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# Transition to a New World Economic Order

## Part I: The Framework

Peter Calkins\*

The idea of a new world order suggests political and economic changes that would improve the lot of all the people in the world. Such a new world order would address all causes of poverty and inequality both within nations and between nations. Desirable changes would modify present competitive patterns of organisation and substitute more cooperative systems and processes. Writers in this area focus particularly on how to change the current state of the world in order to achieve a transition to a more desirable new world order. From an economic point of view, this transition could be interpreted as an attempt to frame new political, economic and social institutions and rules of conduct that would enable the equity goals of the proposers to be achieved.

### 1. Introduction

No one has ever predicted the massive changes that have punctuated human history. The Mesopotamians felt that their world order was the pinnacle of civilisation, and could not foresee the emergence of a new Greek world order. Similarly, Aristotle, while cataloguing the transition from a world order based upon communal reciprocity to one characterised by impersonal market exchange, did not foresee the rise of mercantilism or of industrial capitalism. More recently, no one predicted that the Soviet Union would vanish so suddenly or so peacefully, thereby opening the way to massive adjustments in our own world order.

Are we now on the eve of another major shift in human history? A search of the literature shows a wide range of concerns and possible weak points in the current world order, including discussion of the New International Economic Order (NIEO) first requested by the Third World in the 1970s. But because it is impossible to foresee the future, no one can say which weak point will give way first, or how. Indeed, the next world order will probably be something totally unimaginable, as has always been the case, especially because the term New World Order (NWO) is not being as actively defined, debated or discussed as the NIEO was twenty years ago.

If we are to do even slightly better than our forebears in understanding, preparing for, and perhaps even

guiding the transition to some new order, it is important to develop a conceptual framework and empirically test the apparent options. Agricultural economists today can benefit not only from the heritage of the economic thought and philosophies of the past, but from the many tools of modern mathematical economics at our disposal. We have the unprecedented capacity to manage, integrate and interpret vast amounts of empirical data and thus to actively intervene in the interests of positive socio-economic evolution. We may also pool and synthesise a multiplicity of schools of thought from all over the globe and from disciplines other than economics. For, more than ever before, economics can only hope to make a meaningful contribution to the next world order if it looks past economics to the contributions of other disciplines which will put it into context.

The objective of this series of two articles is thus to sensitise agricultural economists to the complexity of this systemic transformation, and to better prepare the profession as serious scientists able to contribute to the transition to the new world order. Because of the nature of the task, this review of the literature must remain both sweeping in scope and telegraphic in style. Selected examples, while not pretending to be exhaustive, will be given wherever possible to illustrate the ideas.

### 2. Problems of the Current World Order

The need for a better, new world economic order (NWO) derives from at least five general problems of the current world order (CWO): environmental destruction and pollution; economic inefficiency, inequity, and instability; social injustice; a legal and institutional vacuum; and the lack of unifying values.

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## 2.1 Environmental Destruction and Pollution

Environmental destruction is the most physical and external manifestation of problems in the world order. It touches not only the world economy as a whole, but each type of economic system within it. Thus it is not just in the dead seas and post-Chernobyl wastelands of the socialist developed world that these problems have become alarming. In United States agriculture, undisciplined use of the Ogalala aquifer for irrigation has renewed the possibility of severe drought (Kim *et al*). In Southeast Asia, the economic success of Taiwan and Thailand has been at the environmental costs of chemical fertiliser pollution and deforestation, respectively (Devlin and Yap). The Brazilian rain forest is being razed at thousands of hectares per day, and along with it irreplaceable ethnic information and biological gene pools (Brazee and Southgate). And at the planetary level, the ozone layer is being destroyed, CO<sub>2</sub> emissions are rising, and the desertification of the Sahel region of Africa and other fragile zones portends a change in global climate (Hughes).

## 2.2 Economic Inefficiency, Inequity and Instability

The world ecological problem might be more acceptable if it were the inevitable cost of high efficiency, equity and stability in world food and industrial production. Unfortunately, environmental and economic waste often go hand-in-hand. In the US, workers are increasingly unmotivated; income distribution is worsening; and the misallocation of capital through mergers, acquisitions, spinoffs, leveraged buyouts, buy-backs and recapitalisations costs 0.5 per cent of GNP (Bruyn). These problems, shared by the European Community, are intensified by protectionist rivalries between North America, Europe and Japan, often involving transnational corporations (TNCs). Without having solved its farm problem, the EC was pouring over 60 percent of the its budget into agriculture in 1990 (Fulton *et al*).

Not only have the Soviet Union (Nove) and Eastern Europe (Kadar, Riha) been particularly notorious for low productivity, worker motivation and economic coordination, the freeing of markets has not ended lax financial management, and has provoked resistance to change by bureaucrats and profiteering by a new economic Mafia. Even Hungary, the "most marketised version of real socialism", has not successfully adjusted to global development, scientific-techno-

logical revolution and post-industrial modernisation (Kadar). Similarly, in the underdeveloped socialist world, Cuba, which relied on secure barter-based trade with Eastern Europe, has been thrown onto unstable and aggressive world markets for sugar and lost her suppliers of fertiliser and other industrial inputs (Buzzanell).

The Third World as well has been characterised by widening extremes of income and greater export instability (Marquez and Pauly, Espinosa). African policies promoting agricultural crops for export and commercial advantages for outsiders have destroyed complex long-distance economic relations and daily labour management that had assured food self-sufficiency (Rau). The LDCs as a whole have lost more than US\$300b in the last 15 years over what they could have earned from economic self-sufficiency (Stan-canelli).

And for the world economy as a whole, the capitalist production model has failed to motivate or satisfy significant numbers of workers, relieve extremes of income within and between countries, or devolatilise currency and export markets (Lipietz, Vega-Redondo, Hughes). Nor have the youth, worker, ecologist, regionalist and feminist reactions to this model relieved Third World debt, raw material price instability, the under-financing of Third World aid, or unstable interest rates (Lipietz).

## 2.3 Social Injustice

These ecological and economic problems have intensified social injustices throughout the world. In the Third World, 250,000 children, largely girls, die per week because the choices of the systems they live in have included excessive military spending and debt service payments, and the lack of child welfare components in international aid (Grant). And in the world economy as a whole, the distribution of consumption, resource exploitation, trade relations, and debt accumulation between North and South results, in spite of aid, in a net transfer of resources from South to North (Wallerstein), to the extent that some predict a world financial collapse before the year 2000 (J. Robertson).

Meanwhile, transnational corporations (TNCs) largely based in capitalist developed countries have weakened the control of the State over its own macro-economic policies and likely reduced the standard of living of host-country consumers. In 1980, the 382 top TNCs had 28 per cent of GNP of all western

industrialised and LDC countries, and 60 per cent of trade (Heininger).

## 2.4 Legal and Institutional Vacuum

The severity of these ecological, economic and social problems is intensified by the lack of appropriate legal institutions. In the Soviet Union and Eastern Europe, rhetorical debates between radicals and gradualists (Yanowitch) and crises in education and scientific research (Gauzner *et al.*) have retarded and complicated the task of developing such institutions to replace the defunct communist party and the highly centralised bureaucracy of the past.

The Third World is the indirect victim of the laws of other nations and of its own flawed legal and institutional systems which ignore or weaken traditional social and value systems. The Bretton-Woods institutions, created for European reconstruction, stable exchange, and managed world trade, have not yet reflected the needs of the LDCs (Hossain).

Japan, despite its vast skills in international monetary and tax issues, has not become a leader in creating world institutions of peace (Kojima). Nor are the TNCs regulated by a standard code of conduct, much less a set of international laws for their control (Marchak).

And for the world economy as a whole, the United Nations is still far from the type of world government that could provide a framework of integrated economic and social policies. Nor is the International Court of Justice frequently used by those with trade and other economic disputes (Jaenicke). Growing regional agreements among nations are at best fragile and may not lead to truly world-based institutions (Behrens, Rubinstein, Hughes).

## 2.5 Lack of Unifying Values

Trade wars, problems with cartels and customs unions, and TNC pricing policies all indicate that market competition of standard economic theory can never provide the unifying values for a NWO. For the United States, the social disruption of rapid economic growth has led to alienation, lower levels of satisfaction with community and home, and eroded social activeness and perceptions of belonging (Seyfrit & Sadler-Hammer). Similarly, Japan is passing through a stage of rudderless disaffection with its current

values and hence with its image in the world (Funabashi).

The Third World, despite its belief in its moral superiority, has still not succeeded in providing materially and spiritually better models for the world (Jalloh). The Soviet Union, too, is undergoing a profound crisis in all spheres of social life and hence a serious soul-searching to develop a set of moral values to replace Marx-Leninism (Latysheva, Abalkin, Yanowitch).

And for the world economy as a whole, there seems little chance of forging a better NWO without a higher level of values than market competition and nationalism. The Golden Rule, reciprocity, community, cooperative spirit, and common concern for the planet may be partial solutions. But it is far from obvious what an acceptable source of those values might be: UN charters, the great philosophers, or world religions (Fischer, Khalil, Nye, Horvat, Hayami).

## 3. Goals of the New World Order

Many are pessimistic that a common vision could ever address these environmental, economic, social, political and moral challenges. "There is no 'Metafix' that will unite everybody from the profit-minded industrialist and risk-minimizing subsistence farmer to the equity-seeking social worker, the pollution-concerned or wildlife-loving First Worlder, the growth-maximizing policy maker, the goal-oriented bureaucrat, and therefore the vote-counting politician." (S.M. Lele quoted in Devlin and Yap). Yet "values are like heavenly stars: they are unreachable and untouchable -- nonempirical -- and yet they enable navigation." (Bruyn). A subtle compromise may thus be possible among four apparently conflicting goals of a better world order: improved efficiency, greater equity, restored equilibria and dynamic evolution.

### 3.1 Improved Efficiency

Efficiency involves the production of a desired level of ecological, economic, social, political or moral good at minimal environmental, economic and social cost (Robiati). For example, groundwater resources could be more efficiently conserved in the United States (Kim *et al.*) Eastern European planners could more efficiently achieve their economic and institutional objectives, protect the functional capability of the economy, and purposefully coordinate economic activities (Riha). They could enhance political efficiency through improved provision of statistical serv-

ices. Katz even calls for spiritual efficiency in the integration of Jewish people back into the land and culture of Israel.

### 3.2 Greater Equity

Equity involves reducing the extremes in access to national resources, work and other economic opportunities, social and political freedoms, and spiritual expression. One example of the need for greater ecological and economic equity comes from New Zealand, which seeks greater access to and control over her own ecological resources, especially land, and fairer treatment of farmers (Le Heron and Le Heron). A more general statement is the UN Resolution of May 1974, which called for a NIEO "based on equity, sovereign equality, interdependence, common interest and cooperation among all states, irrespective of their economic and social systems, which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and developing countries and to ensure steadily accelerating economic and social development" (Runge). Meanwhile, spiritual equity and freedom of moral choice among all the world's citizens seeks to "enlarge people's freedom to act as moral agents in their economic lives, including their opportunities to exercise social and environmental choices in their roles as workers, consumers and savers" (J. Robertson).

### 3.3 Restored Equilibria

Equilibrium refers not only to the stabilisation of prices, labour and output market disequilibria, trade and payments imbalances, and other macro-economic indicators; it also includes North-South cooperation, world peace, and ethnic and religious harmony. Ecologically, mankind has an interest in reducing and eventually eliminating the South's dependency on the North for its basic needs and increasing the South's control and management of her natural resources. Economically, an international government or cooperative framework could play the role historically performed by the national State: balance the interests of producers and consumers, restrain monopolies, and promote free competition and growth (Hossain).

### 3.4 Dynamic Evolution

Evolution involves not only output growth and economic development, but the dynamic realisation of improved social and political structures and the self-

realisation of individuals. As such, it touches the process of transition itself. Peoples and nations everywhere must be free to choose the most progressive and sustainable development model possible, in order eventually to transform the flawed welfare State into a non-aggressive welfare *community* (Lipietz). Some believe the goal of Eastern European nations should not be the market *per se* but "to elevate man and the individual to liberate the latter's creative potential" (Gauzner *et al.*) And many in developing countries are seeking cooperative alternatives to the traditional private enterprise system in order to achieve growth, employment and development (Espinosa).

## 4. Definitions of Key Concepts

### 4.1 New World Order

Despite these widely recognised goals, there is a striking lack of consensus in the definition of the New World Order. Most economists are familiar with the term as it was popularised by then President George Bush after the 1991 war in the Persian Gulf: a nebulous vision of the world wherein the United States would play a role of political and military leadership in defending the economic interests of itself and, by extension, the world economy. It is difficult to agree with this conception because of both its vagueness and its patent self-interest.

Partly as a result, for several modern writers, NWO is a thoroughly *negative* concept. Some view it as a plot linking world communism and a vaguely-masonic Trilateral Commission to undermine fundamental American values (P. Robertson). For the followers of Gramsci, it is the opposite: the pernicious imposition upon the rest of the world of those same values by the United States as chief capitalist "hegemon". Chomsky argues that the rulers of the emerging global society will continue to adhere to Winston Churchill's concept of world order, according to which the government of the world should be entrusted to the "rich men dwelling in peace" in the "satisfied nations" whose power places them above the dangerously greedy "hungry nations". For still others, even the LDCs' vision of a NWO continues to subscribe to the "self-defeating colonial notion" that only products from the West and Japan are worth having, the "imprisoning idea" that only the currencies of the West are convertible (Comelieu); and the misguided call for women's equality based on existing, male, productivist terms, rather than on the strength of women's contribution to peace, equality, humanised lifestyles

in the North, and genuine alternatives in the South (Pietilä).

Balancing these concepts are much more *positive* definitions of a NWO. For example, the closely related term NIEO was used over twenty years ago by the Group of 77 Third-world Nations in drafting the 1974 UN Resolution. Widely debated in the late 70s and early 80s (Preiswerk, Runge), the term has been largely replaced by NWO. Recently, several authors have added a more specific *environmental* dimension. Some foresee a multi-level one-world system that is "environmentally-conserving" and people-enabling (J. Robertson). Others promote an "ecoholist", structuralist, globalist vision to replace the corresponding modernist, liberal, and realpolitik components of the CWO (Hughes).

For Lipietz, any true NWO must rest on three bases: 1) ecological accumulation and greater leisure, 2) democratic modes of regulation, and 3) involved labour. These three concepts would replace the three corresponding "Fordist" notions of mass consumption and full employment, legislated wage increases, and non-intellectual involvement of labour. Lipietz' NWO involves building a new "nation" (defined as "a soul, a spiritual principle") in Europe as a test-bed for the rest of the world. This nation would be based on a "new frontier" and a social contract of harmonised ecological regulations, unified capital taxation and labour norms, universal social welfare insurance, more inter-regional net transfers, "air chambers" between nations to help maintain their particular social choices, and a new compromise between autonomy and solidarity.

In addition to these largely economic interpretations, other writers have emphasized the essential element of political *peace* in such an order. For example, some believe that "chaos" has followed the transition from Pax Americana to "Pax Consortis", defined as a new regime of international cooperation (Kojima). Others feel that a consultative, "post-hegemonic" peace may require keeping in place in the short run the balance-of-power realpolitik of Kissinger and Nixon until it can be fully replaced by the democracy and human rights of Wilson and Carter (Nye). This latter vision is consistent with that of Galtung, who proposes *positive peace* (the absence of economic, military, political and cultural exploitation plus the presence of social justice) as distinct from negative peace (the mere absence of war). Galtung warns that negative peace may co-exist with "structural violence," which

occurs when economic and social conditions are such that people die or suffer as a consequence of the unequal distribution of resources.

Other writers point to the legal and *institutional* requirements of the NWO. They call for an order that is at once liberal, non-discriminatory (most favoured nation status accorded to all countries), multilateral (vs. bilateral), bolstered by legal rules and international institutions, transparent, and cooperative (Luard quoted in Hossain). They also desire a code of conduct for TNCs and other international actors (Heininger)<sup>1</sup>.

Still other authors emphasize the *moral* values of the NWO. This concern seems strongest in socialist writers, who foresee an order based on a new economic paradigm that genuinely integrates the inner part of human nature, rather than mechanically adding social, political, moral or religious accretions (Abalkin). Such writers call for a higher historical synthesis between individualism and solidarity. Their NWO would be a new *meta-civilisation* synthesizing the advantages of previous civilisations, where the social "becomes a means for man's most complete realisation of all his abilities and the free creation of these relations" (Latysheva). Socialist writers emphasize the greater role of worker-managed solidarity in such a civilisation because spiritual growth and self-realisation can free work from alienation and tedium (Horvat). They define group control as "a community dedicated to the concept of social interdependence and solidarity, working in groups the size of which is determined by the nature of the task or of the environment, the power of central and local politicians being constrained by a legal, juristic and judicial structure" (Riha). This "third way" between socialism and capitalism would allow coordination of large groups without overburdening the State.

But an emphasis on the group-centred growth of the individual may also be found in the writings of non-socialist authors. *Social self-governance* in any econ-

<sup>1</sup> The computerised literature search upon which this article was based revealed several additional political science dimensions of the New World Order. These ranged from the strategic importance of continuing to finance espionage activities, to the future of the theory of the nation-state. For reasons of brevity, these other political dimensions of the New World Order have been excluded from the present treatment.

omy is based on self-regulating markets independent of both State and narrowly capitalistic profit-seeking (Bruyn). In this context, a "self-regulating market" is one in which people participate through their firms as members of democratic trade or industry associations to set the norms and determine the course of exchange in the market, apart from state regulation.

Perhaps the most extensive and positive definition of NWO is that of the international networking of like-minded souls on the basis of a complete set of alternative values to those of the CWO (Ferguson). This new economic paradigm proposes, for example, consensus and shared goals (vs. bureaucracy and imposed goals), individual identity as much more than one's job, cooperation against uncertainty (as opposed to competition and aggressiveness), integration of the intuitive and the rational, a Taoist/organic vision of work and wealth (vs. the manipulation and domination of Nature), the need for spiritual values more elevated than material gain, and the discovery of universal norms that transcend polarities between workers and management, consumers and producers.

These diverse definitions suggest that the New World Order is at once a paradigm of future society, a set of writings, an intellectual challenge, and an evolutionary or even revolutionary movement; but it is more than these. They suggest a great social enterprise that must go far beyond the 1974 UN Resolution for a NIEO by integrating ecological stewardship, economic justice, social and political unity, and an appeal to higher, universal values.

## 4.2 The Importance of Transition

Because the goals and definitions of the NWO are at such clear variance with the reality of the current one, the NWO literature has dwelt lengthily on the 'transition' problem, i.e. 'how do you get there from here?' A wide search for 'paradigms of transition' in the economic and non-economic literature has ensued. For example, one of the earliest and most picturesque images of the economic transition was that proposed by Leontieff: a yacht (economy) at sea (time) skirting its way through dangerous rocks (recession or depression) toward a distant shore (a better economic order) with a questionable rudder (State regulation) and little wind (interest rate) to inflate the sails (capacity of the populace to respond through private initiative) (quoted in Ruzavin). Alternatively, the transition is

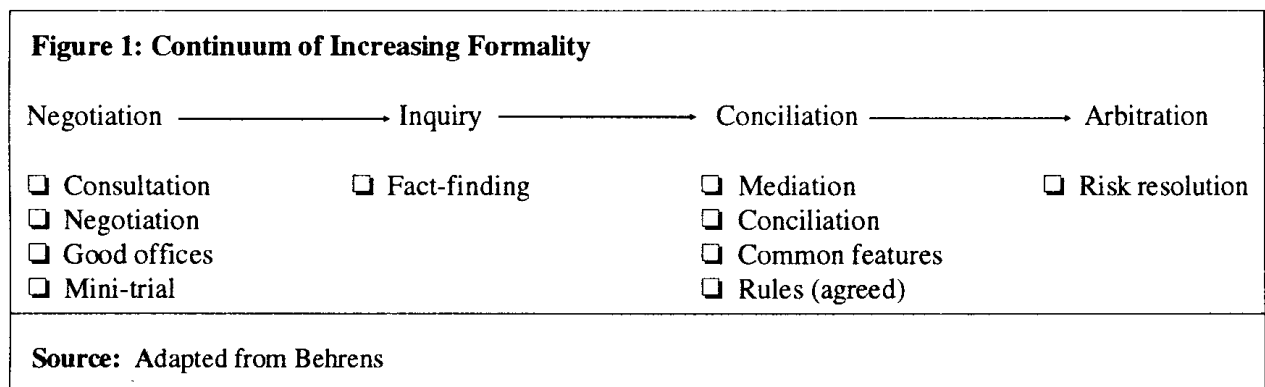
like the exploration of a frontier, defined as the "place where new communities are built in the wilderness" (Okada, Lipietz). Like the American Far West, the unknown evolving future order must be explored by pioneers (settlers, mankind) who develop solidarity (irrigation rules, social institutions) against consolidating agents (wild animals, TNCs).

Another metaphoric view of transition is that of the turnpike theorem: when the temporal distance between origin and destination is great (i.e. society plans for the long run), it may be most efficient to expand along an expressway or "turnpike" approximating the optimal growth path, even if non-proportional growth is desired. Although it takes society out of the its way, the turnpike speeds up the journey for much of the overall distance to be travelled. An advantage of this paradigm is that it provides both a clear indicator of social progress -- the speed at which the economy is moving -- and added time for the society to consult upon its ultimate teleological priorities.

Another picturesque image is that of a chess-board of levels of trade protectionism chosen by two players, Europe and the United States (Fulton *et al.*) The objective of the game is to maximise the returns to farmers, less the cost to government. Six major policy positions on the board are open to each player: free trade, tariffs, decoupled programs, price supports, production controls, and export subsidies. The paired choices by the players each indicate a unique square representing a past or possible future order for agriculture in a two-region world.

Similar chess-boards may be constructed for other elements of transition to the NWO. For example, a two-dimensional board can be defined by the current state of conflict and the options for de-escalation (Kriesberg). Transition from a given stage of conflict to greater order involves progressively limiting escalation, averting a crisis, stopping violence, beginning negotiation, reaching settlement, and building peace. As Figure 1 demonstrates, this transition involves a continuous scale of increasingly formal, less controllable, more burdensome and riskier procedures as one moves from left to right.

The International Court of Justice lies conceptually at the right endpoint of this continuum, while the GATT is at the rules stage (Jaenicke).



In more prosaic terms, economists distinguish three stages of economic transition at the national level:

- (a) *stabilisation* of interest rates and employment;
- (b) *structural* adjustments in fiscal, monetary and trade policy; and
- (c) *structural transformation*;

in which increasing proportions of employment and output come from sectors other than farming under conditions of growing specialisation, exchange and economies of scale (Martin *et al.*). These stages of transition must usually be followed in the order noted, but with a choice of the speed, relative weight, and choice of specific policies. It should be noted, however, that their stages apply only to growth and development dimensions of the economy and do not address the ecological, political and social policies of transition.

For other economists, however, transition is more sweeping, involving a move from the "competitive" pattern (economic orientation, competitive processes, corporative organisation and command-oriented governance) to the "cooperative" pattern (social orientation, cooperative processes, associative organisation and mutuality) as social self-governance increases (Bruyn). Such transition implies movement from production to service, maximisation to optimisation, self-interest to public interest, profit to nonprofit, stockholder to stakeholder organisation, centralisation to decentralisation, labour-vs-management to social management, bureaucracy to federalism, financial investment to ethical investment, and government norms to voluntary norms.

While all countries of the world, in addition to the planetary economy itself, are in transition, the Eastern European countries, often called "economies in tran-

sition", have special claim to the term because of the massive structural changes they are undertaking in the 1990s. Indeed, central control and economic stability are contradictory forces which may pull the economy toward a different path than that desired or predicted (Riha). And it is difficult to determine the speed of the reform in the face of inherent inertia in the system (Yanowitch).

The question of timing is all the more difficult in that several, apparently conflicting conceptions of time must be taken into account. In addition to Braudel's *episodic* short term, *conjunctural* medium term, *longue durée* long run and *very long-term* eternal run, all of which are generally consistent with or extend linear economic rationality, Tillich's prophetic *kairos*, "the right time" is necessary to keeping society alert to the "moments of choice and transition" (Wallerstein). Tillich reasons that a prophecy for a better future must forcibly be erroneous in the inferior present; but, without that vision, we can never see the higher path or bring it about when the moment of bifurcation presents itself in the course of a nebulous transition process. Indeed, "the message of the *kairos* is never an error; for where the *kairos* is proclaimed as a prophetic message, it is already present; it is impossible for it to be proclaimed in power without its having grasped those who proclaim it" (quoted in Wallerstein).

There are thus major concerns expressed by these writers on the present state of world development and cooperation and the need to make changes. The idea of a new world order suggests national and international constitutional reform to enable greater cooperation among and equality between all countries and people. This idealistic view of the world appears to have wide support in some (intellectual) quarters and may possibly show some guide to the future as the foundations of the current world order come under increased strain.



## 5. Alternative Systems of Thought for Transitions to a New World Order

We have seen that the NWO order is a complex concept including non-traditional values and that there is far from one paradigm of dynamic transition. It is therefore important to inventory the systems of thought in economics that could be used to build an integrated conceptual framework to suggest testable hypotheses and empirical progress in promoting the NWO.

Among these systems of thought, standard neoclassical and post-Keynesian economic thought may be particularly unsuitable. First, the neoclassical paradigm is based on markets, private property and timeless equilibrium; the static, mechanical, deterministic relationships it depicts insulate economists from socially important issues (Fischer). They also produce an untenable central paradigm: "The hedonistic conception of man is that of a lightning calculator of pleasure and pain, who oscillates like a homogeneous globule of desire and happiness under the impulse of stimuli that shift him about the area but leave him intact. He has neither antecedent nor precedent" (Veblen, quoted in Fischer, p. 392). In addition, neoclassical positivism can lead to depression at the macro-level and is irresponsible in ecology, inequitable in housing, and irrational in asking firms to pay for own health and education for workers. "If there is order in our economy, we do not know why" (Professor Kahn of Cambridge, quoted by Nove).

Similarly, despite the continued need for the State, perhaps at the world level, to strengthen the human and physical infrastructure, provide an appropriate legislative and institutional framework for the market economy, and assure sound macro-economic management, Keynesian interventionism's emphasis on fiscal and monetary policy to offset the lack of demand and credit may be inappropriate to the realisation of the goals of a world economy. Trade theory extensions, systems approaches, neo- and post-Marxism, the new institutional economics, and theories of a "third way" constitute alternative, possibly complementary theoretical bases for interpreting transitions to the NWO.

### 5.1 Integration of TNCs and investment into trade theory

In an increasingly integrated world economy, the standard macroscopic perspective of largely bilateral

trade among States may blind us to innovative avenues of transition. For example, economists have recently integrated into such theory the *microscopic* element of the behaviour of the TNC (and its intra-enterprise transfers across national boundaries). An adequate theory of international economic behaviour would thus centre on the firm operating in imperfect factor and product markets within a world economy of dissimilar factor and market endowments at the country level (Root). Such a theory must synthesize trade and investment theories. Like the much older trade theory, foreign direct investment theory also describes a positive-sum game that benefits both players. While location-specific advantages favour the foreign host country, owner-specific advantages favour the investing firm. Integrating product life-cycle theory (which adds a time dimension to the theory of monopolistic advantage and comparative advantage theory) permits economists to explain that, while late-phase manufacturing good exports are determined by factor endowments and increasing returns, agricultural exports depend critically on both factor endowments and technology gaps (Root). All these theoretical elements explain differences in the pattern of international involvement by TNCs. For example, TNCs have a great and potentially positive role in the speedy transfer of agricultural technology.

Similarly, the theory of the second best means that free trade is not necessarily Pareto optimal if such roles of the TNCs, other sources of monopolistic competition, government policies and externalities create divergences between private and social costs and benefits. The creation of regional trading blocs, including South-South cooperation, may thus be a good second-best policy.

### 5.2 Systems Approaches

World-systems theorists argue that "crises", such as that of the CWO, are not conjunctural but structural, and constitute a "transition" taking up to 100-150 years in large systems (Wallerstein). They believe that a 50-year Kondratieff cycle may explain the current crisis much better than the trickle-down theory, monetarism, supply-side economics, all of which assume that the problem is short-run, of recent origin, and soluble by government fiscal and administrative policies (Weber). The overlapping dynamics of the *business* cycle, the popular *belief* cycle (alternating between liberalism and traditionalism), and the *power* cycle (alternating between centralisation and decentralisation) contribute to the formation of three types

of dynamic world system (Weber, Wuthrow). An *expansionary* system (defined as members of the capitalist economy) involves a moral shift away from a feeling of responsibility for lower classes. A *polarised* system (defined as core-periphery conflicts) involves simultaneous ideology campaigns in *both* regions to restore collective loyalty. And a *reintegrating* system (defined as conflicts among interest groups within core areas) implies mergers among benefiting groups, and splinters and sects among declining groups. It is important to be able to characterise both the CWO and the NWO in these terms.

### 5.3 Neo- and post-Marxism

As a potential solution to world capitalist hegemony, neo-Marxists distinguish four polarisation mechanisms operating outside exchange: capital flight from LDC "peripheries" to the capitalist developed "centre", selective periphery-centre migration, control by the centre of planetary natural resources, and the monopoly of TNCs in the world division of labour. They contrast capitalist expansion - by nature polarizing, suicidal and criminal - with "development", which should overcome these failings. A necessary transition step for the periphery may thus be "delinking" from the rest of the world economy to promote the needs of internal development by a nation or bloc of nations (Amin). The resulting polycentric world is the opposite of the unilateral adjustment advanced today in theory and practice.

The most succinct post-Marxist statement is probably Boris Yeltsin's remark that "our country had a piece of bad luck: It got chosen for the Marxist experiment. ... At least we proved that communism doesn't work" (Callaghy, p. 221). This failure has engendered much theoretical confusion in post-Marxist thought (Yanowitch). For example, the radicals criticise gradualism as a nonexistent "third way" between a Soviet-type command system and a liberal-democratic market economy. Other points of debate between radicals and conservatives concern the rate of change to a market economy, the importance of holding down the "social costs" of the transition, and the wisdom of relying on selective types of state intervention.

### 5.4 The New Institutional Economics (NIE)

The NIE draws conclusions about the behaviour of actors from types of coordination devices operating in

the economic system. The transaction-cost approach of the NIE is still relatively underdeveloped for comparisons of economic systems due to the historical preoccupation with Western-type market economies. To elaborate a more general theory of coordination, the NIE must be applied to macro-coordination, and not merely public regulation. Such macro-economic coordination should be emphasized as old structures resistant to change and new structures coexist during transition (Schenk).

When applied to rural settings, institutional analysis shows that two rival views have contested about the relationship between community and market (Hayami). The "community-yoke thesis" considers that traditional institutions in pre-capitalist and pre-industrial communities prevent realisation of economic and moral potential of the market. The transition to markets provides rules of justice that benefit the majority of the poor. The "evil-market thesis", on the other hand, holds that honesty, trust and restraint are nurtured in pre-capitalist communities bound by common religion and mutual love. In such a context, transition to a market system is de-moralizing in every sense.

### 5.5 Theories of a Third Way or Sector

Given the pervasive problems of market and government failure, concerned economists and others in both East and West are searching for a third, spontaneous, non-market, non-government institutional basis for a more balanced and less flawed future economy. An increasing body of writers argue that the true reason for being critical of the CWO is not the difference between liberals, Marxists, Keynesians or others, but whether one is sincere and humanistic or hypocritical and selfish (Szentes). Thus, in addition to the market and the State there is a "third system" that protects itself against the alienating effects of both and renders them more humane and transparent. Inspired by Rawl's conception of justice as reciprocity, this third way refers to self-reliance, altruism, and the Golden Rule. Critical of both Marxian and neoclassical national accounts, it proposes "socially engaged spirituality" and other integrative solutions that transcend apparent dichotomies between industrialisation and agricultural development, efficiency and equity, domination and subordination, capital- and labour-intensive technology, economic growth and social justice, planning and market, export-orientation and import-substitution, the open-door and national sovereignty, and self-reliance and cooperation. More-

over, these principles apply just as much to the North as to the South. Thus, the real dichotomy of the world economy lies not between two geographical entities but rather in increasingly unequal structures of asymmetric interdependence.

Indeed, "the characteristic US separation of market efficiency from problems of distribution, with questions of equality consigned to the realm of 'philosophy and ethics', exemplifies the failure to integrate ethical, economic and political questions in the manner of Rawls" (Runge, p. 735). Rawls' original position of people waiting to be born into an unknown future world leads them to propose the equal right to the most extensive liberty compatible with a like liberty for all and the acceptance of only those inequalities which work out to everyone's advantage. President Carter accepted this concept of justice when he said: "Ours was the first society openly to define itself in terms both of spirituality and of human liberty." Similarly, Prime Minister Manley's "global ethic" is an international application of Rawl's more restricted social contract (Runge).

There is a need for a theory of reciprocity that is relatively simple, rests on a commonsense principle of practical morality, is compatible with both observed successes and failures of voluntary cooperation, and generates a wide range of testable predictions (Sugden). By contrast, the public good theory of private philanthropy (Becker) is untenable because its assumptions - that charity is a public good from which the giver provides direct utility, that donors merely extend their own utility function to include those of others, and that a donor takes into account other's gifts in deciding whether and how much to give - are blatantly inconsistent with well-established observations of the real world, such as the fact that the majority of people do *not* free-ride. The theory of reciprocity is also preferable to the theory of cooperation, which is contradicted by the fact that many people give priority to famine relief in the third world over the playgroup to which they happen to send their children. "Therefore we need a principle that says not that you must always contribute towards public goods, but that you must not take a free ride when other people are contributing.....Let  $G$  be any group of people of which  $i$  is a member. Suppose that every member of  $G$  except  $i$  is making an effort of at least  $x$  in the production of some public good. Then let  $i$  choose the level of effort that he would most prefer that every member of  $G$  should make. If this ... is not less than  $x$ , then  $i$  is under an obligation to make an

effort of at least  $x$ . I shall call this the *principle of reciprocity*' (Sugden). Under this principle, the individual has obligations, not to 'society', but to any group of individuals from whose efforts he derives benefits. Because this group may be occupational, political, racial, or religious; local, national or international, it can clearly be used to spread non-market, non-governmental institutions in the New World Order.

The third way logically gives rise to a 'third sector' consisting of non-commercial/non-government small enterprises with mixed environmental, economic and social objectives and integrating the social aspects of wealth creation and wealth consumption. Such a sector could lead to a SHE (sane, humane, ecological) NWO to replace the HE (hyper-expansionist) CWO (J. Robertson). Because money has become impersonal and amoral, it is time to reinvest a new morality and spirituality back into economics: "So far as religion is concerned, the big change needed is to find ways of making the economic teachings of world faiths relevant to economic life as people live and experience it today" (Robertson). Since representatives of world faiths have already gathered in Assisi in 1986 to "explore and celebrate links between religion and conservation", Robertson asks whether they could "come together in dialogue throughout the 1990s about the relevance of their teachings to the prospect of a new economic order for the next millennium?" (p. 150-1).

But while concerned western economists are looking primarily outside of economics to philosophy and religion as sources for their conceptualisation of the third way, ex-Soviet economists are finding similar ideas as a direct result of a fresher, broader reading of the West's great *past* economists. They show us that the vision of economics that we have retained from such giants as John Maynard Keynes and Adam Smith is a narrow, mechanical and spiritless phantom of their true vision of both economic science and of the economy of the future. For example, by reading Keynes' complete works, they have discovered a more visionary economist than the technician of the macro-economy regularly portrayed in economics texts. Keynes' real contribution was a fundamentally new philosophy which "attempted to discern the social and moral paradigm of a future society" (Makasheva). As a member of the Bloomsbury group, Keynes challenged the social, political, religious and moral beliefs of the previous generation based upon rationalist individualism, and even his own father's distinction between

positive and normative economic knowledge. Putting great emphasis on spiritual and moral issues, Keynes called for a return to proper moral values in social philosophy. For example, in his 1930 *Treatise on Money* he argued that "our ethical unit is the individual mind," that the economic side of life is subordinate to the ethical, and that the accumulation of wealth is merely a prerequisite to a healthy, civilised society. He believed that by 2030 mankind would have achieved a better world order in which the wealth motive would have become outmoded and strictly economic problems insignificant. This broad Russian reading proves that the hackneyed quote "In the long run, we are all dead" is not only unrepresentative of the spirit of Keynes' social philosophy, but we err in assuming his vision of a future world order is constrained to it.

Similarly, while sociologists have incorporated much of Adam Smith's moral thought, some western economists have ignored and misinterpreted its great lessons for world order. They have erroneously equated sympathy with altruism in the *Theory of Moral Sentiments* - if they are aware of the book at all - just as they had mistakenly equated self-interest with selfishness in the *Wealth of Nations* (Khalil). This misreading has given rise to the appearance of a so-called "Adam Smith Problem" because such economists believed no philosopher could simultaneously favour both selfishness and altruism. Khalil demonstrates that, in reality, the four terms sympathy, altruism, self-interest and selfishness are quite distinct. Smith believed that human behaviour was just as much a function of prudence and beneficence (the two moments of sympathy) as it was a function of self-interest. Indeed, there is no contradiction between self-interest and

beneficence because humans try to have proper feelings and perform meritorious actions that please the 'impartial spectator' within (our conscience) at least as much as the impartial spectators without (those observing our actions). Such concepts could provide the direct moral underpinning for the incentives and institutions of a more ethical New World Order.

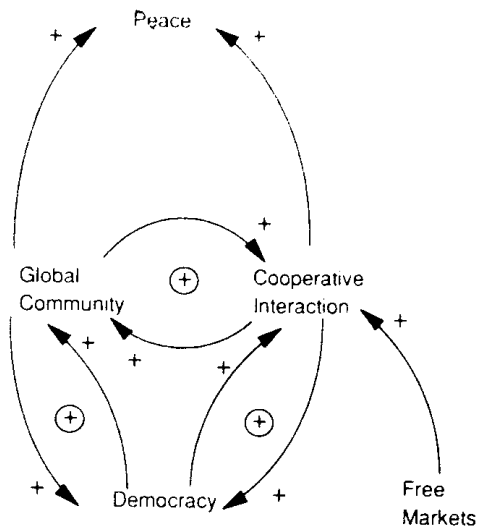
In an effort to clarify the relative positions of these diverse schools of thought, we may juxtapose their goals with respect to the ecological, economic and institutional problems of the CWO (Figure 2).

To correct each problem in the first column (environmental degradation; economic inefficiency, inequity and materialism; and excessively competitive and aggressive social institutions), Hughes identifies a corresponding goal of the NWO (column two). While few contest these goals, economists are divided into schools of thought based upon their vision of, first, which goal is the most important and, second, the best means to achieve it. For example, structuralists believe that material well-being is the predominant goal; but unlike the liberals, they favour an equalisation of the initial distribution of wealth rather than a strategy of growth and trickle-down benefits. For each school of thought, a systems diagram can be developed to portray the particular vision of world order they propound. Among these, the "globalist" cooperative paradigm seems the most promising because it interrelates positive flows among free markets, cooperative interaction, democracy, world community and peace; and includes no negative flows among these dimensions (i.e., it is a 'positive sum game')(Figure 3).

**Figure 2: Schools of Thought and World Order**

Problem of CWO	Goal of NWO	Emerging Schools of Thought	
Environment	Ecological survival	Progress ( <i>Modernists</i> )	Sustainability/culture/spirituality ( <i>Ecoholists</i> )
Economy	Material well-being	Growth ( <i>Liberals</i> )	Equality ( <i>Structuralists</i> )
Polity	Physical security	Security ( <i>Realists</i> )	Peace ( <i>Globalists</i> )

**Source:** Adapted from Hughes

**Figure 3: The Globalist Paradigm**

Source: Hughes. p. 79

In contrast, a similar diagram of 'realist' thought manifests negative flows (and therefore goal and policy trade-offs) between counter-balancing power, the possibility of conflict, State power and the burden of military power.

## 6. Dynamic Operating Frameworks for Transition

It is seen that adequately defining and understanding the process of transition is essential to the realisation of a NWO. Economics and other behavioural sciences offer several possible frameworks for modelling such dynamic transitions. In this section, those methodological frameworks in the literature which seem the most promising: extensions of game theory, optimal control, transformation theory, and simulation are discussed.<sup>2</sup>

### 6.1 Game Theory

The third way calls for the internal transformation of human nature. But which definition of human nature should we choose? The *homo economicus* of economists (a "well-informed mathematical prodigy capable of costlessly performing calculations of enormous complexity at the drop of a hat") differs fundamentally from the game theorist's *homo ludens* (who continues

to believe that his fellows are prodigies like himself, whatever the evidence to the contrary), the sociologist's *homo sociologicus* (who behaves as custom prescribes), and the philosopher's *homo ethicus* (who believes that love and duty are the cement of society) (Binmore and Samuelson). To clarify these diverse and conflicting visions of human nature, one can conduct the Ultimatum game, under which Player I first proposes a division of a given sum of money. Player II responds by saying yes or no. If the response is no, both players receive nothing. The game is played by both computer simulations and live subjects. One discovers that humans call "fair" whatever norm happens to evolve; and that such norms allow a *homo sociologicus* to behave 'optimally' and a *homo economicus* to behave 'normatively'! Therefore, an evolutionary approach is preferable to simple game theory for endogenising, reconciling and integrating sociological and economic norms (Binmore and Samuelson).

The best-known evolutionary game theory strategy is TIT FOR TAT, whereby one starts with a positive overture, but retaliates for any mean act (defection) (Axelrod). Retaliation is, however, non-escalating, in that it is always at a lesser level than the aggression. TIT FOR TAT is thus "nice, provokable, forgiving, and clear", and wildly successful against competing game-theory strategies. Empirical studies demonstrate that even in a world of unconditional defection, cooperation can evolve from small clusters of individuals who base their cooperation on reciprocity and have even a small proportion of their interactions with each other. Even less clustering is necessary when the interactions are expected to be of longer duration or the time discount factor is not as great. Cooperation among people can be promoted by recognizing defection, changing the payoffs, teaching people to care about the welfare of others, valuing unity in diversity, and teaching the value of reciprocity.

In a slack-prone economy like those of the Eastern bloc and the Third World, however, competition and culture jointly determine an evolutionarily-stable *un*-cooperative outcome (Vega-Redondo). In this context, culture may be defined as an inherited pattern of

<sup>2</sup> Some approaches have been intentionally omitted. For example, dynamic programming leaves much to be desired in charting possible transitions to a new world order because it requires that the structural coefficients and range of future choices be fully specified in advance.

behaviour and competition as the opposite of cooperation. When both cooperative and uncooperative workers coexist in a firm, the latter are better off than the rest. This may lead to contagious imitation of shirking, contrary to Axelrod's optimistic prediction from Tit-for-Tat of the spontaneous evolution of cooperation.

## 6.2 Optimal Control

The goal of optimal control theory applications in economics is to calculate the trajectories of control parameters which optimally regulate a system in evolution. In addition to a control function, a separate differential equation -- called a *transition equation* -- governs the movement of each state variable over time. The advantages of optimal control are that the performance index can be specified at will by the society, critically determinant initial conditions are explicitly included, transition is an integral part of the system, and ecological and other constraints can be incorporated to reduce the production of unwanted goods.

Several problems in standard optimal control theory have spurred innovations in recent years which make it more acceptable as a transition framework for guiding societal evolution to a New World Order. For example, a quantity adjustment mechanism inspired by Kornai's theory of "anti-equilibrium" can make optimal control particularly applicable to the frictions and delays inherent in Eastern Europe and the Third World (Martos). Economists have also developed optimal control models featuring risk aversion; specification of priorities and achievements; non-cooperative, full information dynamic games; incomplete information, bargaining, social optima and cooperation (Holly and Hughes-Hallett). Particularly this last area is promising for the evolution towards a New World Order. This is because non-cooperative games (Vega-Redondo) are socially inferior to alternative decisions which could make all parties better off. Personal reputation may also help overcome potential indeterminacies when there are *ex-post* incentives to renege on previous commitments (Holly and Hughes-Hallett).

## 6.3 Transformation Theory

Transformation theory is a dynamic, qualitative mathematical approach that synthesizes elements of entropy, chaos and catastrophe theory to select relevant variables, the relationships among them, and

possible paths to reforming the CWO (Brown and Neuberger). The first component, "entropy," refers to a loss of potential energy or of usable information necessary for sudden jumps to a higher level of order. In open systems, infusion of energy from outside ("annealing") can counteract entropy. Meanwhile, "chaos" demonstrates a complex underlying structure of perpetual disequilibrium around a "strange attractor" in what at first glance seems like random movement.

Finally, "catastrophe theory" deals with the qualitative, discontinuous, and possibly unpleasant changes in the time path of response variables resulting from quantitative, small, smooth changes in control variables. In the so-called "cusp" catastrophe model, a *normal* factor influences the behavioural variable to continue in the same direction, while a *splitting* factor may cause a bifurcation of behaviour onto two very different paths, sometimes after a delay. This cusp catastrophe model has been used to analyse the behaviour of stock markets, where excess demand is the normal factor and the proportion of stock held by speculators (rather than long term investors) is the splitting factor increasing possibility of either boom or crash. To represent more complex socialist systems in transition, a "butterfly" catastrophe model adds two further factors: a *butterfly* factor that may affect the stability of the compromise; and a *bias* factor, which tends to weaken the normal factor, destroy the compromise, and tilt the bifurcation in a different direction (Brown and Neuberger).

## 6.4 Simulation

Computer simulation models can integrate demographic, agricultural, resource, environmental, economic and socio-political elements to explore the trade-offs among well-being, equity, security/peace and progress/ sustainability in potential NWOs (Hughes). Rather than optimising, the model systematically evaluates alternative solutions to a base-line simulation based on the extension of current trends. The model has five modules: demography (the response of fertility and mortality rates to income, income distribution and family planning); economics (a five-sector general equilibrium model including pooled rather than bilateral trade); energy (oil-gas, coal, nuclear and renewable); agriculture (production, consumption, trade and pricing of crops and livestock); and politics (domestic or regional fiscal policy, the international arms race and potential for conflict). The user interactively simulates comparative fore-

casts of the future by introducing, say, a change in demographic policy in China, the implantation of an agricultural research centre and hence higher yields in a region of the Third World, or the elimination of a key tariff in international exchange. Anticipated results of the model through the year 2035 help formalise and enlarge our understanding of the world and explore the relative importance (or insignificance) of proposed components and interdependencies of the NWO.

## 7. Current Policy Issues

From the previous review of the literature on the transition to a new world order, certain issues have already emerged in the research agenda. They all concern changing the institutions and rules under which different societies and economies operate. There are many more hypotheses in this wide subject area that could be canvassed and researched, but it is significant that the issues identified here most claim the attention of researchers in the literature. The issues can be conveniently grouped into different political regimes and systems all of which are under transition in one form or another.

In socialist developed countries, the transition of Russia and Eastern Europe to their new world order is already under way. Issues that have been raised include the sequencing of economic policy changes, the role of former bureaucrats in the state machine under transition, and the role of women<sup>3</sup>. In the case of China, attention has focused on the role of markets and property rights in the transition phase to a new world order.

In capitalist underdeveloped countries, many issues of transformation and change accompany the conversion to growth of trade and other economic opportunities. The countries of Asia, Africa and South America have been challenged since the mid 1970s to operationalise their alternative vision of a new world order. Some of the current issues being discussed concern export instability and tariff barriers, worker management and isolationism, and a return to pre-colonial forms of organisation including diminution of the effect of transnational corporations.

In capitalist developed countries, the "North" in NWO terminology, the issues include the importance of common property, community controlled natural resource use, the influence of regional groupings and political unions, the growth of self-regulation, the

current vision of the new international economic order (NIEO) for North-South issues post Rio, and the potential role of new levels of generosity, benevolence and reciprocity in international relations.

For the world economy as a whole, the ideas of equality and international cooperation are being explored in terms of the future of the new right economic philosophy, the role of the US military/industrial complex, arrangements for the future welfare of women and children, and the implications of a wider religious awakening national and international social and environmental choices.

## 8. Conclusion

In this first article on transitions to a NWO, we have noted the major turning point in human history at which mankind finds itself; catalogued the environmental, economic, social, institutional and ethical problems of the CWO; defined the nature and goals of a better world order; inventoried the schools of thought which could conceptually integrate various definitions of world order and transition; and critically evaluated several analytical techniques which could be used to empirically test key hypotheses of transition. Already, economists are providing substantial, if scattered, empirical evidence on several of these issues. This evidence will be presented in the article *Transition to a New World Economic Order Part II: Strategies* in the next issue of the *Review of Marketing and Agricultural Economics*. The goals of that article will be to specify, prioritise and interrelate the strategies and policies of transition, and to suggest a research agenda for the future.

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<sup>3</sup> Detailed references will be given in Part II of this article.

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