Development Fund', which would have a fully international membership. This was not intended to replace the Bretton Woods institutions, but to be additional to them.

These proposals naturally attracted much interest and enthusiasm in the UN. Delegates to the General Assembly paid tribute to the report in more than three-dozen speeches, though these tributes came mainly from representatives of the developing countries. Western critics said that, having started from an alarmist view of the dangers of inaction, the Brandt report went on to a naively optimistic view of the benefits of 'global Keynesian' policies (Henderson, 1981). Those who were haunted by the ghost of 'extreme Keynesianism' included the new conservative governments of the US (the Reagan Administration), the UK (Mrs Thatcher's government), West Germany (Chancellor Helmut Kohl of the Christian Democratic Party) and Japan (Yasuhiro Namasone of a conservative faction of the Liberal Democratic Party). They thought that the forces of inflation were already dangerously powerful, and feared that pumping more liquidity into the international economy could only aggravate inflation.

Brandt recognised that publication of the report came at a time when the US and other industrial countries were deeply anxious about possible economic recession, after the second oil price shock of 1979. He did not want the report to be discussed in a full-scale international conference (Brandt, 1992: 345). Nevertheless, President Lopez Portillo of Mexico offered to host informal, unstructured seminar-type discussions to overcome the stalemate in North–South dialogue, in October 1981 at the resort of Cancún. The Austria co-sponsors were also explicitly seeking to create 'a confrontation of ideas'.[44] The British Prime Minister, Margaret Thatcher, persuaded the new American President, Ronald Reagan, that they should both attend it. He was willing to do so, since the organisers had agreed that no substantive decisions would be taken, and Cuba was excluded.[45] As she later explained (Thatcher, 1993: 168–169):

> I felt that, whatever our misgivings about the occasion, we should be present, both to argue for our positions and to forestall criticism that we were uninterested in the developing world. The whole concept of 'North-South' dialogue, which the Brandt Commission had made the fashionable talk of the international community, was in my view wrong-headed.

Thus at Cancún Reagan and Thatcher went through the motions of expressing concern about poverty and hunger, but the results were slight.[46] Both were determined to resist what they interpreted as 'pressure…to place the IMF and the World Bank directly under United Nations control' (*ibid*.: 169). Thatcher argued her position with a group of heads of government who could not understand her obsession with the 'integrity' (by which she meant independence from UN control) of the IMF and the Bank – even while agreeing that IMF loan conditionality was in some cases too rigorous. She enlightened them in her usual brutal style. As she recalled: 'In the end I put the point more bluntly: I said that there was no way that I was going to put British deposits into a bank which was totally run by those on overdrafts' (*ibid*.: 170).

The new conservative leaders in the West counted the Cancún summit a great success, but not for reasons that they could declare in public. First, the independence of the IMF and the Bank from the rest of the UN had been maintained. Second, a reason that Mrs Thatcher thought 'equally valuable' was that Cancún was 'the last of such gatherings' (*ibid*.: 170). Despite a follow-up report by the

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44 US State Department, 'The Mexico Summit: Sign of a New Era in North-South Negotiations?', Bureau of Intelligence and Research Report 166-AR, 22 June 1981, pp. 1–2, DDRS.

45 *Ibid*., p. 3.

46 Nevertheless, it was agreed to set up a new energy affiliate of the World Bank.

Brandt Commission in 1983[47] and an attempt in 1988 to launch Cancún 2, the North–South dialogue ended in October 1981 (Brandt, 1992: 353). Some in the UN thought that the US decision to terminate the dialogue dated from 1980 (Berthoud, 2001: 82). Certainly, its demise was foreseen without any regret in the US State Department in June 1981.[48]

Less than a year after the Cancún summit, Mexico was back in the headlines. This time it was because the country had to suspend payments on its international debt. The Mexican moratorium of August 1982 set off a severe debt crisis in developing countries, particularly in Latin America. The responsibility for this crisis did not lie exclusively with the governments of the affected countries, although they were ultimately responsible for contracting their debts. The international financial institutions (International Monetary Fund and World Bank) completely failed to sound the alarm or give any advance warning advice. Moreover, in the 1970s, United States covert agencies were happy to see American economic consulting firms supplying wildly inflated economic growth forecasts to justify huge construction projects and associated loan financing (Perkins, 2004: 18–19).

There followed from the debt crisis a veritable counter-revolution in North–South relations. The growth rate of production in the industrial countries in the 1980s improved slightly over that of the 1970s, but the growth rate in developing countries fell almost to zero. Over the 1980s, the economies of middle-income developing countries, and of sub-Saharan Africa, actually contracted (Mosley, Harrigan and Toye, 1995: 6, Table 1.2). As their economies stagnated, their policy autonomy was seriously challenged. This was because, if they wanted to continue to receive aid, they were obliged to agree to follow the policy advice that the intellectual doctrines of neo-liberalism supplied. The agencies to which the US entrusted the task of managing this process were the IMF and the World Bank – notwithstanding their previous failure to warn against excessive indebtedness. As far as international economic affairs were concerned, the US had finally succeeded in sidelining the troublesome United Nations Organisation.

47 Its title was *Common Crisis: North–South Cooperation for World Recovery*. 'Brandt II made even less real impact than Brandt I, and the commission disbanded' (Campbell, 1993: 721).

48 US State Department, 'The Mexico Summit', pp. 7–8.

8. Conclusion

As Rothstein (1979: 217) noted, 'the UN system has never been taken very seriously by Western political leaders, and lip service to periodic calls for reform joined to institutional improvisation have been the normal patterns of response'. After 1964, successive US administrations never willingly embraced the aspirations of Third World countries on trade, finance and development, as expressed within the UN. They were concerned with other issues more central to the objective of bolstering the Western alliance against the Soviet 'threat'. As far as possible they ignored the demands of developing countries; when these were not possible to ignore, they tried to parry them; when it was not possible to parry them, they gave way nominally, but with the intent of minimising the effect of every concession. These tactics derived from a trade strategy that still favoured an opportunistic mix of non-discriminatory trade with the selective use of GATT 'safeguards' for uncompetitive domestic producers. The birth of UNCTAD and the creation of the GSP were setbacks to this traditional US trade policy. They were sustained because of US fears of Soviet expansion in the Third World and the uncooperativeness of America's European allies, especially de Gaulle's France. When the oil crisis put the US under greater immediate pressure, the Nixon and Ford Administrations responded more robustly. Yet it was not Kissinger's bluster and bait that saved the US. Rather it was disunity within Third World ranks, and the negotiating rigidity that this weakness induced, swiftly followed by economic circumstances that made debtors of many of the previously most militant developing countries.

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