

## **ABOUT THE ACADEMIC COUNCIL ON THE UNITED NATIONS SYSTEM**

The Academic Council on the United Nations System was founded at a conference held at Dartmouth College on June 26-28, 1987. The Council is an international association of educational and research institutions and individual scholars, teachers, and practitioners and others who are active in the work and study of international organizations. The Council focuses special attention on the programs and agencies of the UN system and other intergovernmental and non-governmental organizations that enhance the capacity of the international community to manage common problems on the global agenda. A major purpose is to support educational and research projects that expand our understanding of the problems of international cooperation and the role of international institutions.

The work of the Council is supported by foundations, member institutions and fees from individual members. This support has enabled the Council to establish working groups on teaching, research and documentation. The Council has its headquarters at the John Sloan Dickey Endowment for International Understanding at Dartmouth College. The Council has also been able to open a liaison office at the Ralph Bunche Institute on the United Nations at the Graduate Center of the City University of New York in order to provide a direct link between members and UN Headquarters in New York.

The Academic Council on the United Nations System

## **CAN THE UNITED NATIONS SYSTEM MEET THE CHALLENGES OF THE WORLD ECONOMY ?**

by

Victor L. Urquidi

The John W. Holmes Memorial Lecture

Reports and Papers  
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## The John W. Holmes Memorial Lecture Series

The Academic Council on the United Nations System inaugurated the John W. Holmes Memorial Lecture Series in 1989 in honor of a founding member of the Council. Mr. Holmes had served on the planning committee for the founding conference of ACUNS and the provisional committee in 1987-88. The talk he prepared for the first ACUNS annual meeting in 1988, *Looking Backwards and Forwards*, was the first publication in the Council's series of Reports and Papers.

John Holmes joined the Canadian Department of External Affairs in 1943 and participated in the planning of the United Nations. He attended the Preparatory Commission in 1945 and the first session of the General Assembly and later served as head of UN Affairs in Ottawa and as Under Secretary of the Department of External Affairs. In 1960, he left public service for a second career in teaching and scholarship, basing himself at the Canadian Institute of International Affairs and the University of Toronto.

Mr. Holmes brought to the Academic Council a lifetime of experience and reflection on international politics and the role of the United Nations. He also brought a marvelous mix of idealism and realism, a mix that showed up clearly in the paper, *Looking Backwards and Forwards*. In the conclusion, he spoke of the need for reexamining the role of the UN in a way that captures the basic purposes of the Academic Council. "It is an ideal time," he said, "to launch in all our countries that renewed examination of past experience of the UN, to discover on what we can build and where not to venture, how we can use the growing threat to the globe itself to create the will for international self-discipline which is what international institutions are all about."

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## CAN THE UNITED NATIONS SYSTEM MEET THE CHALLENGES OF THE WORLD ECONOMY?

### ABOUT THE AUTHOR

Victor L. Urquidi obtained his early training as an economist at the London School of Economics and has pursued a career as a university scholar and as an adviser and researcher in Mexican and international institutions. He was President of El Colegio de Mexico from 1966 to 1985, and has continued as a Research Professor Emeritus. His main interests are: Latin American development, science and technology policy, and environmental issues. He is a member of the Club of Rome, the boards of the Stockholm Environment Institute, the International Institute for Educational Planning, World Resources Institute, the Mexican Academy of Science, the Mexican Science Advisory Board and many other organizations and councils. He is the author of numerous publications in the fields of economic and social development, population, science and technology, environment, and international economic relations. In 1990 he received the first Raul Prebisch Ibero-American Economics Prize awarded by the Government of Spain.

I am much honored to have been asked to deliver the John W. Holmes Memorial Lecture. With John Holmes, I had occasion to participate in the early discussions at Dartmouth College on the founding of ACUNS. From the start, the notion was fully accepted that both Canada and Mexico, given their experience, could contribute to the valuable proposals originating at the Dickey Endowment on the role of academic institutions in enhancing knowledge of the United Nations system and processes. I should also recall that many of us in Mexico had had a number of prior contacts with John Holmes in organizing Mexican-Canadian dialogues on subjects of common interest. With the coming of ACUNS, the US-Canada-Mexico scope of the proposal was extended to include institutions and scholars from other areas and countries so that gradually a multinational cooperative effort has evolved. It is thus quite fitting that the Council should hold this meeting in Mexico.

I must begin by acknowledging that I am conscious of my less than full participation in the activities of the Council at present and of my clearly less than adequate knowledge and, consequently, my limited capability to discuss United Nations affairs, especially now that the UN has become more active in vital issues such as the settlement of regional conflicts and the establishment of standards for the protection of the environment. I



have learned a great deal from the admirable documents prepared for our Academic Council by Johann Kaufmann and Nico Schrijver and from the previous Holmes Memorial lectures by J. Alan Beesley and Leon Gordenker and, of course, from the initial lecture by John Holmes himself, read to us in New York by John E. Trent in 1988. But I am sure you will find important gaps and errors in my knowledge, for which I offer apologies in advance. On the other hand, as with many others, experience may to some extent have its advantages. On that basis, I should like to share some thoughts with you on the role that the United Nations system has played and could play more fully in dealing with the challenges that the future world economy may pose for international cooperation and for the system itself.

Although international economic cooperation had taken place before the Second World War under the aegis of the League of Nations -- and no one should forget the valuable analytical studies carried out at the time by its small technical secretariat -- the magnitude and nature of the changes that began to be outlined as the war progressed made it necessary, with a view to the future, to envisage what was later to be designated (in a different context) a "new international economic order." From the Atlantic Charter to Dumbarton Oaks and San Francisco there was much debate and "agendas" for the postwar world proliferated. As distinct from the postwar period of the 1920s, in 1944 and 1945, there was no inclination to return to the old "order" (which was lucidly analyzed and explained some years ago by our dear friend Arthur Lewis, recently deceased). The decade of the 1930s, in particular, had been one of depression and trade restrictions, tariff wars and non-cooperation, of holding on to structures and policies that did not work. Actually, the concept of "world economic development" and the concern for

particular regional aspects of development, such as in Latin America, began to be advanced even before the Atlantic Charter.

Nevertheless, as John Holmes himself reminded us in 1988, once the allied leaders had to define postwar policies, they were not quite clear in their minds, were even naïve, about the economic aspects of world cooperation. As early as 1943, an important step forward had been taken by John Maynard Keynes, quite logically in view of his experience at Versailles and with the German reparations problem. At the same time, plans and proposals were developed in the U. S. Treasury and among Canadian and French experts, to deal with the monetary stability and international financing in the postwar period. Other proposals on food and agriculture also began to take shape and the old ILO was still alive, at least through a small secretariat. Indeed when the UN Charter was adopted at San Francisco, with the inclusion -- almost as an afterthought -- of provisions, in Article 7 and more generally in Chapter X, for an Economic and Social Council, basic policies laid out by the major powers were already being implemented. It is true that Article 55 spelled out lofty objectives: the raising of living standards, employment for all, solution of international economic and social problems, cooperation in the cultural and educational spheres, and respect for human rights. But actual programs and operations were initially started up elsewhere.

In practice, the World Bank and the International Monetary Fund, under their own articles of agreement adopted at Bretton Woods in 1944, began implementation of the policies advocated by the major powers from the start of operations in 1946. And other specialized agencies were operating before the ECOSOC was completely organized. The United States, at the same time, had to deal on its own with European recovery



through the Marshall Plan, while advising other regions, such as Latin America, that main reliance should be put on free trade and private foreign investments. This was clearly the message of U.S. representatives at the Chapultepec Inter-American Economic and Financial Conference of 1945 and at the Organization of American States conference of 1948 at Bogotá. The essential issues of trade liberalization were made the responsibility of a provisional special agency, the GATT, which many developing countries did not join at the time.

Thus, looking back, it was clear from the start that the major economic and financial concerns in the post-war period were to remain distant from the influence of the United Nations and its major organs, given the relative independence and strong support for the Bank and Fund and the special status of GATT. The ECOSOC did, however, set up machinery for regional cooperation in Europe, Asia and Latin America and as the concept of technical assistance developed in the UN system, the Council became increasingly concerned with development issues.

We should remember that the 1950s, especially as the European economy recovered and developed, were a time of general economic expansion, contrary to certain pessimistic forecasts. It was perhaps not until the 1958 recession, in my recollection, that some doubts began to arise. At the July session of ECOSOC that year, which I attended as a member of the Mexican delegation, we attempted to draw the UN secretariat, through its very competent Economic Department, into a more active role in monitoring the current and prospective world economic situation. Our proposal met with fierce resistance from the secretariat itself, and only resulted in the publication of some statistical tables and charts that were soon discontinued on financial-

administrative grounds. By then, many felt that the IMF quite adequately filled that function, and the World Bank had begun to increase its lending activities significantly to the developing world. That many important aspects of the international economy were never properly attended to within the existing framework is evidenced by the later creation of supplementary financial funds, on the one hand, and, on the other, by the establishment of UNCTAD in the early 1960s, with responsibility in matters of commodity price stabilization, trade promotion, development policies, and so forth. The 1960s were still a decade of expansion, and some of the recommendations of UNCTAD made their mark.

In my view, the definitive break, with consequent decline of the influence of the UN system on the world economy, came with the OPEC-led oil shock of 1973. No organization or agency was prepared to deal with the instability that this event brought to world trade and financial relations. On the financial side, the recycling of petrodollars through the commercial banks of the major industrialized countries made a shambles of the lending policies of the World Bank and its affiliates and opened both lenders and borrowers to enormous, unsupervised, risk-taking operations. The IMF also remained in the wings, unable to influence the domestic policies of borrowers and impotent to deal with the policies of the lending countries. The oil boom disrupted world trade, and led to high expectations for the net exporters and to insufficient warnings for the net oil importers. Both exporters and importers of oil borrowed petrodollars rather freely. The final 1979 oil shock and its immediate consequences were really the forerunners of the great world financial and trade crisis of the 1980s from which most developing countries have not yet emerged.



During all this period, the UN system entertained itself with the Development Decades and the notion of the New International Economic Order (NIEO), which was not supported by the industrialized countries. In addition, some targets that had been accepted for international development assistance, notably the 0.7% of GDP transfer, were not met and enormous disenchantment set in concerning the development efforts of the less favored countries. Many great opportunities were missed. An example was the failure of the Vienna Conference of 1979 to deal with the transfer of science and technology through international cooperation. On the positive side, only some results of the 1972 Stockholm Conference on Environment and of the 1974 Bucharest Conference on Population can be chalked up as having been beneficial.

The oil shocks of the 1970s, besides putting some of the industrialized countries into disarray, led to a clear weakening of the resolve of the developing countries to concentrate on their development issues. A few net oil exporters believed they could attain instant industrialization no matter what the cost, and their interests began to differ significantly from those of the net oil importers that had to seek short-term loans to pay for oil and keep their economies going. Solidarity and cooperation among developing countries tended to decline and did not revive later when the external debt problem of the 1980s plunged most of them into long-term recession and a suspension of domestic and foreign investments for development. The few who were spared, notably in Southeast Asia, looked out for their own interests and, incidentally, did extremely well for themselves.

The UN system has been unable, despite certain well-known resolutions of the General Assembly in the past few years, to deal with the problem of external in-

debtedness and its implications for the over-indebted countries in the developing world and for the creditor countries themselves. The external debt burden cannot, unfortunately, be dealt with by mere rhetoric and exhortations. Even the independent agencies of the UN system, the World Bank and the IMF, largely missed the boat since they did not have enough leverage with the creditor countries to influence their policies or to obtain timely replenishments of capital funds. But, worse still, the Group of Seven (G-7) has not come to grips with the external debt burden problem of the developing countries.

The essence of the problem, so clearly foreseen by Keynes at the time of German reparations in the early 1920s, is that for debt to be repaid -- and, one should add today, for high interest payments to be transferred -- to the creditors, the debtors must develop a sufficiently large export surplus. The extent of this necessary surplus has been, of course, constrained by many factors, among them the restrictive trade policies of the creditor countries themselves, and the collapse of world markets for basic products. To the extent that debt rescheduling enabled some countries to postpone payments of capital, the remaining burden of paying interest out of limited or shrinking export proceeds was still a no-win situation for both parties. Many countries went into default, which made them ineligible for new loans or other forms of financial assistance. Others kept on meeting their interest payments at the expense of growth and development. What came to be termed the "reverse transfer", that is, the net out-transfer of financial resources from the developing to the industrialized countries, was the equivalent of reparations payments as if a war had been lost. In fact, the war on poverty, the great struggle for development, had to be given up. And the more the debtor countries went into adjustment processes -- judged in any event



to be necessary, but not supported sufficiently by international financial assistance — the less capable they were to generate the necessary export surplus out of which to meet the debt service burden. Or, alternatively, and partly related to adjustment, they had to cut needed imports to generate the trade surplus—the equivalent of shooting themselves in the foot, since imports are necessary for development.

Some of the official debts of the lesser developed countries were scaled down under the Club of Paris procedures, but it was only in 1988 that the so-called Brady Initiative offered the possibility of some cancellation of debt due to commercial banks and some lowering of interest payments. A few countries, mostly in Latin America, have benefited from this U.S.-inspired opening, with IMF and World Bank support, but, as was stated by a U.S. Treasury official in March 1990, that is all there is for the moment. The African region, except for one country, has not been offered any substantial debt relief even in the face of the otherwise depressing effects of world trade and other blows to their economies. Nothing of the order of the debt forgiveness that Poland has obtained has been achieved by any developing country.

Briefly, there has been no effective overall approach to the external debt problem through the UN system, even broadly defined to include the IMF and the World Bank. Additionally, many of the UN agencies and programs have been weakened in their capacity to deal with the long-established cooperation objectives, whether in food and agriculture, education, health, industry, trade, population or other areas.

Some of the agencies now stress the alleviation of poverty, which seems to capture the imagination of policy makers and perhaps public opinion, but in the

same breath little is said about the basics of development through which inequality and poverty are supposed to have originated and should be resolved. There should be no confusion: it is one thing to alleviate extreme poverty, however defined; it is quite another to resume development in the sense of investment in human and physical resources to generate additional real income and raise productivity and regular employment. In the new approaches to the world economy, the emphasis among the policy-makers in the North, including the World Bank and the IMF, seems to be on growth but not on development. Growth is seen as mere increments in output, which of course is needed. But development involves much more, especially in the educational and social field and in long-term strategies for the utilization of real resources and environmental enhancement, now subsumed under the term "sustainable development". In the case of human resources, there is an inherent contradiction in the emphasis on their development while two major industrialized countries have quit [and thus fail to contribute to] the specialized agency of the UN system created for promoting education.

As has rightly been pointed out, there are now new areas for multilateral cooperation, notably on environmental matters which, if not dealt with, constitute a threat to human existence. The whole of the multilateral, and even the bilateral, environmental cooperation effort is still too limited, and full participation by the developing countries involves a high cost to them. Some of the industrialized countries do not set a good enough example in environmental behavior, in energy consumption and related aspects, to justify their pressure on the developing countries to develop environmental programs. No doubt the UN conference in Brazil in 1992 will set certain guidelines and mechanisms, but there does not seem to be enough solidarity and



commitment on the part of the major industrial countries. Whether the agencies of the UN system agencies can do something about this remains to be seen.

It has also been emphasized that increasing participation by non-governmental organizations, at the national, regional and international levels, will be indispensable to back up many of the necessary actions in the environmental field, and in others. The UN system does not reach out sufficiently to the NGOs, and I would quickly add that NGO statements and representation at UN meetings are frequently inadequate, not to say ineffective. But UN decision-making is basically in the hands of official representatives who do not take sufficient account, even in fully democratic systems, of the opinion and expertise of the NGOs. This should also be one of the challenges for the future of the UN system.

On the whole, and in contrast to many analysts, I remain rather skeptical about the ability and usefulness of the UN system, as we now know it, to deal with the global economic issues, and perhaps much money could be saved by merely scaling down the bureaucracies and the vast amounts of papers and publications that emerge from them. Rather than revamping ECOSOC, or reorganizing here and there, I would like to see the UN set up a series of high level commissions with participation of independent experts to deal with the major problems. Their conclusions and recommendations should then be discussed directly with the major policy-making governments, including leading developing countries, not just the G-7 or the so-called Group of 15. In a global view, most major problems are interrelated, so that it would be necessary, under UN auspices, to consider them as a whole at a high level of policy responsibility. For each particular problem, the countries that participate might have to be different,

but the overall view should involve all major responsible countries, with regional representation where appropriate. Certain precedents should be fully taken account of, such as the Brandt and the Brundtland Commissions, but it should be remembered that the preparation of these reports has been a long drawn-out affair in each case. The outlook today requires the assembling of existing knowledge and the formulation of recommendations in a fairly short period.

During the quest for a NIEO, the confrontation was North—South with the centrally-planned countries looking in from the sidelines. The countries of the East are now in complete transition, trying to find their way out of the deep structural crisis in which they have become bogged down and seeking cooperation from the West. If there is no longer an East-West confrontation, why should there still be a North-South confrontation? On the one hand, the North cannot isolate itself from the South on which it relies for many important basic products and cheap labor; moreover, it looks to the South as a substantial market. But the South is no longer the solid, largely non-aligned group but a conglomerate of countries at different levels of development and with varying development capacities. It is true that possibilities for South-South cooperation exist, but not on the scale envisaged by organizations such as the South Commission. The more advanced developing countries should be able to integrate more rapidly into the world economy by means of manufactured exports and closer financial interactions and to assimilate capital and technology from private sources. The least developed countries, however, continue to need substantial financial aid and technical assistance.

It would seem that the future lies in all points of the compass, depending on the stage of development of the countries concerned, their traditional affiliations



and approximations to certain markets, their regional economic and political affinities and their cultural ties. It would be a mistake to set up closed regional economic blocs, but the immediate advantages of exploiting regional possibilities should not be set aside.

These are some of the issues in which, because of their very nature, one would like to see the UN system become more active and effective, where one would like to see multilateral approaches and action counteract the sometimes heavy bilateral influences. As an outside observer, I find that the mere fiddling with changes in the UN structure and procedures will not be enough. When I hear speakers from the developing countries repeating the same old rhetoric of the past and putting excessive reliance on the value of this or that resolution of the General Assembly, I become extremely discouraged. But I do not see any alternative to the United Nations and its system, with all its faults. A so-called "new international order" will have to run through the gamut of the UN system or it will not be accepted.

The mere force of potentially catastrophic events, in the economic and the environmental spheres as much as in the social areas, will probably lead in that direction. One need not "hope for the worst", however. Sufficient knowledge is now available to enable leaders and organizations to deal seriously with the issues, their long-term implications, and the possible approaches to improvement, on a global scale as well as at the regional level. This is the major challenge facing all nations.

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