The New International Economic Order, Interdependence, and Globalization

The New International Economic Order (NIEO) was a failure as a political program. Its proposals called for a sweeping transformation of the global economy, but most of them never came close to being implemented. In fact, during the following decades, the world economy evolved not toward the NIEO vision of multilateral oversight and income redistribution but in the opposite direction, toward a more purely market-based approach that has variously been called globalization, neoliberalism, market fundamentalism, or the “Washington Consensus.” Why, then, study the NIEO? Scholars today might be forgiven for dismissing the NIEO as nothing more than empty rhetoric on the part of its advocates, or as the product of their naiveté and misunderstanding of basic economic laws and the realities of power in world politics.

This essay argues that the NIEO is remarkable precisely because it was so different from the path actually taken by the global economy after the 1970s. The NIEO seems hopelessly unrealistic to many observers looking back today, and yet it was taken quite seriously at the time. Even its most important critics, including U.S. policymakers like Henry Kissinger, did not dismiss the NIEO out of hand. They recognized the wide appeal of the NIEO, and they feared that if the United States placed itself in open opposition, it would find itself isolated and without allies at the UN. Rather than rejecting the NIEO outright, Kissinger and other U.S. officials expressed sympathy with its general aspirations and sought to find some common ground with the NIEO’s advocates, while also working to divide the Third World coalition and to block the NIEO’s most threatening provisions. The fact that the leaders of both developed and developing nations seriously debated a proposal so at odds with the laws of the market as they are generally understood today indicates just how new the consensus around those economic laws really is, and just how much has changed in the last four decades.

In order to understand the NIEO’s appeal, scholars need to reckon with its underlying principles. One of the most important of those concepts was “interdependence,” the idea that the developed and developing countries were in a position of mutual economic reliance on one another. Interdependence was an old concept that became more popular than ever before during the 1970s (fig. 1). That decade, in fact, marked the all-time peak for the use of the word “interdependence” in English-language media. According to the NIEO’s proponents, interdependence meant that the United States and other rich nations would benefit from a global redistribution of wealth to the developing world, since it would create a more balanced international economy and faster growth in the future. Among other things, this vision of interdependence meant that commodity prices should be increased to provide more income to the
developing nations. U.S. leaders also invoked the idea of interdependence, but they used it to advance a diametrically opposed set of policy prescriptions. They argued that higher commodity prices, and in particular, higher oil prices, would destabilize the global economy and harm the oil producers themselves.

For both sides in the debate over the NIEO, the rhetoric of interdependence represented an attempt to universalize their own policy preferences. Rather than presenting their economic program as being in the interest of the industrialized nations or the developing world exclusively, they argued that it was for the good of the global economy as a whole. The NIEO’s vision of interdependence was more optimistic: what might be called an emancipatory interdependence or an interdependence of hope. It stressed the possibility of a radical transformation of the existing economic order that would reduce global inequality and speed development everywhere. The U.S. vision was a more pessimistic and minimalist view: an interdependence of fear. It emphasized the way that interdependence constrained states and transmitted shocks through the international economy that could threaten the prosperity of all nations. The United States focused on averting threats to the existing global economic order through incremental reforms rather than on transforming that order altogether.

Despite their differences, however, both the NIEO and the U.S. visions of interdependence also shared important similarities shaped by the postwar consensus around the welfare state and development economics. They were visions of agency that saw the global economy as a political system and interdependence as a phenomenon that could be managed through state action. U.S. officials did not believe that the NIEO would fail of its own accord; instead, they planned to blunt its momentum through a careful balance of direct opposition and limited concessions to satisfy some developing countries and isolate others. The alternative projects that the United States promoted in opposition to the NIEO, like the International Energy Agency (IEA) and the G-7 summits, shared the NIEO’s goal of managing the world economy through political
means; they simply sought to place the authority for managing such action in the hands of the industrialized nations rather than the UN General Assembly.

By contrast, neoliberal globalization as it developed after the 1970s was based on a very different set of assumptions. Neoliberal economists argued that the NIEO was sheer fantasy, a proposal at odds with the basic laws of economics. They denied the desirability of any robust international governance of the global economy and argued that intervention should come only in the form of limited assistance to specific nations, along with structural adjustment of economic policy at the national level to bring it into line with free market principles. This school of thought helped convince the Reagan administration largely to abandon any U.S. effort to find common ground with the NIEO’s advocates. Neoliberal assumptions became so deeply established in later years that no subsequent project for fundamental reform of the world economy has ever been taken as seriously as was the NIEO during its heyday. As a result, the NIEO debate stands out as the last moment when the leading nations of the world demonstrated a real sense of their own collective agency over the global economy, treating it as a system governed by rules that could be renegotiated rather than an automatic mechanism beyond political control.

The NIEO and the Interdependence of Hope

The Declaration on the Establishment of a New International Economic Order adopted by the UN General Assembly in May 1974 listed “interdependence,” along with “common interest and cooperation among all States,” “sovereign equality,” and “equity,” as its underlying objectives. The Declaration argued that the changes experienced by the world economy since 1970 had “thrust into prominence the reality of interdependence of all the members of the world community.” For the NIEO’s proponents, this interdependence was incompatible with the wide income gap between rich and poor nations. Such vast disparities in wealth were not only morally suspect; they also threatened the economic prospects of the industrialized countries themselves. Interdependence, the Declaration explained, meant “that there is a close interrelationship between the prosperity of the developed countries and the growth and development of the developing countries.”

Interdependence was a particularly attractive theme for the developing nations because they could not implement the NIEO on their own. They needed the industrialized nations to cooperate by expanding foreign aid, transferring technology and patents to the developing nations, and welcoming imports from the developing world, among other actions. Militarily and economically weak compared to the industrialized world, the developing nations could not force their agenda if the rich countries refused to negotiate. As a result, the NIEO’s proponents had much to lose by framing the NIEO debate as a north-south battle. Rather than portraying their program as a set of demands by the Third World or the G-77, they issued the NIEO Declaration in the name of “the members of the United Nations” as a whole. The idea of interdependence complemented this strategy by allowing the developing countries to argue that
the NIEO would serve the interests of all nations, rich and poor alike, rather than any one particular bloc.

The other founding documents of the NIEO stressed the themes of interdependence and mutual interest by all nations in global economic reform. The Programme of Action on the Establishment of a New International Economic Order and the Charter of Economic Rights and Duties of States, issued by the UN General Assembly in 1974, both referenced the “interdependence of the interests of developed and developing countries.” The NIEO’s proponents emphasized similar ideas in later speeches and reports. Gamani Corea, a Sri Lankan economist who served as the secretary-general of the UN Conference on Trade and Development (UNCTAD), argued in 1976 that “the need for change in the international framework is not confined to the developing countries.” Corea dryly noted that the rich nations, too, were experiencing difficulties with higher energy prices and stagflation, which should have been enough to demonstrate that the existing global economic order was “in need of modification, even from the viewpoint of the developed countries.” In this view, the NIEO was not a demand for any sacrifice on the part of the industrialized nations. It was only a plea for them to recognize the changed nature of the global economy and act in their own enlightened self-interest.

The idea of interdependence was also adopted by the members of the Organization of Petroleum Exporting Countries (OPEC). The dramatic increase in oil prices during the 1970s served as an inspiration for the NIEO and its goal of revising the north-south terms of trade by raising the prices of primary commodities. The oil price increases also directly threatened the economic interests of the industrialized world, and OPEC, more than any other group of developing nations, found itself blamed for economic woes like stagflation. Oil-importing developing nations, too, faced economic challenges as a result of the petroleum price increases. This tension threatened to split the NIEO coalition. As a result, OPEC and its member states had a particularly strong interest in stressing their interdependence with oil importers. In 1975, for example, the OPEC heads of state declared: “The interdependence of nations, manifested in the world economic situation, requires a new emphasis on international co-operation,” a new approach to commodity pricing, and the implementation of the NIEO. To reinforce this message, OPEC members expanded their foreign aid programs and publicized their assistance to the oil-importing developing nations.

The OPEC member states also argued that because petroleum was a nonrenewable resource that was bound to run out in the future, they had served the collective interests of humanity by raising oil prices. The price increases had raised awareness of energy issues, and they had also encouraged energy conservation and the search for alternatives to oil. As Ali Attiga, the secretary-general of the Organization of Arab Petroleum-Exporting Countries (OAPEC), told an American audience in 1979: “The OPEC member countries are to be credited for their wise decision to raise the price of oil at the end of 1973. Without their action, the world would have depleted proven oil reserves within 15 years. But the increase in oil prices has not only given the world a longer warning period; it has also given rise to an intensive worldwide search for appropriate energy policies at the national and international levels.” While critics...
could dismiss the oil producers’ arguments about conservation as self-serving justifications for the price increases, such arguments were in line with the rise of ecological concerns in the industrialized world and the growing interest in worldwide ecological interdependence symbolized by the Club of Rome’s 1972 report *Limits to Growth.*

On another occasion, Attiga argued that “the long-term impact of the recent increase in oil prices may be beneficial for all” not only because it would encourage energy conservation but also because it would lead to a long-overdue rebalancing of consumption in the world economy. He predicted that high oil prices “will provide the oil exporting countries with more purchasing power for their own development and for cooperative schemes with other developing nations, thus contributing to the expansion of world trade and to economic growth that is more evenly balanced between the developed and the developing countries.” Implicit in Attiga’s argument that oil price increases would actually help consumers was a sort of global Keynesianism often invoked by proponents of the NIEO. They suggested that the economic crisis of the 1970s was caused in part by inadequate global demand, since most developing countries were too poor to import many goods from the industrialized world. The NIEO’s advocates argued that by creating a more equal distribution of international wealth, the NIEO would increase the developing world’s purchasing power, stimulate international trade, and serve the long-term interests of the industrialized world as well.

Samir Amin, for example, wrote that the NIEO program placed a high priority on fostering “an intensified web of world trade.” If the NIEO were implemented, Amin explained, “Third World industrialization would . . . open up additional markets for the capital goods industries of the developed world” and would “serve the collective interest” of all nations. Mahbub ul Haq similarly argued that restructuring the international economic order would be in the interest of the developed world as well as the Third World, writing that “the rich nations” would have “to consider the fact that any conceivable cost of a new deal will be a very small proportion of their future growth in an orderly, cooperative framework.” The idea that wealth redistribution could help end economic crises resulting from inadequate demand was fully in line with the Keynesian orthodoxy of the 1950s and 1960s; the NIEO’s innovation was simply to expand the scope of the relevant economic unit from the nation-state to the entire globe. It represented a further development of the postwar confidence in the ability of experts and institutions to fine-tune the economy through careful planning and political action.

The NIEO also reflected much older ideas about interdependence, in particular, liberal ideas about the connection between economic interdependence and peace. The 1974 NIEO declaration coupled its demand for economic justice with a call for the “self-determination of all peoples, inadmissibility of the acquisition of territories by force, territorial integrity and non-interference in the internal affairs of other States.” Peace had been linked with trade and interdependence in a tradition that went back at least to the eighteenth century and included figures like Montesquieu, Kant, Thomas Paine, John Stuart Mill, and Frédéric Bastiat. Montesquieu, for example, argued: “The natural effect of commerce is to lead to peace. Two nations that trade with each other become reciprocally dependent; if one has an interest in buying, the
other has an interest in selling, and all unions are founded on mutual needs.” This classical liberal view saw interdependence as an emancipatory force, one that would lead to greater wealth for all nations and eliminate the threat of war.

The NIEO of course, marked a radical break with traditional economic liberalism. It envisioned a much more active role for political management of the economy, and it drew on other traditions like Marxism and dependencia theory that were quite critical of the liberal faith in unrestricted commerce. Nevertheless, the NIEO’s hopeful vision of interdependence had much in common with the old liberal view; it saw commercial interdependence as a force that would accelerate the growth of trade, dissolve barriers between countries, and demonstrate that the interests of individual nations were the same as the interests of humanity in general. As Samir Amin wrote, the NIEO “is perfectly in conformity with the principles defended by the liberal West. It places the highest ever priority on the objective of intensified links of world economic interdependence, basing it on comparative advantages, a programme which ought to have been devised and proposed by the economics professors of the most conservative academies.” The irony that “this initiative came from the ‘nationalist Third World,’” of course, was not lost on Amin or the NIEO’s other proponents.

**The United States and the Interdependence of Fear**

The NIEO posed a challenge to U.S. policymakers, since it was based on an emancipatory view of interdependence that had long appealed to liberals in the United States and elsewhere in the industrialized world. U.S. leaders sought to defeat the NIEO by drawing on a different vision of interdependence, one that emphasized constraints more than opportunities, and fear more than hope. Gerald Ford, for example, told the UN General Assembly in September 1974 that all nations were “part of one interdependent economic system” and had to live up to “the new responsibilities of an era of interdependence.” For the United States, Ford promised, these responsibilities included expanding agricultural aid to the developing world. At the same time, however, he warned the oil producers, along with other commodity producers who sought to raise prices through cartelization: “By confronting consumers with production restrictions, artificial pricing, and the prospect of ultimate bankruptcy, producers will eventually become the victims of their own actions.” The oil exporters were acting against their own long-term interests because, as Ford warned: “The attempt by any nation to use one commodity for political purposes will inevitably tempt other countries to use their commodities for their own purposes.” The implication was clear: interdependence meant that no group of nations, like OPEC, could raise the price of one commodity without endangering their own economic welfare and risking retaliation in other areas like food production, where the OPEC nations were comparatively weak.

U.S. secretary of state Henry Kissinger emphasized the same themes, telling the UN General Assembly in May 1974 that world leaders “must come to grips with the fact of our interdependence.” That interdependence was demonstrated most dramatically in the field of energy, where, Kissinger declared, “no nation has an interest in prices that can set off an inflationary spiral which in time reduces incomes for all.” And what was true of oil was true of other primary commodities as well. Although he
conceded that the thought of “cartels of raw materials producers to negotiate for higher prices” must be “tempting” to the developing world, Kissinger maintained that “large price increases coupled with production restrictions involve potential disaster: global inflation followed by global recession from which no nation could escape.” Kissinger told the other UN delegates: “No nation or group of nation can gain by pushing beyond the limits that sustain world economic growth. No one benefits from basing progress on tests of strength.” Kissinger did offer some concessions to the Third World, including additional food aid and the promise of more dialogue on development issues. The amount of aid under discussion, however, fell far short of the sweeping reforms proposed as part of the NIEO.

Kissinger’s rhetoric both reflected and reinforced a surge of interest in the idea of interdependence in the American academy, and especially in the discipline of political science, starting in the late 1960s. Interdependence became an increasingly popular concept during this period for a number of reasons. In an era of U.S.-Soviet détente, the issues of superpower conflict and nuclear deterrence that had preoccupied many political scientists during the 1950s and 1960s now seemed less relevant. Interdependence could fill the gap left in place of the older studies focusing on power and security. It also fit with the rising interest in new forms of global connections like mass air travel and satellite communications, as well as concerns about population growth, resource depletion, and other worldwide challenges that did not fit easily into a traditional state-centric framework. Much of the new literature on interdependence stressed the declining relevance of the nation-state in a new, more interconnected world.

The academic studies on interdependence that would prove most influential for U.S. policymaking, however, took a different approach. Although this work stressed the constraints that interdependence placed on national governments, it denied that the nation-state was becoming obsolete. Instead, political scientists looked for ways that interdependence could be controlled, managed, and perhaps even and used to advance state interests. The origins of the new interdependence theory can be traced to 1968, when the Yale economist Richard Cooper published *The Economics of Interdependence: Economic Policy in the Atlantic Community*. Cooper’s work helped make 1968 the breakthrough year for interdependence in the major political science journals (fig. 2).

As its title suggests, Cooper’s book was a study of the tightening economic connections between the United States and Western Europe resulting from cross-border trade, travel, and migration. It also served as a manifesto for the idea of interdependence as constraint. Cooper argued: “Growing interdependence makes the successful pursuit of national economic objectives much more difficult.” The United States and Europe were now subject to ever more threatening economic disturbances from abroad and soon found that the policy tools at their disposal were unable to deal with economic forces that that transcended national boundaries. Perhaps most dangerous of all was the possibility that the threatening effects of interdependence might push states into a series of defensive actions, like de facto currency depreciations, that would reinforce each other and destabilize the entire world economy. Cooper compared this scenario to the Great Depression of the 1930s and predicted that it “would be politically corrosive as well as economically costly.” He conceded that this was “a rather
Figure 2. Interdependence in the political science literature. Source: JSTOR Data for Research, dfr.jstor.org (accessed November 19, 2014). The Y-axis measures fractions of a percent of all results in the JSTOR corpus of political science journals that include the word “interdependence.”

pessimistic appraisal” and predicted that the best option for the Atlantic Community would be a limited form of international cooperation to restrain the worst effects of interdependence and prevent a slide back into economic nationalism.20

Cooper’s work helped inspire a large number of studies on economic interdependence and its political effects. The most influential of this literature was written by the political scientists Robert Keohane and Joseph Nye. Keohane and Nye’s co-edited Summer 1971 issue of the journal International Organization popularized the idea of “transnational relations” that went beyond a traditional state-to-state diplomatic framework and argued that “increases in constraints on states through dependence and interdependence” were a defining feature of the contemporary global system.21 This work posed a major new challenge to realist international relations theory and helped launch the new field of “international political economy.”22

Even more important, though, was Keohane and Nye’s 1977 book Power and Interdependence: World Politics in Transition, which did more than any other work to promote a vision of interdependence as a force that constrained states but could be managed by a powerful nation-state like the United States with the right policy tools. Keohane and Nye announced: “We live in an era of interdependence,” a sentiment that they noted was already “widespread,” although its implications were “poorly understood.” They argued that international relations were being transformed by what they called “complex interdependence,” and major armed conflict between states was becoming less likely. They also attacked the optimistic assumption that interdependence would eliminate interstate conflict altogether, instead arguing that “conflict will take new forms, and may even increase.” Both the “power” and the “interdependence” of Keohane and Nye’s title were significant; they took aim at what they saw as
naive, utopian views of interdependence just as much as they criticized traditional realist theory.23

Keohane and Nye focused less on the transformative potential of interdependence than on the costs that it imposed on states. They identified two separate forms of interdependence, involving sensitivity (“liability to costly effects imposed from outside before policies are altered to try to change the situation”) and vulnerability (“liability to suffer costs imposed by external events even after policies have been altered”). Keohane and Nye argued that vulnerability interdependence had the most significant implications for international politics. Since it was frequently asymmetrical (with one nation being more vulnerable than another), and subject to management and manipulation, vulnerability interdependence actually opened up new avenues for the exercise of state power. The bulk of Keohane and Nye’s book was devoted to analyzing the situations in which states were constrained by interdependence, the ways in which they could use interdependence as a tool in their own foreign policy, and the ways in which interdependence might be “partially created by policy itself.”24

Keohane and Nye also took a critical perspective toward the political rhetoric of interdependence employed by policymakers like Kissinger. They declared their intention to “clear a way through the rhetorical jungle” and “to analyze the politics of interdependence, not to celebrate it.” The line between politics and academic analysis in Power and Interdependence was not so clear-cut, however. Keohane and Nye developed their work on interdependence as a deliberate and self-conscious response to what they saw as the major policy challenges facing the United States at the time, including the breakdown of the Bretton Woods monetary regime, rising oil prices, and the threat to U.S. interests posed by the NIEO.25 They wrote that the United States would have “to learn both to live with interdependence and to use it for leadership,” and they hoped that their own work would help U.S. policymakers accomplish that task. After all, they explained, the analysis of interdependence and its political implications was “not a mere academic game,” since “in battle, the sword is mightier than the pen, but over the long run, pens guide swords.”26

It is no surprise, then, that many of the leading American analysts of interdependence moved in and out of academia, policy advocacy, and government during the 1970s. Nye, for example, served in the State Department and the National Security Council during the Carter administration. Richard Cooper worked in the Council of Economic Advisors and the State Department during the Kennedy-Johnson years and later became the undersecretary for economic affairs at the State Department under Carter. C. Fred Bergsten, who wrote widely on interdependence while he was based at the Brookings Institution, had previously worked under Henry Kissinger at the National Security Council and later served as assistant secretary for international affairs at the U.S. Treasury during the Carter administration. Bergsten introduced the first volume of his collected writings by noting that, in analyzing any proposals for managing global interdependence, “there is the need to assess the impact of such proposals on the United States—which . . . remains by far the most important single country in the world economy—to see if they serve its national interests, properly and hence broadly defined.”27

Many of these scholars incorporated their pessimistic view of interdependence into
criticism of the NIEO, the oil price increases, and other attempts by the developing nations to assert their economic power. Bergsten, for example, wrote in 1973 that “the concerted action of the OPEC countries in raising oil prices” threatened the entire world economy. This “extortion by the oil producers,” he continued, could also serve as an example for other Third World commodity producers to band together in cartels that would put the existing economic order under intolerable strain. “Oil,” he warned, “may be merely the start.”

In 1976, Nye attacked the assumption that the United States was too dependent on the OPEC nations to risk antagonizing them and criticized rhetoric that “makes interdependence sound like a good thing or an inexorable force toward cooperation.” He wrote that interdependence “is just as easily a source of conflict as of cooperation” and argued that the United States should reduce its vulnerability to oil supply disruptions and thus “try to diminish rather than to extend interdependence.”

Despite their skeptical view of the NIEO, though, the leading interdependence theorists still argued for a policy of serious engagement with the developing nations. In *Power and Interdependence*, Keohane and Nye wrote that the United States needed to take an interest in “North-South distributional problems,” while “the major industrial countries will need to take the initiative in adapting international regimes to the needs of the Third World by offering substantial concessions and entering into a sustained bargaining process.” At an MIT workshop in 1976, Bergsten argued: “The reforms that are needed in a whole array of international institutions must encompass adequate representation” for the developing countries. At the same workshop, Cooper suggested “a number of areas where mutual gain can be had by close cooperation between developed and developing nations,” such as global environmental regulation, “reduction in the volatility of commodity prices,” and regulation of multinational corporations.

This approach, combining confrontation with the developing countries on some issues and engagement on other issues, was characteristic of the U.S. response to the NIEO throughout the 1970s. In 1975, Henry Kissinger told other members of the Ford cabinet that if the United States opposed the NIEO altogether, it would find itself abandoned by its allies in Western Europe and elsewhere in the industrialized world. “We will be totally alone if we do,” he warned. “Beaten back and back, with no support.” The United States would do better to engage in a strategy of delay, negotiating on specific issues and stalling on others while Kissinger tried to split the pro-NIEO coalition. “Obviously we can’t accept the new economic order,” he explained, “but I would like to pull its teeth and divide these countries up, not solidify them.” Although he met with some opposition from other cabinet members who wanted a more openly aggressive response to the NIEO, Kissinger’s approach prevailed, and the United States took a conciliatory stance toward the NIEO in public even while opposing most of its specific provisions.

Kissinger and other U.S. policymakers also sought to build political alliances and institutions that would unite the industrialized nations and serve as a counterweight to the NIEO coalition. The Nixon and Ford administrations, for example, backed the establishment of the International Energy Agency (IEA), designed to represent the interests of developed, oil-importing nations and to balance the power of OPEC. The
United States also tried to sideline multilateral institutions where the developing countries could make their numerical majority felt, especially the UN General Assembly. Kissinger told the UN that reforms to the international economic system should be arranged through “the appropriate forums” such as the World Bank, the International Monetary Fund, and the General Agreement on Trade and Tariffs (GATT, the forerunner of the World Trade Organization or WTO)—all institutions where the United States had a great deal of influence.34

At other times, the major industrialized nations bypassed established international institutions altogether and relied instead on informal cooperation among themselves to manage the global economy. The 1970s saw the birth of the G-6 (later the G-7) group of developed nations, which first met at Rambouillet, France, in 1975 to help craft a joint response to stagflation, the oil crisis, and the NIEO challenge. The meetings of the G-7 often featured a great deal of rhetoric about interdependence. This, however, was interdependence first and foremost among the industrialized powers rather than the world as a whole, a version of interdependence that justified cooperation between developed nations with similar economic interests, although they often claimed to act on behalf of the interests of the world as a whole.35

The United States also sought to divide the NIEO’s proponents by building special relationships with the developing nations that had the most to offer to the United States. This effort was focused in particular on the leading oil producers and sought to use the constraining effects of interdependence as a foreign policy tool. The U.S. security relationships with nations like Saudi Arabia and Iran, for example, served as a way to bind them to the United States. Lincoln Bloomfield, a professor of political science at the Massachusetts Institute of Technology who directed MIT’s project on interdependence, testified to Congress about weapons shipments to Saudi Arabia and Iran: “The best reason in favor of arms sales is summed up by what I would call ‘deliberate interdependence.’ By this is meant purposefully creating dependence on U.S. spare parts, advice, and technology on the part of countries with the greatest capacity to make the industrial democracies dependent on them.”36 Close military relationships with the leading oil producers had the additional benefit of enabling U.S. officials to argue that by destabilizing the American economy and impairing the ability of the United States to maintain a large defense establishment, oil price increases threatened the security interests of Saudi Arabia and other U.S. allies in the Gulf.

The United States also used its economic relationships with the oil producers as a way to turn interdependence to its advantage. In 1974, for example, the United States established joint economic commissions to promote economic cooperation with Saudi Arabia and Iran. Behind the scenes, U.S. officials expressed their hope that the joint commissions would absorb Saudi and Iranian surplus revenues and limit Saudi and Iranian freedom of action by locking in their special relationships with the United States. As Kissinger told Ford: “We are organizing bilateral commissions to tie their economies as closely to us as possible. So we have leverage . . . we want to tie up their capital.”37 Meanwhile, the Nixon, Ford, and Carter administrations all promoted an agenda of “energy independence” at home in order to reduce American vulnerability to oil supply disruptions. Just as Nye recommended, they sought to shift the balance...
of the asymmetrical interdependence between the oil producers and the United States so the asymmetry was in America’s favor.

The United States and its allies chose to work with what they portrayed as the more “responsible” oil producers, the ones that understood the reality of global economic interdependence as U.S. officials understood it. Saudi Arabia, in particular, was the favored partner of the United States and the other industrialized nations. West German chancellor Helmut Schmidt told the other G-7 leaders: “The Saudis are rather sophisticated in their understanding of the mechanisms of the world economy.” Gerald Ford similarly praised Saudi Arabia’s recognition of global interdependence and its “very responsible” economic policies, and Jimmy Carter thanked the Saudis for their “responsible attitude on oil production and prices.” Responsibility, in this case, involved following policies that favored the economic interests of the industrialized world: more oil production and lower prices. In private, Western leaders frankly admitted that their definition of responsibility was nearly synonymous with the interests of the developed world; nations like Saudi Arabia who were more economically interdependent with the United States and Western Europe were naturally more sophisticated and responsible in their economic outlook. As Schmidt explained in 1975: “Saudi Arabia is closely linked to the United States. It also has a great deal of funds in the City of London. I believe that they understand our problems.” Saudi Arabia could be trusted because its new wealth had made it a convert to the interdependence of fear; it now had more to lose than to gain from a radical transformation of the international economic order.

The Rule of the Market

The U.S. response to the NIEO was a political response, one that accepted economic interdependence but sought to manage it in a way favorable to American national interests. The U.S. government intervened in the energy market at home to reduce American vulnerability to embargoes and other supply disruptions. The United States backed institutions like the IEA and the G-7 as alternatives to the model of global economic governance represented by the NIEO. Even the U.S. efforts to split OPEC and the NIEO coalition took those groups seriously as political actors, to be dealt with through careful diplomacy and the building of special relationships with nations like Saudi Arabia. Policymakers like Kissinger, as well as the leading American scholars of interdependence, did not believe that simply ignoring the NIEO and proclaiming faith in the principles of the free market was a viable response; they argued that the United States should take an active role in constructing political relationships and regimes of global economic governance that would blunt the NIEO’s momentum and serve as an alternative to its policy program.

By the beginning of the 1980s, a very different response to the NIEO had begun to take shape. Important elements of the NIEO were modeled on the welfare state and Keynesian economics that had been intellectually dominant for much of the postwar period. The consensus in favor of such policies, however, began to break down during the 1970s. The same economic conservatives who criticized government intervention in the U.S. domestic economy also wanted the United States to take a more forthright stance in favor of the free market abroad. When Kissinger proposed...
negotiating with the NIEO’s advocates in 1975, Federal Reserve chairman Arthur Burns denounced the idea that the United States might “acquiesce in manipulation or market control arrangements” that would “harm the world economy” and declared that “the question was one of free enterprise as opposed to socialism.” William Simon, the secretary of the treasury, said: “If we don’t defend the free market, I ask you, who will?” Although Burns and Simon lost that particular debate, their approach became more influential as the decade wore on.

Academic economists also joined in the attack. In a 1976 lecture, Harry Johnson of the University of Chicago argued that the NIEO was based on the same mercantilist ideas that Adam Smith had decisively refuted in the eighteenth century. Johnson acidly described the NIEO as “an assertion of the law of the jungle—or more accurately, to a demand for the rights of the law of the jungle for me, the developing, and the obligations of the rule of law for you, the developed.” On another occasion, Johnson argued that there was no moral justification for giving aid to foreign governments, let alone dramatically expanding such aid. Drawing on the individualist language of both economics and human rights, he explained: “‘The support thereby afforded to governments in poor countries may well represent reinforcement of political and social systems that worsen the lot of the typical poor-country citizen not only economically but more seriously (from a human dignity and decency point of view) in terms of personal opportunity and liberty.’” As Jennifer Bair has noted, other economists, including Gottfried Haberler, Karl Brunner, and Deepak Lal, also developed a market-based critique of the basic ideas behind the NIEO and development economics more broadly.

Influenced by such arguments, the Reagan administration opposed the NIEO much more openly than its predecessors had done. Although Reagan declared his commitment to continuing negotiations with the developing countries at the 1981 Cancun economic summit, he struck such an unsympathetic tone toward key NIEO demands that Mexican president Lopez Portillo suggested that the negotiations proposed by the United States would be “without purpose, without future.” Reagan arrived late to the summit, suggesting what a low priority it was for him. The Reagan administration steadily reduced its participation in many key UN forums and in 1983 withdrew from UNESCO. When the move was announced, a State Department official explained that UNESCO had spent too much of its time discussing the NIEO and had “extraneously politicized virtually every subject it deals with” and “exhibited hostility toward the basic institutions of a free society, especially a free market and a free press.”

During the 1980s, discussion about global economic interdependence began to be replaced by talk of “globalization,” a concept that came to be closely bound up with increasingly popular ideas about the primacy of markets. An economic parable originally written by the free-market activist Leonard Read and retold by Milton and Rose Friedman in their 1979 book Free to Choose illustrated the wide gulf between neoliberalism and the assumptions that had underpinned much of the NIEO debate. The Friedmans described the journey of a pencil as it was manufactured by a number of workers in both the United States and the developing world. Creating the pencil required a wide variety of materials, including American cedar wood, “graphite mined
in Ceylon,” and “rape seed oil from the Dutch East Indies (now Indonesia).” The Friedmans explained: “These people live in many lands, speak different languages, practice different religions, may even hate one another—yet none of these differences prevented them from cooperating to produce a pencil.” The contrast with both the NIEO and interdependence theory was stark: the Friedmans believed that for the global economy to function, it needed no overarching institutions of governance, commodity agreements, or even a bare minimum of political understanding between nations. It only needed the market.

Milton Friedman’s advice to developing nations and other countries seeking to build a prosperous economy was equally straightforward. In an interview at the Prague School of Economics in September 1990, he declared that Czechoslovakia need not worry about any complex political arrangements to guide the transition from communism to capitalism: “Government price regulation, control of foreign exchange rates and wage control can end tomorrow. This is also true of complete freedom for foreign and domestic individuals to participate in business activities. These are all things that can be accomplished overnight.” What was true of Czechoslovakia was true of every other nation as well. Friedman confidently declared: “I believe that every country of the so-called ‘third world’ could become a country of the ‘first world’ through the establishment of the proper and most productive institutions.”

Milton Friedman’s neoliberalism was outside the mainstream of American economics for much of his career, but by the late 1990s many of his once-marginal ideas had become so widely accepted that they were now part of the conventional wisdom. The clearest demonstration of this fact came from a different Friedman—the New York Times columnist Thomas Friedman, whose work did more than anything else to shape the popular understanding of globalization. Friedman wrote in his bestselling book The Lexus and the Olive Tree: “The driving idea behind globalization is free-market capitalism—the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be. Globalization means the spread of free-market capitalism to virtually every country in the world.” And in words that closely echoed Milton Friedman’s 1990 interview, Thomas Friedman declared: “In a world where a country can plug into the Internet and import knowledge, in a world where a country can find shareholders from any other country to invest in its infrastructure . . . a country can more than ever opt for prosperity or poverty, depending on the policies it pursues.” Globalization meant that developing countries “don’t have to be prisoners of their natural resources, geography, or history.” Friedman’s argument that nations could simply choose to become prosperous was the polar opposite of the vision behind the NIEO, the idea that the developing countries needed to change the entire global economic regime if they were to overcome the legacy of colonialism and underdevelopment.

The history of the NIEO serves as a reminder of the wide gulf that separates contemporary economic thought from that of the 1970s. Leaders on both sides of the debate over interdependence and the NIEO were convinced that political action was necessary to manage the international economy and put developing countries on the path to prosperity. They disagreed sharply about the details, but they started from many of the same basic principles and assumptions. The intellectual terrain has been
transformed so dramatically over the intervening years that to many observers looking back, the entire NIEO debate seems bizarre and fantastical, divorced from everything we know about how the global economy works. In the 1970s, developing nations were thought to be deeply constrained by their environment, but given the right political circumstances, they possessed enough collective agency to change that environment by altering the international economic order. By contrast, nations today are thought to have the ability to change their own fate, but no agency at all when it comes to the international economic order, which operates according to the inalterable laws of the market.

NOTES


5. “Solemn Declaration” of the Conference of the Sovereigns and Heads of State of the OPEC Member Countries, Algiers, March 4–6, 1975, from 1975 OPEC Annual Review and Record, 58.


12. NIEO Declaration.

13. The literature on peace and economic interdependence is far too vast to summarize here, but Edwin van de Haar, “The Liberal Divide over Trade, Peace and War,” International Relations 24, no. 2 (June 2010): 132–54, is a useful guide to some of the most important works.


20. Ibid., 148, 263, 278. See 148–73 for the constraining effects of interdependence on national economic policy, and 260–79 for Cooper’s proposed response.


24. Ibid., 8, 13.


32. Cooper, in ibid., 357–58.

33. Memorandum of Conversation, May 26, 1975, National Security Adviser Memoranda of Conversations, box 12, Gerald R. Ford Presidential Library, Ann Arbor, MI.


35. See, for example, the joint statement by the G-7 heads of state in May 1977 that during their recent summit “we were reinforced in our awareness of . . . our own interdependence.” But although only the largest, wealthiest nations were represented at the meeting, they claimed to act
on behalf of the rest of the world as well, explaining: “We have agreed on how we can best help to promote the well-being both of our own countries and of others.” From “International Economic Summit Meeting—Joint Declaration Issued at the Conclusion of the Meeting,” May 8, 1977, UCSB American Presidency Project, http://www.presidency.ucsb.edu/ws/?pid=7480 (accessed September 15, 2014).


39. Memorandum of Conversation, November 29, 1976; and Telegram from the Department of State to the Embassy in Saudi Arabia, September 9, 1980; both in ibid., 390, 885.

40. Minutes of the Rambouillet Economic Summit Meeting, November 16, 1975, from ibid., 315.


42. Harry Johnson, “The New International Economic Order,” Woodward Court Lecture at the University of Chicago, October 5, 1976, published as University of Chicago Graduate School of Business Selected Paper No. 49.


