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THE UNITED STATES
AND THE BRANDT COMMISSION REPORT

A Report Prepared by the
U.S. International Development
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Background

Late in 1977, a group of distinguished leaders from developed and developing nations came together to "study the grave global issues arising from the economic and social disparities of the world community" and to "suggest ways of promoting adequate solutions to the problems involved in development and in attacking absolute poverty." The group, formally known as the Independent Commission on International Development Issues, soon came to be called "the Brandt Commission" after its chairman, former Chancellor of the Federal Republic of Germany, Willy Brandt. In addition to Brandt, the Commission brought together eleven leaders from developing countries and nine leaders from developed countries, including former British Prime Minister Edward Heath; former Swedish Prime Minister Olof Palme; Adam Malik, former Indonesian Vice-President; and Eduardo Frei Montalva, former Chilean President. Two American citizens, Katharine Graham (Chairman of the Washington Post Corporation) and Peter Peterson (Chairman of Lehman Brothers, Kuhn Loeb) served on the Commission.

In February 1980, after two years of work, the Brandt Commission issued its final report. Their Report has focused world-wide public attention on a number of key issues that will affect the health of the global economy. It correctly identifies the economic conditions in developing nations as major determinants in our economic outlook for the balance of this century and puts forward a number of recommendations with which we agree; and several with which we do not.

The context in which the Commission's work was undertaken is, of course, of considerable importance. Far too often in recent years discussions between developed and developing countries have taken place in an atmosphere of acrimony and tension. The Brandt Commission, in the tradition of other respected international commissions, sought to pursue the issues of genuine mutual interest in an informal and constructive atmosphere.

Following a meeting on the Commission's report between President Carter and Willy Brandt, the President asked IDCA to develop coordinated U.S. Executive Branch positions on the Brandt Commission's proposals. From March through September of this year, IDCA led a review, and in mid-September the Director provided the President with a final report. Participating in this review were the Departments of State, Treasury, Agriculture, Energy, Commerce, Labor, the Agency for International Development, the Export-Import Bank, the Peace Corps, the Overseas Private Investment Corporation, and the United States Trade Representative. This paper is an IDCA summary of some of the main features of the review.

* * *

The Brandt Commission Report makes recommendations on a wide range of North/South economic issues. Five broad themes underlie the Commissions' many specific proposals:

- It is in the mutual interest of the North and the South for governments to act cooperatively and affirmatively to accelerate development;

- While principal responsibility for fostering development rests with individual developing nations, the North, the South, and the Communist Bloc share a responsibility for promoting development and managing change in the international economic system;
- A transfer of resources on a large scale is needed to accelerate global economic development; and official development financing should be provided more automatically and from a wider community of donors;
- Developing countries should exercise a greater voice in the management of the international economic system;
- While far-reaching policy and institutional reforms should be pursued over the course of the 1980's, the dangers of serious economic crises in the next five years require quick agreement on a set of emergency measures.

Accordingly, the Brandt Commission proposes a four-part Emergency Program for 1980-85:

- an international energy strategy;
- a global food program;
- large-scale resource transfers; and
- a start on some major reforms in the international economic system.

The Report also outlines a program of priority actions for international negotiations over the next two decades, including trade, investment, commodities, technology transfers, and other issues.

We strongly endorse the Commission's view that there are growing mutual interests between North and South. All countries must assume an appropriate share of responsibility for managing a rapidly changing world economy. The mutuality of interests is evident in such areas as energy, food, inflation control, environmental protection, and the achievement of economic growth.

To a substantial degree, the development assistance policy of this Administration accords with the Report's call to concentrate concessional aid on the lower-income developing countries. The Commission's discussion of the "dimensions of development" accords with our development strategy focus on poverty, human needs, the position of women in development, and respect for human dignity. We are disappointed, however, that the Commission did not adequately highlight the importance of population growth in developing countries.

We also concur with some, although not all, of the specific recommendations that the Report makes in areas of trade, investment, development finance and monetary reform. In our review, we have devoted particular attention to the Commission's proposed "Emergency Program."

Food

Broad international consensus exists today on the central importance of food and energy, the two sectors highlighted in the Brandt Commission's Emergency Program. Food and energy-related development assistance are two of the sectors proposed by the U.S. for principal consideration in international negotiations. Both are emphasized in our allocation of development assistance.

The Commission's international food program for 1980-85 aims at:

- increased food production, especially in developing countries, helped by an increase to \$8 billion (in 1975 dollars) in annual international assistance;
- stable supplies of food, including increased emergency food aid;
- a system of long-term food security based on conclusion of a new International Grains Agreement.

We currently give major emphasis in our bilateral aid program to agricultural development. We support efforts in the World Bank and the UN Food and Agriculture Organization (FAO) to help developing countries improve their food storage and distribution capacities and various multilateral efforts that should help meet the objective of greater food security. The United States is the largest food aid donor, with our new Food Aid Convention pledge amounting to 4.47 million tons out of the internationally-agreed food aid target of 10 million tons. The recent enactment of our Food Security Wheat Reserve Act will now allow the United States to meet its commitments under the Food Aid Convention even if there are two consecutive years of bad crops. Furthermore, we hope to be able to generate increased commitments from both developed and developing nations to scientific and technological solutions to problems of lagging agricultural productivity in the developing world, for example in the areas of cooperative research and extension services.

These actions are significant, we believe, but not enough. We have begun, therefore, a study of additional measures to help meet food needs in developing countries -- including possible new financing arrangements to increase food production and to help meet rising food import bills throughout the period of time it takes agricultural development efforts to take effect.

While negotiations for a New International Wheat Agreement with binding economic provisions reached an impasse in 1979, the International Wheat Council is now developing a new approach to a wheat agreement. This new approach would build on the areas of consensus that do exist, and would retain the feature of internationally-coordinated, nationally-held reserves but establish more flexible, consultative procedures for their build-up and release. The issues that arise for the United States include our position on resumed talks and an assessment of the outlook for a new Wheat Trade Convention, as well as additional measures that may be needed to promote greater world food security.

Energy

In the field of energy, the Commission calls for an accommodation between oil-producing and consuming countries that can ensure:

- secure supplies of oil;
- rigorous conservation;
- predictable and gradual oil price increases;
- measures to develop alternative sources of energy.

While we share the Commission's view that energy is now a central international issue, we believe that substantial political and economic obstacles stand in the way of viable, mutually acceptable

"energy accord." Such an accord could be advanced by negotiations among key producers and consumers, and we stand ready to entertain proposals on supply and price agreement.

Moreover, the Carter Administration strongly supports a number of separate energy actions. We together with other OECD nations have already pledged vigorous conservation efforts and efforts to hold down oil imports. OECD 1980 oil consumption is expected to average 6% lower than in 1979, and U.S. oil consumption is expected to decrease by over 8%. We have requested the World Bank to examine the adequacy of existing measures and mechanisms for energy development in developing countries and to consider means of increasing the World Bank's activity in this area, including the possible establishment of a new facility for this purpose. We have increased bilateral assistance in support of efficient use and development of energy resources. We are also actively supporting preparations for a 1981 UN conference on new and renewable energy resources.

Developing countries could increase their use of coal as an alternative to petroleum. For this, they will need technical expertise in the mining, transport, and use of coal; surveys of indigenous coal resources; financing for the extensive transportation infrastructure and industrial equipment required for coal use; and reliable and affordable source of supply. In addition, we hope U.S. export of coal may offer developing countries access to a stable source of energy that could be more economical than oil, and we are now analyzing ways of assisting them in the greater use of coal.

A sharp focus on financing needs in the food and energy sector will not provide a complete answer to the so-called recycling problem, which is of serious concern to OECD countries as well as to oil-exporting and oil-importing developing countries. For some individual developing countries, financing problems are expected to become increasingly severe in 1981. The major issue is how to assure sufficient and orderly sources of financing that support necessary adjustments without undue sacrifices to growth. The International Monetary Fund (IMF), by providing temporary balance of payments financing to countries undertaking economic adjustment programs, will play a central role in this process. Provision of long-term finance for the food and energy sectors can also make a useful contribution to LDC adjustment efforts by fostering increased, efficient, domestic production of these two critical resources.

Population

Among the areas in which we diverge with the views of the Brandt Commission is the role of population growth in retarding equitable economic growth. While the Commission urges support for efforts to limit population growth in developing countries, we were disappointed to note that it did not give this key sector the attention which, in our judgement, it requires.

If the world's food and energy problems are to be dealt with successfully, greater efforts will also be needed to reduce population growth rates. The United States has long led in this field. Overall population assistance from OECD donor countries is still only about 2% of their total development assistance. We are,

therefore, developing an international initiative to double by mid-decade the resources devoted to population, in order to extend family planning and related health services. Roughly 20-25% of the people of the Third World outside China now use such services. Our aim is 40-50% by the end of the decade; if successful, the impact on birth rates would be major. We have pressed hard to have population issues addressed in the global economic negotiations to be conducted under the auspices of the United Nations. Over the course of the next few months, specific ideas will likely be discussed within the Development Assistance Committee of the OECD and with key developing countries.

Resource Transfers

The Brandt Commission calls for large increases in official resource transfers (concessional and non-concessional) to developing countries, reaching a level of \$50-60 billion by 1985. Specifically, the Commission calls for:

- measures to increase non-concessional flows to higher income Third World countries;
- greater concentration of concessional aid on poor countries, including an immediate increase of \$4 billion annually for a special effort on behalf of countries in the "poverty belt" of South Asia and sub-Saharan Africa;
- achievement of the international aid target of 0.7% of donor GNP by 1984 (and 1% by 1990) with donors committing themselves to annual increments of growth in their aid level until these GNP fractions are met;

-- consideration of "automatic" resource transfer mechanisms not subject to national appropriations (such as an international travel tax, royalties and fees on sea-bed mining, other forms of international taxation).

The call for substantial increases in official resource transfers presents a number of complex problems. Total official resource transfers from all countries equalled close to \$30.2 billion in 1979. There is a clear need for increased flows above current level if the international community is to meet food, energy and other global problems. We believe, however, that new donors should assume a greater share of the development financing burden.

At the same time the United States -- as the largest donor and the richest nation on earth -- will set the tone and pace of donor responses to this challenge. Over the past decade, U.S. foreign assistance has declined in real terms. Other Western nations have compensated for the declining U.S. aid, but every indication now is that they, like the United States -- buffeted by inflation, unemployment, and increasingly expensive social programs -- are at a turning point. They may be unwilling to assume an ever heavier share of the burden. If we affirm U.S. leadership by increasing our assistance, however, they and the more advanced of the developing countries are more likely to follow.

In particular, the international community must find ways to respond to the need for additional concessional assistance for the world's poorest countries. These nations face large financing problems -- in agriculture and infrastructure development, in adjusting to higher energy costs, in meeting essential human needs.

Their growth prospects are poor and their ability to generate domestic savings are limited at their present and prospective levels of income. In turning to external sources of finance there is no alternative to their access to private capital markets.

System Reform

As a final part of its emergency package, the Brandt Commission calls for reforms in the management of international economic relations, including changes in the policies, practices and decision-making processes of international economic institutions. Four main points are made:

- Efforts should be accelerated to improve developing countries' access to markets, to stabilize commodity prices, and to encourage timely and positive domestic adjustments to changing economic conditions;
- Developing countries should have a larger role in the management and decision-making of the World Bank and the International Monetary Fund;
- Major efforts must be made to restore international monetary stability;
- There should be "a new approach to development financing" based on universal burden-sharing, at least some automatic resource transfers, and increased program lending with loans not tied to specific projects; The Report suggests that consideration be given to the establishment of a new World Development Fund which would be based on this "new approach."

This part of the Commission's report raises serious problems for the United States and for other developed countries.

On the trade issues, the Report correctly points to the importance of trade to development and calls on industrial countries to reduce further their barriers to developing country exports. However, the Report says little about trade policies of developing countries, especially of the more advanced of these countries. We do not subscribe to the Commission's call for the developed countries to restructure their industries through time-bound programs subject to international surveillance. While we agree that adjustment to changing economic conditions is essential to the growth of the U.S. economy and to the achievement of greater world economic welfare, we do not view structural adjustment as a process directly aimed at providing production and trade opportunities for developing countries nor can we agree to a system of international surveillance. We do believe, however, that improved access to markets is essential for global economic growth and that all nations should create a domestic environment in which resources move to their most efficient uses as economic conditions change, for example through assistance to labor and industry interests facing the need to adjust to trade.

Especially important in the next few years will be the implementation of agreements reached in the recent Multilateral Trade Negotiations and efforts to increase the participation of the developing countries -- particularly the more advanced among them -- in the GATT. Our immediate priority is to convince developing countries, particularly the more advanced, to join the codes on barriers to trade. We will also continue to work for agreements on a safeguards code aimed at strengthening international discipline over import restrictions imposed in cases of serious injury to domestic

producers.

Other trade measures we will be considering include additional, mutually beneficial, tariff negotiations with individual developing countries and the appropriate follow-up to the Generalized System of Preferences (GSP) which expires in 1985, and negotiations occasioned by the expiration of the Multifiber Arrangement (MFA) in 1981.

Although developing countries will receive significant benefits from the MTN, they still face barriers in exporting to the U.S. and other developed countries. Our very limited authority to engage in new tariff-reducing negotiations expires in 1981. Thereafter, negotiations of further bilateral trade agreements with any country will require new authority from Congress.

We are beginning to implement the pledge contained in the recently completed five-year report on GSP to use existing authority to provide increased opportunities for the less developed, less competitive beneficiaries in products in which they have demonstrated their export potential. We will need to consider, however, whether further steps are needed to encourage a wider distribution of benefits.

The MFA, under which the United States limits textile and apparel imports from many developing countries, expires at the end of 1981. Consistent with our program for textile trade as announced in March 1979, we will be reviewing the needs of the poorer countries in seeking a succeeding arrangement to the MFA.

Various Brandt Commission proposals involving reforms of the international financial institutions have been examined by the

Development Committee of the International Monetary Fund (IMF) and the World Bank. The IMF has recently initiated, or is now planning, actions which, while not identical with measures proposed by the Brandt Commission, seek to achieve some of the same objectives. These include: expansion of access to IMF resources and lengthening the adjustment period for IMF-supported economic programs; a modification of lending policies to provide increased emphasis on policies to expand investment and productivity; discussions with OPEC countries on the possibility of borrowing additional resources if necessary; and the establishment of an interest subsidy account for the benefit of low-income countries using the Supplementary Financing Facility. These actions should increase developing countries' access to Fund resources, but they do not resolve the full set of IMF issues raised by the developing countries and supported by the Brandt Commission, some of which are institutional in character. The U.S. has not supported other proposals by the Brandt Commission which could fundamentally alter the character of the IMF as a monetary institution.

Similarly, the World Bank will soon be considering a wide range of measures designed to increase the lending capacity of the institution and thus increase the developing nations' access to financial resources. Among the proposals that we are currently studying in this area are the establishment of an energy affiliate to the Bank, and a number of innovative financing arrangements.

The Commission also offered several recommendations, the effect of which would be to rapidly increase the participation of developing countries in the governance and management of the Bank and the Fund.

In both the IMF and the World Bank financial shares and voting shares are based on criteria designed to reflect the weight and importance of individual countries in the world economy. In the IMF, quotas largely determine voting power; they further determine both financial obligations to the Fund and access to its resources. In the Bank, by contrast, while shares are also the key to the distribution of votes and the measure of donor obligations, they are not formally linked to borrowers access. Under the existing criteria and procedures, quotas and voting shares have been adjusted over the years to reflect changes in the world economy including the increased economic role played by some developing countries. In the IMF, for example, LDC's now make up half of the 22-member Executive Board and account for roughly 40% of the voting power in the Fund. Thus, a process is already underway that deals directly with some of the concerns expressed by the Commission.

The Brandt Report further recommends that countries explore new approaches to development financing. It suggests a number of so-called automatic transfer mechanisms -- most notably the introduction of some form of an international tax or fee (for example, on international travel, or sea-bed mining). There are many legal, political, and technical issues -- not the least of which is the question of accountability -- that have to be carefully explored before we can arrive at a firm position on this issue.

Conclusion

The Brandt Commission's Report makes an important and useful contribution to the ongoing discussions between the developed and

developing countries on economic issues and we have benefited greatly from its analyses. Fundamentally, the Commission has put forward a number of proposals in areas that have been of ongoing concern to the United States and many other countries, and then proposes a range of new steps that it believes should be taken.

In the areas of ongoing concern, we have in recent years:

- participated in more than \$100 billion in replenishment of the resources of the multilateral development banks;
- encouraged a sharp increase in the resources of the IMF and the Fund's ability to provide balance of payments assistance to members;
- completed negotiations for the establishment of a Common Fund and moved ahead on individual commodity agreements;
- completed a multilateral trade agreement that will mean an average cut of 25% in U.S. tariffs on industrial imports from the developing countries;
- moved dramatically to increase world food supplies and world food security through our bilateral development assistance program, the Food for Peace Program, our support for the International Fund for Agricultural Development (IFAD), and the recent establishment of our Food Security Reserve.

Much more has been done, and more still needs to be done in these ongoing areas of concern. In particular, the management of a number of such domestic economic issues as inflation and energy conservation will substantially affect the global economic climate, as will the continued efforts to strengthen and improve the work of the international financial institutions.

In addition, in the course of reviewing the Brandt Report, the Carter Administration agreed to study several new North/South initiatives which seek to achieve the objectives outlined by the Commission's Emergency Program. They include:

- a program of increased concessional assistance for low-income countries focused on food, energy and population objectives;
- development of new ways to help increase food production in developing countries and to provide long-term support to help meet food import needs;
- review of our position in the revised International Wheat Agreement talks and consideration of additional measures that may be needed to promote greater world food security;
- in the context of an expansion of U.S. coal export capacity, development of a program to help developing countries increase their ability to use coal as an alternative to high priced oil;
- launching of an international population/health initiative aimed at doubling in the 1980's the availability and use of family and related health services in developing countries.

These measures are in the U.S. national interest. Taken together they amount to a positive approach to North/South discussions. They represent a significant advance in U.S. North/South policies. Although they are clearly in the mutual interest of developed and developing countries, they will not fully "resolve" the North/South

dialogue. They should, however, elicit the good will that we and all other countries need to make progress on shared and pressing problems.