

Structural Adjustments in the North in order to promote Development in the South

*Study by the Group of Experts on
“World Economy and Social Ethics”*

Presented by Franz Furger

*Published by the
German Bishops' Conference
Research Group on the
Universal Tasks of the Church*

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Structural Adjustments in the North in order to promote Development in the South. A study by the Group of Experts "World Economy and Social Ethics". Presented by Franz Furger. Published by the German Bishops' Conference Research Group on the Universal Tasks of the Church.

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Tel. 0228/103-288, Fax. 0228/103-335

Notes on the publisher and on the authors

The publisher

The **Research Group on the Universal Tasks of the Church** was appointed by the Commission for the Universal Tasks of the Church of the German Bishops' Conference. It consists of scholars from various disciplines who study problems related to the global responsibilities of the Church in Germany.

The authors

The **Group of Experts on "World Economy and Social Ethics"** is a specialized section of the Research Group. It was formed in 1989 to advise institutions of the Catholic Church on aspects of global economic development. The members were therefore chosen with a view to securing an appropriate blend of economic and socio-ethical expertise.

Members of the Group

1. Dr **Franz Furger**, Professor of Christian Social Sciences in the University of Münster (Chairman).
2. Dr **Paul Becher**, President of the European Forum of the National Committees of Laymen.
3. Dr **Georg Cremer**, Lecturer at the University of Freiburg and associate of the Deutscher Caritasverband, Freiburg.
4. Dr **Bernhard Fraling**, Professor of Moral Theology in the University of Würzburg and Chairman of the Research Group on the Universal Tasks of the Church.
5. Dr **Hans-Rimbert Hemmer**, Professor of Economics and Developing Country Research in the University of Giessen.
6. Dr **Paul Kevenhörster**, Professor of Political Science in the University of Münster.

7. Dr **Norbert Kloten**, Emeritus Professor of Economics in the University of Tübingen, former President of the Landeszentralbank Baden-Württemberg.
8. Dr **Ulrich Koch**, former Executive Secretary of the episcopal relief organization Misereor, Aachen.
9. Dr **Herbert Kötter**, Emeritus Professor of Rural and Economic Sociology in the University of Bonn.
10. Dr **Gerhard Kruip**, Director of the Catholic Academy for Youth, Altenberg.
11. **Hans Peter Merz**, Executive Director of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Eschborn.
12. Dr **Hans Karl Schneider**, Emeritus Professor of Economics in the University of Cologne and former Chairman of the Federal Government's Committee of Experts on the Economy.
13. Dr **Alfred Schüller**, Professor of Economics in the University of Marburg.
14. Dr **Joachim Wiemeyer**, Professor of Social Policy in the Catholic Polytechnic of Northern Germany, Osnabrück.

Research Assistant: **Norbert Schmeiser**, Dipl. Theol.

Foreword

The mass poverty prevalent in many countries of the "Third World" persists. On the one hand there have been outstanding examples of economic and social progress in parts of southern Asia and signs of recovery in some regions of Latin America, but these are offset by economic stagnation and the continuing destitution of large sections of the population in other parts of the world. If poverty is to be reduced and eliminated drastic reform programmes will have to be launched in the countries affected. The Group of Experts on "World Economy and Social Ethics", among others, has explained in various studies what changes in the economic, social and political system are necessary in many developing countries to give the poor and disadvantaged, people who, in their fight for survival, often demonstrate remarkable energy and vitality, real opportunities to effectively develop their own capabilities.

But that is only one side of the coin. We in the rich countries should not content ourselves with urging reforms elsewhere. That would appear all too obviously as the "ideology" of the Haves. Particularly those working to ensure justice, above all our partner churches in the southern hemisphere, rightly ask: Is the northern part of the One World prepared to play its part in overcoming living conditions that are unworthy of the human race? How much does the notion of the unity of humankind with all having the same dignity and rights mean to us if it is not only to be enshrined in solemn resolutions but will actually cost us something? Particularly Christians, who believe in God as the father of all human beings, must really feel ill at ease on hearing such questions.

This study therefore looks at the contributions which the industrial countries can be expected to make for the sake of the poor in the "Third World". It is not concerned with development assistance in the narrower sense, indispensable as this will continue to be, but with changing the North's economic "structures" where they have a negative impact on the opportunities available to poor countries. The group examines politico-economic strategies of the industrial countries which are designed to preserve their own "property rights" without consideration for the rights of their economic rivals in the continents of the South. Reforms are called for to ensure that the poor countries are not denied fair opportunities in an increasingly integrated world economy, and that they are no longer expected to suffer

losses as a result of dubious practices which are many times greater than the amounts of development assistance they receive.

Let there be no illusions. Structural adjustments of this kind will place burdens on no small numbers of people in the northern hemisphere which in some cases may be very painful. The fact that the necessary measures will, at least in the longer term, be conducive to our own economic well-being is little consolation for those working in troubled branches of the economy whose jobs and incomes are at stake. The burdens will therefore have to be distributed fairly and not heaped upon particular sections of society. Where regulations protecting certain problem branches have to be stripped away steps will have to be taken to soften the impact of social hardship, and government policies will have to be introduced which open up new economic prospects for the people and regions affected.

I wish to thank the Group of Experts on "World Economy and Social Ethics" for stimulating with their new study the necessary debate on these issues, in the Church, in the society, and in politics. It is a debate on our responsibility in the One World.

Bishop Leo Schwarz

Chairman of the German Bishops' Conference Subcommittee for Research on the Universal Tasks of the Church

Structural Change in the North in order to promote Development in the South

Introduction

In response to the international debt crisis the World Bank and the IMF have worked out structural adjustment programmes with a number of heavily indebted developing countries. By contrast, little is said about "structural adjustment" in the industrial countries as a consequence of the challenges associated with "Third World" development. Indeed, one rather gains the impression that they are opposed to even the slightest structural change, whereas the developing countries are expected to undertake far more drastic adjustments as a matter of course.

But in an increasingly interdependent world with modern communications and transport networks, rapidly expanding flows of goods and capital and growing human mobility (tourists, businessmen, refugees, emigrants) no country is today isolated from others; no country can dissociate itself from new developments or global interrelationships.

Moreover, there is increasing pressure the world over to preserve such vital assets to mankind as air, water and climate. At the 1992 UN Conference on Environment and Development in Rio de Janeiro, participants discussed the implications of the global threat to the environment for every country. They were unable to adopt any binding decisions, however.

But also requiring urgent attention like the global ecological challenges¹ are the extreme economic and social imbalances between the highly devel-

¹ "Global and ecological aspects of economic activity". Deliberations on the conservation of natural resources and environmental protection. The Study by the Group of Experts on "World Economy and Social Ethics", presented by Franz Furger and Joachim Wiemeyer. Published by the German Bishops' Conference Research Group on the Universal Tasks of the Church, Bonn, 1994.

oped industrial countries² and the developing countries³. Human justice, but above all the Christian insistence that we see to the needs of the poor in particular, require us to examine the causes of these problems and help find solutions.

How can mankind achieve "sustainable development" in such a way that they are able to meet the needs of the present generation without jeopardizing the prospects and hopes of future generations?

How should we modify our way of life and our values in order that the living conditions in Third World countries can be comprehensively improved?⁴

The main emphasis is on the second question. Necessary structural changes in the developing countries themselves are only addressed to the extent that they have some bearing on the adjustments that need to be made in the industrial countries.

The study's purpose is to indicate what structural adjustments are required in the industrial countries, including, of course, the Federal Republic of Germany, in order to give developing countries the chance to achieve sustainable development.

What we have to show is why the decision in favour of a market economy system presupposes necessarily structural change. However powerful interest groups not infrequently manage in the political process to have their own branches of production exempted from market economy rules. What thus

² For the purposes of this study, highly developed industrial countries or "western" industrial countries are the member states of the OECD, viz.: Australia, Belgium, Denmark, Germany, Finland, France, Greece, Great Britain, Ireland, Iceland, Japan, Canada, Luxembourg, New Zealand, the Netherlands, Norway, Austria, Portugal, Sweden, Switzerland, Spain, Turkey and the United States.

³ The authors are aware of the problem attaching to the terms "developing country" and "Third World". The assumed but not actually existing homogeneity of the countries subsumed under these expressions as well as their discriminatory meaning cast doubt on their use. However, as no better terminology has emerged it was decided to retain the familiar terms. The authors, like the German Government, go by the list of countries of the Development Assistance Committee.

⁴ The exceptional challenges entailed in the transformation process in Eastern Europe have been left out of consideration, although the authors assume that the remedies they propose could also help improve the situation in that part of the world as well.

amounts to a rejection of structural change is not only harmful in the long term to their own population but also impedes economic and social development in the Third World in that it narrows their scope for exports. And where such rejection results in the continuation of economic processes which irresponsibly exploit nature and cause damage to the global climate it at the same time detracts from the common assets of mankind as a whole.

From the point of view of Christian social ethics, therefore, the unwillingness to show consideration for the world's disadvantaged people and the needs of future generations is a grave violation of the principle of universal justice. The aim of this study is to analyze the facts and encourage the wealthier nations to change their production and consumption patterns in order to meet global ecological challenges and hence the needs of the developing countries.

Time and again in this process it will be seen that fairness towards the "poor" based on the principles of Christian humanity, that is to say, those less able to assert their interests in competition with the more powerful nations, the developing countries, will in the long run benefit the powerful ones, the industrial countries, as well. From the point of view of Christian ethics this is a consequence of action that is consistent with Creation. The true motive, however, is not this utilitarian self-interest but solely justice, seen in this context as the constant endeavour to secure equality of opportunity for really every person, but especially the weak.

The first chapter focuses on this responsibility of the highly developed nations. It will show in particular that they will have to open their markets wider to products from developing countries if the people of those countries are to do more to help themselves. In a market economy with social safeguards it ought to be possible to make such openings and carry out the necessary internal structural adjustments. The actual difficulties this process entails become apparent when we examine in greater detail those branches of the economy which, because of import barriers, greatly diminish the export prospects of the developing countries. The second and third chapters therefore underscore the consequences of such protective action for the industrial and developing countries. This leads to strategies for liberalizing world trade and improving its terms of exchange and thus the prospects of reducing poverty.

A fourth chapter covers measures relating to capital movements and exchange rates as well as monetary and fiscal policy which can effectively support the aim of lifting the barriers to trade.

Increasing importance attaches not only to the question of market access for goods and services from the Third World but also to environmental cooperation. This is the subject of the fifth chapter. The sixth and final chapter summarizes the conclusions of the study as a whole.

I. Development and structural adjustments – an economic and socio-ethical dictate of reason

The economic, ecological and social situation of the developing countries cannot be significantly improved unless the decision-makers in those countries allow the people greater scope for worthwhile efforts to help themselves. Outside assistance can be no substitute for this. Hence material progress depends on the development of human skills, habits and social institutions.

A society's socio-economic development can be understood as the manifestation of their desire to diminish the shortage of material and immaterial resources to the greatest possible extent. Humankind has at all times sought, and found, new ways and means of economizing on scarce resources used in the manufacture of goods, of using more efficient production methods in order better to meet consumer demand in terms of quality and quantity, and at the right time. Especially the liberal reforms of the 18th and 19th centuries led to the speedy development of productive forces through a broader and more intensive division of labour which went hand in hand with progressive specialization, from the individual to the international level. As a result, ever better use was made of human skills and of the individual's innovative capabilities.

If the growing national and international division of labour is to produce satisfactory incomes there must be unimpeded exchange as well. Only through free trade is it possible to obtain from others the goods and services which we need but which, because of our own specialization, we can no longer manufacture ourselves, in exchange for our own goods and services.

Furthermore, it is necessary in every national economy that is based on a division of labour to decide what, where, when, how, with what means and by and for whom goods are to be produced. In market economies it is the price determined by supply and demand as well as the interest rate which give a true indication of shortage. With the aid of the pricing system scarce goods are geared to consumer demand. Thus the main function of the price mechanism is to provide information and control production.

Accordingly, the efficiency of the market economy lies in its ability to respond flexibly to changing shortages of goods and factors and in this way

ensure efficient use of resources. This economic system reacts to the scarcity or increase in the price of a production factor by re-allocation of resources and producing substitutes, thus keeps the economic process constantly in motion. Companies exposed to this market dynamism are continually changing their plans and making more productive use of their factors in order to provide new and better products.

Adjustment and flexibility are crucial not only for a social system's general ability to survive but also for the development potential of its various elements. In order to preserve the basis for its existence that system must adapt to its environment, that is to say, to its natural resources and its capacity to absorb pollution, in other words it must be able to respond to environmental pollution and destruction.

If the goals of economic policy are economic efficiency and high growth rates, the structural changes necessary to achieve them, despite opinions to the contrary, can still best be brought about by maintaining and promoting a system of workable competition. This ensures that, because of the existence of real and potential competitors, opportunities for cost reduction are actually used and production factors efficiently applied. And because of the chance to profit from innovation, it offers incentives to develop new and better products and tap new markets and at the same time to introduce more efficient production techniques. Finally, competition ensures the speedy reduction of excess demand or of an oversupply of goods and factors, with the result that manufacturers only produce the goods customers actually want.

Experience shows that the strongest competition is to be found in an open economy. Competition from abroad forces domestic producers to adapt to international prices, demand and quality standards. Moreover, the relatively large number of actual and potential rivals makes price and quantity-fixing difficult. That is why the productivity of firms exposed to international competition is above average. Open markets grow faster in such conditions than those which do not exploit the advantages of an international division of labour. Because they allocate resources more efficiently they promote world economic growth.

Applying this lesson learned by the industrial countries in the 19th century to the present situation of the developing countries, they can, within the scope of a long-term development strategy to integrate them into the world economy, benefit from the welfare and growth effects of free trade and, by dint of their own efforts, follow a process of continuous, gradual but also

sustainable growth. But poverty will only be reduced if a large proportion of the population are able to share in that growth. Thus government must create the general conditions which guarantee such extensive participation.

However, a market-oriented development strategy and participation in international trade will only prove successful if not only the developing but also the industrial countries liberalize their external trade, for those who import must earn the necessary foreign exchange from exports, in other words they must be equally competitive on export markets.

Most developing countries therefore want world trade to be liberalized and the industrial nations to open their markets. But they frequently meet with resistance. Although it is a well-known fact that in the industrial countries, too, structural change resulting from the liberalization of world trade would in the long term bring advantages for the majority of those affected in the form of bigger incomes and profits, occupational advancement, more interesting jobs, variety etc., the increased prosperity and incomes resulting from the international division of labour, and the burdens of adjustment, never affect all involved in the economic process in the same way. Increased benefits to the economy as a whole may be accompanied by a deterioration of the situation of individual companies and employees, branches and regions. In many instances those negatively affected try to mobilize support for measures to protect old structures which suited them better.

Those who resist structural change are trying to exclude themselves from society's general regulatory system and claim a privileged status. This is damaging above all to domestic consumers, who are offered only home-produced goods which are more expensive or of poorer quality than foreign products, which means their freedom of choice is restricted. This applies particularly to the poorer consumers (those on social assistance, the unemployed, large families, people with small pensions) who have to spend a large proportion of their income on products like food and textiles the price of which is artificially increased as a result of protectionist measures. But domestic producers, too, are affected through being forced to use as primary products domestic goods that are dearer than foreign goods or of inferior quality.

In the long term protectionism, by diminishing the intensity of competition, makes domestic companies less innovative and less willing to take

risks, which in turn reduces the export prospects of their own branches and thus hampers the growth of future-oriented export industries.

Owing to their current heavy consumption of resources, the production incentives of European and US farming policy which is inimical to the conservation of those resources, and owing to their subsidization of energy, the industrial countries are largely responsible for the irreversible damage to the biosphere and for the wasteful exploitation of non-renewable natural resources such as oil, gas and water. This at the same time diminishes the long-term opportunities for economic activity, not only in the industrial countries but, on account of the globality of environmental pollution, particularly in the developing countries.⁵

Whereas in the industrial world structural conservation is bought at the expense of a considerable loss of growth and a huge waste of resources, the consequences for the developing countries are much more serious. Because they are denied the chance to participate in international trade and thus lose the growth and prosperity benefits, they are, in the final analysis, deprived of the opportunity to improve their economic, social and ecological position through their own efforts. The western industrial nations however can enable the poorer countries to make better use of their development potential.

But in order that these may continually enjoy the advantages resulting from their participation in the international division of labour they must be willing to relinquish some of their national autonomy. Thus if the freedom of international trade is to be safeguarded nations must recognize and observe a code of conduct. Free trade presupposes a willingness to make adjustments where competitive advantages are lost as a result of competitors in developing countries making up the leeway. On the other hand, the temptations to violate that code for the sake of vested interests in the industrial countries are considerable.

The socio-ethical conclusion to be drawn from our knowledge of the processes of permanent structural change is that government policy should facilitate such change and hence adjustments to changing market conditions. Policy-makers in regions, companies, employees and their representatives should carefully analyze the signals (price and quantity trends, qualitative

⁵ Cf. "global and ecological aspects of economic activity" (see footnote 1).

changes, new competitors) indicating such transformation processes, inform those affected accordingly, and initiate the necessary adjustments.

And again from the socio-ethical point of view, an equitable international order should ensure that the interests of all countries are taken into account and that where they collide (e.g. with regard to minimizing and distributing the maximum global levels of pollution) fair conflict settlement mechanisms are applied. Fairness implies not only formal equality under the law where grave economic imbalances exist but giving special consideration to the developing countries as the less fortunate members of the international community.

The global avoidance or termination of environmental damage also requires global economic structural change the consequences of which can by no means be borne by the developing countries alone. Yet the western industrial countries have up to now been unwilling to use their political and economic power to ensure that the fair, lasting and stable international conditions needed by the developing countries are actually provided. Furthermore, in making their decisions on trade, financial and environmental matters they have in many cases failed to give adequate consideration to their repercussions on the Third World.

The rest of society must, in keeping with socio-ethical principles, show solidarity with those negatively affected by structural change by cushioning them from hardship, particularly where such processes occur not gradually, as is normally the case on markets, but take the form of abrupt and in some cases unforeseeable market changes. Such changes are usually the outcome of political factors such as wars, government cartels (oil prices), exchange rate adjustments where such matters are subject to government regulation, etc. In such instances some regions, companies and employees do not have the capacity to master that adjustment so that the public sector should provide restructuring assistance. Those who suffer as a result are morally entitled to public assistance (e.g. retraining programmes, early retirement arrangements, promotion of regional industry).

On no account should the instruments of economic and social policy be such as to hamper the adaptability of companies, workers and regions, as frequently happens where, for instance, the changeover from declining branches of industry (e.g. farming, mining) is impeded by the fact that such branches have their own social insurance systems and the people employed in them are at a disadvantage if they have to change jobs and also their social insurance. Adjustment problems arise especially where market

signals are stubbornly ignored or deliberately set aside. In much of the ecological sphere the institutional framework for such market mechanisms still has to be created.

In a globally integrated economy this requires most of all specialization and the free exchange of products. It means not less competition but free access to competition for all, especially for those hitherto not fully involved. Equality of opportunity and respect for the principle of equality derive from the fundamental requirement of justice in world economic terms and with respect to the global structural change.

Reforms must therefore be aimed at increasing the capacity of the individual partners, but especially the (hitherto) weaker developing countries, to participate in market processes. The first requirement for the latter is that greater scope must be given to private initiative in order to give people the chance to improve their situation through their own efforts. The government's responsibility lies in securing the legal and institutional framework for a market economy tempered by social justice, as the Christian churches in particular have often demanded.

The following chapters analyze the main areas where structural adjustment has been neglected in the industrial countries and also the negative consequences of that neglect for the developing countries. They also consider what burdens of structural change the industrial countries should fairly take upon themselves to ensure equality of opportunity on a global scale.

II. Agricultural and rural development policy

The mistakes and shortcomings in the field of development cooperation are largely due to dubious policy concepts in the field of agriculture and rural development, both in many Third World countries and in the industrial countries as well. And there is a close interaction of the "policies" of both groups which for the most part actually hampers development. Thus any attempts to introduce measures that are conducive to development should not be confined to treating the symptoms but make provision for fundamental structural changes. Of crucial importance in this connection are the regulatory elements of systems of Land tenure and agrarian structure, national and international farm policy and its incorporation in national, social and economic policy, as well as population trends and environmental policy.

The formation of today's industrial societies in the European/North American mould was based on the systematic use of resources by the early agricultural societies. Thus agriculture created the foundations for industrialization by increasing productivity and hence the food base, by rationalizing production methods and releasing labour for non-agricultural jobs, by generating capital for investment within and outside the agricultural sector, and by developing a market for non-farm products and services. The present state of agriculture and rural areas in the industrial countries is the result of a process of industrialization which has a tendency to produce a dual surplus of staple foodstuffs and manpower.

This is because in the agricultural as in other sectors technological progress leads to increased productivity from land, capital and labour. If, however, consumption of farm products does not keep pace with this increase in productivity prices drop. This often results in lower incomes which in turn prompt farm workers to look for different employment.⁶ In the industrial societies the demand for fair incomes ("incomes parity") for

⁶ For the development of rural areas it is essential that the necessary migration from agriculture does not coincide with a migration from the countryside. In many regions of Europe in particular, partial industrialization has prevented socio-economic erosion. In the Third World, on the other hand, the migration of the poor from rural areas is one of the reasons for mounting poverty with all the problems associated with it in the conurbations.

the farming community and corresponding price regulation led to the subsidization of overproduction and prevented the necessary reduction in the number of farm workers, but they did not reduce measures which boosted production. As a result, the surplus of farm products increased further still, and with it subsidies at the expense of the consumer, the taxpayer and non-subsidized competitors.

The maintenance of this form of agricultural production, which is not sufficiently integrated into the market economy system, requires protectionist measures to support farm prices. Government intervention of this kind has a long tradition in Europe. It all began with customs duties, but in the meantime an extremely complex system of non-tariff trade barriers has been developed. This system gives the European Union's farming bureaucracy considerable rights of intervention yet leaves the door wide open for corrupt evasive practices. But now even the industrial countries themselves are hardly able to cope with the consequences of this "intervention policy", that is to say, the rejection of structural adjustment which it implies and which considerably diminishes the opportunities for third countries to compete.

Mounting surpluses and the struggle for world market share, the increasing number of trade conflicts, the growing cost of support measures and, despite everything, shrinking farm incomes, coupled with in some cases more intensive farming which on ecological grounds is untenable, as well as the wasting of resources on products no longer required, have led to massive and increasing criticism of agricultural policy. Nonetheless, the negative impact of this policy on the economies, and especially the agricultural sector, in the Third World is still not fully appreciated, or it is deliberately overlooked for reasons of short-term political expediency (election strategies, for instance).

Through massive subsidization of production and the export of farm surpluses the European Union, that is to say, its member states and thus Germany as well, are contributing to a distortion of prices and trade flows on world agricultural markets which affect the developing countries, though in differing degrees. For instance, exporters of products that do not compete with EU farm products remain unaffected, but those in developing countries who actually can compete are placed at a considerable disadvantage by the Union's protectionist measures. This deflates world market prices, which means that producers in developing countries can no longer cover their costs and are forced out of the market by the Europeans.

One has to make the following distinction however. Countries who themselves are net food-exporters have fewer opportunities to earn foreign exchange, whereas the developing countries who depend on food imports seem at first sight to benefit from the price-cutting effect of EU agricultural policy and need less foreign exchange to finance their imports. But there is no denying that through importing low-price products they are less able to sustain consumption of their own farm produce. Although the reduction of EU subsidies would increase prices on world markets and place a heavy burden on those developing countries who depend on imports, often the world's poorest, this would be for a relatively short time only. In the medium and long term the higher prices would be an incentive for farmers in developing countries to expand production. This would boost incomes and reduce the rural exodus. It would at the same time attract more investment in agriculture because of higher profits and thus increase productivity. Indeed, the net exporters of farm products among the developing countries could even profit direct from higher world market prices because the bigger returns and profits would make investment in agriculture worthwhile and thus increase employment and incomes.

On the other hand, the EU's protectionist measures have not only cut prices in many sectors, they have also caused world farm commodity prices to fluctuate considerably. Thus a steady withdrawal of such measures could stabilize world market prices as well. Stable prices would in turn give producers greater planning security and hence a further incentive to expand production since security reduces the economic risk. The elimination of protectionist measures in the industrial countries, therefore, would improve the situation of farmers and the economic situation as a whole in the developing countries.

Considering these points, however, one should not overestimate the generally positive effects of the measures to help the Third World and their agricultural sectors adopted during the concluding phase of the Uruguay Round of GATT negotiations. The agreement makes provision for a partial opening up of agricultural markets. (All non-tariff restrictions on imports must be replaced by customs duties and duties on imports of farm products must be reduced by 36 % on average over a period of six years. Subsidized quantities of exports and the amounts spent on such exports must also be reduced. In addition, there are arrangements for pruning direct and indirect internal support measures). But the new escape clauses still allow the industrial countries to levy supplementary customs or, under certain conditions, to retain their non-tariff restrictions on imports in such a way that GATT's progress towards liberalization is undermined in their favour.

The agricultural policies pursued in the developing countries in bygone days, in some cases under the influence of the European colonial powers, were sometimes misdirected with the result that the negative effects of Europe's protective strategy were amplified. For instance, the forced process of industrialization during the initial phase of development cooperation caused traditional farming to be neglected. Specifically, internal terms of trade were distorted in favour of the industrial sector, chiefly by means of trade and exchange-rate policy instruments, and by artificially keeping farm prices down for the sake of the urban masses. This discrimination against the producers of farm products intensified the flight from the land, whereas the promised institutional reforms, especially the necessary comprehensive agrarian reforms, were not forthcoming.

If the indispensable liberalization of EU agricultural policy is to bring improvements for, in particular, the poor sections of the population in developing countries, the latter will have to initiate internal reforms as well. By imposing conditions within the framework of structural adjustment programmes, the reforms can ensure that the liberalizing effect of promoting small-scale farmers instead of big plantations will largely benefit the poor.

True, agriculture in the industrial countries, especially the member states of the European Union, is still going through a serious crisis. In recent years the Common Agricultural Policy has been costing the EU about two thirds of its budget. But subsidization, contrary to the original intention of supporting small and medium-sized farmers, has widened rather than narrowed the "disparity" of incomes within the farming sector. Between 1980 and 1990 one third of self-employed farmers in the EU gave up farming.

Consumers and taxpayers in Europe and in the Third World countries we trade with have, as a result, become increasingly less enamoured of agricultural policy. Even farmers are showing signs of resignation through mounting pressure and doubt the value of their work and their public esteem. Thus, despite the considerable changes made in recent years, further massive restructuring operations will have to be launched in the European Union and hence in Germany as well.

Urgent priority must be given to the following measures. The advanced industrial countries have a special responsibility to bear in further liberalizing world trade in farm products. However, the improvements resulting from the Uruguay Round with regard to lower customs duties and the removal of non-tariff barriers can only be the first step in the right direction. A further lifting of trade restrictions is urgently necessary since GATT still

allows customs duties to be levied on a wide range of products. Consequently, the opportunities for developing countries to sell their farm products on world markets remain inadequate. The new WTO (formerly GATT) agreement still permits as well massive farm subsidies for which there is not the slightest economic justification. The special export subsidies in particular have only been marginally reduced. On socio-ethical grounds, therefore, massive reductions are absolutely essential in order to ensure that the agricultural development potential of the Third World countries is not undermined by heavily subsidized exports of farm products from industrial countries.

The European Union's practice of providing food aid in the form of surplus stocks must be limited to emergency situations. And even this kind of assistance should only be given if requirements cannot be met by purchasing food in regions close to the disaster area. The aim, after all, is to promote the development of agriculture in the Third World, for the problem of maintaining world food supplies is not primarily a question of production and distribution but of activating the Third World's own capacities.

In addition, steps must be taken, particularly in the industrial countries, to reduce environmental pollution caused by intensive farming. Furthermore, since the use of pesticides and fertilizer, which considerably diminish the quality of drinking water, and high energy consumption are rendered worthwhile, chiefly through the subsidization of agricultural products, the withdrawal of subsidies in the industrial countries is urgently necessary for the sake of the environment as well. And in the agricultural sector environmental protection, environmental production and reproduction, can, and should, be recognized as marketable products. The private supply of the public asset "landscape management" could be taken over by the agricultural sector instead of preserving that sector at the expense of the developing countries.

Food production will in any case be of declining importance to Europe's farmers. It is not yet clear whether this diminishing role as a result of structural change can be partly compensated for by the alternative production of renewable raw materials or by other means of employment in the social sphere or in rural tourism. At any rate, production, working and living conditions on the land will become very diverse and require, in Europe too, considerable structural adjustments.

In order to cushion the social hardships of such changes suitable political conditions will have to be created in spite of the need for market orienta-

tion. For instance, farmers must be guided by reliable policies, which can also make their contributions to the economy transparent for consumers and taxpayers. Their development prospects should not be spoiled by unnecessary red tape. On the contrary, they should be given opportunities for basic and further training in order to stimulate their desire to learn and be innovative.

In spite of these demands, which have also been made by the Church⁷, it is hard to perceive in the debates between politicians and interest groups on farm prices, the liberalization of world trade in agricultural products in the context of the WTO, the elimination of protectionist measures, the regulation of quantities, the taking of land out of production and the extremely precarious relationship between international agricultural policy and development policy, any plan for meeting the requirements described above. The fact that they are treating symptoms without giving careful thought to the traditional value concepts and aims of traditional agriculture is undoubtedly one of the reasons for the concern in large parts of the community and among many farmers and leads them to close their eyes to the reality of this structural change (probably against their better knowledge) instead of carrying out their own structural adjustments in order to cope with these problems.

⁷ The pastoral statement by the German Bishops' Conference on the agricultural situation, Bonn 1989, and the document adopted by a joint conference of the Church and the German Farmers Federation (publ.) on development entitled "The Reform of Agricultural Policy as a Social Challenge", Bonn 1989.

III. The industrial sector

In many advanced industrial countries, like Germany, not only agriculture but also a number of other branches such as textiles and clothing, steel, shipbuilding, the shoe and leather industry are protected against competition from developing countries. The developing nations are also making inroads in other sectors dominated by the industrial countries by using modern state-of-the-art (usually imported) technology, but then the industries affected demand protection in the form of customs duties and non-tariff barriers as well as subsidies and tax relief. The reasons given to justify such protectionism for the traditional branches of industry is that the social cost of adjustment to market conditions is too great. But the effects of such measures on both the developing and the industrial countries are negative, at least in the long term.

Many developing countries are affected by the protectionist policies of industrial countries. Although many tariffs were considerably reduced during the GATT negotiations, the remaining high tariffs apply mainly to those very products in regard to which the developing countries have a competitive edge on their rivals in industrial countries, principally in the textiles and clothing branch. Furthermore, the industrial countries impose escalating customs duties, that is to say they increase with each the processing stage. This puts imports of processed products in particular at a disadvantage. But it is precisely the export of higher quality goods that would substantially benefit the economies of the developing countries. For whereas it is often not possible for them to increase exports of raw materials because of insufficient elasticity as regards prices and income, goods of a higher processing level do have the necessary elasticity. Thus tariff reductions would considerably improve the income prospects of developing countries, especially those with reprocessing experience.

The export of labour- and raw-material-intensive goods such as textiles, clothing and steel products are restricted more by non-tariff barriers than by direct customs duty. This applies in particular to the so-called "self-restraint agreements" under which the receiving country fixes a specific quota for the supplying country which must not be exceeded. Self-restraint is by no means voluntary but often the result of massive political pressure from the importing country.

The industrial countries also try to keep their domestic industries such as mining, steel and ship-building internationally competitive by means of subsidies. But subsidies, like the other protectionist measures, are indications that the branches benefiting from them are unable to compete internationally, and those just mentioned particularly in relation to the developing countries. Subsidies lead to the misallocation of resources, thus hampering the growth of demand. The result is overproduction and an increasing tendency to protect domestic markets from imports.

Such measures time and again deny otherwise successful exporters access to markets of the industrial countries. Consequently, the developing countries are not in a position to earn the necessary foreign exchange with which to import the very products from industrial countries which they require for their further development. To that extent such restraints on trade are harmful to the export industries of the industrial countries themselves and ultimately to their economies as a whole. By protecting individual branches they ease the pressure of competition and practically encourage manufacturers to keep on using obsolete and inefficient technology. Resources are used uneconomically and thus not available for other purposes. This has a negative impact on growth and, indirectly, is detrimental to the developing countries. These countries could benefit from high growth rates in industrial countries since a growing national product also means growing imports, which they, to some extent at least, would be able to supply.

One welcome development from the GATT Uruguay Round is that at least one major sector, textiles and clothing, is to be gradually brought within the scope of the general rules of world trade again over a period of ten years. Customs will be reduced but the quantitative restrictions on exports will also be completely lifted. Here again, however, it will still be possible, under certain circumstances, for the industrial countries to invoke escape clauses conforming to GATT and protect domestic markets from imports. But at least the new dispute settlement mechanisms will make it more difficult to circumvent WTO rules. Furthermore, the existence of arbitration panels and a permanent appellate body as well as the fact that it will be possible for the WTO to impose sanctions on any country ignoring an arbitration award should help prevent any high-handed action and the escalation of trade disputes. Thus more stable conditions have been established for developing countries seeking to export their products. These are the first steps towards ensuring greater equality of opportunity in spite of the fact that structural changes will prove to be a burden on certain branches in the industrial countries.

The ones who will gain most from this liberalization of trade will be the Asian countries. Bangladesh, India and Pakistan, for instance, will profit from the expiry of the multi-fibre arrangement, but the nations of Latin America and the oil-exporting countries, too, will benefit directly. The world's poorest countries, however, will see only slight direct improvement with regard to possible reductions in the price of their principal imports. The Subsaharian African countries in particular have hardly any export capacity and are thus unable to participate to any appreciable degree in international trade. Nonetheless, trade liberalization could bring some indirect advantages for them as well in that, for instance, the general improvement in the standard of living makes it possible to increase expenditure on development or to target these countries more than hitherto for development assistance.

Furthermore, improved access for developing countries to the markets of industrial countries would indirectly benefit those employed in the "informal" sector, that is to say, the large proportion of the labour force who work as street traders, mobile food vendors, water sellers, drivers of bicycle-taxis and refuse collectors. The informal sector provides indispensable goods and services for the poor, but also for some people in the middle incomes bracket. In the sprawling conurbations in developing countries the informal entrepreneurs provide such services as water supply, transport and refuse disposal. Informal enterprises absorb considerable labour because they are self-employed people who cannot find work on the land, in the industrial sector, or in the modern service sector. Since access to "informal" activities is more or less unrestricted, competition for these markets is keen. The search or struggle for customers takes up much of these people's working day. Since improved market access in the industrial countries for labour-intensive, mass-produced goods from developing countries means a larger absorption of employees in the industrial sector, the pressure on the informal sector eases off. Apart from other positive effects, this also makes for a more favourable ratio between periods spent looking for customers and periods spent producing goods and services. It creates the conditions for a restructuring of the informal sector and thus also allows those in informal employment to enjoy the benefits of the growth process.

For all these reasons it is urgently necessary on socio-ethical grounds to abide by the regulations worked out during the Uruguay Round. The trade policy of the European Union, for instance, should meet this requirement. That necessity is also consistent with the EU's own objectives, that is, "to contribute ... to the progressive abolition of restrictions on international

trade and the lowering of customs barriers" (Article 110, EEC Treaty). The Maastricht Treaty refers specifically to "the smooth and gradual integration of the developing countries into the world economy" (Article 130u, EEC Treaty). The realization that the EU can only achieve its own aims by not erecting any new trade barriers or introducing new protective measures is beginning to gain ground in spite of some resistance.

Of late, it has often been argued in public debate that protectionist measures are necessary on account of the alleged "social and eco-dumping"⁸ by the developing countries and the former eastern bloc states. The term "dumping"⁹ is used in order to emphasize the charge of unfair competition since "anti-dumping measures" in international trade are considered justified because dumping is said to distort competition. But dumping only occurs when the only reason why an exporter can offer his product cheaply on foreign markets is that he derives profits from a monopoly on the domestic market based on private or public restraints on competition which enable him to pursue a price-underbidding strategy abroad, or that he receives public subsidies. This classical dumping is done most of all by the EU with its subsidize exports of farm products (see Chapter II). The essence of the charge of social dumping referred to (though misleadingly) in this connection stems, on the other hand, from the fact that a developing country's international competitiveness is normally based, in contrast to the industrial countries, on lower wages and poorer working conditions (e.g. longer working hours, lower benefits). But such low labour costs can usually be attributed to an abundant supply of labour (as a result of population growth) or the low productivity of the workforce taking the average for the economy as a whole, which is reflected in general wage levels. The low level of productivity is in many instances the outcome of low training standards, the poor health and nutritional deficiency of the population, as well as overall economic inefficiency (e.g. inadequate infrastructure). This reflects the low level of development of the countries concerned and to that extent does not fall into the category of dumping. Thus anyone who reacts with protectionist measures is not only going too far but also ignor-

⁸ More on the eco-dumping charge in Chapter V: Structural adjustment focusing on environment and resources.

⁹ Pursuant to Article VI (1) of the GATT, a country is guilty of dumping if it exports goods at prices lower than domestic prices. Thus the terms "social dumping" and "eco-dumping" are, economically, incorrect and therefore misleading since in these cases no price discrimination, that is to say an external and internal difference in price, exists. In fact, export prices and domestic prices in the exporting country are much the same.

ing the consequences for the people affected in the developing countries, who may have to swap their jobs in the formal sector once again for an insecure job in the informal sector, that is, if they can find work at all.

A problem arises, however, where a dictatorial regime introduces repressive measures in an attempt to artificially reduce labour costs in the public or private export sector (e.g. by prohibiting any kind of trade union activity). In such cases an effort should be made, chiefly through the International Labour Organization in Geneva, to ensure that these countries, who in most cases have signed international agreements on minimum labour standards (e.g. with regard to child labour) actually comply with their provisions. It would also be appropriate to have the already existing international conventions on minimum social standards recognized by the new World Trade Organization and to give these principles priority over that of free trade.¹⁰

From the ethical point of view it is essential to keep markets open for products from Third World countries, except where the situation is so deplorable as to rule this out. For where democratic factions are able to become politically active we can expect that increased earnings from exports and higher levels of productivity will be used to raise real wages and improve working conditions and social benefits. In spite of all the short-term burdens this would impose upon them, the industrial countries should consistently recognize the new world trading system and above all comply with the rulings of the independent arbitration body. This is especially necessary as such structural adjustments are in any case unavoidable in the long term. Similarly, they should where possible avoid invoking the new general escape clauses of GATT/WTO which permit them to levy protective customs under certain conditions, especially as an unforeseen and massive growth of imports during what is normally a gradual adaptation to the market situation is only likely to be an exceptional occurrence.

Furthermore, the structural adjustments resulting from such a policy produce considerable advantages for the industrial countries which outweigh the burdens on the economy as a whole:

¹⁰ In extreme cases, however, (goods manufactured by prison labour) even the earlier GATT (article 20) permitted the imposition of import embargoes, although such steps would not have improved the situation of those affected.

First, flexible adjustment secures the country's international competitiveness, one of the preconditions for its continuing prosperity. It also involves switching unprofitable areas of production to developing countries in order to enhance overall corporate competitiveness in the industrial countries.

Second, cheaper imports increase the purchasing power of the poorer consumers in particular, whose budget includes a very large percentage of products which have been made artificially expensive.

Third, the reduction of protective subsidies could benefit the taxpayer, too, in the long run.

And fourth, through being able to earn more foreign exchange the developing countries could purchase more products in industrial countries. This applies especially to capital goods, which cannot be manufactured in developing countries because of (as yet) still inferior technological know-how.

Thus structural adjustment on socio-ethical grounds in support of the developing countries would be good for the industrial countries themselves. It is all the more justifiable if the change is not abrupt and employees, companies and regions are given a reasonable period of time, in the way the textiles and clothing sectors, for instance, were allowed ten years to become reintegrated into the general system of world trade. Such periods were allowed for the removal of all customs duties within the EU, that is to say, from their announcement to the actual commencement of the single European market, and for new members. It has been generally proved that such periods of grace are adequate in order to keep the burdens of structural change relatively small. This applies initially to job losses in declining branches of the economy, but also to capital losses where companies have to write off capital goods that are no longer adequate to meet the demands of competition. Likewise, regions with one or several declining industrial sectors may be negatively affected if, for instance, their tax revenue falls but their expenditure on social services and infrastructural investment increases.

Thus the branches, regions, companies and employees affected should be granted assistance only if it is aimed exclusively at structural adjustment. It should by no means be used to preserve existing structures. In other words, the market mechanism must not suffer as a result. The size and duration of subsidies should therefore be limited from the start. Perpetual

subsidies, today the usual practice unfortunately, must definitely be avoided. In the case of workers, the negative consequences of structural adjustment can be kept within reasonable bounds by means of retraining schemes, early retirement programmes, and unemployment benefits. Investment aid offers companies incentives to restructure their operations to accommodate new technologies or open up new markets. Assistance to firms closing down, for example in the form of bonuses for equipment scrapped, helps them leave the market quickly.

The regions greatly affected by structural change should receive financial and technical assistance to clear old industrial sites and establish business zones. The modernization of public infrastructure in this connection would make such areas more attractive to potential investors.

For politicians, however, it will be difficult to judge, chiefly because they lack the necessary insider knowledge, when subsidies are being used for adjustment and when for preservation measures, especially as firms expecting subsidies have no incentive to try and overcome the crisis by dint of their own efforts. Indeed, if anything this situation induces them instead to invest in political lobbying rather than in future-oriented adjustment. Consequently, adjustment assistance at the expense of the whole community is only justifiable from a socio-ethical point of view if the principle of subsidiarity is observed, that is to say, if those affected are required to make reasonable efforts to help themselves. That is the only way to ensure that community solidarity is not abused.

The best way of eliminating the widespread "subsidy mentality" is to regularly examine whether current subsidies are necessary. Global payments without time limits should be superseded by assistance of limited time and duration for specific measures. It should be granted chiefly in the form of loans. The social objectives of subsidies can be better achieved by means of direct payments to needy sections of the population, particularly as this ensures that assistance is not too widely dispersed and market dynamism is maintained.

Apart from providing for such parallel social measures, government should help those affected to play an active part in the restructuring process. It must create conditions which enable them to anticipate this permanent structural transformation in the best possible way. Deregulation facilitates this process. This undoubtedly requires a change of course in terms of economic policy. The review of direct and indirect subsidies should not be primarily determined by budgetary constraints but rather establish

which of them are at all justifiable in the light of both the subsidiarity and the solidarity principle. If the already diminished scope for political action is not to be reduced further still, the debate on such transfers of public funds will have to be conducted offensively. Not least for the sake of Germany's overseas development assistance, which is rightly to be focused more on the poorest countries, politicians and parties will have to be judged to a greater extent by their willingness to reassess traditional economic and social "possessions" in order to facilitate the necessary structural adjustment in keeping with the aims of development policy.

It is the responsibility of the Church, through its social teaching, to focus public attention on this responsibility and thus raise the level of acceptance of the costs this will entail for the industrial countries.

IV. The role of capital and policies aimed at global stability

The importance of growth as part of the development strategy is surely beyond question where the developing countries are concerned in spite of the debate on the limits of growth which began in the early 70s. Development in this case means abandoning the old production methods, which absorb only little capital, in favour of others which, by means of a larger input of capital per worker, make for higher productivity. If this transformation can be properly managed the learning effects for subsequent phases of development deriving from the use of labour-intensive technologies will be able to provide those innovative qualifications with which a country can further develop adapted technologies independently. Thus financing existing jobs with more effective capital and creating new ones through investment in traditional and new production areas would seem to be the prerequisite for economic development.

Capital in this context is that proportion of the productive output of earlier periods which contributes to production in the period under consideration. The provision of an adequate capital base undoubtedly requires considerable financial resources. National economies ideally develop step by step in that current production is the source of investment, the equivalent of which is voluntary lower consumption. A country's ability to economize largely depends on the size of the national income and the population, and on the inter-personal distribution of income. Since, however, saving translates into less consumption that ability depends on whether the population can reasonably be expected to reduce consumption.

Yet equally as important as the existence of adequate savings is the conversion of those savings into investment, that is to say, the extent to which investment openings are identified and can be utilized. Not only domestic savings in developing countries but also their transformation into growth-promoting investment is considered inadequate.

But whenever actual investment cannot be financed from domestic savings the financing must come from abroad in the form of net capital imports, which are reflected in a trade balance deficit. In such cases the reduction in consumption necessary to finance investment is partly assumed by the industrial countries, who forego their own use of consumer and/or capital goods. They make them available to the developing country concerned

without demanding an immediate quid pro quo in the form of goods. This enables it to invest more than it can afford to restrain domestic consumption.

Internationally mobile capital finds its way into regions where it can be combined with relatively cheap complementary factors such as labour or raw materials. The usually low wage and raw material costs attract the capital which is conducive to development. Such capital inflows can be both of a public and a private nature. The main official forms are development assistance and balance of payments loans, while those provided on a private basis are bank loans and direct investments, although frequently with public guarantees or other forms of security.

This kind of international indebtedness is only useful, except where it is needed to plug very brief liquidity gaps, in order to initiate growth. Consequently, the developing countries must use the incoming capital to meet their repayment obligations (interest and discharge) through exports.

Capital inflows are always a problem, however, where the providers put their own interests before the economic and development needs of Third World countries. The latter should therefore make greater efforts to earn their own foreign exchange by promoting exports. The advantage of earnings from this source is that they are the product of the country's own marketable inputs. The amount of such earnings can be influenced to some extent by the country's own efforts and they are little affected by external instabilities, provided such efforts are not undermined by export subsidies or other protectionist measures of the industrial countries.

This means that the key lies in a liberal trade policy towards developing countries if governments are not to find themselves in the contradictory position of, on the one hand, enhancing the international competitiveness of existing or potential export sectors by means of capital aid while, on the other, denying the recipients of that aid access to those export markets through extended protectionist measures (e.g. in EU agricultural markets, the textiles industry, see Chapters II and III).

However, the growth needed in the developing countries to combat poverty, complemented by distributory measures to enable broad sections of the population to enjoy the fruits of that growth, presupposes macroeconomic stability. For so long as state enterprises and banks have access to the national budget and the government can balance the budget at any time by arbitrarily increasing the money supply, the pricing mechanism, which is es-

sential for the efficient national and international allocation of resources, is rendered ineffective by the growing fear of inflation. Under such conditions neither foreign nor domestic investors are going to show much interest.

The trade liberalization process should therefore at least initiate a stabilization programme. The consistent monetary and fiscal policies necessary for this would create a favourable climate for private saving and investment and thus be conducive to productivity and growth.¹¹ In the light of this, it is essential for the developing countries themselves to secure domestic monetary stability. The efforts of the IMF and the World Bank to encourage appropriate policies in those countries need to be supported by the industrial nations in particular since serious aberrations in this respect (such as high inflation rates) cannot be compensated for by favourable terms of trade and development assistance.

But the more the developing countries increase their external debts and participate in international trade, the more they become susceptible to movements in capital markets. In a world of growing economic interdependence, therefore, instability is transferred from one economy to another, so that stability-oriented growth policies in developing countries presuppose the stability of important world economic data, such as the parities of major currencies (dollar, yen, DM) and of interest rates on international money markets. The developing countries, however, because of their relatively small share of international trade, are themselves hardly able to influence those data. It is the industrial countries as a whole, but especially the big three (United States, Japan, Germany), who are mostly responsible for these factors. But this means they are also in a position to pursue economic policies that mainly serve their national interests and entail heavy adjustment costs for the developing countries.

This is how the transition from an inflationary policy in the 70s, chiefly as a result of the abrupt change of course in the United States, to a stability-oriented monetary policy coupled with an expansionary fiscal policy in the 80s had a negative impact on many developing countries. The US Government allowed its budget deficit to increase, mainly as a result of increased

¹¹ See "Good Money for All. Socio-ethical deliberations on monetary stability". A study by the Group of Experts on "World Economy and Social Ethics", presented by Franz Furger and Joachim Wiemeyer. Published by the German Bishops' Conference Research Group on the Universal Tasks of the Church, Bonn 1991.

defence spending which, in tandem with a relatively low domestic saving ratio, pushed up interest rates. The anti-inflationary restrictive monetary policy which followed also contributed to the increase in interest rates. At the same time, domestic investors were given the benefit of tax cuts and depreciation relief and thus considerable investment incentives. This meant that private investors were able to offer foreign investors a much higher interest rate than was available for similar investments in other countries. As a result, the relatively high US interest rates attracted capital and this in turn produced real increases in international capital markets. On the Euro-currency market, for instance, the interest rate rose from about 6% in 1977 to nearly 17% in 1981. Thus the rates for new private loans to developing countries rose accordingly. Many of those countries, having increased their foreign debts in the 70s because of in some case negative real interest rates, were no longer able to cope with this situation.

Whereas the Federal Republic of Germany was still able until 1989 to make capital available to other countries, its own current account surplus has been turned into a deficit as a result of national unity. Since then the country has been importing capital to finance the unification process. Germany, until then a first-class debtor, has since been competing with developing countries for international capital. Owing to its economic strength and its large share of world trade, this is bound to have repercussions on international interest rates.

Consequently, one must consider, especially in view of Germany's responsibility for the world economy, whether the process of economic recovery in the eastern part of the country should not, also out of fairness to the developing countries, be financed to a greater extent through a reduction in domestic consumption (partly enforced by taxes like the "solidarity surtax"). But chiefly because the limits of taxation have meanwhile been reached in Germany, the savings must be achieved by means of budget reductions at federal, state and local government level. On the other hand, the necessary economies, for instance by reducing public service staff or the number of recipients of subsidies and transfer payments etc., cannot be made without painful adjustments. But such burdens have to be accepted as the unavoidable "costs" of necessary structural change, not least in recognition of the country's global responsibility.

The industrial countries therefore have a duty to pursue a stability-oriented monetary and fiscal policy in order to meet the requirements of a globally effective social market economy. How little the member states of the European Union have lived up to this global responsibility is revealed by

the fact that in 1994 none of them, with the exception of Luxembourg, was in a position to meet the stability criteria prescribed by the Maastricht Treaty.

V. Structural adjustments focusing on environment and resources

The ecological challenges which also have to be met on grounds of development policy (see Chapter I) require a significant reduction in the consumption of non-renewable resources and in emissions of harmful substances. The industrial countries will have to adopt methods of production and lifestyles that are less of a burden on the environment and require fewer raw materials because their populations consume the greater part of the world's resources and are responsible for most environmental pollution.

Moreover, excessive exploitation of the environment by the industrial countries has serious consequences for the developing countries. Their heavy consumption of energy, especially those kinds which are technically relatively easy to obtain (e.g. oil and gas), makes them dearer in the long term. This forces the developing countries either to overexploit resources which could be put to better use, such as timber, or to switch to types of energy which require a much greater technological input, including nuclear energy, thus raising the spectre of neglected safety standards.

What are therefore needed are measures and institutions which will require companies, households, individuals and organizations to make allowance in their calculations for the global shortage of resources and the world's limited ability to absorb pollutants. This means specifically including the costs of environmental consumption in the price. All experience shows that clearly defined and protected property rights are the most important prerequisite for determining the price of scarce resources, while their free availability always means they will be exploited. Only if such rights are unequivocal and their long-term protection is assured will owners have an incentive to use resources sparingly in order to sustain the long-term benefits. At the same time, however, the property rights must be fairly shared, that is to say, in accordance with fundamental moral principles, to ensure that certain population groups are not debarred from the use of natural resources.

The rapid or wasteful exploitation of exhaustible natural resources (e.g. oil reserves) or the irreplaceable destruction of forests and animal species can therefore best be prevented by clearly allocating the rights of disposal over resources which have ecological implications to people with clear respon-

sibilities and ensuring they are protected by law. This only partly defuses the ecological problem, however. The more urgent but at the same time the far more difficult problem is that concerning the emission of harmful substances (e.g. CO₂, CFCs) which overtax the absorptive capacity of the environment and cause possibly irreparable damage. So long as the environment (i.e. air, water and soil) can be used as a free or at least cheap medium for the absorption of waste substances from production processes, excessive emissions of harmful substances will be the outcome. These are "external costs" which are not included in the price. Neither producers nor consumers of the products which damage the environment have to pay for that damage. Environmental protection measures must therefore internalize those external costs, in other words, include them in the price. Environmental certificates entitling the purchasers to pollute the environment within certain limits could be one way of creating such quasi property rights.¹² This makes it possible to link the use of environmental resources directly with the cost.

But the task of defining property rights is problematical on account of the transnational impact of environmental damage. Pollutants emitted into the air, rivers and oceans do not stop at national borders. In international waters (e.g. the North Sea) this means increasing pollution which diminishes the yield of fish, enters the food chain and therefore reduces quality. Thus not only those responsible for the emissions are affected but also a far greater number of people. The same applies to air pollution, where the high chimney stacks of thermal power stations cause their harmful emissions to be carried to other countries. To ensure international coordination of reduction measures, therefore, new global institutions will have to be established which should adopt quantitative restrictions, have the power to monitor their observance, and if necessary impose sanctions. The first steps towards such international rules were taken at the 1992 UN Conference on Environment and Development in Rio de Janeiro. It is urgently necessary on socio-ethical grounds to insist that they be followed. The same applies to the structural changes, which primarily concern the principal consumers, the industrial countries.

Furthermore, the squandering of resources, which is at the same time one of the main causes of harmful emissions, can be curtailed by adopting the right pricing policy. Where governments prescribe maximum prices that

¹² See "Global and ecological aspects of economic activity" (footnote 1).

are below actual market prices the result is a waste of energy and materials, etc. A glaring example of this shocking waste of valuable resources resulting from such unfair pricing was the environmental damage caused by the former eastern bloc countries in the days when their economies were centrally planned.¹³ But the agricultural policy of the European Union, too, through its (minimum) price guarantees, leads to the production of surpluses which are an unnecessary burden on nature (e.g. the pollution of groundwater with nitrate) and the wasteful consumption of energy. Measures aimed at promoting economic efficiency usually help to protect the environment as well, for only the most economical consumption and use of natural resources can sustain the foundations of human life. In this way it is possible to link up economic and ecological cycles because economic and ecological deliberations clearly lead to similar demands.

Furthermore, the industrial countries often try to offload their ecological problems onto other countries in the form of (toxic) waste exports. This applies especially to the developing countries, who accept the waste unaware of the possible long-term consequences or because of their economic predicament. International agreements prohibiting such practices¹⁴ must therefore be extended and violations effectively sanctioned. Decision-makers in the advanced industrial countries have a special responsibility to ensure that the economic weakness of the Third World countries and especially of their marginalized groups, the lack of democratic legitimacy on the part of the ruling elites and also the undemocratic conditions prevailing in those countries, are not exploited in order to transfer ecological problems to them on account of the political difficulty of gaining public acceptance for them at home.

The industrial countries should, therefore, to the extent that they are beneficiaries of external effects, for instance the regeneration of the atmosphere through tropical rainforests, render a contribution of their own towards the conservation of these natural resources. They can do so by financing reafforestation programmes, etc., which would require them to restructure their budgets. They should also help the less developed countries by providing, within the framework of their development assistance, technology that is more compatible with the environment, as well as

¹³ For instance, per capita CO₂ emissions there were distinctly higher than in the United States in spite of the much lower standard of living.

¹⁴ For instance, the Lomé VI Convention, under which the EU countries have undertaken not to export toxic waste to the ACP countries.

know-how for the establishment of environmental protection authorities and the drafting of environmental legislation. Where institution-building is concerned they should assist the Asian countries in particular, whose rapid economic expansion confronts them with considerable environmental problems. Developing ecological research facilities is another means of promoting environment-friendly production methods.

Such measures will only prove effective, however, if they are applied in the largest possible number of countries. The task of strengthening existing and establishing new organizations and authorities to coordinate environmental protection programmes at international and monitor their implementation at national level must be a central objective of trade policy. A committee set up by the new World Trade Organization will consider the interactions of trade policy and environmental protection measures and examine especially how far additions to the old GATT rules could help to preserve the environment. This is because free trade, which is the specific objective of all GATT agreements, can, generally speaking, also have a favourable impact on the environment because, in the context of an international division of labour, industries can be located where they cause the least ecological damage. But such an improvement in the environmental balance will only materialize if the actual degree of exploitation is fully reflected in prices.

Producers in developing countries and the former communist countries of Eastern Europe are often accused of "eco-dumping", of only being able to produce goods cheaper than their competitors in industrial countries because of their less stringent environmental protection regulations, with the result that they destroy their own natural sources of life and those of other countries. Thus in order to prevent overexploitation proposals have come from various quarters for the adoption of environmental protection standards which, if not complied with, would lead to trade sanctions to stop the export (import) of such products.

But representatives of the developing countries and various groups in the industrial countries fear that legitimate concern for the environment might lead to a kind of "green protectionism", resulting in new barriers to exports from developing countries. Since less stringent protection conditions for industry do not place too great a strain on the natural self-cleansing powers of nature (e.g. rivers) in a thinly populated country with a low level of industrialization, they might be justifiable there, in contrast to densely populated, highly industrialized countries. But if a country's protective ca-

capacity is insufficient and it is therefore in effect overexploiting its natural resources, then it is ruining its own prospects.

Even then it is doubtful whether protectionist measures will serve to improve the environmental situation. If, on the other hand, the production methods which cause environmental damage are harmful to other countries as well through the emissions being "exported", multilateral agreements setting minimum protection standards, coupled with the threat of trade restrictions if they are not complied with, may be a suitable means of meeting environmental requirements. It will be necessary to ensure objective procedures for interpreting the rules so as to ensure that this instrument is not misused. Here, too, however, protectionist measures should only be the last resort. It is doubtful whether they would get to the root of the problem since they at first reduce a country's capacity to look after the environment. At any rate it is more logical for the industrial countries to make available their environmental technology within the scope of development cooperation programmes and take the steps described above to enable the developing countries to use their natural resources sparingly.

VI. Summary

By means of structural adjustment measures the industrial countries can do a great deal to help the developing countries increase and make better use of their capacities. This involvement in a long-term, self-sustaining development process in the poor countries is in their own interest, even though the adjustments will prove burdensome at first. But it is above all a dictate of justice that the industrial countries should offer the developing countries better incentives to take remedial steps themselves. The following structural measures would therefore seem essential:

(a) The liberalization of world agricultural trade should go beyond the measures adopted within the scope of the Uruguay Round. Customs and non-tariff barriers to trade, but in particular the subsidies for agricultural exports of the industrial countries, especially in the European Union, must be reduced or eliminated.

(b) Greater efforts must be made to liberalize global trade in textiles and clothing, shoes and leather goods, steel and shipbuilding. Here the developing countries can be competitive but their export trade is undermined by protectionist measures in the industrial countries. The steps decided during the Uruguay Round are therefore welcome and should be augmented by other liberalization measures.

(c) In order to ensure that liberalization measures do not cause too great a burden for those economically involved, assistance should be provided, but on strict condition that it is used for structural adjustment and by no means for structural preservation.

(d) A stability-oriented monetary and fiscal policy by the industrial nations would support the aforementioned measures in that it would encourage productivity and growth in an increasingly integrated global economy, make world economic conditions more predictable, and thus ease the problems besetting economic policy in developing countries.

(e) It is urgently necessary for the industrial nations, by finding a suitable definition of property rights and introducing ecological tax reforms, to include the very high external costs of environmental exploitation in the

price of goods produced and to seek the transnational coordination of measures to reduce emissions.

(f) The industrial countries should on no account shift their ecological problems onto Third World countries in the form of (toxic) waste exports but, since they are beneficiaries of the positive external effects produced by rain forests, themselves contribute to the preservation of these natural resources.

It is the socio-ethical task of the Church, through careful reasoning and especially argumentation based on the theology of Creation, to foster understanding of the need for such measures. For in the long run the structural adjustments will benefit both developing and industrial countries alike. But they will in particular be conducive to the fair treatment of people of different origins and hence to peace, whereas economic imbalances can be a source of much conflict.

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