

Ideological Backgrounds for International Institutions

Opening Address to the CSI Symposium 2007

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I Introduction:

In a previous paper I proposed ten topics for the study of international institutions [Chen, 2003]. One of them concerns with the ideological backgrounds for international institutions. In this opening speech I will briefly present the role of ideological backgrounds in the development of international institutions and global governance.

II Interventionism, Keynesian Revolution, UN and UNCTAD:

In the five decades from 1930 to 1980 unemployment, depression, high volatility of the world market prices for commodities and exchange rate had been the main concerns of the economists. These problems are sometimes classified to market failures. Keynes proposed a theory. He argued that the insufficient effective private demand is responsible for depression and unemployment. Under effective demand he means the consumption and investment of private agents in an economy. Public spending is believed to be an effective policy measure for the macroeconomic stabilization. His theory and

policy recommendation based on deficit public spending is called by Lawrence Klein as Keynesian revolution.

To stabilize exchange rates Keynes proposed a system of fixed exchange rates which had been initiated by the IMF, an international institution set up at the Bretton Woods conference for the international economic order after the World War 2.

Besides the problems of the industrialized economies the under developed world has been confronted with shortage of capital, difficulty to access international capital market to find middle for financing economic development, the high volatile price of commodities and the long run deterioration of terms of trade against the developing countries.

The World Bank has been set up to provide low interest rate development credit for the under developed world. In addition a commitment of an official development aid with a target of 0.7% of GDP has been agreed by the industrialized world.

The UN and the UNCTAD were mainly engaged in stabilizing the world market prices of commodities within a reasonable long term trend of terms of trade between commodities and manufactured products. 1976 a so called new international economic order was initiated by the UNCTAD. Buffer stock measure had been triggered for stabilization of commodity prices.

During this period the UN and the UNCTAD based on the so called Keynesian Consensus were mainly engaged to rule the global economic problems caused by market failure.

III Market Fundamentalism, Washington Consensus, IMF and WB

The collapse of the fix exchange rate system 1971 and the stagflation, a combination of stagnation and inflation of the industrialized market economies in the Nineteen Sixties and Seventies resulted by the successive deficit public spending.

The target of the official development aid has never been achieved. Nevertheless, the development aid has not fulfilled the desired results to enforce development in the under developed world.

The excessive deficit budget of several sovereign debtors in several under developed countries caused severe debt crisis and threaten to be a crisis of international financial system in the Nineteen Eighties.

The integrated programme on commodities based on buffer stock measure triggered by the UNCTAD 1976 was not able to stabilize the world market prices of commodities. The long run deterioration of terms of trade against under developed countries has not been changed in favour of the developing world. The official development aids have not fulfilled its aims to support the under developed world.

The IMF and the World Bank, both the so called Bretton Woods institutions with location in Washington, proposed a package of policy measures which is called as Washington Consensus.

With privatization, deregulation, liberalization and macroeconomic observance as its main content, the Consensus has aimed to solve the problems caused by excessive Keynesian deficit public spending and intervention policy.

Private activities such as FDI, instead of official development aids, have been considered as an important source for supporting economic development of under developed world.

Due to triggering liberalization of cross border economic activities (such as trade, FDI, financial transactions, etc) and technological progress in information, communication and transportation technology globalization has been a main phenomenon of the world development in the Nineteen Eighties. Diverse financial crises with severe international contagion effects have occurred in several countries which had liberalized international financial activities without to have provided a sound financial infrastructure.

More than a decade since its implementation the Washington Consensus obviously has not produced its desired result in the African countries, especially in the Sub Saharan region. Poor institutions and bad governance on the one side or not deep enough of implementing the Consensus have been usually given as reasons for not producing the desired results of development performance in the African developing countries.

IV Big Push Universalism, the Millennium Project and the UN:

The Millennium Assembly of the UN took place in September 2000 in New York and triggered the MDG project with the eight goals and eighteen targets to achieve sustainable development for world's poorest people. The project proposes an approach for the world's poorest countries to comprehensively and simultaneously increase in public investments, capacity building, domestic resource mobilization, and remember the official development assistance on the one side. The project also provides a framework for strengthening governance, promoting human rights, engaging civil society, and promoting the private sector on the other side.

The UN offered a reform project the MDG led by Jeffrey Sachs.

Based on a theoretical model with multilateral equilibrium a under developed country may stuck in a low level equilibrium trap, or poverty trap. A "big push", a simultaneous effort to overcome all bottle necks, is believed to be needed to get out of the poverty trap. This has been a much disputed topic in the development economics in the Sixties. For carrying out a big push policy official development assistance is needed. The MDG reminded the long held 0.7 % official development aids commitments of the international community.

The MDG set a time 2015 to achieve the goals. But the reality shows that from the development of last years since its initiating it has not made much progress. It looks like that the project has entered in a step of marking time and has not moved ahead.

V Concluding Remarks:

The Keynesian Consensus, the Washington Consensus and the Millennium Development Goals have proposed different packages of measures to solve economic problems both in the industrialized as well as in the developing countries. They provide different policy measures which are based on different ideological backgrounds. They have produced desired results in some countries but not everywhere. Both theoretical and empirical studies in economics have tried to find

out the reasons for producing or not the desired results of the diverse packages of policy measures proposed there. In spite of their very different policy measures recommend all three main guide lines of economic development have a character in common. This may be the reason why they have not produced their desired results everywhere. They all have provided a universal policy package without to consider different institutions, different cultural backgrounds, different level of economic development, etc. in different countries.

Economists have to learn the wisdom that

“There is no universal general model guilty for every country”; and “there is no unique universal policy set to produce miracle results for all countries.”

VI Content of the Symposium

This symposium aims to represent the role of ethic and ideological backgrounds for international institutions.

Immediately after my opening address Prof. Shumann will present a paper on “Economics of Religion: What the Original Source Say? Schumann probably will focus the Christ and Moslem religion in his paper.

The influence of Confucius in his cultural circle is comparable with religion in the European country. But Confucius is not a religion.

The Confucian books are written in Chinese classic. This is not only a barrier for scholars of other languages but also for young people in the circle of the Confucian culture to access the original source of Confucius.

My paper is not only a complement to the presentation of Prof. Schumann but also provides basic ideas for my paper on “the ideological paradigm change in China” in following of the presentation of Prof. Frohn on the process of economic transition of the PRC in the afternoon session of this symposium.

Teshom Aduga, a Doctorate student of University of Innsbruck from Ethiopia, will present a paper on Millennium Development Goals in Ethiopia.

Prof. Frohn founded and taught at MBA programs in Peking and Shanghai for long time. His first stay in China was about the begin of the economic transition. He has got an insider look at the process of economic transition in PRC.

As a complement to his presentation I will try to show the role of the ideological paradigm change in the economic transition and in the attitude of PRC with respect to international institutions.

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