

The Emergence of the NIEO Ideology

Craig Murphy



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Craig Murphy

This study traces the political history of the ideas underlying Third World calls for a New International Economic Order. Filling a significant gap in the literature, the book shows that NIEO ideology has a direct, unbroken line of development extending back to World War II, when a "new international economic order," the Bretton Woods system, was created. Dr. Murphy maintains that NIEO ideology is not rooted only in Third World acceptance of Prebisch's views on trade; rather, it evolved from Third World attempts to cope with problems and opportunities that emerged as the Bretton Woods system was created, operated, and began to break down. By the 1970s, the ideology had become a complex and coherent analysis of the economic position of Third World states, including a *political* analysis of how Third World views could be made dominant.

Many of Dr. Murphy's conclusions challenge the conventional wisdom about the Third World position of the NIEO. In addition, his study offers insight into the relatively unexplored area of how changes in political and social consciousness affect international systems, and provides grounds on which officials from both the South and the North can see the others' views as less alien.

Craig Murphy is assistant professor of political science at Wellesley College. He is the author of numerous journal articles in *International Interactions*, *International Studies Quarterly*, and *The Legion Observer* (in Ghana).



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Craig Murphy

Abbreviations

CIEC	Conference on International Economic Cooperation
DMC	Developed Market Country
ECLA	Economic Commission for Latin America
GATT	General Agreement on Tariffs and Trade
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Integrated Programme for Commodities
ITO	International Trade Organization
LDC	Less Developed Country
LLDC	Least Developed Less Developed Country
NIEO	New International Economic Order
OECD	Organization for Economic Cooperation and Development
SDR	Special Drawing Right
SUNFED	Special United Nations Fund for Economic Development
TNC	Transnational Corporation
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNRRA	United Nations Relief and Rehabilitation Administration

Introduction: The Ideology's Role in the North-South Conflict

. . . any talk of giving "cultural autonomy" to the smaller countries while transferring their right of regulating their economic affairs (within the limits imposed on all international intercourse) to some laissez-faire mechanisms of a larger area is nonsense. If we mean by "cultural autonomy" something more than the preservation of picturesque costumes and out-of-date traditions which delight the traveller, then we must realize that it cannot develop unless a certain economic environment is given.

-- K. W. Rothschild, 1944

The complaint of the poor nations against the present state is not only that we are both poor in absolute and relative terms and in comparison with the rich nations. It is also that within the existing structures of economic interaction we must remain poor, and get relatively poorer, whatever we do . . . The demand for a New International Economic Order is a way of saying that the poor nations must be enabled to develop themselves according to their own interests, and to benefit from the efforts they make.

-- Julius K. Nyerere, 1974(1)

Between the end of the second world war and the beginning of the 1970s an originally obscure set of ideas became central to one of the most important modern global conflicts. In the 1940s these ideas reached print only rarely, for example when a relatively eclectic British economist like K. W. Rothschild decided to work out some of the less popular implications of Keynesian economic theory. By the 1970s scores of books and thousands of pages of documents advanced the same views. The obscure

notions of the forties had become the organizing ideology of the largest alliance of nations ever assembled. This book is a political history of that new ideology, the New International Economic Order (NIEO) ideology. It describes where the ideology came from and how it became a force in international relations.

Like some older economic ideologies influencing international relations -- mercantilism, laissez faire liberalism, Keynesian liberalism, and Leninism -- the NIEO ideology defines an ideal system of global economic relations. But the new ideology is not mercantilism; advocates of the new order support conscious international management of global economic relations. It is not Keynesian liberalism; the new ideology's supporters reject creation of international institutions with powers limited only by the rational dictates of economic science. And the new ideology is neither laissez faire liberalism nor Leninism; new order advocates reject the idea that a single type of domestic economy need be imposed worldwide before a just system of international economic relations can exist.

One thing distinguishes the new order ideology from all of the older major ideologies that have influenced international economic relations: The new ideology is concerned with alliance politics. New order advocates explicitly attempt to enlist international institutions behind their program to structure the world economy. Their ideology governs the behavior of the alliance of third world nations within international organizations. As an alliance's political ideology, the new order beliefs resemble the "free world" doctrine of the United States and its allies and the "socialist" doctrine of the Soviet Union and its allies: All define positions taken in global political conflicts. The NIEO ideology underlies the proposals for a New International Economic Order made by the Group of 77 less developed countries (LDCs)(2) and their supporters. It is one part of the current north-south conflict's visible, ideological face.

In tracing the development of this ideology, I begin in the 1940s, when the current north-south conflict over how the global economy should be structured first appeared. To the extent that the world economy is structured by any conscious public decisions, three international economic management institutions established then have the most influence: the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade (GATT). Each works alongside the agencies with trade, aid, and monetary powers that are parts of the governments of major developed market countries (DMCs). Not only were all three of these global organizations created in the 1940s; the ideologies framing the current economic policies of most DMCs were invented or revitalized then.

Following current convention, throughout this book I

refer to the three international agencies and the national actions which support those agencies as "the Bretton Woods system," even though only the IMF and World Bank were negotiated at Bretton Woods. The GATT's legal status, organization, and operations also differ from those of the two other agencies. The IMF and the Bank, more than the GATT, are true international governmental organizations having their own chartered powers, their own staffs, and (at least potentially) their own independent operational ideologies. The GATT is a contract among states; it does not require the staff and autonomy of the other agencies. All three institutions, plus the agencies of the dominant governments that provide crucial support for the institutions' goals, can be considered together for analytical purposes because the creation of those international organizations was informed by the dominant ideology of the powerful nations.

In the forties K. W. Rothschild characterized this dominant ideology as a desire for a weak global federation dedicated to laissez faire economics, a system where international management of the world economy would lead to free trade and free enterprise economies everywhere. This fundamental vision continues to inform many of the policies of the Bretton Woods institutions as well as many of the aid, trade, and monetary policies pursued by the major DMC governments. The dominant ideology's fundamental vision runs completely counter to a major theme that advocates of the NIEO reiterate constantly: their belief that the structure of the world economy should impose no economic principles (like laissez faire) upon nations. Rather, they believe that the international economy should be structured to help any nation achieve its development plans whatever the principles guiding that plan might be.

We can understand why third world leaders talk about their "rights" to "develop themselves according to their own interests" by seeing the new order ideology as a response to the dominant ideology and the system of which it is a part. Recent references, like Nyerere's, to development rights based upon a more fundamental right of cultural autonomy just reiterate Rothschild's view, thirty years after the system he criticized was created.

In its simplest form, then, my thesis is that the New International Economic Order ideology developed as an understandable response to real problems experienced by third world states as a result of the Bretton Woods system's creation and operation. The analyses the new order advocates offer of the economic problems they face may or may not be the most accurate ones, and the policies they advocate may or may not be the best; I am offering an analysis of the ideology's development, not a critique of its validity or value. Therefore I do not use the word "ideology" as a pejorative. Most practical human consciousness, including most scientific thinking, is

just as "ideological." NIEO advocates simply countered one ideology with another.

On one level, the development of the new order ideology looked like this: Each of the positions added to the developing ideology was adopted because it was the most satisfactory of all the available ways for new order advocates to understand a new, shared problem. While they sought the most accurate or "scientifically" correct of a set of ideas available for apprehending the new problem, that set was bounded by an "ideological constraint." This constraint ruled out any new ideas that contradicted any part of the previous new order consensus. Over time, under the ideological constraint of their prior consensus, the ideas third world governments adopted to apprehend and cope with their old and new problems under the Bretton Woods system became an ideology as comprehensive and coherent as the ideology that was part of the dominant system.

Together, the two ideologies constitute the ideological face of the current north-south conflict. That ideological conflict appears throughout statements made by the advocates of the new order and those made on similar topics by the people who want to continue the present system. On its face, the conflict is one between two specific conceptions of how international economic relations can and should be governed. The dominant ideology and the NIEO ideology both identify a proper realm for international, rational management of the world economy. The ideologies differ in the ways they define the boundaries of that realm, the main goals of such management activity, and the policies that should be employed.

The area of agreement between the two ideologies, between statements by DMC spokesmen about international economic matters and those made by third world spokesmen, tell us the current north-south conflict is ostensibly about the management of international economic relations. Both north and south believe in conscious governmental intervention in the economy at the national and international levels. Adherents to both ideologies agree that governments and international organizations should have a role in setting economic goals and attempting to achieve those goals through policy. Moreover, both positions identify the international economic policy-making process as one that should be essentially rational; policy makers should analyze all variables that may influence a chosen goal, and they should choose policies to maximize that goal.

The differences between the two ideologies show up when we examine the limitations on the realm of rational economic policy making that each considers essential. The dominant ideology suggests that international economic policy making should never penetrate a realm of international economic relations defined by the entitle-

ments and duties of private property ownership. Property owners must have the right to use their property in ways they see fit. They must be compensated when property is expropriated. Contracts must be enforced. The realm of property must be protected no matter how irrational private uses, policies of compensation, and the consequences of some contracts may be in terms of achieving international economic goals. In contrast, the new order ideology affirms that entitlements and duties associated with national sovereignty define the only proper limitations upon international economic policy making. Nations must have the right to use their geographically defined resources in any way they see fit, and national governments have the duty to respect and even foster the form of economic relations adopted by the governments of every other country despite irrational effects those policies may have on international economic goals.

The two ideologies also differ in terms of the specific concepts necessary for rational economic planning -- goals, economic analysis, and ideas about policies that could achieve those goals in light of that analysis. The dominant ideology places maximization of the world's production of goods and services as its central and primary goal and considers subordinate goals -- such as encouraging world political cooperation, full employment, and economic security for individuals -- as inevitable consequences of maximized production. The new order ideology also emphasizes production, peace, full employment, as well as some ecological goals, but it does not necessarily see them as correlated. Supporters of the new order emphasize trade-offs, yet say one goal, industrial development in the third world, should have the highest priority.

The two analyses of international economics differ even more when we look at the variables that are said to influence these goals. The NIEO ideology presents a picture of the world divided between economically central and economically peripheral countries in which the level of employment and level of production in the periphery are dependent on decisions made at the center. The dominant ideology presents a world of economic actors -- firms and individuals -- that merely happen to be circumscribed by certain national laws; it argues that correctly perceived national interests never contradict free market policies. Consequently, the adherent to the dominant ideology calls for reciprocal concessions by all nations to make a world free market and prescribes ways that intergovernmental organizations should intervene in economic relations to make such concessions likely. New order advocates say that nonreciprocal policies allowing certain national restrictions on exchange are essential if we want to achieve the highest possible levels of production and welfare.

While the differences between the ideologies are

great, they would be less important if advocates of both could agree upon a way to settle disputes about principles, goals, and analyses. The desire for rational economic management expressed by both ideologies provides one means to resolve disputed economic analysis: empirical scientific study. Yet both ideologies suggest additional, conflicting means to resolve intergovernmental economic disputes. Adherents to the dominant ideology say that conflicts over goals and analyses should be resolved by direct bargaining between national governments. Implicitly, they affirm that in such bargaining all elements of national power -- diplomatic, economic, and military -- should be allowed to come into play; therefore, the outcomes of such bargaining must be weighted toward the self-defined interests of the most powerful nations. The new order ideology says that binding decisions over disputed goals and analyses should be made by majority rule or consensus of national governments, each government having an equal voice to reflect its equal sovereignty. This conflict over the right way to resolve differences keeps the sides apart even when new events force them to amend their views. The north-south conflict has gone through many changes without being resolved.

I organize my analysis around the five distinct phases in the north-south conflict:

- 1944-59 before the Bretton Woods system began to operate the way it was designed to
- 1959-64 after the system began to operate normally but before third world states made their alliance formal
- 1964-71 while the system continued to operate normally and after the formal alliance
- 1971-75 after the system began to break down but before third world adversaries provided opportunities for compromise
- 1975 - after the first opportunities for compromise appeared

Andrew Scott's theory of managing international interdependence and David Apter's theory of stages in the development of domestic mobilizing ideologies in new nations(3) suggest these phases and accurately predict the innovations that occurred during each. The validity of these combined theories, in turn, supports the thesis that the NIEO ideology developed in response to the creation and operation of the Bretton Woods system.

Scott explains that the history of consciously created systems for structuring human relations, like the

Bretton Woods arrangements, can be described in three stages: formation, operation, and breakdown. To form the system, those who will be affected by the structure or regime must resolve conflicts over what relations should be governed and how that should be done. Some of the actors that will be affected by the regime may have doubts that are not resolved simply because they do not have the power to make their interests salient to others. Of course that would only happen if the regime-formation conflicts were resolved through direct bargaining, subjection, or some other process that takes all forms of power into account. The actors whose interests are not considered, therefore, have automatic grounds for grievances with the new regime. As Apter suggests, their grievances can provide them with the basis for a new shared moral code and a new, separate identity.

My first chapter covers the long period during which the Bretton Woods system was formed, the 1940s and 1950s. Asian, African, and Latin American interests in postwar regimes that would foster economic development through coordinating national trade regulations were excluded from the postwar institutions. Those third world interests became the basis for principles, goals, and symbols of identity first adopted by third world governments in the forties and fifties, core elements of the new order ideology that they still reiterate today.

As the Bretton Woods system became more and more of a reality, third world spokesmen began to offer analyses of the world economy that did more than reiterate their initial grievances with the Bretton Woods system. For example, in the fifties third world governments began to charge DMCs with manipulating the terms of trade for third world goods through cold war policies of stockpiling raw materials and through exceptions to GATT rules that DMCs granted to themselves in order to allow special trade alliances including the European Community.

Scott's theory of managed international interdependence explains why new problems occurred and how they were linked back to the Bretton Woods system itself. With his theory we can explain all of the new economic analysis the third world adopted as part of the new order ideology in the 1960s, the only decade during which the Bretton Woods system operated in anything close to the way its founders intended. Scott argues that even consciously managed interdependence regularly produces distressing results that no one ever intended. Most of the early unintended consequences of the operation of the Bretton Woods system could be ignored by the system's most important backers. At first the unexpected events only harmed the interests of the less developed countries that had never really backed the system anyway.

Chapter 2 covers the 1960s, the period when the Bretton Woods system operated most normally. This decade was marked by unintended results of growing international

economic interdependence that were harmful to third world nations but not to others. Ironically, partially as a result of the successes of the Bretton Wood system, the third world's share in world trade declined, differences in standards of living between third world and developed nations and among third world nations grew, some capital and skilled manpower left the third world, and transnational firms in the third world increased their influence over local economies. Throughout the sixties third world governments barely amended the principles and goals they had agreed upon previously. Yet they expanded the new order ideology's policy analysis rapidly as they adopted new ideas to apprehend and explain the new economic problems they encountered.

Apter's theory makes me divide this decade during which the Bretton Woods system functioned the most successfully into two phases of the north-south conflict. With his theory we can understand the one set ideological innovations in the sixties that Scott's ideas cannot clarify. Apter suggests that a conflict enters a new phase when aggrieved parties develop a new, collective political identity. The third phase in the emergence of the New International Economic Order ideology began halfway through the 1960s when the Group of 77 formed. After that, the group confronted the political problem of making its ideology dominant. Throughout the late sixties the members of the alliance tested proposals for projecting what influence they had over DMCs. In the course of doing so the alliance added a political analysis to the economic analysis, principles, and goals which had previously made up the New International Economic Order ideology.

This third phase was far from smooth. Not all inter-third world dissent on global economic principles ended with the formation of the Group of 77. Chapter 3 begins in 1970, after the third world governments had agreed upon the notion that a new international economic order should be formed, but while the third world alliance still remained divided between two groups, each advocating economic duties under the NIEO. Initially these differences were based upon the different interests of the recently independent third world nations, on the one hand, and older members of the group, on the other. The differences disappeared from official statements before the south presented the new order program at the General Assembly Special Session in 1974. By that time all third world governments had consented to having the principles first adopted by the older group members in the forties as the single set of principles governing the duties of wealthy states to aid poorer ones. The key principle they affirmed was a permanent duty of all wealthy states to aid the economic development programs of poorer states. In contrast a historical duty based upon restitution for colonialism, advocated by the newer

states, never obtained a similarly central a position in the ideology.

The bulk of chapter 3 discusses the proximate cause of the most recent third world convergence upon this key principle, the first signs of the Bretton Woods system's breakdown, in 1971. Extending Scott's argument, we can distinguish a period of breakdown in a regime as one that begins when the inadvertent consequences of management start to harm the actors whose support the regime needs. When the DMCs started to refuse obligations under Bretton Woods in the wake of global stagflation, mounting trade deficits, and approaching energy limits to growth, the fourth phase in the development of the New International Economic Order ideology began. Third world ideologists had something new to discuss after 1971, the attempts to reform the Bretton Woods system engineered by DMCs in the wake of the system's crises.

At the time the new order ideology could be characterized by that Apter calls "hortatory realism."⁽⁴⁾ That is, while the ideology certainly contained many objectively accurate propositions arrived at through attempts to correctly understand real problems, the ideology's primary function was to keep the alliance directed toward its fundamental goals. New order advocates were ideologically constrained to repeat all the untested propositions in their earliest consensus. They did so, in part, because no opponents had expressed enough sympathy with the ideology for NIEO advocates to begin the sort of dialogue that could bring some of their untested assumptions into question. Consequently, in the early seventies new order advocates tended to limit their innovations to adding analyses of ways to exploit the DMCs economic vulnerabilities that had been exposed as the Bretton Woods system started to break down.

In 1975 the north-south conflict entered a new political phase, the fifth phase in the development of the new order ideology. By then many of the major developed states had accepted some new order proposals as the agenda for further north-south discussions. According to Apter, such a development should allow the third world's economic and political realism to turn from being "hortatory" to being "practical" as opportunities for realistic compromise appear. The actual record since 1975 is mixed. Compromises between north and south have been reached, but, in the main, third world states continue to support goals and principles for a new order that is anathema to at least the most powerful DMCs. Chapter 4 discusses the increasingly substantive new order debate in light of the few changes in the third world position since 1974.

Chapter 5 summarizes my conclusions about the origin of the new order ideology and then looks both at and below the level of the global system to find out why all third world governments, which differ so much one from

another, can share some underlying interests that the ideology helps them understand and pursue. Even a superficial global view of the ideology suggests how complex the network of interests supporting the new order might be. The new order ideology sanctions all the different development doctrines around the world, doctrines that differ enough to satisfy the scores of different domestic political coalitions of classes and sectoral groups backing different third world governments. Chapter 5's analysis of the new order ideology as ideology suggests some simple patterns underlying the apparent complexity of domestic interests in the south. It also discusses how common individual experiences of members of the third world elite contributed to the ideology's development.

Both chapters 4 and 5 suggest reasons for being optimistic that the current north-south conflict can be resolved through further negotiated reforms of the Bretton Woods system that would satisfy some of the interests underlying the NIEO ideology. In order for the conflict to be resolved parts of the NIEO ideology itself would have to begin to guide the policies the international institutions follow. But in addition to better satisfying some third world interests, the operational ideology of an actual new international economic order would also have to reflect the self-defined economic interests of the governments of developed states more fully than the new order ideology does at present. The Afterword looks at this problem and at other impediments to a "debated" or "idea-generated" resolution to the current north-south conflict. It illustrates something hopeful in the fact that, even on its own terms, the NIEO ideology would be inadequate as the operational ideology for an actual new international economic order.

NOTES

(1)K. W. Rothschild, "The Small Nation and World Trade," Economic Journal 54 (Apr. 1947): 35. Julius K. Nyerere quoted in Anthony J. Dolan and Jan van Ettinger, eds., Partners in Tomorrow (New York: E. P. Dutton, 1978), p. 129.

(2)The group now includes well over a hundred members and some of them, like the oil producing states, are countries where people, on average, are now quite wealthy.

(3)Andrew M. Scott, "The Logic of International Interaction," International Studies Quarterly 21 (Sept. 1977): 429-60; David E. Apter, "Ideology in Modernizing Societies," in his The Politics of Modernization (Chicago: Univ. of Chicago Press, 1965), pp. 313-56.

(4)Apter, p. 320.