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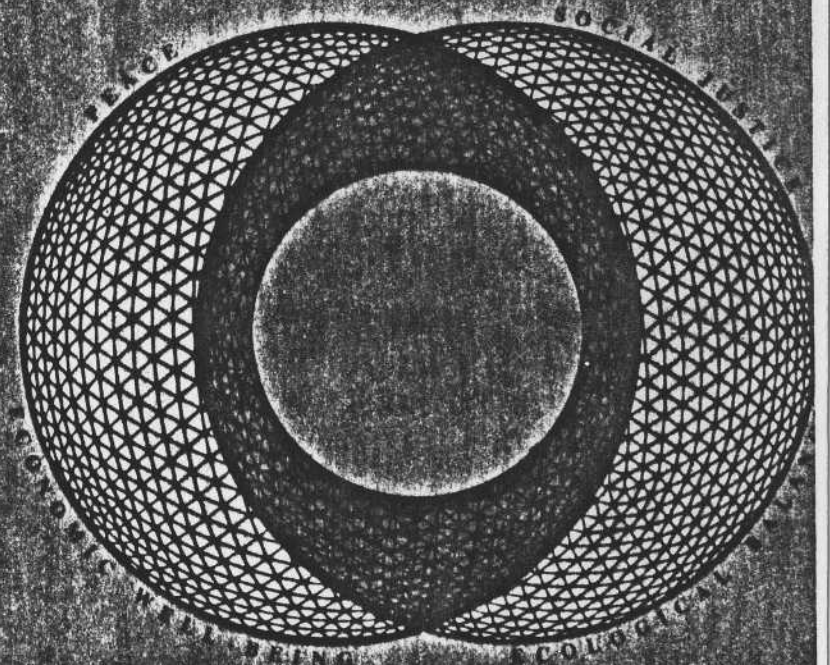
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WORLD ORDER VALUES

PEACE & SECURITY, WELL-BEING, HUMAN RIGHTS, ECONOMIC BALANCE

Basic Needs and the North/South Debate

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This paper is one in a series of working papers commissioned by the World Order Models Project in its effort to stimulate research, education, dialogue and political action aimed at contributing to a movement for a just world order. The WOMP paper series deals with the major global problems facing humanity today within an analytic and normative framework guided by the concepts and values of peace, economic well-being, social justice, and ecological balance. Like other work in WOMP, the series gives appropriate consideration to the necessity and feasibility of structural transformation of today's fragmented world for the resolution of these problems and the achievement of just world order results.

We invite interested individuals throughout the globe to respond to this and other papers in the series, either directly to the author or to the WOMP directors. Where appropriate, the responses and critiques will be published in *Alternatives: A Journal of World Policy*.

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BASIC NEEDS, EXHAUSTIBLE RESOURCES AND GROWTH IN A NORTH-SOUTH CONTEXT

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This article re-examines the relationship between the economic growth of the North and that of the South. It considers the implications of this relationship for two major issues within the current North-South debate: basic needs and exhaustible resources. The con-

nections between international trade and national policies are explored on the basis of the theoretical research and empirical results of a United Nations Project on Technology, Distribution and North-South Relations.

I. North-South Interdependence

The international economy is presently experiencing its most significant change in the post-war period. This change coincides with a renewed awareness of the problems produced by exhaustible natural resources¹ and by acute differences in the distribution of the world's wealth.² The relationships among these problems are extremely complex and subtle, and their dynamics are strongly affecting the world economy. The readjustments taking place in the international economy are creating new levels of international tension such that a serious observer must be concerned about the possibility of another major war, a possibility that has not appeared as real since 1945. It is in this context that a better understanding of North-South relations is urgently needed. Such an understanding would be a positive step for all, even if the policies implied by such understanding do not appear to favor immediate interests.

It is clear, however, that the tools of economic analysis that were developed

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during the last 30 years are no longer applicable to all aspects of this changing situation. Many of today's economic tools, for example, do not take into account the peculiar feature of the economics of exhaustible resources and of the uncertainty that results therefrom. Moreover, there is evidence that alternatives are needed to the traditional theories that contend that interational trade leads to mutual economic gains and to factor price equalization, two major pillars of liberal international trade theories since the 1950's. These liberal trade theories assume that an unequal pattern of international specialization of production would bring more welfare to all and would equalize over time. It is believed that the relative advantages of the trading countries that lead to specialization will disappear as factor prices become more equal through increased trade.

The experience of the past two decades seriously calls into question the validity of these ideas. Wealth differentials between developed and developing countries, rather than decreasing, have actually increased and patterns of specialization, if anything, have become more acute. At present, about 75% of all Southern exports are primary products and about 90% of the world's capital goods exports are generated in the North. All major markets except energy (i.e., investment goods, foods, manufactured goods and armaments) are completely dominated by the North.³ This occurs against the background of the most serious and offensive crime that humanity is inflicting upon itself at present: the continuation and even deepening of extreme mass poverty and deprivation, in a period where material resources are sufficient to fulfill the needs of all human beings.

A better understanding of market functioning among unequal trading partners, especially in the context of North-South interdependence, is therefore needed. This has not been a major concern of traditional Western economic analysis, but there are sound reasons to believe that it must become so if we are to understand better the current tide of international affairs and to help orient it in positive directions.

A major issue of North-South interdependence has been traditionally that of the relationship of the economic growth of trading partners. The view of European-American economics is a hopeful one; it sees a positive reinforcement of both partner's growth through increased trade. In this sense, the international market is seen as an "engine of growth." This view has, in fact, been extended to imply a certain relationship between the growth of the South and the North. The South's growth is seen as dependent on the growth of the North by mainstream economics in the industrial countries, as well as by international organizations and other international observers and policy makers.⁴ This view, contested in the past mostly by third world economists,⁵ now requires closer examination. In fact, the data of the last few years do not support this view, as shown in the next table.

TABLE I

Table G.N.P. Growth Rates

		% per year		
		1965-73	1973-75	1975-78
NORTH	USA	3.7	-1.1	5.4
	Japan	10.8	0.1	7.5
	ECC	4.5	-0.2	3.1
	Other developed market economies	5.3	1.9	2.8
	Sub total	4.9	-0.2	4.5
SOUTH	OPEC	8.3	8.1	4.7
	Other developing economies	5.3	6.2	5.0
	Sub total	5.9	6.7	4.9
World total excluding centrally planned economics		5.1	1.0	4.6

Source: *Cambridge Economic Policy Review* 1979.

I shall show in what follows that these differing views about the relationship between North and South growth have critical implications for both international and national policy making relating to issues of basic needs and exhaustible resources. I shall further argue that these two areas are closely related as well. The analysis presented here uses results from an ongoing study undertaken for the United Nations Institute for Training and Research (UNITAR) and draws on quantitative as well as qualitative mathematical economic analysis.⁶ My analysis thus differs from previous critical examinations of the overall validity of traditional trade theory in that it relies largely on the analysis of market functioning.

The results of the UNITAR study raise doubts about the general reliance on export-led growth to help bring about equal development in the South, especially when relative advantages are emphasized, when labor is very abundant, and when there is a significant level of duality in the production sectors of an economy. These are generally valid and realistic characteristics of Southern economies; nevertheless, careful appraisal of case by case studies of the advantages of increased trade, especially focused on the parameters examined (labor markets, technologies, and structure of the demand), is in order.

Certain forms of interdependence may have less benign consequences than generally thought. In particular, the role of the international markets as an "engine of growth" and in shaping the distribution of the economic product, at both national and international levels, requires careful re-evaluation. The

case for making cheap energy resources available to Northern economies to further their growth is thus greatly weakened. Under present trade patterns, the growth of the North is not necessarily favorable to the growth of the South, even if international markets are liberalized and the Southern exports are significantly increased. The following will discuss these points in some detail, examining them in relation to the questions of basic needs first and then of exhaustible resources. Where relevant, I will also make use of the work of the Bariloche model (a global modeling study undertaken in Bariloche, Argentina and completed in 1975) and of two other major global modeling efforts: the Carter-Leontief model prepared for the UN and made available in 1978,⁹ and the RIO Foundation study of 1978.⁹

II. Basic Needs: Imperatives and Distortions

The concept of basic needs emerged in the early 1970's from serious questioning of existing development patterns and ways of thinking about development, particularly those that prevailed in the 1960's. The unprecedented post-war growth of the world economy accelerated in the 1960's while at the same time, North-South inequalities sharply increased. As suggested by data and impressionistic evidence, extreme poverty, especially in the South, increased not only in relative but also in absolute terms.¹⁰

The basic needs concept itself was first brought to the attention of the international development community by the work of Fundacion Bariloche. The Bariloche model analyses within an econometric framework and with a Third World perspective, global development alternatives focusing on a normative target, i.e. the satisfaction of basic needs. The concept of basic needs subsequently received a major impetus when, on the basis of the work of the Bariloche model, the 1976 World Employment Conference of the International Labor Office adopted its "Declaration of Principles and Programme of Action for a Basic Needs Strategy of Development." The Bariloche model was brought to the conference by M. Hopkins (ILO), H. Scolnik (Bariloche Foundation) and M. McLean (S.P.R.U., University of Sussex). It was their joint conference paper¹¹ that became the basic conference document endorsing a basic needs approach to development.

In the last few years, development centered on basic needs has won many adherents and increasing attention. In addition to the ILO, international organizations such as the World Bank and the Organization of Economic Cooperation and Development have adopted basic needs as the cornerstone for rethinking development.¹² In the United States, the Council on Foreign Relations and the U.S. Agency for International Development have produced documents and held seminars exploring the implications of basic needs ori-

ented development; and even U.S. legislation has reflected this change in orientation.

Understandably, the concept itself has evolved considerably and has, of late, become quite elusive. As more and more varied groups have embraced the concept, they have digested and transformed its meaning. The fundamental idea as envisioned by the Bariloche group was relatively simple: the concept of development does not make sense unless its focus is the satisfaction of certain basic requirements by all, requirements without which human dignity and effective participation in society is impossible. These needs include minimum standards of food, shelter, and education. The satisfaction of basic needs was not regarded in the Bariloche work as an emergency call or a welfare concept but, rather, as a changing concept, with possibly different aspects for different cultures and situations. In short, it was seen mainly as a starting point that would evolve through time to lead to further development fundamentally centered on people and overall equality.

What has taken place in the digestive process and how the basic needs concept emerged especially within the context of the North-South debate is of considerable importance. It is important not only because of the transformations that occurred within the concept during this period of time, but also because of its cooptation by Northern groups and institutions. It should be underscored that the concept was initially brought to the international community by Third World researchers as an alternative to Northern-oriented orthodox thinking about development; yet the ideas centered on "basic needs development for the South" have been made to be increasingly congenial to certain Northern interests (perhaps also orthodox Northern interests) if, perhaps, only as a flag to brandish within the North-South debate.

Thus, the Northern states' use of basic needs rhetoric and ideas within both multilateral and bilateral forums has become a powerful irritant for representatives of Third World countries. The seriousness of this development is reflected in the position being adopted by some Southern scholars and representatives against the basic needs concept, whether related to the economic well-being of people or to appropriate development patterns for the South. How then do these developments relate to some key aspects of the general North-South debate?

III. Scarce Resources and Patterns of Development within the North-South Debate

The question of scarce resources is a central issue in the North-South debate, and one which is especially emphasized in global modeling exercises. Another issue whose assumptions are of the utmost importance is that of *different patterns of development*. These two issues are indeed deeply linked and, as

argued here, their analysis in most global modeling exercises is insufficient at best. At worst, the way the questions are posed within conventional views of economics significantly distorts the problem so that an appropriate understanding of these two issues within the North-South debate may actually be impeded. In some cases, conflicts within the institutions may also affect the assumptions and the results as well.

While the question of scarce resources was the more prominent of the two issues in the 1960's and early 1970's debate on the world's future, the adequacy of different patterns of development is gradually taking precedence. It is increasingly being recognized as potentially the most important element in the global development picture. The scarcity of natural resources became a real concern, especially in the North, with the development of resource bottlenecks in the early 1970's, particularly of oil. This issue was especially important to the global modeling field because perceived global resource limits gave a major impetus to the need for understanding the growing interdependence of different countries and regions of the world economy. This issue, then, provided world modeling exercises a basis for claiming greater validity and importance. Up to this time, world modeling was a new and somewhat controversial growing field within the social and exact sciences as well as in the debates within international organizations.

Within the North-South debate, questions related to the adequacy of different patterns of development became more pointed because of the competing North-South claims for the moral rights to use (or abuse) resources and to the pricing of these resources in international markets. The relative use of resources by the North and South may be highlighted by the following stylized facts. The North uses more than 80% of the annual flow of world resources, even though it has, at most, 25% of the world's population. The North's disproportionate use of resources is increasing because of the relative changes in technology, consumption, and population growth in the North and the South. The South historically has provided some of the most important resources for the world economy. It is this role, which continues today, that helps explain the South's economic characteristics and its unequal relationship with the North.¹³

The limits to growth exercises of the 1960's gave wide publicity to the dangers that population and economic growth in the South posed to the global environment and to the depletion of global resources. Those studies pointed to possible exponential population growth, mostly within the South as a major problem for the exhaustion of resources. This had significant impact on the North-South debate as it tended to shift attention away from the equity claims of the South to the threat to the planet's ecology and resources posed by the unrealistic growth ambitions of the underdeveloped world. According to this view, the South ought to stay in its place for the sake of the planet's survival.

Another point of debate centered around the socio-economic legitimacy of development in the South: For one thing, such development seemed not to be sustainable, not fit for survival in a socio-economic sense. There were also some muted (and other not so muted) references to the concept of triage: is it correct to allocate scarce resources to alleviate the suffering of the poor and hungry and thereby prolong the existence of socio-economic organizations that are intrinsically unfit for survival anyway, since they cannot even feed their people and, moreover, may pose a danger to the rest of humanity?

The second generation world models mentioned earlier (Bariloche, RIO, and the UN model) have placed the matter of resources in a more balanced perspective. They present the problem not so much as one of population explosion, or absolute limits, but as one of failures in human (socio-political) organization including questions related to appropriate technologies and to the use and distribution (exchange and pricing) of resources and the goods produced therefrom. These three global modeling exercises offer, however, quite different perspectives and implications for policy. It will be argued here (and in more detail in an accompanying paper)¹⁴ that the UN and RIO reports represent somewhat enlightened Northern positions while the Bariloche model takes a Southern position. Nevertheless, all three studies attribute some if not most responsibility for the resource problem to human decisions, and thus shift responsibility away from the South's exponential growth triad: population, use of resources, and environmental poisoning.

The UN model report is not critical of the developed countries' life style, consumption, and use of resources; in fact, it assumes these patterns will be adopted by developing countries as well. The RIO report criticizes, in part, but in a somewhat contradictory way, the present forms of organization, including those of the North and those controlling the present world order. It is only in the Bariloche model that a Southern position is taken. It questions the use of resources and patterns of development in the North, seeing them as a source of the environmental and resource problem, and explores in some detail the conditions needed for the solution of this problem. In contrast, the other two works do not question the North's right of unrestricted resource use, albeit they do present the issue in a new form.

The Bariloche model suggests that it is the development patterns of the North that tend to deplete global resources and that are inconsistent with ecological limits. It further proposes that such patterns of Northern growth must be changed for they are inconsistent with equality and hence with the basic political stability of the planet. The Bariloche model actually presents a simulated scenario in which the North slows its growth considerably after a threshold in per capita GNP is reached. (This normative prescription may turn out to have been, instead, a good prophecy.) It shows that basic reorganization of present socio-political structures in the South and the North are

necessary to satisfy the basic needs of all, and to attain levels of equality. More importantly, it demonstrates that available resources within each region are sufficient for satisfying basic needs provided this reorganization is undertaken. The South is thus given, in the Bariloche model, a form of legitimacy: it can, and will, survive, though changes are needed.

The UN model and the RIO report appear to agree in principle with the unfairness and nonviability of the present world order and of present Northern patterns of development. They, however, emphasize much more than Bariloche the need for aid or for real transfers from the North to the South, and for export-led growth policies. There is an implicit assumption, in the RIO and UN models, that the South's growth may be dependent on the North's assistance,¹⁶ or, at least, upon the North's growth.¹⁷ It is in this respect that they do not question the North's right to the unfettered use of resources. *Whether the South depends on aid from the North for reaching desired targets, or whether it depends on the North's market for its exports, in both cases, the growth of the South is seen as dependent upon preserving the growth of the North. In this view, then, the growth of the North should not be hindered by lack of resources or by expensive resources, lest the whole world economy be negatively affected.*

It is now an accepted view that the problem of scarce resources is more a matter of successful management and of market behavior, than one of absolute physical scarcity. The "limits to growth" approach has by now been rejected and the Bariloche model approach has been almost completely accepted with respect to this issue.

The question of the pricing and supply policies relating to these resources, however, still remains extremely important. This is especially so because some important resources, such as oil, for geographical and marketing reasons, have given some relative market power to Southern countries. The discussion of oil pricing policies by OPEC is an ever-present one. Since oil prices are established in a monopolistic competitive manner through market negotiation, which is watched closely by the international community, the legitimacy of each party's argument takes on additional importance. In particular, the position that the South's growth is dependent upon the North's tends to undermine the legitimacy of the redistribution produced by the pricing policies of the oil rich countries for the following reasons. If what is desired is greater equality between the North and South and if the instrument for this equality is the international market as a transmitter of economic activity and growth, then, to the extent that increases in prices of resources (which, such as oil, are in inelastic demand) tend to increase inflation and to decrease growth within the North, they also tend to decrease growth in the South. The argument is actually further refined at this point in an attempt to divide the Southern coalition by implying that it is the oil rich countries who, by increasing the

prices of oil, hurt the prospects for growth in the South. It is argued that such oil price increases affect the South's growth directly as well as indirectly: directly, through the increased cost of the South's own energy imports; and indirectly, through the effect of decreased demand for their exports resulting from decreased growth of the North. The effects of resource bottlenecks on the North have been emphasized by Northern economists as largely responsible for their present economic recession-cum-inflation problems.

The above discussion explains, in part, the negative reaction of Southern oriented thinkers to the North's use of the basic needs concept. In the first place, an emphasis on basic needs may be used to shift back to the South the responsibility for problems of extreme poverty and deprivation. As used by Northern groups, the basic needs concept focuses more on internal inequalities in the South rather than on North-South disparities.¹⁸ Southern economies are thus questioned, not on their ability to survive and compete but, rather, on their ability to feed their poor and meet their basic needs. While inflation and terms of trade problems are acknowledged to be international problems, domestic distribution is seen as an intrinsically Southern problem. Consequently, the legitimacy of the South's claim for greater North-South equality is undermined.

Secondly, once this domestic problem of distribution within the South is zeroed in on, the North can then be cast as a concerned and necessary benefactor, one that may provide aid, financial or real transfers (as in the UN model), or export markets (as in RIO). But to be feasible, *both aid and trade policies require a continuation of Northern growth.* The economic growth of the North is therefore deemed necessary for that of the South; and for this reason, the North's unrestricted use of scarce resources and, more importantly, its need for cheap prices for these resources cannot be questioned.

Thirdly, the basic needs concept has been used to question industrial growth policies in the South. This has important implications in relation to North-South competition for markets and economic power. According to this view, the South should restrict its pace of industrialization. Even better, it should continue to specialize in the production of basic goods¹⁹ instead of competing with the North for more industrial output and export of more sophisticated goods. Such specialization may imply a semirural economy—an economy that stays in its place in the present world order, for the sake of preventing extreme poverty. Moreover, since in this view mass poverty is the South's own fault, it cannot claim on the basis of North/South inequalities a moral right to better terms of trade and to better representation in the international community (such as in the World Bank and the IMF): it had better put its own house in order (i.e., tend to its basic needs) first.²⁰

Having discussed both the Southern and Northern positions on basic needs, one is obliged to provide one's own. I believe it is impossible to see the question

of basic needs as a purely domestic issue, independent from existing relations with the North. It is, instead, an issue that has to be placed firmly within the context of North-South relations. More specifically, one cannot reject Northern concerns about basic needs as unwarranted intervention in the South's domestic affairs, as is often argued by Southern representatives. Indeed, just the opposite may be more appropriate. The North has historically always exercised some form of intervention, first through colonialism and, later, through market relations based on the South's specialization in primary commodity export and on an almost complete Northern domination of all other markets of exports, with a high degree of market concentration.²¹ This involvement, past and present, makes the North equally responsible for the present dramatic failure to meet the basic needs of the majority of people in the South. The role of the North in the basic needs question therefore needs to be re-evaluated and discussed with this in mind.

Neither a positive nor a negative verdict can, in general, be given to the effects of North-South interdependence on basic needs. This interdependence must be critically examined and evaluated anew. This is because our present understanding of interdependence, as pointed out earlier, is based on theories of economic growth, development, and trade that fail to consider some of the most important aspects of interdependence. For instance, most economic models of development do not take into account issues of scarce resources. Nor do they recognize that different patterns of population growth and migration exist in the North and in the South, or that different technologies are used (and should be used) in these two regions, or that labor market characteristics are also sharply different.

As discussed above, most current theories tend to regard the international market as an "engine of growth." More international trade, it is believed, will be beneficial for overall growth, and in particular will increase the Third World's rate of growth through the effect on employment and increased output in the exporting regions. Increased trade is also seen as promoting more equality among the regions concerned, as factor prices (labor, capital) equalize through the flow of trade among the regions. Such theories thus tend to reinforce a view that cheap resources should continue to be made available to the North because this will increase the North's growth and, through an expanded international market, the growth of the South as well. Add to this a "trickle down" view, and the satisfaction of basic needs in the South will eventually be realized.

The results of the UNITAR study, however, point to different outcomes. The North-South development and trade model does not necessarily imply that increased trade will have a negative effect on growth and distribution in the South. But it does identify circumstances where the optimistic views of the gains from trade and factor price equalization do not hold, and, indeed, where contrasting effects occur. Its two general findings in this regard can be

summarized as follows. When labor supply is very responsive to changes in wages (as illustrated by migration from rural to urban areas) and when the techniques of production are very different across sectors (i.e. when a form of duality exists in the economy) then an increase in the exports of basic goods will result in a decrease in their price, in total export revenues, as well as in wages, real wages, and employment within the South. The second conclusion is that the same negative outcome will occur even when the labor supply is not very responsive but when all (or most) wage income is spent on the exportable goods, i.e. when the exportable is a wage good (again assuming duality in the economy).

The rationale in both cases can be summarized here briefly as follows. The increase in the supply of exportables that is needed to increase exports is in general seen as having an overall positive effect on wages, employment and growth in the South. But if carried further, this analysis reveals that such changes in wages and employment also affect overall demand in the South. Whether or not more exportables will be finally available for export depends not only on supply but also on demand in the South: exports equal output minus consumption.

We can now see how an increase in exportables may be linked to lower export prices and wages. An *increase* in the price of exportables increases their supply but may eventually increase their internal demand even more. This occurs because of the income effect of increased supply on employment and wages in the face of the abundance of labor (or when exportables are wage goods). This means that with higher prices of exportables, necessarily less will be available for export. Therefore if exports are to increase, lower prices of the exportable good are needed. As is usual, the price of a labor intensive good, the exportable, is positively linked to wages and real wages. In sum, an increase in exports may result in a decrease in prices, wages and employment, and thus have an overall negative effect on the South.

The policy prescription in this case is not, however, to completely isolate the country and turn inwards. The UNITAR study, as opposed to the more traditional trade literature, does not compare autarchy with free trade: it compares different trade levels, or alternatively, a modification of the circumstances that produce the results: a change in technologies, a change in the nature of exports, a modification of demand patterns.

As has been shown elsewhere,²² the liberalization of international markets, even under perfect market regimes, affects domestic markets and the domestic distribution of income within the trading countries in the South in ways that may conflict under quite general conditions with the goal of satisfying basic needs. In particular, contrary to existing notions of gains from trade, an increase in North-South trade caused, for example, by an expansion of the Northern economies, may lead under the present trade patterns to a decrease

in growth in the South. This is because under present conditions and present trade patterns, the South is specializing in the exports of goods whose increased production and sale does not necessarily favor the economies of the South as explained above. This increased specialization of the Southern economies in export goods produced for Northern consumption (raw materials, agricultural by-products, certain manufactures) may reduce overall employment and real wages in the South, as well as produce a mix of economic output that is not conducive to sustainable and efficient development paths. Such an expansion of the Northern economies and of North-South trade may also lead to a worsening of the distribution of income in the South.

The findings discussed above also show that the growth of the South cannot be, in general, based on the cheap labor provided by mass poverty. Such conditions are consistent with very abundant (and elastic) labor supply and, therefore, will have, in the long run, serious adverse effects on the terms of trade and export revenues of the exporter, even though in the short run total revenues for exports accruing to a small elite could be increased.

On the other hand, if fairer income distributions within the South are achieved, which would imply stronger, larger domestic markets, and if this is accompanied by lower rates of population growth (for instance through the satisfaction of basic needs), then the adverse results relating to terms of trade may be reversed. This is, in a sense, the main point: the strengthening not only of local production (i.e., import substitution, infant industry protection) but *also* of local markets (demand) seems necessary to prevent the deterioration of international terms of trade and export revenues in the long run. In this case, the required strengthening of local markets implies an overall improvement of the lot of the large majority of people. Since in market or semi-market economies the income of factors is related to their productivity, an increase in productivity of the rural and other low income groups in the economy is necessary. In general, a trade policy can be considered favorable only if it increases the consumption of the low income groups and improves their position in both the labor markets and the markets for goods: otherwise it may be considered self-defeating.²³

A North-South trade policy that is favorable to basic needs should be coupled with a strengthening of the domestic market for the good in question within the South. Labor-intensive goods which do not offer this possibility should not be, in general, exported.²⁴ Capital goods exports may be exempt from this rule: our results do not apply to them. At present almost all exports of capital goods, however, are generated in the North, and almost all exports of the South consist of unprocessed commodities. To the extent that a country exports a good for which no adequate market structure exists at home (owing, for instance, to a depressed economy, or maldistribution of income) its bargaining power in the international market is decreased. The general rule is to

increase, rather to worsen, this market bargaining power. Stronger domestic markets, based on more equitable output, and a subsistence economy that is productive enough to allow workers to allocate their labor in a more selective and efficient way, thereby decreasing the indiscriminate "labor abundance," appear to be necessary to back up export policies. Indeed, such economies would stand a better chance of sustained growth, and of a more rapid eradication of extreme mass poverty, which is, as pointed out before, the most offensive crime that humanity is inflicting upon itself at present.

Footnotes

¹This is especially true given the unprecedented energy needs of the industrial countries. The differences in energy consumption of industrial and developing countries are staggering. As of 1950 the consumption of energy per capita in megawatt hours in the U.S.A. was 62.1; in the U.K. 36.6; in France 18.8; and in India 2.7. These differences have increased further in the last few years, see e.g., *Energy and the World Economy* (The Open University Press, Walton Hall, Milton Keynes, 1975), p. 37.

²The relative shares of resources and expenditures of developed and underdeveloped countries became more unequal from 1960-1972. See, for instance, P. Streeten and S.J. Burki, "Basic Needs, Some Issues," *World Development*, 1978, Fig. 9, Ch. 5. In most cases, the income distribution within the Third World worsened during this period, and considerable evidence suggests that the absolute incomes of the bottom 10-20% may also have fallen in absolute terms in the last 25 years; see, for instance, Annex 2, Mahbub ul Haq, *ibid.*

³In 1974 food, raw materials and fuels comprised 74.3% of all exports from developing countries. In 1973 developed countries' exports accounted for 86.6% of all capital goods exports, 88.9% of chemicals, 78% of manufactures, 65.5% of food and 60.3% of raw materials. Source: U.N. Trade Statistics; see also "Patterns of Trade and Concentration in Six Major Markets of the International Economy in the last 25 years." UNITAR Report, 1980.

⁴See, e.g., the Brandt Commission Report, *North-South: A Programme for Survival*. Report of the Independent Commission on International Development Issues (Cambridge, MA: MIT Press, 1980). "The South cannot grow adequately without the North" (p. 33). "That the South needs the North is evident" (p. 67).

⁵For instance in the seminal works of R.A. Prebisch and W.A. Lewis in the 1950's as well as in some of the Latin American literature on dependency; for a survey see G. Palma, "Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment," *World Development*, July/August 1978.

⁶The United Nations Institute for Training and Research modelling project, "Technology, Distribution and North-South Relations," co-directed by H.S.D. Cole at the University of Sussex, and the author.

⁷A. Herrera et al., *Catastrophe or New Society* (Ottawa: International Development Research Center, 1976). See also A. Herrera et al., *Un Monde Pour Tous* (Presses Universitaires de France, 1977), and Graciela Chichilnisky, "Development Patterns and the International Order," *Journal of International Affairs* 31, 2, 1977, pp. 275-304.

⁸W. Leontief et al., *The Future of the World Economy* (New York: Oxford University Press, 1977).

⁹J. Tinbergen et al. *RIO: Reshaping the International Order* (New York: E.P. Dutton, 1978).

¹⁶See f.n. 2.

¹⁷M. Hopkins, H. Scolnik, with the collaboration of M. McLean, "Basic Needs, Growth and Redistribution: A Quantitative Approach," International Labor Organization, Geneva, 1975.

¹⁸See, e.g., R.H. Cassen, "Basic Needs, An Appraisal," presented at the IUSSP Helsinki Conference on Economic and Demographic Change: Issues for the 1980's, August 1978. Working Paper, Independent Commission of International Development Issues, Nyon 1978; I.L.O., *Employment Growth with Basic Needs* (Geneva: International Labor Office, 1976); R.S. McNamara, Address to the Board of Governors, The World Bank, September 1978; "OECD Statement on Development Cooperation for Economic Growth and Meeting Basic Human Needs," adopted by the Development Assistance Committee High-Level Meeting on October 27, 1977; and P. Streeten and S.J. Burki, f.n. 2.

¹⁹See, e.g., the following literature on dependencia theory: F.H. Cardoso, "The Consumption of Dependency Theory in the United States," *Latin American Review*, 1977 and G. Palma, note 5. At present by way of example, the United States, Europe, and Japan are quite dependent upon regular supplies of raw materials from the South. See table 12, ch. 7, in J. Tinbergen *et al.*, note 9. The United States, by far the country with the best overall endowment of natural resources in the North, was dependent already in 1950 on imports for more than one third of its supplies of the thirteen basic raw materials required by a modern industrial economy. By 1970, the list had grown to six, and by 1985 it is expected to increase to nine. *Ibid.*, ch. 7, 4.

²⁰See G. Chichilnisky, "Basic Needs and Global Models: Resources, Trade and Distribution" part 2 of this Working Paper.

²¹With the possible exception of Asian land in the next century, unless agricultural yields there increase from 4 to 6 tons per hectare.

²²To stimulate a policy where basic income levels could be reached for all, the UN report (f.n. 8) considers mostly financial transfers from the North to the South, increases of Southern exports and increased growth following present patterns.

²³Even though several passages in RIO (f.n. 9) endorse collective self-reliance, in fact, the main recommendations are growth through trade, specialization in relative advantages, and aid for the South, which seem somewhat contradictory to the first position. This is one difficulty in non-formalized work: somewhat contradictory positions can be simultaneously proposed.

²⁴The ratio of North-South wealth is about 13:1, see J. Tinbergen *et al.* (f.n. 9).

²⁵Or, in some versions of basic need strategies, on the assembly of export goods which are not domestically consumed and increase employment.

²⁶The position statement of Alexander King in the RIO report (f.n. 9, p. 323) illustrates this Northern viewpoint: "I am in general agreement with the final text (RIO) and subscribe fully to its suggestions. Of course there are many matters of detail which I would have expressed otherwise or have given somewhat different emphasis. However, we have somewhat understressed the consequences of the doubling of the global population in some thirty years; and secondly, *the needs for reform within the developing countries. Seeing the development activity in developing countries, one increasingly realizes how much effort is in support of small Western-influenced elites, with little amelioration of the lot of the poor masses. Egoism, chauvinism and love of power are certainly not the monopoly of the rich countries and their leaders. Unless people in all countries can sublimate these human characteristics and include in their views the possibilities for their children, and grandchildren, the outlook for the New Order is bleak; it can only succeed if there is political and individual will to make it do so.*" (emphasis added) Another illustration is the Carter administration position at the North-South conference in Paris, that it no longer makes sense to tax the poor people in the rich countries for the benefit of the rich in poor countries (New York Times, June 3, 1977).

²⁷See UNITAR Report (f.n. 3).

²⁸See G. Chichilnisky, "Terms of Trade and Domestic Distribution: Export Led Growth with Abundant Labor," *Journal of Development Economics*, January 1981, and G. Chichilnisky, "North-South Interdependence, January 1981, and G. Chichilnisky, "North-South Interdependence, Development and Trade," Working Paper No. 36, Center for the Social Sciences, Columbia University, 1979.

²⁹Examples such as Korea and Taiwan are used to support these claims. As is discussed in G. Chichilnisky, "Oil Supplies, Industrial Output and Prices: A Simple General Equilibrium Macro Analysis," University of Essex Discussion Paper, No. 149, 1980.

³⁰Japan's export strategy of the last twenty years has been consistent with these prescriptions.

BASIC NEEDS AND GLOBAL MODELS: RESOURCES, TRADE AND DISTRIBUTION*

Graciela CHICHILNISKY†

This paper analyses both the basic assumptions and the results of the better known and widely used global models – specifically, the UN world model, the RIO (Reshaping the International Order) model and the Bariloche model – in relation to basic needs and to North-South interdependence. The rationale of the exercise is that these very assumptions underlie various development strategies and give legitimacy to competing claims on the

world's resources. Even if some of the findings of the analysis are critical of the suitability of a particular model for the study of the questions posed, they serve a useful purpose in that they suggest what strategies and structures built into the model do not work. The paper ends by summarizing the conclusions and indicating their implications for policy as well as for further modelling work.

I. The UN model : assumptions and results

This section will concentrate on the UN model, which was developed by Ann Carter, W. Leontief and P. Petri.¹

I shall first discuss the structure of the model and its suitability for the study of basic needs question; it will be seen that it has serious limitations in this sense.

Secondly, I shall analyse the results obtained with respect to the question of satisfaction of basic needs on the basis of a variant of the model

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¹W. Leontief, A Carter and P. Petri, *The Future of the World Economy* (New York: Oxford University Press, 1977).

(produced by J. Stern.³) Finally, I shall analyse the implications of the results for economic policy and for institutional goals within international organizations and, in particular, with respect to the main issues of the North-South debate.

The model consists of a 15-region input-output formalization of the world economy. A few scenarios have been explored by running the model with different parameter values. One is an 'old international economic order' scenario with unchanged ratio of gross aid flows to gross domestic product (GDP) in each creditor region and unchanged regional shares of total aid pool. A second scenario has a ratio of gross 'aid' flows to GDP increased for developed regions and increased share of most developing countries in the total pool. A third scenario called the New International Economic Order (NIEO) has (1) a faster change in relative prices of primary commodities and manufactured goods, (2) increased share of total production and exports of manufactured goods by developing countries, (3) larger aid flows, and (4) increased flows of private capital.

As reported, for instance, by Streeten and Burki,³ the major preoccupation of Leontief, *et al.*,⁴ is with the feasibility of growth-rates reducing the North-South aggregated income-gap within the present patterns of development. This, however, draws attention away from the questions of eradication of poverty, of reduction of internal inequalities, and of the option for different styles of development in different regions. For example, technologies and consumption patterns in the developed regions (as provided by existing US data) are, by assumption, transferred to the developing regions with a time-lag, thus ensuring that this most important aspect of the development pattern is always inherited in the model by the South from the North. There are other constraints that make this model less useful for the study of basic needs policies. For example, the input-output tables, which form the kernel of the structure of this work, are only a system of consistent accounting of input and output in the economy across sectors. Because of the orthodox nature of the choice of sectors and of aggregation of all income groups in this model, input-output tables cannot identify basic needs, or point out what structural national and international changes may be required to meet these needs. The model contains no critique of the current patterns of consumption and style of living in developed countries; more strikingly, the model actually *assumes* that they will become world-wide.

Since the major publication of the UN model⁵ does not deal directly with

³J. Stern, 'Growth, Redistribution and Resource Use', Development Discussion Paper, April 1976, Harvard Institute for International Development.

⁴P. Streeten and S.J. Burki, 'Basic Needs: Some Issues', *World Development*, 1978.

⁵See f.n. 1.

⁶See f.n. 1.

the problems of basic needs, I will refer here to a further piece of work which modifies the model, so as to make it amenable to the study of basic needs question. This latter work was prepared for the Tripartite World Conference on Employment, Income Distribution and Social Progress of the International Labour Conference in Geneva, June 1976.⁶ The work was commissioned by the ILO in order to project conditions needed for the 15 regional blocs of the UN model to reach target income levels for the lowest quintile of the population in these regions; it is based on the criterion of 'satisfaction of basic needs' of the Bariloche model, using the UN model as an analytical base.

For each of the 15 regions, population figures and gross national product are exogenously projected (based on so-called 'optimistic UN projections') by running the UN initial income distributions within each region and estimating. Using the Bariloche model,⁷ an estimate is made of the cost of 'meeting basic needs' consumption baskets in money terms. This differs, of course, from the Bariloche approach, since Bariloche considers the satisfaction of basic needs based on *real* consumption targets, not monetary ones. This latter point is of some importance because basic needs policies based on redistribution of income will, in general, themselves affect prices and therefore may render the 'income target' goal for the consumption of the basic needs basket obsolete.

The model is then run forward to analyse the implications of growth paths that are consistent with such specified minimum income levels for the lowest income-groups as are given by the basic needs consumption baskets. The growth of the gross national product (GNP) is projected in the basic runs on the basis of projections and guide-lines set forth by the UN Centre for Development Planning, Projections and Policies. These GNP projections are somewhat optimistic for more global equality; they assume that the greatest growth potential exists in those regions which have the lowest GNP/capita. Thus, the rate of 6 % per annum in GNP/capita is posited for regions with per capita income between \$2000 and \$3000 and so forth. As a consequence, these growth rates necessarily project a rapid diminution of the wealth gap between the developed and the less developed regions.⁸

⁶Stern (f.n. 2).

⁷A. Herrera, G. Chichilnisky, G. Gallopin, J. Hardoy, D. Mosovich, E. Oteiza, G. Romero Brest, H. Scolnik, C. Suarez, and L. Talavera, *Catastrophe or New Society* (Ottawa: International Development Research Center, 1976); and A. Herrera, G. Chichilnisky, G. Gallopin, J. Hardoy, D. Mosovich, E. Oteiza, G. Romero Brest, H. Scolnik, C. Suarez, and L. Talavera, *Un Monde Pour Tous* (Presses Universitaires de France, 1977).

⁸See Stern (f.n. 2), Table A-1 in Appendix.

The UN model represented originally an attempt to analyse at a relatively disaggregated level the natural resources and environmental implications of development goals reflected in some of the emerging ideas of the NIEO. But because it is restricted to an input-output framework of analysis, it is less adequate for studying employment questions, and it does not especially address questions of intra-regional (or national) distribution of income and consumption.

With respect to the modelling of the *international sector*, the trade sector of this model does not provide an adequate framework to study NIEO questions, such as terms of trade and shares of exports. In the model, each region has a fixed proportion of the world's exports equal to the present ones, while, at the same time, the levels of imports are assumed to depend on the regional GNP levels, reflecting present patterns. From these assumptions on inputs and exports, certain problems and results immediately emerge. For instance, because of the assumptions, if a poor region increases its growth by a large amount, this must necessarily increase imports relatively much more than exports, generating a large deficit in the balance of payments of the region. Furthermore, since the main economic parameters of the underdeveloped countries' future economies (uses of resources, imports, input-output coefficients) are assumed in the UN model to reproduce exactly, with a time-lag, the present patterns of more developed countries, the problem of development for developing countries is further compounded. Thus, because of the assumptions of the model, developing countries will necessarily run large balance-of-payment deficits if they attempt high growth levels.

The above set of characteristics of the model poses some questions about its adequacy for the study of several UN development goals. In particular, the assumption on the future reproduction by the underdeveloped regions of the present economic patterns of the developed regions is somewhat in contradiction with the UN policy of setting alternatives for world development. Moreover, as stated by Stern,⁹ the complexity of the model makes it difficult to change its primary focus to the study of such questions. However, Stern explores the uses of the existing structure to analyse the question of income distribution, keeping in mind the limitations of such an exercise due to the structure of the model.

The main conclusion of the input-output extrapolations of Stern's paper is the unfeasibility of the present trends of resource use and of income distribution for reaching the target of satisfaction of basic needs by the year 2000 in most of the 15 regions considered. Stern's scenarios, B-0 and B-2, set two targets (high and low) of satisfaction of basic needs by the year 2000 and try out alternative growth needed to reach them within the

⁹See f.n. 2,

present income distribution. It turns out that, for most of the 15 regions considered, reaching the targets of satisfaction of basic needs by 2000 (even with the rates of growth posited by the UN Centre for Development Planning, Projections and Policies, which are favourable to the underdeveloped world) appears unfeasible. Alternative runs in which the goals could be reached must posit unreasonably high average rates of growth (for instance, 11% for South Africa and 9.7% for Asia).¹⁰ They require international financial transfers that are disturbingly large and a dramatic departure from historical trends – both imperatives of the assumptions of the model. A great import dependency of the underdeveloped countries occurs, and increases in labour productivity much beyond those justifiable by historical trends are needed to overcome these problems. Moreover, very serious environmental stress appears unavoidable for the growth targets to be reached.

All these negative factors are shown to improve in the runs where the income distribution is improved so as to gradually achieve the level of the 'best' existent ones.¹¹ With less growth and less resource use but with more equal income distribution, it is shown that, within the UN input-output structure, the goals could be attainable. This agrees with the core of the findings of the Bariloche model. In the input-output context, the finding is not surprising, since a better share of a lower output can indeed be better than a lower share of a larger output, as far as the lowest quintile of the population goes. However, important points which are of concern to economists and policy-makers, such as the effects of income redistribution on growth through inflation and changes in the structure of the demand, cannot be studied within an input-output structure. In addition, the possible effects of technology changes and trade on growth and uses of resources (through production, investment, savings, consumption and shifts in composition of the product as well as in quantities) cannot be investigated, given that the (present and future) input-output coefficients representing technologies have been fixed in the UN model reflecting existing US patterns.

Finally, we discuss the implications of the UN model and its consequences for the basic needs question in the context of the North-South debate. In the first place, the inadequacy of the model as a tool for studying the basic needs question discussed above, in the peculiar manner in which intellectual production affects reality, tends to cloud the study of such questions altogether and undermines the intellectual legitimacy of studying basic needs questions within the global context. Further, even when basic needs force themselves on the agenda, the UN model tends, by implication, to question the feasibility

¹⁰See Stern (f.n. 2), Table A-3 in Appendix.

¹¹According to the Gini coefficient, which is one possible measure of inequality of income, see Stern (f.n. 2), p. 31.

of the goal of satisfying those needs without dramatic departures from historical trends. Since the basic needs goals appear to be practically unattainable, why bother about the problem? Lastly, the use of the only policy tools that the UN model considers appropriate (given its particular structure) implies that the question of satisfaction of basic needs is wholly unrelated to international market relations, such as North-South terms of trade and patterns of international division of labour. The satisfaction of basic needs is seen in this model as a domestic issue, an issue in the treatment of which the South is called upon to put its house in order.

It is clear by now how this model fits into the spectrum of basic needs positions in the North-South debate: it tends to coincide with a Northern perspective¹². The main tool considered for equalizing North-South wealth is aid (transfers), and, as seen above, the structure of international trade represented in the model is such that increased growth of the South over and above that of the North can only deteriorate the South's balance of payments and increase its dependency. Any New International Economic Order element in it tends to favour those groups of the South that may benefit from the continuation of present world order trends, with the addition of two elements that may improve their position: transfers and financial or trade concession policies from the North; in general, policies that rely on a dependent growth of the South.¹³

II. Reshaping the International Order (RIO) report

The work on which the RIO report is based differs from those of the UN and Bariloche models in that it does not rely on quantitative modelling. Rather, it attempts a qualitative formulation of issues, problems and policy suggestions to reshape the international order. Some of the proposals are expressed, however, in quantitative goals. For instance, one aim proposed is that the North-South differential of wealth should decrease from its present 13:1 ratio to 6:1 by the year 2000.

I shall analyse this report in three parts. Firstly, I shall briefly describe its structure; secondly, I shall discuss its recommendations; and, finally, I shall analyse its position with respect to basic needs in the context of the North-South debate.

¹²See G. Chichilnisky, 'Basic Needs and Exhaustible Resources in the North-South Debate: Imperatives and Distortions', part I of this Working Paper.

¹³The institutions whose interests, if they could be identified, would be closer to this model's perspective are OECD, The World Bank and the more North-oriented elements within the UN structure.

The RIO report was prepared by a group of 21 specialists, and coordinated by Jan Tinbergen.¹⁴ Part I of the report is devoted to the discussion of problem areas in the international order, Part II is devoted to aims of the work, and Part III is proposals for action. The statements in the first three parts are based on the work of specialists, which is presented separately in the technical reports at the end of the volume. Part IV containing Position statements and even minor disagreements between the authors with respect to the body of the work are presented at the end of the volume by the authors.

The form of this report is adequate for the discussion of certain topics which are not easily formalizable in mathematical terms, such as historical patterns of development and distribution of power among regions and groups. However, this qualitative form of discourse lends itself to being stretched too far. In many parts of the report certain positions on the North-South debate are verbally endorsed, while certain more concrete suggestions for policy given in other parts of the report contradict these verbal pronouncements. In a sense, this is a natural pitfall of non-quantitative analysis of complex issues, which does not lend itself to checking for internal contradictions. On the other hand, it may be that in this case the contradictions between pronouncement of positions and specific policy proposals reflect an attempt on the part of the RIO group to avoid criticism by including strong supportive phrases (but just phrases) for the lowest income groups and for the South as a whole. A case in point is the matter of modes of development in the proposed New International Economic Order. Structural changes and self-reliant development are endorsed in the discussion in Part II, but in the more concrete proposals for policy in Part III great emphasis is given to trade and a somewhat conventional international division of labour,¹⁵ and to transfer of resources, concessional resources and aid from the North to the South, and within the South.¹⁶ While these issues are indeed of importance for the reshaped international order that this work sponsors, both the presentation and the emphasis given to them give this report an enlightened First World flavour. I shall discuss this next.

As I have explained elsewhere,¹⁷ the emphasis on aid and trade for Southern development tends to place the South in a dependent position with respect to the North. Furthermore, it tends to legitimize the North's claim for cheap resources from the South. Since the North can hardly help or serve as a good market for exports unless it has a healthy, growing economy, this

¹⁴J. Tinbergen (coordinator), A. Dolman, and J. van Ettinger (eds.), *RIO: Reshaping the International Order* (New York: E.P. Dutton, 1976).

¹⁵*ibid*, p. 141

¹⁶*ibid*, ch. 10, pp. 129 and 132-133.

¹⁷Chichilnisky (f.n. 12).

means (things being what they are at present) that in the short-term, and even medium-term, perspective, the North must continue to have a reliable, not-too-expensive supply of resources. In sum, the North's growth must be preserved with a reliable input of cheap resources.¹⁸ Since, as indicated also by RIO, the control over resources is one powerful tool of the South in the bargaining for more North-South equality, this, in effect, conflicts with previous statements in the report on the importance of aid and trade.

The choice of specialization or international division of labour to the South in the international trade section of the RIO report adds to this work's First World flavor. RIO affirms that both the North and the South will benefit from an intensification of the use of their comparative advantages and/or specializations,¹⁹ even though it is admitted that these comparative advantages or specializations are, in fact, changing.²⁰ Although the generation of an indigenous capacity for research and development in the South is proposed in RIO as an important requirement,²¹ the roles assigned to the North and the South in this report are clear, and they do not differ much from the present ones.

Again, the prescription for reduction of non-tariff barriers, which are seen as a major hindrance to intra-industry trade, goes together with a call for increased trade.²² It is earlier stated in the report that free market forces are not devoid of distributional effects and tend to reinforce advantages of the haves over the have-nots;²³ but the emphasis on lower tariffs and other non-tariff barriers for the products of the South contradicts this statement, since this emphasis is based on the idea that an expanded market will bring about more growth and improved distribution. This latter role of the international market corresponds more to Heckscher-Ohlin's 'gains from trade' and Stolper-Samuelson's 'factor price equalization through trade' than to a vision of an inequalizing international market proposed in Chapters 1 and 2 of the report.

In effect, as shown by the current world-trade negotiations in Geneva (April 1979), the South does not in any case obtain the lowerings of tariff and non-tariff restrictions for its exports that RIO proposes.²⁴ It could, therefore, be said that both RIO and the UN model suggest alternatives that

¹⁸ibid.

¹⁹Tinbergen, *et al.* (f.n. 14), p. 141.

²⁰ibid, Ch. 14.

²¹ibid, p. 153.

²²ibid, p. 143.

²³ibid, Chs. 1 and 2.

²⁴In a first approximation this can be described by saying that the decrease of trade barriers in the North for the South's products has been agreed at Geneva to be only 50% of the same decrease for the North's products.

include a level of the North's good will that is not to be expected to occur under reasonable projections of historical trends. This is one other factor that adds to the First World flavour of these two works. By discussing unlikely alternatives, in which the North appears in a role of benefactor, the attention of the international community is drawn away from other alternatives, which are perhaps more conflicting but also more realistic. An example of this type is the emphasis that both the UN model and RIO give to aid and trade. The aid targets that were proposed in the UN (Sixth and Seventh Special Sessions) a few years ago (1974) have not, of course, been met.²⁵ Even more interesting is the fact that North's aid is still being discussed as a possible solution by North-oriented thinkers, when it is known that aid has decreased significantly during the last 15 years.²⁶

Not only does this emphasis on aid seem misplaced, or unrealistic; it does appear as a (perhaps deliberate) effort to emphasize the need for the growth of the North in order to obtain more growth for the South. It also appears as an effort to prevent a clear-headed appraisal of what realistic alternatives the South must confront in order to obtain a more equal treatment in the world economy and the method it must adopt to achieve the goal.

III. The Bariloche Model

I shall begin this section with a brief description of the structure of the Bariloche model.²⁷

A basic premise of the Bariloche model is that the results of the *Limits to Growth* would not necessarily carry over if there is any degree of rationality or adjustment of economic agents to their environment. Hence, instead of projecting the future as a magnified carbon copy of the present, the model is set to look for alternatives. The model sets for its target the per capita satisfaction of basic needs of the population in real terms. Feasible paths in this model are those that achieve per capita consumption of three goods -

²⁵For instance, point (b) of the recommendations of the UN Sixth and Seventh Special Sessions on transfer of real resources required that 'developed countries should reconfirm their commitment to reach annual transfers of concessional resources amounting to 0.7% of gross national product no later than 1980.'

²⁶In fact, as J. Grant and M. ul Haq mention, the actual 'performance in this sense has been most disappointing: official development assistance from 17 DAC countries has actually declined from 0.52% in 1960 to 0.3% in 1975.' See Tinbergen, *et al.* (f.n. 14), Annex 2.

²⁷Herrera, *et al.* (f.n. 7).

food, housing and education – to reach or exceed certain minimum levels.²⁸ These levels are essential for an individual to effectively participate in society. They are partly economic, partly physical and partly culturally determined, and certain approximate common denominators are given for each of the regions under consideration by the experts of the team.

A separate economic analysis of each of the five regions of the world is carried out. Each is studied with a high degree of independence in order to establish whether each can attain the specified goals, using, in the main, its own resources, and whether it is the development of the underdeveloped world or the continuation of the present trends of growth and consumption in the North that may be considered more responsible for possible environmental disruption and depletion. In the Bariloche work, therefore, the growth of the South is seen to be largely independent of that of the North. This is one main difference with the other two works; and it was therefore to be expected that the implications for basic needs and use of resources in this model would differ from those of the UN and RIO.

The model had an 'adjustment of data' period in which the parameters of the model were calibrated, from 1960 to 1970, and then a 'future, development path' period starting in 1980. From 1980 to 2060, alternative paths of development are simulated.

Predictably, given the initial considerations, basic needs are satisfied in the developed countries in the first years of the run. If the proposed policies are implemented, the general evolution of Latin America would make it possible to fulfil the basic needs of the population around 1990. Regarding food, little extra land needs to be developed but, by and large, land has to be made available without rental cost to the food producers.

Under the proposed policies, Africa satisfies its basic needs but in a longer period of time than Latin America, the target being reached in 2008, in approximately 30 years. The results of the run for Asia are very different from the results for other regions. Because of the initial conditions, basic needs are not satisfied at the desired levels; hence, there may be, in principle, no feasible paths of development for this region under the assumptions of the standard run. The failure to attain satisfaction of basic needs to desired levels is due to a combination of circumstances: the rate of population growth (five-fold increases in 80 years), which is reduced very slowly. Life expectancy at birth improves, but is always below the level of other regions.

²⁸The level of food and education required for satisfaction of basic needs were 3000 calories and 100 grams of protein per person per day and 12 years of basic education between the ages of 7 and 18. Slightly higher levels were fixed for developed countries. For housing, the basic standard unit required was about 20 square meters per person for developed countries, besides transportation and sanitary services.

By 2010, all available land is being cultivated. The rapid increase in the cost of food production, due to the need to develop new land, takes resources away from the rest of the economy, hindering the satisfaction of the other basic needs. In summary, the delay in reaching adequate levels of well-being leads to a sustained high population growth rate, and a vicious cycle develops; increased population and increased cost of food make it more and more difficult to satisfy basic needs.

An alternative run was performed, assuming that Asia imports food or else that it manages to raise agricultural yields to six tons per hectare instead of four as taken in the previous run. Basic needs could then be satisfied.

International solidarity, or aid, was tested in an alternative run, where the developed countries were not restricted in their growth and they allocated up to 2% of their GNP to economic aid without imposing repayment conditions on the more needy regions of Asia and Africa. The distribution of this aid was made proportional to the population and inversely proportional to life expectancy at birth, starting in 1980 with 0.2% of GNP and increasing until it reached 2% in 1990. The results of this run suggest that demographic and socio-economic variables would not be greatly affected in most regions and life expectancy and infant mortality would be only minimally changed in Africa. The greater effects are felt during the first decade of the next century. In Asia, too, demographic indicators are not greatly affected. By 2060, the population in this run is, however, 15% less than in the standard run. Satisfaction of basic needs is attained about 15 years before that in the standard run. Therefore, as opposed to the UN model and the RIO report, the Bariloche work does not view aid as a major contributor to more equality between the North and the South. It also does not view aid as an important solution to the problem of satisfaction of basic needs.

Yet another run studied the relations of satisfaction of basic needs with income distribution. In the underdeveloped countries, the GNP per capita needed to satisfy basic needs in egalitarian conditions is somewhere between three and five times less than that required if current income structures are maintained. Even in capitalist countries, this factor varies between 2.6 for Japan and 4.3 for the most advanced Western European countries. In socialist states, where income distribution is more egalitarian, the factor is lower than two. These conclusions agree with those of the work of Stern on the UN model.²⁹

The results of the Bariloche model can be summarized as follows: The obstacles that currently stand in the way of the underdeveloped countries are not physical or economic in the strict sense, but essentially socio-political.

²⁹Stern (f.n. 2).

In effect, the growth rates by which the desired objectives are achieved are, as was seen in the previous section, those considered normal in the current economic situation. The goals are therefore achieved, not by a very high rate of economic growth, but by a reduction in non-essential consumption, increase in investment on the production of basic goods, elimination of socio-economic barriers (which hinder the optimal use of land, both for food production and for urban planning), and implementation of an active policy to better distribute goods and services and to eliminate deficits in international trade.

The growth rates necessary to achieve these objectives, which can easily be attained without imposing intolerable social sacrifice, contrast with those required to satisfy, in approximately the same period of time, the basic needs within the current income structure, or the same socio-economic organization. In the latter scenario developing countries would be required to attain virtually impossible growth rates of 10-12%.

International transfers of resources or aid from the industrialized countries to the poor countries, even if a much greater level of international aid than that proposed by the United Nations (more than twice) is attained, may help raise the level of well-being at the time of the transfer, but in no way decisively. In the conditions currently prevailing in most developing countries, the effect of aid, unless different policies are implemented, is merely increased spending by privileged sectors, with little effect on the living conditions of the majority of the population. However, the Bariloche work proposes that the rich countries contribute to relieving the long-run pressure on available resources by curtailing their own consumption.

Because of the nature of the Bariloche model, i.e., planning for an alternative world, an element which is not explored in the model is the characteristic of the markets for different goods and services which depend, in turn, on productivity, employment, wages, profits and associated income distributions.

The model concentrates on the physical feasibility of attaining satisfaction of basic needs. Certain policy implications are derived in the model, distributions on the time horizons to attain the goal, or the effect of land distribution on the satisfaction of food and housing needs. However, the goal is attained by simulating planning in the use of resources; the possible market effects on the distribution as well as the composition of the output are not analysed.

In fact, the model concentrates on countries which at present have mixed - partly market, partly planned - economies. A planning approach is adequate for a feasibility study that gives broad guide-lines of development; but for these mixed economies a further study of the present system of production and distribution would shed more light on questions of

socio-economic feasibility of a basic needs strategy. We shall discuss these issues in some detail in the next section.

IV. Conclusion

The recommendations of RIO on specialization of the North and the South in their comparative advantages, and the emphasis of RIO and the UN models on aid and increased trade as a way of bringing about more equalization between North's and South's wealth³⁰ contradict Bariloche's results, which point to aid and trade as not being too helpful in bringing about rapid satisfaction of basic needs. One is therefore led to question the extent to which, and the conditions under which, more equal development of the South is favoured by those policy recommendations, or if it is at all consistent with them. Furthermore, one may question to what extent those recommendations are consistent even within themselves. For example, let us concentrate on the relationship between aid (or transfers) and trade. Significant aid transfers from the North to the South as proposed by the UN model and, to a lesser extent, by RIO are not only historically unrealistic (especially so now in view of the problems facing the economies of the North); they may, even if feasible, not be consistent, in their total effect, with other New International Economic Order goals accepted by both RIO and UN models. I shall discuss this next.

If North-South transfers are of the proportions that they have been so far, their impact is, at best, not significant.³¹ But if their proportions were conceivably increased as dramatically as proposed - for instance, by the UN model - so as to have a significant impact, could we expect that they would have, in general, a positive effect on the South's terms of trade? The answer to this question is: *in general, no*. I am not referring simply to the usual complaints that aid is used by the giver to undermine national resolve, to transfer irrelevant (or worse, dependence-causing) technologies,

³⁰It should be noted, however, that RIO's goals for equality stop at *only narrowing, preferably halving, of the relative income disparity between the developed and underdeveloped countries by the year 2000* (f.n. 15, Appendix 2:3, p. 216). The ratio of wealth is now 13:1; what is envisioned, then, is a 6:1 ratio at best.

³¹See the discussion in Tinbergen, *et al.* (f.n. 14), Appendix, 2, pp. 214-215. The present target (0.7% by 1980 and later 1% of GNP) is yet to be accepted by rich nations. Official development assistance of 17 DAC countries discourages that possibility: it actually declined from 0.52% in 1960 to 0.3% in 1975. In addition, the *terms* of international assistance have helped the Third World to accumulate a financial debt of \$150 billion by 1976, so that annual debt servicing is already taking about one-half of the new 'assistance' they receive.

and to promote the interest of a privileged minority in the recipient country. I am also not referring to the fact that aid is largely wasted, or that it goes to support repressive governments, or that much of it is diverted into bilateral armament deals, though these criticisms of aid may be valid in some or many cases. I am referring, rather, to the economics of market functioning. For instance, aid that results in a significant real transfer of luxury or investment goods (or armaments) from the high income groups in the North to the South may, under certain conditions, turn the terms of trade against the exportables of the South and in favour of the exportables of the North for which increased demand occurs after the 'aid' has been received. This deterioration of the South's terms of trade may be sufficiently high, so that after the transfer takes place the North is actually better off. Because what it transfers is very highly priced in market terms, the North acquires more real wealth with less resources, and the South is strictly worse off in terms of real wealth.³² Negative effects of the terms of trade (in market functioning) when very large transfers among unequal regions take place have been shown to occur in a UNITAR project currently under

³²Interestingly, this effect of trade, in which the donor is strictly better off and the receiver worse off after the transfer, was first studied in a geometric example by Leontief. It has a long history in the economic literature and is referred to as the 'transfer problem'. The issue of terms of trade in transfers was being discussed then because of post-war reparations. The 'orthodox transfer problem' studied, for instance, by Samuelson questioned whether the donor had or had not a so-called 'secondary burden' added to the loss of its initial endowments in the form of deterioration of its terms of trade. This question is meaningful in cases where the economies considered are 'equals', i.e., at similar levels of development. Because, with added initial resources, the receiving economy would be able to out-compete the donor - for instance, by demanding more of the goods of which the donor's demand is mostly composed and thus raising the prices, thereby decreasing the purchasing power and real wealth of the donor. Whether the transfer problem did or did not disclose a 'secondary burden' for the donor might have been important at the time to give less or more legitimacy to the moral imperative of post-war reparations. One can only conjecture as to where Leontief's sympathies were at the time.

However, the position is reversed when 'unequal' economies are considered. The issue then is whether the receiver may not suffer an injury to its terms of trade. Since now the sympathies of an enlightened Northerner would presumably be with the efforts of the North to give legitimacy to its aid policies, it is not altogether surprising that Leontief does not recall his own findings in the context of the *FWE* (f.n. 1) and the NIEO. Here, however, a related result is found (perhaps revealing my own sympathies) through my study of the terms of trade in transfers in the case of two regions at different levels of development. See G. Chichilnisky, 'Terms of Trade and Domestic Distribution: Export Led Growth with Abundant Labor', *Journal of Development Economics* (forthcoming). The transfer problem I examine in my 'Basic Goods, Commodity Transfers and the NIEO', *Journal of Development Economics* (forthcoming) is not the orthodox one of a 'secondary burden' to the donor, but rather, that of a 'primary burden' for the receiver; income distribution domestically is shown to be an important factor in the results.

way.³³ Furthermore, it is shown in the UNITAR work that there is in these cases a trade-off: in order to decrease North-South wealth differentials distribution of wealth within the North would have to worsen.

Therefore, the goal of decreasing overall inequalities may not necessarily be, in general, consistent with aid in the form of real transfers of either basic or non-basic goods which are significant enough to have any effect in North-South wealth differentials. The question then becomes: are there conditions under which aid would be helpful to decrease overall inequalities? Or is it more likely that either the existing conditions preclude the effective use of aid as an overall equalizer, or existing political forces may always be able to manipulate the relevant parameters so as to bring about conditions that would turn aid to the advantage of the giver? Obviously, these issues require case-by-case studies. Such studies must be undertaken before endorsing aid policies. My two works,³⁴ however, give little support to the advocates of aid as a North-South equalizer within the total North-South context. This is consistent with the findings in the Bariloche study (which did not, however, consider market behavior at all).³⁵

³³The UNITAR North-South model is a 2-region, 3-good, 3-factor and 3-income-group model. To simplify the results, I aggregate the model into a 2-region (North and South) world economy with two types of goods: basic consumption goods and luxury or investment goods. As opposed to the UN model (an input-output framework), I consider endogenously explained prices and volume of exchange determined by market behaviour. G. Chichilnisky, 'Terms of Trade' (f.n. 32). In addition, the economy of the North is disaggregated into two income groups: the rich and the poor. In one case I study a transfer of real resources, consisting of luxury or investment goods (or armaments) from the high-income group in the North to the South. This would be an 'ideal' equality-prompting transfer of such goods, since it is the rich, and not the poor, in the North who are assumed to give from their initial resources. Nevertheless, if initially the low-income group in the North and the South as a whole have very little endowments of the goods transferred, the terms of trade are seen to run against the South through the market mechanism so that (1) exports from the South increase and prices for those exports decrease, (2) real consumption in the South decreases, and (3) real consumption in the North increases as a whole. It may be of interest to note that this result was obtained by constructing a general equilibrium exchange model of the world economy, in which both international and domestic markets could be consistent with neoclassical assumptions. A second aid policy of the 'basic needs variety' is then simulated. The high-income group in the North transfers basic consumption goods to the South from its initial endowments. Under the conditions studied, the outcome, through the market adjustments that follow the transfer, is that either the real wealth of the South increases after the transfer of basic goods but the real wealth of the poor in the North decreases, or else the welfare of the South decreases after the transfer of basic goods and North-South welfare differentials increase.

³⁴See f.n. 32.

³⁵Herrera, *et al.* (f.n. 7).

There is another point to emphasize with respect to aid or transfer policies. They direct attention away from more realistic policies and give a false importance to money in the fight against injustice, inequality and mass poverty.³⁶ Such quick-fix schemes tend to be Northern concepts that disregard the sterility of Western-like solutions and turn attention away from indigenous resources within the South.³⁷ Instead of money, people's freedom to work, to use resources such as land and tools for themselves and to satisfy their own needs should be emphasized. One can draw on a body of evidence to show that the approach is feasible (largely but not only from the example of the People's Republic of China).³⁸ The very concept of aid and transfers may dissociate the problem from the possibility of its solution.

So why the insistence on aid? Especially, why is it that the representatives of the enlightend North, as presented in RIO and the UN model, insist on the crucial importance of Western aid?³⁹ This question has in part been answered in my 'Basic Needs...'⁴⁰ The issue here is not only the moral superiority of the North, but also the need to keep present patterns of Northern growth based on inexpensive resources.

The discussion above referred to the possible contradictions between trade and aid policies in the framework of a more equal international economic order. What about trade policies and basic needs development? Can the examples of South Korea and Taiwan be generalized to prescribe export-led development consistent with basic needs policies? Or are the Mexico and Brazil examples of export-led growth with increased inequalities more relevant to the South as a whole? We shall discuss this briefly, using as a basis the results obtained in the UNITAR study.⁴¹ Using data of Brazil

³⁶RIO proposes 10-12 billion \$/year in 1974 prices over the next decade for investment in anti-poverty programmes (f.n. 14, p. 190).

³⁷The recent events in Iran, for instance, fall under this category of Western mistake.

³⁸See P. Streeten, 'Bariloche, RIO and Future of the World Economy Reports: Book Review', *Journal of Development Economics*, 1978.

³⁹While certain representatives of the South (Bariloche) claim that such help is (at best) not very helpful.

⁴⁰See f.n. 12.

⁴¹G. Chichilnisky and S. Cole, 'Growth of the North and Growth of the South with Export Led Policies', Columbia University, 1978 (mimeo); G. Chichilnisky, 'Development Patterns and the International Order', *Journal of International Affairs*, March 1978; also Herrera, *et al.*, *Un Monde Pour Tous* (f.n. 7). A macro model is constructed in my 'Terms of Trade...' (f.n. 32) to explore possible effects of export led growth on the terms of trade and domestic distribution of a developing region. Certain assumptions are made about this region—the South: labor supply is very abundant due, for instance, to high rural-urban migration, or high population growth (these two factors could also be traced to mass poverty and lack of satisfaction of basic needs). The South trades with another region—the North—which has different technologies and elasticities of supply of factors,

and the UK, it is shown in Chichilnisky and Cole⁴² that under conditions of dualism in the production of goods and of very abundant labour supply in the economy of the South, changes in the terms of trade within sectors of the South and of the North, due to increased exports from the South, may bring about a sustained deterioration of the South's terms of trade with the North. This is accompanied by a sustained loss of purchasing power of wages within the South. More growth of the North may increase total volume of exports from the South but reduce total revenues. Therefore, more growth of the North may deteriorate further, rather than improve, the terms of trade for the South, as well as reinforce inequalities within the South, if such an export-led policy is followed. The results of the UNITAR model are related to, but different from, those largely verbal viewpoints on development and North-South relations discussed in dependencia theory.⁴³

The results discussed above raise some serious doubts about the reliance on export-led growth to help bring about equal development in the South, especially when, as proposed in RIO, relative advantages are emphasized. Furthermore, even under conventional thinking it is hard to foresee a fast enough recovery of the Northern economies to make them into good export markets and turn around the tide of protectionism in the North. The recent world trade negotiations in Geneva (April 1979) lend support to this view. The results point to the need for a careful appraisal, through case-by-case studies, of the advantages of increased trade. If the general conditions in which the results of Chichilnisky⁴⁴ and Chichilnisky and Cole⁴⁵ are obtained are satisfied, then increased trade is not, in general, favourable to a more equal international economic order. However, with better distribution within the South (which implies stronger domestic markets), and with such distribution accompanied by lower rates of population growth (for instance, through social security measures, or, in general, more satisfaction of basic needs), the deterioration in terms of trade will not occur. This is, in a sense, the main point: the need for protection, not only of local production (i.e., import substitution, infant industry), but also of local markets within the South, in order to prevent deterioration of its international terms of trade.

In each region two income groups are studied. They are identified by the initial endowments and patterns of consumption of three types of goods: basic consumption goods, luxury goods and investment goods.

⁴²Chichilnisky and Cole (f.n. 41).

⁴³See, for instance, F.H. Cardoso, 'The Consumption of Dependency Theory in the United States', *Latin American Review*, 1977; and G. Palma, 'Dependency: A Formal Theory of Underdevelopment or a Methodology for the Analysis of Concrete Situations of Underdevelopment', *World Development*, July/August 1978.

⁴⁴See G. Chichilnisky, 'Terms of Trade' (f.n. 32).

⁴⁵See f.n. 41

The results also point to the fact that growth of the South cannot be, in general, based on the cheap labour provided by extreme mass poverty. Such inelastic labour supply will, in the long run, seriously deteriorate the terms of trade for the exporter even though in the short run total revenues for exports accruing to a small elite could be increased.

There exists a deep relationship between the North-South trade relations and domestic distribution within the South. The North cannot evade responsibility for the patterns of distribution in the South. The ghost of colonialism, the present neocolonialist practices, and, in general, the existing pattern of North-South trade are related to the inequalities within the South.

The Northern prescription of basic needs policies for the South should be turned into a better trade policy towards the South. As far as the South is concerned, it is within their own economies and resources that solutions to the problems of satisfaction of basic needs may be found; the effectiveness of external solutions is highly questionable.

Finally, I shall discuss the implications of the above analysis for future work.

We learn from both positive and negative information. Both the UN and RIO models, for instance, give insights into basic needs strategies. However, we also get from them some negative findings which suggest that conventional strategies and structures do not work. It is therefore important to highlight what the assumptions are, and sections I and II have done precisely that. I have also tried to emphasize which assumptions are intended (e.g., those that the model attempts to explore) and which are unintended (e.g. those that are derived from the particular methodologies or data conventions).

Getting positive information on basic needs strategies requires that we build models which do more than fail in interesting ways, assuming that we are going to seek information through modelling efforts. Bariloche is the best example of a model designed to deal with basic needs questions, for reasons which are specified in section III even though it stops short of addressing certain important issues.

What seems apparent is that there must be structural changes in the model in order to evaluate the feasibility of policies which themselves entail, or depend upon, structural change. One can even say, in the light of the discussions of the previous sections, that the way the questions are posed within conventional views of economics that originated within the industrial countries may distort significantly the problem, so that those analyses may have a negative effect on the appropriate understanding of the issues – and our ability to deal with them.

As it is only natural that there will be a concurrence between my views

of what kind of modelling should be done and the work I am presently doing, the following will refer, at least in part, to the characteristics of the UNITAR model on which I am engaged.⁴⁶ The results of this model were already mentioned in this paper, in particular with respect to aid and trade policies.

Several features appear to be fundamental for the study of the basic needs questions posed here. One is that the active role of income distribution be considered. As opposed to a purely welfare goal, distribution must be viewed as an important dynamic element determining (and not only being determined by) the outcome of an economic model. For this reason a careful central treatment must be given to this variable. Its treatment as a residual is inadequate and leads to the problems discussed in reference to the UN model.

For example, aggregate demand and supply must be disaggregated into the parts corresponding to different income groups. The effect that changes in these variables produce on the whole economy must be traced. The same should be said for import and export policies, and for prices, wages and productivity. They all need to be studied as they affect and are affected by different income groups. Distorted pictures will arise otherwise. This, of course, drives us immediately to the role of markets where these prices and wages are (at least partly) determined, where the effect of different demand structures is to be felt. Markets should be studied because their behaviour affects us all, and because no realistic policy can succeed without the appropriate feedback from them. In order to change a market-oriented outcome one needs to have a secure understanding of market reactions to policy.

Finally, national markets cannot be viewed in isolation. The 1970s have taught even the most reluctant countries their degree of dependence and interdependence with the rest of the world economy. The feedbacks between national and international market changes must be monitored carefully before a policy proposal is made. It was made very clear by the results discussed above that the present patterns of international trade and the present patterns of income distribution in developing countries are inextricably linked.

Obviously, important parameters disregarded by conventional trade theories, which have centered on the effect of trade between countries of the same type of development (or between industrialized countries), should be included. These are: behaviour of labour markets in Third World countries (such as the abundance of labour studied in Lewis⁴⁷ and in the UNITAR

⁴⁶ The United Nations Institute for Training and Research sponsors at present the project 'Technology Distribution and North-South Relations' that is co-directed by Sam Cole and the author. This discussion of desirable characteristics of a modelling effort was suggested by a referee.

⁴⁷ W.A. Lewis, *Evolution of the International Order* (Princeton University Press, 1977).

model as well); technologies that exhibit significant dualism because of the exposure of a more traditional production system to that of industrial economies and to their markets; the monopolistic-competitive behaviour that has existed in several markets dominated by industrial countries and that now naturally arises in some markets for raw materials, and, finally, the important and very timely variables in the supply, exchange and recycling of energy resources in the North-South context.

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