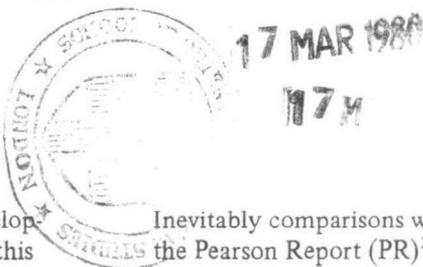


Overseas Development Institute*

10-11 Percy Street London W1P OJB
Tel: 01-580 7683

Briefing Paper



No 2 1980
March

THE BRANDT COMMISSION

The Independent Commission on International Development Issues – the Brandt Commission (hereafter in this paper BC) – has recently published its report on world economic development.¹ The report examines the consequences for less developed countries (lDCs) of the changes in international relations and the world economy in recent years including trade, financial, and monetary issues as well as the problems of world food supply and energy. The BC was formed by Willy Brandt in 1977 at the suggestion of the President of the World Bank (IBRD) and consists of 18 distinguished politicians and economists from all the major regions of both North and South except the Communist bloc. Members include four former heads of government and the current Commonwealth Secretary General. The BC was independent, since its members were invited to join in a private capacity and are not responsible to any government or institution.

The report has been formally presented to the UN Secretary General but it is also addressed to the general public and to the various governments, institutions, and decision makers in the world economy. It is non-technical and consists of an analysis of development issues followed by a set of recommendations for the reform and restructuring of the world economic system around the principles of 'equality, fair balance and mutual benefit'. The BC believes that these proposals are not only in the 'mutual interests' of both North and South but are also essential in order to avoid the 'threat to human survival posed by the threatening chaos in the world economy'. The BC concludes with a proposal for a global agreement or bargain to be struck between the North and South. In order to stimulate positive action by world governments the BC proposes a summit meeting of 25 heads of governments who will represent all the major regional groupings and attempt the formulation of an agreement.

The BC proposes a wide-ranging programme of priorities for the 1980s and 1990s, the main elements of which are changes in the international economy and its institutions, a compact between energy consumers and producers, an improvement in the conditions of trade in commodities and manufactures, and a reform of the structure of development finance and of the monetary system. The report also proposes an emergency programme for 1980-85 which involves a large-scale transfer of resources to the lDCs, an international energy strategy, a global food programme, and a start on reforms of the international economic system. All of these issues are discussed in this paper under four major headings.

Inevitably comparisons will be made between the BC and the Pearson Report (PR)² which also examined development issues as an independent commission. However, whereas the PR was given its mandate and financed by the IBRD, the current report is entirely independent and directs its recommendations to a wider audience of the governments, people, and institutions of the industrialized and developing worlds rather than specifically to the Bretton Woods Institutions and aid-giving governments. Secondly, although there were signs of a broadening of concerns, the PR mainly focussed upon the aid relationship between the West and the lDCs, whilst the BC has attempted to take a more inclusive and global view and has presented an integrated programme of interdependent recommendations. The BC's proposals are a political initiative designed to forge a new kind of development relationship based upon the mutual interests of North and South. Finally, the role of the Communist countries in development was not dealt with by the PR whereas the BC formed high level contacts with the USSR, China and the Eastern Communist countries. Whilst the BC recognises that they will not take part in the proposed summit, the report recommends their participation in future attempts at North-South cooperation.

Very few of the BC's proposals are new and in fact most have been suggested in earlier international fora. For example, the influence of UNCTAD IV is evident in the proposals covering international trade in commodities and manufactures or the issue of the transfer of technology. Equally, the UN declaration on the New International Economic Order (NIEO)³ has clearly provided a rich source for many of the BC's proposals. The BC's recommendations also reflect the central theme of NIEO which was the need for a restructuring of existing international institutions toward greater participation by the lDCs in management and decision-making processes. The BC suggests institutional reforms to existing world organizations such as the IBRD and the IMF as well as new arrangements to meet the central objective of a transfer of greater power to the South. The uniqueness of the BC report therefore lies in its central theme of 'mutuality of interest' which is claimed to be a concept capable of revitalizing the flagging North-South negotiations.

* The Institute is limited by guarantee.

² 'Partners in Development' – Report of the Commission on International Development, 1969.

³ Seventh Special Session of the UN 1975.

¹ *North-South – A Programme for Survival*, Pan Books, 1980.

SUMMARY OF KEY REFORMS

Development finance and institutions

The BC calls for a massive increase in North-South resource transfers although the type of assistance would vary between ldc's. The least developed and other low income countries need at least \$4bn of extra aid annually for the next 20 years to attain even basic development targets. Middle income and higher income developing countries require greater access to both concessionary finance and to commercial loans on better terms which would improve the maturity structure of their debt and provide access to longer term programme finance. This will require a doubling of the current annual official development assistance (oda) as well as substantial increases in commercial lending.

The methods for transferring resources

The BC suggests a new approach to development finance based on a mandatory system of international revenue mobilization levied universally and automatically. Both the Communist countries and the ldc's would contribute (although the poorest countries would be exempt). One method suggested by the BC is a worldwide progressive tax based on a sliding scale related to national income. Another is a system of levies on international trade, arms production and exports, or revenues raised from the 'global commons' such as seabed minerals. Where attributable to individual countries, funds from the above sources could be counted as contributions toward meeting their overall aid targets.

The report also recommends that the industrialized countries meet the present 0.7% of GNP target for official aid by 1985 and a target of 1% by 2000. The former target would produce about \$30bn extra oda annually by that date and the BC hopes this would be mainly directed to the poorest countries. Increases in non-oda transfer are also envisaged.

The BC calls for measures to give non oil-producing ldc's (especially middle income and non oil-producing countries) greater access to commercial borrowing but the report is concerned that the international banking system should be able to continue its crucial role of recycling OPEC and other surpluses to the deficit countries. To ensure this the report recommends that public institutions mediate between ldc borrowers and oil-producers to arrange some means of recycling future surplus revenues. The report also recommends that the IBRD should assist lending from commercial banks to ldc's by co-financing deals, by the provision of guarantees and by using concessional funds to improve lending terms and interest rates on commercial loans. This would allow poorer developing countries to borrow on commercial markets. Other proposed sources of extra borrowing are a doubling of the IBRD's loan to capital ratio ('gearing ratio') and the use of IMF gold as collateral for raising resources in financial markets which could be re-lent to the ldc's. The BC estimates that the adoption of its proposals might provide additional funds flowing to the ldc's through public channels (ie excluding commercial lending) of \$50-60bn annually by 1985.

Administrative and institutional changes

The report calls for improvements to the terms of aid (oda), including lengthening the period of assured flow, untying of aid-financed purchases and an increase in the

grant component of total aid flow. The BC also believes that more aid should be allocated through multilateral institutions since this avoids political and strategic bias. The ldc's also require an increase in programme lending since this allows greater flexibility in the use of resources.

The BC suggests certain major institutional changes in the administration of aid. These might include future changes in the constitution of the IMF and the IBRD so that ldc's could play a greater role in management and decision-making. Decentralization of the IBRD's activities is recommended so that regional development banks can play a greater role in development financing. A third suggestion is for the formation of a new development institution, a World Development Fund (WDF), with universal membership and a broader sharing of management and control. The WDF is designed to meet the present gaps in the financing structure, particularly the lack of programme lending, and also to act as a channel for the new automatic revenues.

The energy strategy

The second major part of the BC's emergency programme is a global energy strategy to be agreed between oil-producers and consumers. The BC wants oil-exporting nations to guarantee production levels, to undertake not to reduce supply arbitrarily except in circumstances beyond their control and to avoid sudden disruptive price increases. The consuming countries would be required to agree consumption and conservation targets as well as to guarantee the value and accessibility of the financial assets received by producers as payment. The BC thinks it desirable that the USSR and China ultimately participate in an international energy strategy.

In the longer run the BC sees a need for a multilateral financing facility for investment in the exploration and development of energy resources in ldc's. Special financial measures are also required to ensure that the energy needs of the poorest ldc's are met.

A global food programme

In order to eliminate world hunger the BC suggests a two-pronged strategy of increased food production and a reduction in poverty. The former requires massive investments in agricultural projects and the BC recommends that \$8bn of extra assistance be provided annually up to 1990 specifically for agricultural development. The report stresses that the eradication of hunger also requires appropriate domestic policies in the ldc's designed to reduce poverty. These include greater equity in the distribution of income and increased employment opportunities. Land reform is suggested as a means of both increasing agricultural productivity and the incomes of the poorest groups. The report proposes that multilateral agencies provide adjustment assistance for land reform programmes in order to reduce the obstacles to this policy in some ldc's.

World food supply

The BC supports the attempts to attain agreements on the stability of world food supply and prices, particularly the attempt to establish an International Grains Arrangement which includes provisions covering the size of reserve stocks of wheat, price triggers and special measures in favour of ldc's. The BC is also concerned with trade

liberalization since protectionism in northern producing countries contributes to instability in world food markets by accentuating world food grain price fluctuations. The report recommends that the international community should not only hold adequate reserves but should also move to freer trade in agricultural goods.

Emergency food supplies

The BC calls for a programme for the provision of emergency food supplies. This would involve an increase in the available amounts of food aid and an improvement in the continuity of supply, which would allow receiving countries to plan demand management policies and the physical organization of supplies well in advance. Other recommendations include the holding of larger emergency food reserves and the provision of a food financing facility located in the IMF or WDF which would be available to help countries with fluctuating import needs. This facility would require around \$200m per annum in order to keep short-term cereal availability close to its long-term trend.

Restructuring the international economy

A central aim of the BC is to encourage the construction of an effective international monetary system accompanied by a major effort to improve the ldc's conditions of trade in commodities and manufactures. The report recommends the establishment of a new international monetary system on the basis of more stable exchange rates, greater symmetry between surplus and deficit countries in responsibility for adjusting to balance-of-payments disequilibria, and an orderly expansion of world liquidity. An essential part of this involves the creation of a new world currency. The BC proposes that Special Drawing Rights become the principal reserve asset. The report recommends that these should be created in line with world liquidity requirements in order not to fuel world inflation and they should also be distributed in favour of those ldc's currently bearing the highest adjustment burdens (the so-called 'SDR link').

Finally, the BC proposes that the IMF adopt a more flexible attitude to the balance of payments adjustment problems of the ldc's. In particular it should not be so ready to insist on severe deflationary measures as standard policy but should pay due regard to the short and long term economic and social objectives of the ldc's.

Trade in commodities and manufactures

Mutuality of interest in this area derives from the ldc's need for improved conditions of trade and the developed countries' (dcs') desire for commodity supply security and price stability, as well as for cheaper priced manufactured goods.

The BC recommends that the ldc's be allowed greater participation in the processing, transportation, marketing and distribution of their commodity exports. According to the report this will necessitate removal by dcs of tariff and non-tariff barriers against ldc processed products, abolition of restrictive business practices and improvement of financing arrangements for facilitating increased processing and marketing.

Secondly, the BC stresses that commodity price stabilization is crucial to both North and South since unstable and rising prices fuel domestic inflation in the dcs and reduce

the incentive for investment in the productive capacity that would ensure both future supplies for the world and income stability for many ldc's. The BC recommends that the 'Common Fund' be supplied with sufficient financial resources to enable the formation of effective and lasting International Commodity Agreements (ICAs) which would stabilize prices at remunerative levels for producers. Sufficient resources should also be provided for the Fund's 'second window' activities such as the provision of funds for financing, storage, processing, and marketing activities in ldc's. Finally, the report recommends that the IMF expand and liberalize the Compensatory Financing Facility to compensate for shortfalls in the real commodity export earnings of ldc's.

The 'global new deal' envisages an increase in the export of manufactures from ldc's. The BC believes that the required structural changes can be achieved with the minimum harm to the dcs by reducing protectionism in the North whilst simultaneously improving institutional machinery and forming new trading rules which would allow the dcs to take appropriate adjustment measures. The BC believes that sudden disruptions and shifts in trade patterns can be avoided if the dcs adopt positive adjustment policies and explicit safeguards which should be non-discriminatory and time-bound. The exact nature of the institutional machinery should be internationally agreed and its performance monitored.

Secondly, the report argues that there is a need for new trading rules especially concerning the Generalized System of Preferences (GSP) the effectiveness of which has been markedly reduced by over-restrictive rules of origin, numerous exemptions and quota limits. The report recommends that these rules should be relaxed and the life of the GSP extended so that the principle of preferential treatment of ldc's would become an accepted part of the world trading system.

Finally, one long-term aim put forward by the BC is to achieve an amalgamation of UNCTAD and GATT into a new organization. This would have the advantage of representing the interests of both North and South in one forum and would be capable of linking negotiations on issues previously discussed in the separate institutions.

Other priorities

Other significant recommendations of the BC include a major initiative designed to meet the needs of the least developed countries. Part of this involves the increased resource transfer described earlier but the central aim is to build up the productive systems of the poorest countries through large-scale investment in the development of natural resources and infrastructure, thus enabling these countries to become more self-sufficient.

Secondly, the BC urges control of the restrictive business practices of transnational corporations and in particular that effective laws and codes of conduct for the transfer of technology be established. The report recommends the construction of an internationally agreed investment regime on the basis of reciprocal obligations, whereby the dcs should not restrict investment or the transfer of technology abroad whilst ldc's would not hinder current transfers such as profits, royalties or capital repatriation.

Thirdly, the report stresses the need to increase public awareness of the inherent waste of resources in the arms race and the need to promote peaceful coexistence between countries which would free resources for development. The BC recommends an increased disclosure of information on arms exports. Any new tax on trade would include a higher rate on armaments.

Other chapters in the report stress the need for greater participation and decision-making by ldc's in world institutions and the need for greater concern in ldc's about population growth and environmental issues.

ISSUES ARISING FROM THE BRANDT COMMISSION

In the light of the current state of international relations and the looming world recession, the BC report has appeared at an unpropitious moment. It could be said that these factors make the need for a global agreement even more pressing but in practice they will also sharpen the difficulties outlined below.

A main feature of the report is its universality — that is the extent to which it sees the North-South agreement as covering all parts and countries of the world. The BC hopes that ultimately the Centrally Planned Economies (CPE), including both the Soviet Union and its allies and China, will participate in the agreement. However, the report does not provide much argument about the mutual interests involved. Nor does it calculate the effects of including or excluding the CPE, or lay down any clear procedure for how these countries are ultimately to be brought into the negotiations. It is highly improbable that they will take part in the initial summit meeting.

The universality of any agreement also requires positive interest amongst all the major Western countries. In fact the report expresses concern over the attitude of the USA and notes the decline in US commitment to development and hopes that its negative experiences with one or two ldc's will not affect American attitudes to the developing countries as a whole. Another possible cause of lack of interest in the BC's proposals is the coming recession which may well increase pressures for protectionism in the North and cement the currently hardening attitudes against increasing or even maintaining the real value of aid flows.

A second issue concerns the general ability of the BC to influence the behaviour of world governments and institutions since the acid test of the BC's success will be whether in fact any of its recommendations are actually implemented. Since the BC lacks any institutionalized power or even continuing existence, it has no direct means of ensuring that any of the report's proposals are carried out, or that the required measure of inter-governmental agreement is achieved. However, the influence of the report will be enhanced if it is endorsed by the UN after a debate on the subject and this may help it to succeed in alerting and convincing opinion-formers with previous interest in development problems. Nevertheless, the poor record of previous attempts at constructing an acceptable North-South agreement, at UNCTAD IV and V for example, must make it uncertain that the BC will be any more successful at stimulating negotiation or agreement than previous initiatives. What

the BC sees as new in its approach is that it seeks to break away from the atmosphere of confrontation in UNCTAD by reorienting the perception of both North and South toward the concept of mutuality of interest and the possibility of an agreement where both sides benefit by making concessions. Moreover, the BC suggests that a viable and lasting North-South relationship can only be established by a broadly based integrated programme of interdependent recommendations, rather than by the piecemeal approach that has followed the call for a NIEO. However, this could be a source of weakness as well as strength, since it implies that the North and South must strike a bargain that simultaneously satisfies many interrelated issues. This will be further complicated by the fact that neither the North nor the South have uniform interests. One possible outcome could be an initial agreement that satisfies only a minority of the BC proposals or is acceptable to only some countries. This will break down the integrated nature of the programme.

The claim that the uniqueness of the BC resides in the mutuality of interest theme raises a third issue concerning the strength of the concept. It could be said that the concept of mutuality applies more readily to the long run since in the short run relationships between North and South take on the appearance of confrontation rather than cooperation. For example, although dc governments might recognise the desirability and inevitability of restructuring their economies in the long run, they mainly possess short-term horizons which makes them prone to sectoral pressures for increased protectionism. Similarly, as the recession begins to bite it may become increasingly difficult to persuade dc governments of the long-term benefit from an increased North-South resource transfer. The recommendations of the BC therefore seem to represent the longer term objectives of the North and South, but longer term interests are too often constrained by short-run economic and political expediency.

Fourthly, there is the issue of the proposed summit meeting which is supposed to lay the ground-work for the implementation of the BC's proposals. The report recommends that the conference should take place in close contact with the UN and after consultation it would include about 25 heads of government who would be representative of major world groupings. The BC hopes that the conference will discuss the emergency programme and that the ground can be prepared for binding decisions in other fora. However it is unclear precisely which countries will be involved in the summit and how any decisions taken therein can be extended to the non-participant countries. The report itself recognises that the leaders at the summit cannot commit those not present. This raises the problem of universalizing any agreement that may be reached by this select group. At present how the transition is to take place from the preliminary summit meeting to a universal and conclusive North-South agreement is far from clear.

It is possible to quibble about some of the details of the report. However the BC have clearly indicated one possible strategy for ensuring the survival of the human race. It is upon the validity of the general strategy and on how it is to be implemented that those concerned with human welfare now need to concentrate.