CEPAL
Review

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UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA
SANTIAGO, CHILE / APRIL 1980

CEPAL
Review

Number 10 April 1980

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International economic reform and income distribution

*William R. Cline**

I

The distribution of world income

A major goal of the New International Economic Order (NIEO) is to achieve a more egalitarian world-wide distribution of income. The best evidence available suggests that the size distribution of world income (in principle, with the family as the unit) is as shown in table 1, which is based on purchasing-parity exchange rates estimated by Kravis and associates, and on national income distribution data compiled by the World Bank. The first estimate (Kravis *et al*) assumes complete equality within countries, while the second (Cline) incorporates information on income distribution within the countries (the data refer to 68 developed and developing countries, excluding the socialist bloc).

Clearly, the world distribution is highly unequal. Indeed, the world economy is slightly more unequal in distribution than the most unequal of national economies (such as Brazil and Colombia). Moreover, the relative (and of course absolute) per capita income gaps between countries have been rising over the past several decades.[1]

It is clear from table 1, however, that much of the world's inequality stems from unequal distribution within countries. As shown by the first column (which abstracts from within-country inequality), the share of the world's poorest 40% in world income would be twice as high if incomes were equal within countries.

Table 1

ESTIMATES OF THE SIZE DISTRIBUTION OF WORLD INCOME, 1972
(Percentage of total income)

	Kravis, Heston, Summers	Cline
Lowest 40% of recipients	8.4	4.1
Next 50%	58.0	45.6
Top 10%	33.6	50.2
Gini coefficient	n.a.	0.67

Sources: I. Kravis, A. Heston and R. Summers, "Real GDP Per Capita for More than One Hundred Countries", *The Economic Journal,* 88 (350), June 1978, pp. 125-142, and William R. Cline, "Commodity Prices and the World Distribution of Income", mimeographed, 1979.

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[1]See Simon Kuznets, "The Gap: Concepts, Measurement and Trends", in G. Ranis, *The Gap Between Rich and Poor Nations*, Macmillan, 1972.

II

Development strategy and distribution

By now it should be clear to all that unequal income distribution *within* a developing country is neither a prerequisite nor an inevitable consequence of growth. Although the Kuznets inverse-U curve (relating income concentration to per capita income level) has been confirmed as a statistical pattern,[2] it has much lower explanatory power (unless enhanced by other, policy-endogenous variables) than does the "patterns of industrial growth" concept (relating industrial patterns to per capita income). The contrasting examples of Taiwan and Korea on the one hand and Brazil and Mexico on the other are vivid evidence that rapid growth may occur under conditions of equal or unequal income distribution.

Political conditions and development strategy set the course of income distribution. The single most important factor distinguishing the Taiwan-Korea model from the Brazil-Mexico model has probably been the difference in initial asset distribution, primarily because of the presence of thorough-going land reform in the first case and its absense in the second. This difference in initial conditions (determined by differing political conditions) has been exacerbated by contrasting development strategies: labour-intensive (with manufactured exports) versus capital-intensive, respectively.

Transnational corporations. What about the role of foreign forces in determining internal income distribution? About the only argument that the inequality of the less developed countries (LDCs) may be blamed on outsiders rests on the idea that the transnational corporations (TNCs) apply only capital-intensive technology. While there is some evidence that TNCs use more capital-intensive technology than domestic firms,[3] it does not follow that foreign investment makes domestic income more concentrated. Indeed, it should raise labour's share in the economy (by increasing capital availability and lowering the local return on capital), and only under improbable assumptions (preemption of local investment by foreign, so that total capital stock does not rise, plus a more skewed structure of employee payments than by domestic firms) is the TNC likely to worsen domestic income distribution.

Basic Human Needs. While LDC inequality is basically homegrown, external forces currently seek to reduce it. Thus, donor countries and international agencies have adopted an emphasis on income distribution in their lending programmes, and programmes for Basic Human Needs (BHN) are in fashion. The change in style is welcome, after decades of donor emphasis on growth alone, but the politics are delicate. Developing countries fear that BHN is a device for intervening in their domestic affairs, while as for the donors, some of the underlying motives are open to suspicion, since BHN (as well as "human rights") can be used as a slogan by those who oppose aid altogether. The economics of BHN are also uncertain, given the difficulty of distinguishing between mere maintenance of consumption and "investment" in human beings, but on balance the swing towards BHN is very likely appropriate in the light of economic criteria if reasonable equity weights and discount rates are applied. There is a need for flexibility in implementation: where an entire country is poor and distribution is relatively even, focus on growth alone will probably be more socially efficient than limitation of aid to the types of projects typically found on a BHN checklist.

[2] Montek Ahluwalia, "Income Distribution and Development: Some Stylized Facts", *American Economic Review*, Nashville, Tenn., May 1976.

[3] See Samuel A. Morley and Gordon W. Smith, "Limited Search and the Technology Choices of Multinational Firms in Brazil", *Quarterly Journal of Economics*, New York, 1977, pp. 263-287.

Within the NIEO context, an income distribution (or BHN) focus of donor programmes is essential, because resource transfers are so limited that they must be concentrated on the poorest if they are to have much impact on world equity. Moreover, more funds are likely to be mobilized if donor legislatures believe they are going for equity-oriented programmes ("don't tax the poor at home to help the rich abroad"). For these reasons it is important to dislodge the "sovereignty" issue from the unfortunate predominance it has held in the United Nations and other forums.

Latin America, poverty and concessional aid. One of the most difficult aspects of North-South relations is the issue of whether concessional aid flows should go to Latin America to finance projects that help to correct income inequality (development of low-income regions, for example). The hard reality is that concessional resources are so scarce, and most of the African and Asian population is so much poorer than that of Latin America, that there is little justification for concessional aid to most countries of the latter region. Market-related loans from the World Bank and the Inter-American Development Bank (IDB) already carry an element of concessionality (their maturities are longer and interest rates lower than are available in the private capital market), and they are the appropriate vehicles for middle-income recipients. As a matter of donor policy, however, it is important that even these flows be for equity-oriented programmes, if the North is to have an influence in improving equity in the South.

III

NIEO reforms and the distribution of income among countries

What would be the potential impact of NIEO reforms on the world distribution of income?

Commodities

(a) *Price increases.* Commodity policy has been the most prominent element on the LDC list of NIEO demands. To take an extreme version first, what would happen to the world distribution of income if somehow the LDCs were able to increase radically the prices of their raw material exports, repeating the OPEC experience? Although that scenario is highly improbable because of demand elasticities, supplier fragmentation, and the importance of industrial country suppliers, the question has considerable interest in the abstract. "Unequal exchange" theorists such as Emmanuel[4] hold that the route to greater international equity is through improved terms of trade for LDCs, and there is little doubt that much of the initial LDC enthusiasm for a Common Fund for Commodities stemmed from the hope that it could be used as a device to generalize the OPEC result to other commodities.

A recent study by the present author[5] simulates the impact on world income distribution of the quadrupling of prices for several LDC commodity exports (sugar, coffee, cocoa, tea, natural rubber, cotton, jute, iron ore, bauxite, petroleum, copper, and tin), using 1972 as a base year and assuming totally price-inelastic demand. The results are not encouraging for "commodity power" as the road to global equality, since these price increases raise the share of the world's poorest 40% from 4.15% of world income to 4.28%, assuming no changes in intra-country distribution. If the equalizing assumption is made that for each country net gains accrue to the poorest 40%

[4]A. Emmanuel, *Unequal Exchange: A study of the Imperialism of Trade* (New York: *Monthly Review Press*, 1972).

[5]William R. Cline, "Commodity Prices and the World Distribution of Income", (Washington, D.C., mimeographed, 1979).

and net losses are at the expense of the richest 20%, then the quadrupling of commodity prices raises the world income share of the poorest 40% from 4.15% (the Gini coefficients are 0.673, 0.669, and 0.658 for the base year and the two respective simulations).

The ineffectiveness of even extreme commodity price increases for equalizing world income reflects the fact that (a) production is dispersed among rich and poor countries, and (b) trade in commodities accounts for only a small fraction of world income. More generally, the simulation results suggest that "world equity" is not a sound basis for supporting higher commodity prices.

(b) *Price stabilization.* Commodity price stabilization holds more promise as a NIEO reform, since it could add to world income by providing for smoother adjustment in both industrial and developing countries. Behrman[6] has estimated that over the decade 1963-1972, the presence of buffer stocks limiting price fluctuations to 15% around the trend levels would have added a total of US$ 15 billion to United States income by facilitating policies of fuller employment through the avoidance of inflationary shocks from commodity import prices. His study also estimates the static welfare gains to LDCs from commodity price stabilization, although the unestimated dynamic welfare gains associated with more stable domestic macroeconomic conditions (in LDCs), as well as gains from the stimulus to commodity investment caused by the reduction in uncertainty, are probably far larger.

Commodity price stabilization would benefit both rich and poor countries and would therefore increase world income, but it probably would not redistribute it to any significant degree. In March 1979 the industrial and developing countries agreed in principle on a Common Fund for commodity price stabilization. Whether the Fund will adopt binding decisions, and whether its presence will lead to more commodity agreements, remains to be seen. Nevertheless, the prospective Common Fund represents an important tangible result (or near-result) of the tortuous North-South negotiations of the last five years.

Concessional aid. An important potential instrument for redistributing world income is concessional assistance. Out of a world income of approximately US$ 5 trillion, the world's poorest 40% receive about 4% or US$ 200 billion. In 1977, the OECD countries provided US$ 15 billion in concessional aid (OPEC provided another US$ 5.7 billion), or 0.31% of their GNP. If the OECD countries met the United Nations target of 0.7% of GNP, and if the additional US$ 19 billion in aid were channelled wholly to the world's poorest 40%, the latter would obtain approximately a 10% increase in their income (it should be noted that this increment in the income of the poor would be about the same size as that obtained under the highly implausible quadrupling of commodity prices with gains focused on the poor and losses on the rich).

Political realities do not favour a massive rise in concessional aid, however. With slow growth, high inflation and unemployment in industrial countries, legislatures are more inclined to cut down budgets.

Trade reform. The recently completed Tokyo Round of trade negotiations represents an important achievement for the developing countries, since world tariffs facing their products will fall by about 25%. Rather than emphasizing that this cut is lower than the overall average (about 33%), LDC policy-makers should recognize that this result of the negotiations represents a considerable "free ride" (for which they made few concessions themselves). Other parts of the negotiations are less favourable, however: a new deal between the United States administration and the textile industry could cut the growth of LDC quotas from 6% to 2% per year in many items, because of the need to mollify the industry in the face of lower tariffs on imports from Japan and Europe, and the new codes on safeguards and countervailing duties also have potentially injurious implications for the LDCs ("selective safeguards" might be used as a club to force voluntary quotas, while obligatory phasing out of export subsidies may be inconsistent with efficient shadow pricing of foreign exchange).

[6] Jere R. Behrman, *International Commodity Arrangements: An Evaluation of the UNCTAD Integrated Commodity Programme* (Washington, D.C, Overseas Development Council, 1977).

The need for trade reform goes far beyond the liberalization accomplished in the Tokyo Round. The régime of textile quotas is not the only restrictive aspect of North-South trade. Safeguard protection of shoes and television sets and various forms of restrictions on steel, shipbuilding and electronics plague the trading system. Reform would call for elimination of those restrictions, but in practice the LDCs will be fortunate if even a standstill on protection is achieved.

Protection makes the world distribution of income more unequal by limiting the process of factor price equalization through trade. It may keep distribution more equal in industrial countries by boosting the demand for labour; Balassa[7] shows that the labour content per billion dollars of industrial country imports from LDCs is higher than that per billion dollars of exports to LDCs. But even in industrial countries there are offsetting factors: protection against LDCs limits the supply of low-cost imports, probably affecting low-income consumers the most,[8] while for LDCs, foreign protection (and their own for that matter) concentrates income distribution by skewing demand for production away from labour-intensive goods towards capital-intensive goods. Among LDCs, freer trade worldwide may ironically be income-concentrating in the short run, because it is the middle-income countries (not the low income ones) that will capture most of the increase in markets.

As for tariff preferences, the trade reform long advocated by UNCTAD, the consensus is that they have added little to LDC exports because of the ceilings and exclusions which accompany them, and that moreover the political context makes any significant future liberalization of preferences highly unlikely.

In sum, then the "reform" of trade achieved in practice will be simply the maintenance of at least the current degree of openness in world markets. By minimizing the chance of trade wars, the new non-tariff-barrier codes and the tariff negotiations of the Tokyo Round should help achieve this "reform".

Debt relief. At the end of 1976 the external public debt of the developing countries amounted to US$ 160 billion.[9] In the initial stages of the NIEO discussions, some Third World spokesmen advocated generalized debt relief as a means of increasing international equity. It is widely accepted by now, however, that generalized debt relief would be counterproductive for middle-income countries, because it would jeopardize their credit ratings and dry up capital inflows. At the same time, public concern about the danger of a rash of debt defaults, with a consequent collapse in industrial country financial centres, has gradually subsided, as it has become evident that after adjustment for inflation and in view of higher export earnings, the LDC debt problem is not much worse today than in the early 1970s (before the massive borrowings of 1974-1975).

Two issues remain. The first is the danger of debt servicing problems (such as those which have recently arisen in Zaire, Peru and Turkey). The second is the possibility of debt cancellation for poorer countries, as a means of aid. International negotiations have achieved a modest breakthrough on "retroactive terms adjustment" for poor LDCs, and less successful attempts have been made at defining "features" of debt profiles warranting rescheduling by middle-income countries. For world income distribution, the cancellation of debts owed by poor countries to donor governments represents a somewhat promising instrument. Approximately US$ 2.4 billion annually could be transferred to poor countries in this way if donors did not make corresponding cuts in new aid. (The agreements so far fall far short of this potential, because they are limited to a minor list of "least developed" countries.) In general, the potential for world income equalization through debt relief is comparable to that of a modest rise in global aid flows. Refinancing facilities for middle-income countries in trouble under specific "features" would have little impact on world income distribution, because new

[7] Bela Balassa, "The Changing International Division of Labor in Manufactured Goods" (Washington, D.C., mimeographed, 1979).

[8] William R. Cline, *Imports and Consumer Prices: A Survey Analysis* (Washington, D.C., American Retail Federation, 1978).

[9] World Bank, *Annual Report 1978.*

loans would most likely be at market-related interest rates, the supply of concessional funds being limited.

Some analysts emphasize the danger that high LDC indebtedness will spell stagnation over the next few years, as LDCs (usually middle-income) reduce growth in order to keep debt manageable.[10] However, slower future growth represents the price paid for faster growth during the world recession in 1974 and 1975. From 1973 to 1975, when OECD growth fell from 5.9% to −0.9%, non-oil-LDC growth fell only from 7.3% to 4.1%. The decline might have been much greater without heavy borrowing to finance current account deficits.[11] With a high time discount rate, higher earlier growth was probably a correct strategy, but it should come as no surprise that the implication was lower subsequent growth. Until growth at the centre reaccelerates, the production possibility frontier of the LDCs will remain on a lower time path than before, and attempts to achieve more rapid growth (or maintain earlier rapid growth rates) will cause worsening external imbalance. The problem will only be resolved by reacceleration at the centre, or failing that, a turn a new strategy of growth that is less dependent on external factors (if such an alternative exists).

The international monetary system. A decade ago there was considerable hope that monetary reform could be meshed with aid to developing countries (the SDR/aid "link"). Triffin and others[12] have accused the present exchange-reserve system of being discriminatory against LDCs because their currencies are not used as reserve currencies and they do not enjoy seigniorage. In principle, therefore, monetary reform might help to equalize the distribution of income among countries.

The prospects for significant aid flows through the linkage of SDRs to development assistance are poor. Relatively small amounts of SDRs are likely to be created over the next few years. If a "link" were created, it would have to be focused solely on the poorest countries in order to be most effective for redistributive purposes, yet LDC politics (as shown by the LDC proposals in the Committee of Twenty) would probably lead to allocation based on IMF quotas, which favour middle-income LDCs.

As for the premise that the reserve centres benefit from the current system, the extreme reluctance of Germany and Japan to allow others to hold their currencies as reserves suggests that by the time all factors (including payment of interest) are taken into account, the reserve centre's real seigniorage is negative.

Flexibility versus fixity of exchange rates among industrial countries is another monetary reform issue affecting LDCs. There is growing recognition among LDCs that fixed exchange rates among industrial countries are not feasible and can lead to greater restrictions on trade and capital flows than a régime of flexible rates. Here there are few implications for world income distribution, however: whichever system is better for the industrial economies will almost certainly also be better for LDC's because of derived benefits from faster growth at the centre.

Technology transfer. Although hypothetically lower-cost transfer of technology would work towards redistribution of income from the North to the South, extreme "reforms" such as the undermining of patent rights within the industrial countries would dry up the flow of new inventions and reduce total real income. There is, however, considerable scope for increased LDC bargaining in the "bilateral monopoly" situation of TNCs versus LDCs. Andean Pact restrictions on royalty payments, and requirements of local content and ownership, are examples, and some analysts contend that it is now generally the LDCs that have obtained the upper hand in bargaining (partly because of the "obsolescing bargain" whereby host bargaining power increases once the investment in sunk).[13]

[10] Albert Fishlow, "Debt Remains a Problem", *Foreign Policy*, 30 (Spring 1978).

[11] J. Holsen and J. Waelbroeck, "The Less Developed Countries and the International Monetary Mechanism", *American Economic Review*, May 1976.

[12] In Jan Tinbergen *et al, RIO: Reshaping the International Order. A Report to the Club of Rome* (New York, E.P. Dutton, 1976).

[13] See C. Fred Bergsten, Thomas Horst, and Theodore H. Moran, *American Multinationals and American*

IV

NIEO proposals: Summary

A recent Overseas Development Council study[14] contains quantitative estimates of the economic benefits and costs of several NIEO proposals. Table 2 summarizes these estimates. Achievement of the 0.7% of GNP aid target is the reform that would go the farthest towards reducing international inequality. Not only would this reform generate a larger net flow of benefits to LDCs, but also (a) the benefits would be focused on the poorest LDCs and (b) the cost would be borne by the industrial countries. Debt cancellation would be similar in effect but more modest in scope.

Commodity price stabilization, grain reserves, and trade liberalization represent a second kind of reform, that benefits both industrial countries and LDCs (mainly middle-income LDCs). These reforms would have a considerable effect on world economic growth (especially considering that the table's estimates are understated for commodity stabilization benefits to LDCs), although they would probably leave world income distribution unchanged.

A third category of reform is the new automatic aid mechanism, ranging from the SDR aid link and IMF gold sales to ocean resource revenues. Because of the acceptance of the 200 mile economic limit, most of the potential aid from ocean resources has already been given away. One of the more intriguing proposals for automatic aid is the restitution of tariffs collected to exporting LDCs, which would generate an estimated US$ 7 billion annually. Although these funds would go mainly to middle-income LDCs, they would contribute to world equity.

Reviewing the whole range of reforms listed in table 2, however, and considering the political implausibility of many of them, it is clear that the programme of NIEO reforms cannot be expected to make a major impact in equalizing the world distribution of income. Even under the extremely optimistic assumption of implementation of the whole set of NIEO reforms, the net benefit to LDCs would be only about US$ 30 billion annually, and even if most of this benefit were focused on the world's poorest 40%, the resulting increase in their real income would be only about 10%.

Accelerated development within the LDCs holds much more potential for world equity than does a programme of redistribution through NIEO reforms. For the world's poorest 40%, an acceleration of 1% per annum in LDC growth rates would give the same result after one decade as if the entire agenda of politically difficult NIEO reforms were implemented. The growth-based gains would be more permanent, because they would not rely on transfers from rich countries, and if internal LDC income redistribution policies were followed as well, the time span would be shorter than a decade, while the potential benefits for the poor could far exceed anything possible from international redistribution under even highly optimistic political assumptions.

In summary, NIEO reforms can increase world efficiency (commodity price stabilization, trade reform) and secure a modest improvement in world equity (aid target, debt relief, automatic aid mechanisms). However, the scope for world income equalization through NIEO reforms is small, especially if one is not optimistic about large increases in aid flows. Accordingly, the key to an improved world distribution of income lies in accelerated LDC growth and income redistribution within them.

International economic management

Although not on the NIEO agenda, prudent management of the international economy is

Interests (Washington, D.C., The Brookings Institution, 1978).

[14]William R. Cline, *Policy Alternatives for a New International Economic Order* (New York, Praeger Publishers, 1979).

Table 2

ESTIMATES OF ECONOMIC BENEFITS AND COSTS RESULTING FROM ALTERNATIVE POLICIES

Potential policy	Annual benefits to developing countries[a]		Annual benefits or costs to industrial countries[a] (billions of US$)	Comments and qualifications
	Amount (billions of US$)	Country income level		
Commodity price stabilization (Common Fund)	0.6 or more	middle	4.6 benefit	Assumes price stabilization, not price raising. Developing country benefit figure is for static gains. Omits benefits from increased certainty in planning and from stimulus to investment. Figure for industrial countries refers to macroeconomic stabilization benefits.
Grain reserves	0.04 or more	food importers	0.09 or more benefit	Estimates for both developing and industrial countries are understated by exclusion of benefits from increased certainty and macroeconomic stabilization. (Industrial country figure includes centrally planned economies.)
Debt refinancing facilities	n.a.	middle	n.a. n.a.	Benefits would include increased certainty in financial markets and smoother adjustment to payments problems in developing countries. Quantification difficult.
Cancellation of debts of poor developing countries	2.4 or less	low	2.4 or less cost	Transfer to developing countries depends on extent to which aid through debt relief would be offset by reductions in direct aid. Such reductions would lower both benefits to developing countries and cost to donors.
Trade liberalization 60% cut in:				Figures for developing countries refer to increase in annual exports: economic benefits would be lower, given resource costs of producing exports. Figures for industrial countries refer to liberalization of imports from all sources; figures for tariffs refer to both static and dynamic benefits; figures for agricultural non-tariff barriers and textiles refer to static benefits only. 1974 data base.
tariffs	2.2	middle	8.5 benefit	
agricultural non-tariff barriers	0.4	middle	2.0 benefit	
textile protection	1.6	middle	0.9	

Table 2 (cont. 1)

Potential policy	Annual benefits to developing countries[a]		Annual benefits or costs to industrial countries[a] (billions of US$)	Comments and qualifications
	Amount (billions of US$)	Country income level		
Aid target				
0.7% of GNP	15.3 or less	low	0-15.3 cost	The 0.5% target is more realistic than the 0.7% target, but either of them would require major revival of political will in support of aid. Real benefits to developing countries somewhat below nominal figures because of non-grant aid and aid tying. Real costs to donors below nominal figures to extent that unemployed resources exist that would not be mobilized by increased domestic spending programmes in the absence of increased aid expenditures. Long-run donor costs also may be much lower because of stimulus to world economic growth, and thus growth of donor countries, through effects such as increased supply of raw materials from developing countries and improved developing country markets for donor exports.
0.5% of GNP	7 or less	low	0-7 cost	
Automatic aid mechanisms SDR "link"	0 to 4	uncertain	0-4 cost	Measure has little prospect in the near term (see chapter 5 of Cline, *Policy Alternatives*..., *op. cit.*). If applied, a large share of benefits would accrue to middle-income developing countries under a formula based on IMF quotas, although distribution could be altered to favour low-income countries. Cost to industrial countries based on premise that net use of SDRs represents a claim on existing resources, not on the creation of new world resources.
Ocean resources	5 or less	uncertain	5 or less cost	See chapter 5.
Tariff repayment	7	middle	7 cost	Estimate of current tariff collections by industrial countries on imports from the developing countries. Repayments would accrue to developing country exporters, mainly middle-income countries.
Tax on brain drain	0.5	all	0-0.5	See chapter 5.
Sale of IMF gold	1	low	1 cost	See chapter 5.

Table 2 (conclusion)

Potential policy	Annual benefits to developing countries[a]		Annual benefits or costs to industrial countries[a] (billions of US$)	Comments and qualifications
	Amount (billions of US$)	Country income level		
Liberalized migration	very large	all	large internal redistribution	Measure highly unliked politically. Would benefit both developing countries and industrial countries in aggregate, but would cause redistribution of income from workers to owners of capital in industrial countries.
Increased competition in product markets	n.a.	all	n.a.	Orders of magnitude unclear. The usual presumption is that developing countries would benefit and transnational firms from industrial countries would suffer from reduced monopoly power in international trade, but even this direction of change is uncertain.

Source: William R. Cline, *Policy Alternatives..., op. cit.*
[a] 1976 base.

ultimately the most likely source of success or failure in reducing world poverty. Since 1974, growth at the centre has been low, and growth rates on the periphery have been faltering as a result; similarly, the high inflation at the centre has resulted in "imported inflation" at the periphery. The energy shocks to the world economy have resurfaced in 1979 after receding temporarily, and traditional macroeconomic policies at the centre have failed to resolve the problem of stagflation.

The international economic outlook for the medium term is not bright: it is very far from the buoyant environment of most of the post-war period. In this context, the question of whether the industrial countries can break out of their stagflation impasse and resume high growth rates will probably have a much more profound influence on the economic prospects for the poor in LDCs than will the specific outcome of the NIEO negotiations. Similarly, the inventiveness of the LDCs' policy response to the more hostile international economic environment will play a crucial role regarding the prospects of the world's poor.