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THE BRANDT COMMISSION REPORT: THE U.S. RESPONSE TO THE FOOD AND AGRICULTURAL ISSUES

by

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## ABSTRACT

Suggestions for alleviating poverty around the world through new policies are the basis for the Brandt Commission Report entitled North-South: A Program for Survival. This paper describes those issues that deal with food production and development assistance, food security proposals, liberalization of international food trade, and balance-of-payments problems raised by the Brandt Commission Report. The commission made policy recommendations for action, and this paper presents a description of the Carter and Reagan administration's reactions to these suggested policies.



Keywords: Brandt Commission, North/South relations, New International Economic Order, Food, Agriculture, U.S. Food Policy

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## Introduction

This paper describes the food and agricultural issues raised by the Brandt Commission Report and the reactions of the last two administrations to them. On many agricultural issues the Brandt Commission's views paralleled the views of third world countries who have pushed for a "New International Economic Order" in world economic and political relationships. In particular, this paper focuses on those parts of the report that deal with: food production and development assistance, food security proposals, liberalization of international food trade, commodity price stabilization, and balance-of-payments problems.

Robert McNamara, a former president of the World Bank, suggested in a 1977 speech given in Boston that former West German chancellor Willy Brandt establish an independent commission to study the issues and problems of international economic development experienced during the 1970's. In February 1980, this "Brandt Commission" released its report, North-South: A Program for Survival (6) 1/.

The commission studied the global issues arising from economic and social disparities in the world community, suggested solutions, and made recommendations for policy initiatives for the 1980's to attack poverty and increase the levels of economic development. The

1/ Numbers in parentheses refer to references listed at the end of this report. Page numbers refer to the published text of the Brandt Commission Report.

Brandt Commission by doing this followed in the tradition of the Pearson Report of the late 1960's by broadly defining development as referring to "desirable social and economic progress" that "involves a profound transformation of the entire economic and social structure" (p. 48). The commission evaluates such development not just in terms of economic betterment using monetary measures, but also in terms of less tangible measures of increased social welfare, individual rights, and equity.

The commission found the pace of development in the last decade, and the distribution of the rewards of economic development to be unsatisfactory. There upon, the commission called for all governments to invest in their own food production and rural development programs. The resources needed for much of this investment, the commissioners felt, lie in the richer nations.

> Citizens of rich countries must be brought to understand that the problems of the world must be tackled too, and that a vigorous aid policy would in the end not be a burden but an investment in a healthier world economy as well as in a safer world community. International development issues must be given the attention at a high political level that their urgency entitles them to (p. 226).

Behind the commission's concern is its belief that the richer countries dominate world markets, world technology, and world finance to such an extent that without resource transfers to the poor, there is no hope for an improvement in many developing countries or world conditions. To facilitate this resource transfer, the commission looked for areas of mutual self-interest between the rich and poor countries. Much of the commission's report dealing with trade agreements and balance-of-payments adjustments contains specific or implied requests for actions by developed countries.

The U.S. reaction to many areas of mutual interest reflected both the political diversity within this country and the problems of responding to the commission's broad recommendations. This paper describes the policy actions on food and agricultural issues that the Brandt Commission recommends be taken by the rich countries and the U.S. reaction to those recommendations. 2/

2/ The Carter administration conducted a preliminary review coordinated by the U.S. International Development Cooperation Agency (IDCA) of some of the commission's recommendations. Participating in this review were the Departments of State, Treasury, Agriculture, Energy, Commerce and Labor; the Agency for International Development, Export-Import Bank, Peace Corps, and Overseas Private Investment Corporation; and the U.S. Trade Representative. IDCA prepared a summary of the main features of the review that was circulated throughout the government in January 1981, but that paper was never formally published. The present Administration's positions on several of the issues raised by the commission have been presented in various forms, but no comprehensive response has been prepared (27).

## Food Production Programs and Development Assistance

### Brandt Commission Recommendations:

The commission saw the most crucial problem facing the world today as the need to increase food production in the developing countries. Since 70 percent or more of the poor in developing nations live in rural areas, increasing food production incentives through rural development investment is crucial. The commission recommended that the major responsibility for this investment be taken by the governments of the developing countries. In the commission's opinion, these governments need to make the political commitment to encourage investment in rural development through both public and private resources that will increase food supplies, employment, and income. They also stated that the richer countries, however, had the secondary responsibility of making the capital resource transfers necessary to fund this investment in less developed countries (LDC's), preferably in the form of resource transfers to agricultural sector programs that allow the LDC's to allocate these resources as they see fit.

The report explained that increases in agricultural production can be strengthened through investment in (1) increased local capacity to conduct research on problems relating to subsistance crops, and (2) agricultural projects that invest in the production and distribution of the inputs necessary to stimulate production.

The commission estimated, using an International Food Policy Research Institute (IFPRI) calculation of the shortfall between worldwide production of food and a recommended minimum level of consumption, that the gap could be filled with foreign aid or official resource transfers amounting to $12 billion (1975 dollars) annually in the 1980's. These dollars would support only one-half of the investment capital and only 20 percent of the recurring costs of increasing agricultural production in low-income food-deficit countries. Seventy percent of this amount would be used to produce subsistance foods, and the balance would be devoted to financing imports of agricultural inputs such as fertilizers and pesticides (15).

Large increases in official development assistance are required to fulfill the United Nations' annual aid target of 0.7 percent of a donor's annual gross national product, a goal established a decade ago. During 1978, aid averaged 0.35 percent of GNP by OECD (Organization for Economic Cooperation and Development) countries. The commission noted that the higher income developing countries obtained a higher proportion of commercial loans and credits than did the lowest income countries which received larger amounts of concessional financial assistance during 1970-1981. The commission singled out the countries of South Asia and Sub-Saharan Africa as especially needy, requiring an immediate increase of $4 billion annually in concessional aid (p. 224-228).

The commission stated that the World Bank should channel more capital resources to the developing countries, and should allow more representation from developing countries on the Bank's staff. In addition, the Bank should double its capital ($28 billion in 1980), increase its borrowing-to-capital ratio from 1:1 to 2:1, and extend its replenishment cycles for capital to 5 years. These actions, from the commission's viewpoint, would permit the Bank to increase its overall aid to LDC's. In the period 1970-80, the World Bank provided 40 percent of its official development assistance for agricultural projects and programs.

The International Fund for Agricultural Development (IFAD) finances similar projects with funds provided by both the OPEC (Organization of Petroleum Exporting Countries) and the industrialized countries. It invested $1 billion in the poorest countries by 1982 and has again collected commitments for financing over $1 billion from OPEC and OECD countries. The commission recommended replenishment of IFAD funds. New funds were committed in January 1982.

Besides increasing lending for sectoral agricultural programs, the commission wanted recipient governments to make the difficult decisions to allocate these funds within their own countries. To encourage this process, it argued that international resource transfers should be more automatic in nature and should not always be tied to specific projects. To raise money for further development programs, the commission recommended a levy on international trade, a tax on profits from sea-bed mining, the automatic recycling of interest accrued from development loans in the form of new loans, and the use of a country's International Monetary Fund (IMF) gold reserve as collateral for commercial loans. A "new monetary institution" called the World Development Fund, was suggested that would share universally the burden of transfers to the neediest countries (p. 252).

U.S. Reaction:

Policymakers in the United States agreed on the severity of chronic malnutrition and the need to increase food supplies through investment in rural development programs (7, 27). The United States has emphasized that the relief of hunger is primarily the responsibility of governments in the LDC's. These governments must reorder priorities, increase investments in agriculture and rural infrastructure, and provide their farmers with better economic incentives to increase production (3, 5, 12).

The Carter administration agreed with the commission's plea for more local research in developing countries and argued that the scientific and technological solutions derived from U.S. experience with cooperative research and extension could be adapted to local conditions (27). The Reagan administration also sees agricultural research in the United States as having international applications that can improve yields in other countries and reduce post-harvest losses (5).

The United States readily recognized that increased financial flows are needed to meet global food problems (13, 27), and already transfers large amounts of resources to the developing world through bilateral aid programs that assist in increasing long-term food production. U.S. spokesmen have indicated that the United States is unlikely to be in a position to fund a large new initiative (5). The Carter administration's allocation of official resources to meet global food problems was funded under a continuing resolution, which held funding for most programs in 1981 to the same nominal level as in 1980. U.S. bilateral development assistance has declined in real terms from what it was 15 years ago and remained the same in nominal terms (15, 20). The Reagan administration recommended, and got, an increase in the fiscal year (FY) 1982 Agency for International Development appropriation from $3.9 billion to $4.4 billion. This amount was 13 percent over FY 1981 levels and included $700 million for agricultural development programs, especially in those countries making adequate self-help efforts (7, 16, 19, 26). The appropriation requested for FY 1983 held agricultural programs at the same level as FY 1982, but the overall budget request of $4.7 billion reflected a 7.9-percent increase over FY 1982. Because Congress insists upon annually approved appropriations for long-term financial commitments, both the Carter and Reagan administrations have had some difficulty in supporting long-term development assistance efforts.

Although in most multilateral fora, there is agreement that some countries need special concessional aid. Some LDC's refuse to make difficult decisions on internal food policies that could encourage indigenous savings, investment, and the adoption of new technologies necessary to increase food production. The Reagan administration's intention is to provide aid in ways that encourage LDC governments to take necessary, but sometimes unpopular, actions (3, 19).

The Reagan administration gave a political commitment to support IFAD and agreed to the proposed first replenishment ($1 billion) by committing $180 million over the next three years. Agreement on the replenishment came in January after the FY 1982 budget, which contained no funds for IFAD, had been enacted. Therefore, the U.S. contribution is planned to be $65 million in FY 1983 and $115 million in FY 1984. As of November 1982, none of these committed funds have been appropriated by Congress. The agreement requests that all payments for this replenishment be paid by December 31,1983. IFAD's governing council achieved its goal of $1 billion, with the OECD countries contributing 57 percent and OPEC 43 percent. This replenishment is in line with the Brandt Commission's recommendations.

The Carter administration also pledged more than $1.8 billion for its annual replenishment of the financial resources to the multilateral development banks, including the World Bank (15). The Reagan administration has supported the sixth replenishment of the International Development Association (the World Bank's "soft loan" window) by recommending a total U.S. contribution of $3.24 billion for four years (meaning approximately $810 million annually, down from the Carter Administration levels). This amount includes $500 million for FY 1981, $700 million for FY 1982, $945 million for FY 1983 (the maximum allowed by Congress), and $1,095 million for FY 1984. In reducing the annual replenishment by more than half, the Reagan administration has led the World Bank to reduce it's anticipated lending by two thirds. Representatives of LDC's now make up half of the 22-member executive board of the Bank, and Bank's policies reflect a larger economic role played by some developing countries. Neither administration reacted to the commission's specific recommended actions for increasing capital, doubling the borrowing ratio, or extending the replenishment cycles. Both administrations stated that the Bank is already dealing directly with some of the commission's concerns (27).

The Carter administration wanted to carefully explore all issues relating to automatic resource transfers and a new World Development Fund. As yet, adequate mechanisms are unavailable for keeping track of such transactions or for verifying that such resources are used for stated development purposes (22, 23).

## Food Security Proposals

### Brandt Commission's Recommendations:

Food Aid. An IFPRI study projected a deficit of 120 to 145 million tons of cereals between the amount produced and the minimum consumption amount needed in developing countries in 1990 (p. 23). The commission advocated filling this gap with increased domestic production, increased commercial imports, and food aid. The delivery of annually increasing quantities of food aid should be divorced from variations in donor country supplies and political considerations, and yet distributed in a way that does not weaken the incentives of local farmers to produce food. The commission clearly stated it is the recipient country's responsibility to ensure that food aid is distributed in a manner that maintains production incentives for local farmers. All efforts to secure food aid were commended, including the goal established by the 1974 World Food Conference of 10 million tons of grain for food aid annually. The commission wanted even more food aid to support investment in agriculture and labor-intensive public works programs.

International Grain Reserves. The commission called for renewed efforts to reach an international grains agreement designed to ensure adequate supplies of food for the hungry. This objective was in jeopardy when the United Nations Conference on Trade and Development (UNCTAD) negotiations for an International Wheat Trade Convention in February 1979 failed to reach such an agreement. Among the issues that could not be resolved were the levels of trigger prices, size of stocks, size of assistance needed to build up reserves, allocation of costs of constructing storage facilities, purchasing, and maintaining the reserves, and specifying special provisions for the poorest countries (p. 99).

The International Emergency Food Reserve (IEFR), established in 1976 and managed by the World Food Program, is another international method of dealing with supplies needed when weather and other causes create food emergencies. The commission observed that the reserve still had no reliable mechanism for assuring the reserve's annual replenishment commitments. The United States is the single largest contributor, with 500,000 tons of food pledged.

<u>Financing of Food Import Shortfalls</u>. The commission stated that a new financial food facility was needed to make money available to help low-income countries import food in times of domestic production shortfalls or unexpected abrupt increases in the price of food imports. The commission suggested that the International Monetary Fund (IMF) operate this special facility, and quoted a study that showed that an average of $200 million per year loaned to the most seriously affected food-deficit countries "would have kept cereal availability within 95-percent of trend since the 1960's" (excluding India, whose needs in a bad harvest year are much greater) (p. 103).

The IMF was already operating a Compensatory Financing Facility (CFF) to assist member countries in borrowing funds to offset shortfalls in export earnings. The commission urged the IMF to consider the removal of quota-based limits to drawings on this CFF because the entitlement of members to draw on it should be a function of their need to compensate for export shortfalls.

(Drawings now relate to quotas which are financial obligations to the fund that determine voting power and access to its resources). The CFF should especially assist countries to deal with problems that are clearly not of their own making. Such problems manifest themselves in shortages of foreign exchange which results in the need to cut back on imports used for completion of development plans, or when there are sharp price increases in these imports due to persistent world inflation or in cases of harvest failure that would affect a borrowers' capacity to repay. The commission wants the CFF to measure shortfalls in real terms and not in nominal terms, and to make repayment terms more flexible (p. 217-9).

U.S. Reaction:

The United States is the world's principal supplier of food aid, but it does not have the capacity to fulfill total food aid needs worldwide. Commercial exports of food grains also represent an important source of U.S. income, help finance U.S. imports, and provide the necessary price incentives to maintain large agricultural production (13). The United States pledged a minimum of 4.47 million tons of cereal aid annually as its commitment under the Food Aid Convention of 1980. The convention is under the auspices of the International Wheat Council. The total pledged by all countries was 7.6 million metric tons of edible grains and grain products, or the cash equivalents. In practice, actual food aid levels have been over 9 million metric tons, although short of the 10 million ton goal set by the World Food Conference and endorsed by the Brandt Commission.

To bring greater predictability to food-aid levels, in March 1981, the United States supported the International Wheat Council's action to extend the Food Aid Convention until June 30, 1983. In an address before the World Food Council in May 1981, Secretary of Agriculture Block stressed that the United States has played a large role in world food security and wants other countries, both developed and developing, to establish their own national food reserves to assure world food supplies in times of shortfall (3).

The U.S. delegation to the World Food Council in May 1981 and the International Wheat Council in July 1981, spoke out against both internationally controlled or coordinated grain reserves, and stressed that individual country reserve systems should operate in response to price signals from the world wheat market. Secretary Block felt that market-oriented decisions by individual nations to release reserves when supply is short and to acquire reserves when supplies are plentiful would be preferable to formal international programs. Each country should establish its own reserve system and, as appropriate, regional food security arrangements (3). And in a speech by Richard E. Lyng, Deputy Secretary of Agriculture in May 1982 he again stated the Reagan administration's veiws:

> Our trade policies are based on the belief that expanded and liberalized trade is the only way to assure the best use of the world's agricultural resources and to get food where it is needed in a world of increasing interdependence... (18).

The Agricultural Act of 1980 (P.L. 96-494) authorized a U.S. wheat reserve of up to 4 million metric tons in the Food Security Reserve (FSR) to meet emergency humanitarian food needs in developing countries. The reserve may be replenished by transfer of Commodity

Credit Corporation (CCC) stocks or by Government purchases through September 30, 1985. On January 19, 1981, the Secretary of Agriculture designated 4 million metric tons of CCC wheat for this new reserve to be used to meet food aid commitments, notably under the Food Aid Convention, if sufficient domestic wheat supplies are not available under the P.L. 480 program. A small portion of the reserve, 300,000 tons, can be used under Title II provisions of P.L. 480 without regard to domestic supply availabilities, to provide urgent humanitarian relief in developing countries suffering a natural disaster. The Reagan administration stresses the same policy of using the FSR to meet short-term food needs that result from natural disasters and political disruptions (5, 20).

Both administrations supported the extension of the IMF's Compensatory Financing Facility (CFF) to cover balance-of-payments problems resulting from increased food import costs owing to domestic production shortfalls or sharp increases in prices of imported foods. In May 1981, the United States agreed to the IMF expansion of the CFF to include cereal import costs in the estimate of export earnings shortfalls. The method of determining qualification for drawing on the facility is an accounting method whereby cereal imports are regarded as negative export earnings. The amount of compensation granted is calculated as the sum of the excess in cereal import costs and the shortfall in export earnings, each based on a five-year average. Each country member can borrow to a limit of 100 percent of the member's quota (quotas are financial obligations to the fund by countries). The total amount of all borrowings by a country under the CFF is subject to a quota limit of 125 percent. In September 1981, Malawi qualified for assistance and, in January 1982, South Korea received assistance from the CFF.

## Liberalization of International Food Trade

### Brandt Commission's Proposals:

Lowering trade barriers throughout the world trading system would benefit everyone, stated the commission, including all forms of agribusiness. If impediments to international trade are minimized, production decisions can be based on a country's comparative advantage, claimed the commission. Many members of the commission noted that if trade barriers are lowered in the major market places of the world--particularly in developed countries such as the United States--the LDC's could sell more processed commodities and earn more foreign exchange to pay for their development programs. For example, the European Community and the United States have very low or no tariffs on imports of rough rice, but impose considerably higher levies or tariffs on certain processed rice products or milled rice. The commission argued that this kind of protection on processed products hinders the development of developing country exports of processed products. Moreover not only should processing facilities be improved, but also market promotion and tax structures, so that LDC's may acquire more bargaining power in international markets (p. 144). 3/

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3/ It has been noted that leaders of less-developed countries have a different definition of a world trading system: For the political elites of the LDCs, the arguments of neo-classical economics are inherently frustrating because they ascribe the outcomes of much economic interaction to that ineluctable force, the market. Though a large part of twentieth century economics deals with market imperfections and how to compensate for them, most LDC political leaders are unwilling on either a personal level or as a matter of political policymaking to acknowledge the advantage of designing market-oriented systems for producing and distributing goods (9).

The Generalized System of Preferences (GSP), negotiated in 1976, reduces trade barriers by giving preferential treatment to developing country exports. The commission would like to see this system made permanent in the world trading system. In the recent multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT), major progress was made in developing mechanisms for easing trade barriers through the adoption of codes and machinery for notification, consultation, dispute settlement, and surveillance of trade flows. The commission especially urged the industrialized countries in the GATT to provide a timetable for phasing out uncompetitive parts of an industry, and for other adjustments such as the provision of retraining and compensation for "injured" industries. It recommended that consultations be conducted on an international multilateral level before any major investments are made in a country, so that the necessary restructurings would be done with international knowledge, not waste valuable global resources, and increase the flow of international trade.

The buildup of South-South trade cooperation could increase development in LDC's and ultimately could increase trade opportunities of the developed countries. The commission seemed encouraged by the formation of a group for Economic Cooperation between Developing Countries (ECDC) at the Arusha Ministerial Meeting of the Group of 77 for the purpose of promoting regional and sub-regional integration and trade. The group's aim is to organize preferential trading arrangements, promote specialization, and allow advantages of economies of scale through the establishment of joint industries.

<u>U.S. Reaction:</u>

The United States, in both the Carter and Reagan administrations agreed with the commission that the world trading system would greatly benefit from lower trade barriers. Various U.S. spokesmen have noted that the United States bases its economy and trade on the principles of the "market place" and on a liberal trading regime where price levels reflect supply and demand (<u>4</u>, <u>10</u>, <u>27</u>).

The Carter administration responded indirectly to the commission's requests to lower tariffs and other trade barriers. The United States already imported more agricultural commodities from developing countries than any other developed country (in 1979 the United States imported $11 billion, or 66% of total U.S. agricultural imports from developing countries). Former Carter officials pointed to the commission's lack of criticism of the trade barriers of the centrally planned economies where imports are not competitive in the western sense, and where political factors determine the source of imports as much as economic factors. The Carter administration would have liked the Brandt Commission to have directed recommendations toward the centrally planned economies designed to bring them more into the worldwide trading system (<u>13</u>).

The Carter administration was sympathetic to reducing tariff barriers to some LDC exports, especially those from the least developed countries (LLDC's). The Reagan administration is expanding opportunities for LLDC exports under the Generalized System of Preferences (GSP--for which the Congressional mandate for U.S. participation expires in 1983) and under the Caribbean Basin

Initiative for selected countries of the Caribbean area. President Reagan in his speech before the Annual Meeting of the Board of Governors of the World Bank Group on September 29, 1981, indicated his recognition that developing countries benefit from international trade and growth in the industrial countries because they export many raw materials and primary products that the industrialized world needs (20).

The United States rejected, however, the Brandt Commission's recommendations that GATT countries restructure their industries within a set time frame subject to international surveillance.

> While 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 (27).

The Carter administration's policies reflected the idea that domestic environments or markets should be created that permit resources to move to their most efficient uses as economic conditions change, while recognizing that some industries need time to adjust. Officials in the Carter administration were willing to negotiate "safeguard" conditions with some countries, although they would like to have seen more LDC's join the GATT and agree to its codes and trade regulations (20).

The Reagan administration emphasizes opposition to protectionism and favors the free market in trade. In fact, Secretary Block stated on July 9, 1981:

> We believe that the market offers better solutions to trade problems than bilateral or multilateral agreements that allocate supplies, set prices, or divide up the world market. The Administration endorses bilateral agreements only under very special circumstances. At present we support this type of agreement only with the Soviet Union, China, and Mexico (4).

The Secretary in this statement seemed to discourage the notion that the United States would be interested in more bilateral or multilateral agreements.

The Reagan administration has not yet publically commented on South-South trade, but trading among the developing countries to develop markets would not necessarily hurt the United States' economic position. The United States is the largest market for, and the largest supplier of, many food and commodity items and could maintain this prominent position for some time. In fact, a World Bank study has argued that new international policies to promote expressly South-South trade are not needed; rather the desirable policies are those that reduce protective barriers to North-South trade and reduce international policy-induced market distortions in developing countries (14).

## Commodity Price Stabilization

Brandt Commission Proposals:

The commission, in pursuing policy areas of mutual interest to the developed and developing countries, stated that stabilizing prices for exportable primary commodities at renumerative levels through international commodity agreements (ICA's) and through the Common Fund would aid in the development planning process of developing countries. Stable prices provide countries with stable foreign exchange earnings that maintain consumption and investment. The commissioners implied that remunerative prices would aid in distributing income more equitably world-wide. Industrialized countries also want stable prices for raw commodities because highly volatile price swings affect their inflation rates and can reduce incentives to produce supplies of these inputs. Although, some LDC's have sometimes benefited from price swings, international commodity agreements--including those covering coffee, cocoa, copper, cotton, jute, rubber, sisal, sugar, tea, and tin--are considered to be in the overall best interest of the international community. The commissioners find it a highly desirable policy for producers to get reasonable price floors which give stable and renumerative prices for the commodities. UNCTAD IV (United Nations Conference on Trade and Development) selected 10 commodities for initial individual international stockpiling agreements (2). These 10 account for 75 percent of the total value of developing country exports.

ICA's are difficult to negotiate, especially provisions regarding price floors, in part because consumers lose interest in stabilization when prices are declining, and producers lose interest when they are rising. In the post-war period, ICA's were established for sugar, tin, coffee, cocoa, and rubber. In defense of the need for ICA's, the commission cited a 1977 study prepared for the Overseas Development Council on the inflationary consequences of unstable commodity prices. In this study, the LDC's gained the equivalent of $5 billion in export earnings under a simulated stabilization program covering 8 major and 5 other commodities in the 1963-73 period. The United States gained by avoiding a $15-billion reduction in its Gross National Product, a result clearly indicated in the absence of the simulated stabilization.

The commission praised the general agreement by many countries including the United States at UNCTAD IV in 1976 to adopt an Integrated Program for Commodities. That agreement set a time-table for the establishment of ICA's on several commodities that are among the leading exports of the developing countries. The time table has not yet been met. In June 1982 the Common Fund Agreement ratification deadline was extended until September 30, 1983. The requirements that need to be met are that ninety countries must ratify the agreement, and these ninety must contribute directly two-thirds of the initial paid-in capital which amounts to about $300 million. The Common Fund will promote joint financing of buffer stocks, coordinate policies relating to market stabilization, and provide a specialized financing facility for support of ICA's. The Fund will have two loan programs. The major program called the "first window" will help finance the holding of international buffer stocks of commodities by the ICA's. At the moment, only two existing ICA's are in a position to benefit from such a fund--rubber and tin. A "second window" or loan program will be financed by voluntary contributions from member countries. It will improve developing country's capacity for storage, production, processing, diversification, and marketing of commodities (25). In supporting the "second window" program the commission noted that, in the past, situations arose where projects had been turned down because of objections from producers in the North and for other reasons (p. 144). For example, the commission claimed that the U.S. Congress applied pressure on the World Bank in order to discourage lending to promote production of palm oil in several countries because of lobbying by U.S. domestic soybean oil interests.

The Brandt Commission pointed out that markets for rubber, jute, cotton, and hard fibers--all major commodity exports from the developing countries--are threatened by synthetic substitutes that can be produced if the price of these primary commodities rises above the costs of production of substitutes. The Common Fund's "second window" could provide financial assistance to conduct research on more efficient production and marketing methods in order to improve the competitiveness of such raw materials (p. 197).

U.S. Reaction:

The International Development Cooperation Agency (IDCA) of the Carter administration agreed with the commission that stable earnings and income from primary commodities is important to long-term development (27). Both administrations believe that the price mechanism in unregulated world markets succeeds in allocating available supplies successfully (4).

The United States has participated in three ICA's: sugar, coffee, and tin (24). The Carter administration felt that ICA agreements were extremely fragile and that the agreements, once negotiated, were difficult to implement (2). The USDA Assistant Secretry for International Affairs and Commodity Programs under Carter argued that raising prices for primary commodities may adversely move world income distribution against LDC's by giving the developed countries higher returns from their primary products than they currently enjoy. It is also not practicable to run multiple price programs for highly fungible commodities in world markets. Resources going to the significant and persistent under-pricing of foodgrains in world markets give the signal that investment should not go to domestic food production--thus perpetuating world supply problems (13).

The Reagan Administration's opposition to international control or coordination of world grain stocks discussed earlier in this paper reflects its generally free-market orientation and reluctance to enter into ICA's. For these reasons and others, the United States has never supported a predetermined time frame for the network of ICA's in the UNCTAD proposal. Nor has any U.S. administration supported the creation of a permanent international regulatory regime to alter price trends and redistribute international income in favor of the LDC's. The United States is a large exporter in its own right, besides being the largest market for many commodities. The process of setting prices for food and agricultural goods runs counter to the U.S. view that the current free-market environment distributes resources efficiently.

The Carter administration supported the establishment of a Common Fund and three individual commodity agreements, coffee, sugar and tin because it believed that these agreements--promoted market development and stable prices for those commodities, both of which were in the best interests of the United States. However, the United States has insisted that the financing of commodity agreements must be agreed to on a case-by-case basis. The Carter administration did not want global production controls and regulated market sharing; neither does the Reagan administration. Regulations and controls, as U.S. policymakers have viewed it, would mean that production, trade, and pricing would be determined politically, and that each adjustment would be a test of political strength. While believing the forces of supply and demand should generally be left to adjust prices within a free market, the United States supports the Common Fund as a financial technique for taking advantage of complementarities in commodity price movements, not as a technique for transferring resources. Borrowings from the Common Fund to build up stocks and support the price of eligible commodities in excess supply will be offset to some extent, by repayments to the Fund from the sale of other eligible commodities in short supply that are held as stocks. Thus, the aggregate financial resources required under the Common Fund's joint financing arrangements, with simultaneous buying and selling, would be lower than if each ICA were financed separately (1, 2, 9, 22).

## Balance-of-Payments Problems

### Brandt Commission's Proposals:

Fluctuating export earnings can cause serious balance-of-payments problems for developing countries. In recent years, the high prices of oil, grains, and capital goods, as well as the slackening of business activity in industrialized nations that has contributed to a decline in import demand and stiffer protectionist policies, have all exacerbated LDC balance-of-payment problems. In this environment, the commission noted that any impediment of financial flows among countries could seriously hamper world economic growth. Since many of the markets for the industrialized countries goods are in the South, the United States and the other developed nations could be seriously affected. The commission basically was concerned that the United States, with its tight monetary policies which temporarily restrict domestic expansion, would slow the recycling process of the surplus funds created with the OPEC price increase in 1979. Without government agreements and outside assistance to private banks, the commission predicted a serious crisis in capital markets and a further decline in world economic activity.

Private banks could have difficulty taking a major role in financing the balance-of-payments deficits in developing countries because crises-in-confidence in major currencies have caused swings in worldwide supplies of capital for investment. The commission felt that poorer developing countries do not have easy access to private markets or banks because these institutions must pay high interest rates. Therefore, the banks tend to extend loans to less risky countries, exacerbating the difficulty these countries have in financing their debt. The commission's suggested approach was for the expansion in the supply of SDR's (Special Drawing Rights) within the IMF that would fit world liquidity needs and create a substitution account where countries could swap SDR reserves for dollar reserves. They made strong predictions that, if some mechanism to meet the liquidity needs of developing countries was not developed, the terms of trade for raw materials would worsen, the prices of energy and grains would rise, and the adjustment mechanisms between surplus and deficit countries would be much more difficult to resolve. For the sake of international monetary stability, some kind of change is necessary.

Indirectly, the commission was suggesting that the world needs a new international monetary system that reflects a pluralistic and economic reality in which the United States and other developed nations are not so dominant. In addition, the commission suggested reforming certain governing policies of the IMF--most particularly the IMF conditions for lending--the "conditionality" qualifications. These conditions strongly presume that a country's balance-of-payments problem are a result of too much domestic demand and can be solved by balancing the budget, curbing the money supply, cutting subsidies, and setting a realistic exchange rate. The IMF's requirements for policies to be enacted within 12 months seemed harsh to the commission which believed that a longer period of adjustment for policies to work was necessary. The limited time period tended to impose unnecessary and unacceptable political burdens on the poorest countries.

U.S. Reaction:

The Carter administration maintained that OPEC countries should participate more in balance-of-payments adjustments since many such problems are caused by the high cost of oil (11, 27). Some officials noted that private banks in the past have met, and would continue to meet, most of the demand for funds, and would be able to recycle the surplus revenues accumulated by OPEC without official government assistance (17). However, the poorest countries needed additional assistance with their balance-of-payments problems.

IDCA did not agree with the Commission's suggestion that aid be given in the form of new SDR's. Creating SDR's and giving them to IMF members in proportion to quotas meant that those countries in a surplus position would also receive them. Another viewpoint is that members with serious payments imbalances, needing new financing larger than their quotas, would receive too few SDR's to meet their credit needs without meeting any of the conditionality requirements applicable to their fiscal policies. An issue of SDR's would, therefore, be inflationary without meeting the balance-of-payments needs of the neediest countries.

The Carter administration agreed with the commission that when terms of trade worsen, mechanisms for adjustment should be in place (27). That administration supported such recent IMF actions to increase LDC's access to Fund resources as lengthening the adjustment period for IMF-supported programs, emphasizing investment and productivity policies, borrowing more from OPEC when necessary, and establishing an interest subsidy account for low-income countries that use the Supplementary Financing Facility (24). The

Reagan Administration found the major problem to be the financing of temporary increases in imports when domestic production was inadequate (8). Neither of the administrations wanted to alter the basic character of the IMF as a monetary institution or to change the dominant role of the United States in the system as it operates at present. The United States has within both the IMF and the World Bank, over the years, reduced and adjusted its quota and voting shares. The LDCs now have 40 percent of the voting power in the Fund.

According to newspapers in early December 1982, the United States will join Japan, France, Britain, and West Germany in a round of informal discussions which started at the IMF's annual meeting in Toronto in September 1982. It was reported that the group hopes to quell anxiety about current dangers to the world banking system and reach agreement on measures to strengthen the financial position of the IMF. This could be done by accelerating an increase in quota subscriptions from the present level of $66 billion. At the September meeting according to the press, the United States was reluctant to agree to an increase of more than 25-percent. Now it is reported the United States concedes informally an increase of 40-percent may be needed although reports state that the other European ministers will try to move the United States towards a 50-percent increase in quota subscriptions. It was also reported that the Europeans want to assure the IMF with enough financial weight to assist the rescheduling of loans to some of the major debter countries including Mexico, Brazil, and Argentina (28).

## Conclusion

The underlying theme of the Brandt Commission's recommendations is that all nations are increasingly confronting a growing number of problems that cannot be solved by national actions alone, but which require global solutions (15). By internationalizing some of the solutions and bringing large resources to bear on solving the problems, the Brandt Commission hopes to achieve some improvement in the lives and diets of the poor in the world. Neither the Carter administration nor the Reagan administration has formally replied to the recommendations of this report, but the policies of both administrations are revealed to some extent through speeches, news releases, published articles and books demonstrating that the United States is deeply concerned with poverty and hunger in the developing countries. Both administrations have stated that the major responsibility for providing food, jobs, and income for these poor people does not lie with the United States. The developing countries must increase food self-reliance for their own people.

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