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# International Keynesianism, World Business Activities and National Development

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## Comments on aspects of the Brandt Report\*

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### **The Sudpolitik of the Brandt Commission: visionary or wishful thinking?**

In the midst of a major economic crisis in the world economy the market is booming for prophets of doom or, alternatively, of hope for new opportunities. The problems, though, now facing us are so profound and complex that any serious attempt not only to describe what is taking place—an area which is increasingly flooded by masses of opinions and writings—but to propose specific and major international co-operative actions merits close and thorough evaluation. This is the case of the Report drafted by the Independent Commission on International Development Issues under the chairmanship of Willy Brandt.

Admittedly, the Report includes no individually novel suggestion for improving economic relations between the haves and the have-nots in the world economy. It also lacks any plain speaking about the reasons for the present stalemate in and/or the absence of any meaningful negotiations between the 'North' (both Northwest as well as Northeast) and the 'South'. Yet, it represents one of the most comprehensive and far reaching policy packages for needed changes in the relations between rich and poor countries. The prestige and international recognition of the Commission's members add special weight to its recommendations. The latter, as the report states,

*are not revolutionary . . . [but] part of a process of negotiated reform and restructuring [p 66].*

Ideas and particularly southern initiatives which in the past were received with scepticism and, in certain cases, with open hostility by spokesmen for traditional 'Northern' orthodoxy or by related vested interests in the South, are made 'respectable' by their inclusion in the Brandt Report.

In the proposals presented by the Commission, a central element—in what the report refers to as 'a mutuality of interests' between North and South—concerns the massive transfer of financial resources from the rich to the poor countries. The Commission members wrote:

*Above all, we believe that a large scale transfer of resources to the South can make a major impact on*

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*growth in both the South and the North and help to revive the flagging economy [p 36 of the Report].*

In the past, national deficit finance and related Keynesian policies helped smooth out the oscillations of business cycles in individual economies. In a similar manner, world-wide demand management—through international Keynesianism directed to selected and major purchasing needs of the South—is proposed by the Brandt Commission in order to help relieve the world from the hardships of stagflation facing us today.

In its specific contents, then, this proposal addresses itself not only to the concern for international co-operation to alleviate the inhuman conditions of mass poverty and suffering afflicting hundreds of million people in the developing countries (for whom repeated and compassionate references abound in the Report's contents); instead, it proposes measures which—with an eye on the political acceptability of its policy requirements—reflect an expression of enlightened self-interest by the North. In plain language, the market prospects from the needs of the 700-800 million people living in destitute conditions in the South and from the consumption and investment requirements of their more fortunate neighbours also in the South will provide a much needed stimulus for the sluggish economies of the North. According to the Report's expectations, the resulting growth in economic activity will help alleviate unemployment in the North, which presently reaches a figure of about 18 million people in the OECD countries. It will also put into use some of the under-utilised capacity also in the North. This redundant capacity has been estimated to represent at least \$200 bn in terms of annual potential output.

The apparent economic sense of this argument borrows its credibility from the undeniable fact that the growth prospects of the markets of the South are far greater than the existing trends in the structures of the saturated Northern markets and in the faltering productivity growth in the industrialised economies. The report presents some empirical evidence on these issues [eg pp 70, 178, 238]. There is, though, a potentially significant exception to this dim long-term picture for macro-economic dynamism originating from within some of the economies of the North in the future. This might materialise if a Schumpeterian wave of new investments and significant productivity increases is prompted by

radically new technological developments. Such candidates include the massive industrial applications of micro-processors in the remaining years of this century and, extending to the post-2000 period, the evolutions in bio-engineering and in non-traditional forms of energy. The Brandt Report, though, rightly focuses its attention to the more immediate future and the extraordinary economic and political risks embedded in the present economic crisis. Its policy prescriptions in this respect are Keynesian.

In evaluating these policy recommendations one has first to concentrate on the fundamental assumptions upon which the Brandt Report bases its thesis. For the reasons presented in the section which follows we find the underlying assumptions of the Report's proposals on international Keynesianism to be quite false. Also, the political chances for initiating such proposals are, in our judgement, a non-starter. Finally, the practical procedures for implementing them remain, in technical terms, unexplored and mostly at variance with the demands of power relations and established interests in the world economy. Interdependence between North and South does not imply mutuality of interests. There exist only a very small number of issues—the most important of which concerns the chaotic state of the present international monetary 'non-system'—where a resolution of conflicts can render interests compatible even if they are not common. The possibilities for enacting policies on international Keynesianism and their claimed implications, though, as they are presented in the Brandt Report, constitute more the product of wishful thinking than of an effective and visionary world policy alternative.

A more cynical interpreter of this proposal could see—in the guise of a 'mutually benefiting' North-South strategy—a veiled attempt by the North to simply get hold of and *control* the use of the mounting OPEC financial surpluses. In practice, the transfer of resources talked about in the Report would not come simply from the savings of the Northern countries but from recycled petro-currencies. This would, in turn, limit the chances of Third World initiatives to use the financial surpluses of the oil producers as a key source of leverage to negotiate a more effective restructuring in parts of the institutional machinery governing international economic relations. In this respect the Brandt Report proposals—despite conscious attempts to include reciprocal concessions (like those presented in the Emergency Programme)—can be considered to be the detriment of any fundamental North-South negotiations. The latter will lead to a change in the presently skewed nature of relations between the two parts only if they are based on historical processes and situations which also imply a more diversified and balanced economic power base in the world economy.

## **The Assumptions and Political Realities of International Keynesianism**

There are two crucial assumptions on which the Brandt Report bases its proposals on international Keynesianism. Both of them are highly questionable. First, it argues that world peace and ultimately the security of the Northern countries are threatened by the continuing underdevelopment of the South. Thus, it is implied that Northern interests, in this context, are homogeneous and that their major concerns relate to the evolutions in the South. The contours, though, of economic and political conflict now confronting the world community do not have their epicentres on the North-South axis. Instead, they basically concern intra-OECD economic rivalry (where very serious differences exist) as well as the political and military rivalry between East and West. This does not, though, imply that conflicts involving the South (eg Iran-Iraq, sub-Saharan African conflicts, convulsions in Central America and the Caribbean) will not be used as a convenient base for thrashing out North-North conflicts. The actual locus and the reasons for or origin of conflict need not coincide. The misplaced emphasis, though, for world peace and security on North-South conflicting interests baffles the reader of the Brandt Report, particularly in view of the politically seasoned members of the Commission on matters involving international relations.

The divergence of interests within the North implies quite different attitudes by the OECD countries on restructuring the world economic system while using the South as growth platform. In the case of the US the cost of *inaction* in international economic restructuring is much smaller as compared to the other OECD countries. In fact the US will still wish to linger on the multiple privileges it has enjoyed in the system of 'Pax Americana', especially in the use of the dollar as an international reserve currency (which General de Gaulle referred to as the US's 'exorbitant privilege') and in the activities of its transnationals. It will, thus, avoid any hastening in changing the fundamentals of present international economic relations and concentrate its attention (including the use of Keynesian economics) on military issues *vis-à-vis* the USSR, *domestic* economic restructuring and investments in key high technology areas.

The two losers of World War II and main growth economies in the North today, the Federal Republic of Germany and Japan, have much more serious vested interests in a controlled evolution in the world economic system. Such a change will be needed to accompany their own ascendancy to the club of world economic powers, in which the US was previously the sole member. Also both of them, but especially Japan,

are much more critically dependent than the US on the markets and resources of the South. (It is no accident that a West German statesman of the stature of Willy Brandt was chairman of the Commission.) In contrast, other Northern countries with weakened internal economic structures, like the UK, would hardly be willing to participate in a massive transfer of resources to the South from which other more dynamic economies within the OECD will be the major beneficiaries. (This was amply demonstrated by Mrs Thatcher's position on this matter in the summit of Western heads of state last summer.)

Finally, although the Eastern European countries are obviously hurt by the world economic crisis, they would not be likely to contribute to any serious softening of the intra-OECD economic rivalry by opening up a massive opportunity through stepped-up Northern investments in the South. Anyhow, several of them (like Poland) find themselves in need of massive international capital transfers to and not from them. Also the direct economic advantages of the Northeast from such an evolution could hardly be compared with what the Northwest as a whole might gain. This is not only because the extent of involvement of Eastern European companies with international dealings in the Third World cannot be compared with the size of equivalent participation of western originated transnationals. Instead it also has to do with the nature of commitments within the COMECON, particularly *vis-à-vis* the USSR. These intra-Eastern European economic commitments condition the extent of corresponding interactions with the rest of the world.

Thus, the North is hardly homogeneous: its constituent countries view their relations with the South in the context of quite different interests. The significant differences in national characteristics and in the resulting interests about international relations which exist between Bangladesh, Kuwait and Brazil are equally severe in the cases of the UK, Japan and the US and between those OECD countries and Rumania or the USSR.

The second key and erroneous assumption of the Brandt Report is that a slower level of economic activity with unemployment and a certain amount of relatively high inflation rates are to the detriment of all interested parties in the North. This assumption originates from the Northern heritage of a near full employment growth with relatively low inflation rates of the first post war quarter century which contrasted with the traumatic experience of the 1930s. In fact, the present reverse situation—despite political rhetoric to the contrary—can be considered as a blessing in disguise for pivotal Northern interests. There are two main reasons for this.

First, a higher world wide economic growth rate, within the present limits imposed on the energy front, could have profound repercussions on the distribution of economic and non-economic power between the North and the OPEC countries. The fact that alternative high growth scenarios approach in their implications some of the writings in political and economic science fiction (ie books like *The Crash of '79*) does not make them inherently improbable.

Second, in view of the fact that, in a number of cases in the pre-mid 1970s, wage increases in the North often tended to be higher than productivity increases, the present inflation rates could—if appropriately managed—provide an important monetary support for partially checking the falling rate of profit in industry. The impact of inflation on real wage rates could offset at least part of the forces which have led to a drop in profitability. Furthermore, slower economic growth rates and mounting unemployment could—within certain politically tolerable levels—alter the relative power of organised economic groups within the increasingly bargain-oriented nature of Northern societies.

During periods of high growth rate, some groups can gain without this necessarily implying an absolute loss for others. But during low growth periods, the preservation of certain economic performance (such as the level of profit) requires much more serious sacrifices by the rest. This is what is happening today with the real wage rate and the degree of acceptable unemployment in the North. Within certain limits imposed by political realities, perceptions not only of the acceptability but also of the necessity of such unemployment levels in the North have drastically changed from what was considered appropriate five or ten years ago.

The issue, then, of stepped-up Northern investments in the South is not just whether additional overall inflationary pressures will be absorbed by existing excess capacity in the North. (Incidentally the Brandt Report does not examine fully these implications and provides technically rather unconvincing arguments on the resulting net trade flows between North and South when it discusses these matters.) Instead, the key concern rests on much more precisely defined and strategic issues. These have to do with whether higher economic growth rates in the world economy will so alter the relative power internationally (with respect to OPEC) and nationally (with respect to the trade unions) that 'Northern interests' will find themselves in considerable jeopardy. Even more than the top management in business, the strongest supporter for higher growth rates in the world economy today should be the Palestine Liberation Organisation (PLO).

The former can at least console itself that settlements on higher wage rates can be checked both with respect to price increases (which affect real wages and real profits) and also with respect to productivity changes (which directly affect the profit rate, real and monetary). In contrast, the PLO will rightly feel that slower growth rates in the world economy will diminish the prospects for Palestinian independence. Since a significant part of the PLO's political power comes today from the pressure that the Arab oil exporters can exert on the West, the prospects for Palestine statehood are very much a function of the rate of growth of the world economy in the remaining years of this century.

There exist a number of examples—internationally, regionally and nationally—which demonstrate that the West has already examined and rejected any serious commitment to a Keynesian boost of the world economy whether along the lines proposed in the Brandt Report or otherwise. For example, four years before the Brandt Commission's recommendations, President Kreisky of Austria proposed a major transfer of OECD resources to the South as a stimulus not only to development but also to the then faltering growth rates in the West. Similar proposals were formally made at OECD a year later by representatives of Norway and of the then UK Government. These proposals were quickly lost without trace in the agenda of Western priority areas. Even intra-OECD Keynesian stimulus of the 'locomotive' type (using the Japanese and West German economies as 'engines') or later of the 'convoy' variety proved non-starters. Furthermore, a proposal was aired in mid 1970s by the West German Social Democratic party to use the occasion of the second enlargement of the European Community for a new 'Marshall plan' in Southern Europe. Its objective consisted in firmly securing in political terms the southern flank of the Community which was emerging from years of dictatorial rule. This was quickly shelved even by the West German social-democrat dominated Government. Finally, the monetarist contractionary policies dominating national economic thinking in practically the whole of the OECD—even, as in the case of the UK, to the detriment of needed industrial restructuring—hardly provide a receptive environment for Keynesianist expansionism. If such policies are rejected at home at the political risk of losing voters' support, how can they be implemented internationally where the first round beneficiaries will be citizens of 'other' countries?

The authors of the Brandt Report not only misread the political realities of the North but, on this subject, took some highly questionable positions on the meaning and requirements of the development process in the South. In a remarkable statement, on p 43, the Report

claims that *the South needs, above all, finance*. In the context of the Pearson Commission a few decades ago, when North-South relations were seen exclusively under the prism of foreign aid and when the analysis of development requirements was dominated by 'northern thinking', such conceptual blunders would be understandable. One wonders though, how in the Brandt Commission, despite the content and sensitivity of some of its analysis on the political and organisational realities of the developing countries, it can be perceived that 'above all' more finance for the regimes of Pinochet, Mobutu or Marcos will promote development! Even on strictly statistical grounds, it would have been necessary—when the Brandt Report talks about capital transfers—to acknowledge that the North is presently a net capital importer from and not an exporter of financial resources to the South.

Far more important, though, than the quantitative aspects of capital transfers between North and South relations are the qualitative implications which such international linkages have for the way in which societies in the South organise the process of accumulation and the development of the forces of production. In this case the role played by the transnational enterprises is central. We turn now to evaluate briefly the proposals of the Brandt Commission on this topic.

### **The Brandt Report on the Transnational Enterprises**

The implications of the proposed capital transfers from the North to the South bear with them a key concern about the operational *conditionality* imposed by such international financial flows. By conditionality we do not refer here to the well-known macro-economic policy constraints imposed characteristically by the IMF on borrowers. (It is a credit to the Brandt Report that, within the constraints of its membership and the need for acceptability in the seats of power, it explicitly recognises and calls for a change in the management of international monetary relations. In this context it acknowledges the demonstrably discriminatory effects that the latter have had up to now on the process of development in the Third World.<sup>1</sup> It has also significantly called for an increase in programme rather than project finance.) Instead we refer here to the link between the proposed financing of enhanced activities in developing countries, the stimulus to net northern

<sup>1</sup>In contrast, the hard line US policies on these matters continue to present a different perception of the functioning of the international monetary system. The Assistant Secretary of Treasury of the US, F. Bergsten, declared at the recent joint session of the World Bank and the IMF that [the Third World countries] *are tragically misguided. These institutions are the ones that do the most for those guys.* Cynicism is undoubtedly one of the primary features of international politics, particularly when it is practised towards the weakest members of the international community.

exports and the activities of the transnational enterprises.

As far as the North is concerned the key areas—which appear in the package of policies recommended by the Report to make operational use of additional finances granted to the South—are not likely to be covered by the small and medium sized firms of the North nor by the unemployed among its youth or certain regionally or professionally hurt activities. Instead, the key beneficiaries—in energy exploration and exploitation, in mineral processing, in massive irrigation plans, etc—are the large transnational enterprises and certain machinery producers, particularly those firms characterised by high capital and or certain skill intensity.

As far as the South is concerned, an internationally orchestrated financial flow which will bear the label of capital transfers from the North to the South and whose stated objective will be directly to promote export growth from the North, is bound to intensify the South's dependence on the transnationals. An unbundling of the foreign investment/technology package in, let us say, Malaysia, which will promote the export of engineering services from India, capital goods from Brazil, steel products from South Korea and managerial services from Argentina, will hardly be consistent with the need directly to promote exports from the North. Obviously, the developing countries' exporters will in themselves be importers of goods and services from the North. Yet, these would have come about anyhow with alternative (including financial) strategies which could increase the import potential of developing countries. In this case there is need openly to acknowledge the existing conflict of economic interests between South and North.

The objective of increasing the bargaining position of developing countries *vis-à-vis* the transnationals and the Report's call for international action on this matter appear to be related more to the renegotiation of the 'terms of dependence' on technology suppliers than to any effective alteration of the structure of productive relations in the world economy. In fact, what is proposed involves the transfer of international financial resources which will further strengthen the presence of transnational enterprises in developing countries,

There are, though, certain important cases with respect to which the Brandt Report acknowledges the need and calls for an increase in the share of developing countries in the operations of the world economy. One of them concerns the greater participation of the Third World in the processing of minerals and commodities. The implementation of such a strategy will confront the strong opposition of the transnational

enterprises. After the wave of nationalisations in the primary production of a large number of minerals and commodities in the 1960s and early 1970s, vertically and internationally integrated enterprises consider as part of their strategic interests the need to maintain several of their downstream operations out of the control of developing countries. If the latter, like the processing activities, are shifted to and become subject to more effective control by the developing countries, the transnationals run the risk of losing their oligopolic control over key operations. Established firms will thus oppose such a shift and will only reluctantly participate in a process of relocation under economic pressure. Such pressure can be effectively exercised if the firms presently operating are confronted with the risk of losing (including to other transnationals) their security of access to sources of supply of primary inputs. Other Northern interests might not be so adverse to the transfer of such activities to the South. These include environmental protection groups in the North, transnational banks with high liquidity in search for investment opportunities, machinery and technology suppliers and policy makers who realise that in certain cases—eg, aluminium production in Japan—a significant part of the reported value of output in the North involves the consumption of energy in which they are highly deficient.

In other cases though, also endorsed by the Brandt Report, the promotion of exports from the South which involve international sourcing activities by the transnationals will be strongly supported by these firms in contrast to the opposition of other northern groups, particularly organised labour. In these circumstances the South can be used as an intermediary to affect relative power relations within the North.

In both of the above cases (ie processing and international sourcing activities) the position of the North will reflect basically the final outcome of differing intra-North political and economic positions. Whatever the Brandt Report (or anybody else) argues on these matters will need, in order to be pragmatic, to be based on a prior analysis of the preferences and pressures exercised within the industrialised countries and not simply on the expressed needs of the South.

### **Measures Proposed on the Transnationals**

Among all the sections of the Brandt Report, perhaps the least imaginative and most limited in terms of the importance of specific proposals which will favour the South is that which concretely concerns itself with the operations of transnational enterprises. In the proposed 'Regime for International Investment' and the related sections of that chapter, the Report endorses several

of the hardest positions of the OECD countries, particularly the inducement:

- a) to participate in intergovernmental agreements under which the governments of home countries insure foreign investment operations of their transnationals and thus, through a process of subrogation, elevate potential and actual conflicts between enterprises and host governments to the level of conflict between governments (a proposition which countervenes expressed decisions of several developing countries, like those of the Andean Pact);
- b) to accept multilateral bodies for the settlement of disputes, 'in addition, or as an *alternative*, to national tribunals' (italics added), (a proposition which is opposed by several national and regional decisions in developing countries, eg, the Calvo Doctrine);
- c) to form 'an international procedure for discussions and consultations on *measures* affecting direct investment and the activities of transnational corporations' (italics added), (a proposition which will tend to place international pressures on national sovereignty when the latter is exercised through the introduction of policies which affect the interests of transnational enterprises).

In other cases which concern the specific practices and operations of the transnational enterprises the proposals of the Brandt Report—depending on the subject matter—fall into categories which can be characterised as utopian, partial, belonging to the case of the 'irrelevant alternative' or even of failing adequately to examine certain fundamental issues.

The Utopian approach is most apparent in the call for 'sharing' technology between the North and South, and for the effective 'transfer' of such technology. This simply does not recognise the meaning and origin of economic power in the structures of contemporary markets and the importance of control or captivity over the productive know-how. Also, the proposal for international action to promote more extensive and effective disclosure of information by the transnationals does not recognise that any serious world cooperation on this issue has already been opposed by the North in view of the expressed negative reaction of its transnationals. Instead, the initiatives of the United Nations in making such activities operational presently find themselves drowned in the swamps of endless international committee work.

One of the more inadequate analyses of issues on world business practices concerns the proposals of the Report on transfer pricing. These are largely circumvented in preference to recommendations on tax harmonisation policies and the elimination of resort to tax havens. No frank discussion is undertaken on how

the substantial part of world trade which takes place through intra-firm exchanges constitutes today an area of major conflicting interest. Such trade practices represent a well organised and quantitatively very important channel for implicit income transfers internationally. It also covers one of the more important exercises of what is traditionally referred to as restrictive business practices.

Equally, no frank references are made to the discriminatory role played by or, in other cases, the absence of participation of these enterprises in confronting the needs of the world's poor. Finally, the insistence on codes of conduct constitutes a misplaced emphasis. The primary (perhaps only) contribution of such codes is the promotion of public discussion and awareness on issues concerning the transnationals, and this has already been done by United Nations initiatives. Its reiteration diverts attention from alternatives which are undoubtedly much more serious to Southern interests. Internationally agreed rules on *savoir faire* on these matters simply do not touch the core of control and decision making which are central to the operations of transnational enterprises. The interminable negotiations on codes tend to blur the need for continuously bringing to the fore the combined impact of requisite political will, technical knowledge and economic power to deal with these enterprises.

### Concluding Remarks

The Brandt Report needs to be judged according to the impact it is likely to have as a major opinion forming and policy influencing document in the evolution of North-South relations. Such impact will, in turn, depend on the relevance of the subjects it covers, the validity of its analysis and conclusions and finally, the possibilities of influencing the perceptions and decisions of policy makers and those to whom they are accountable. Novelty, which the Report lacks, is not a criterion here, since this is not an academic work; validity and effectiveness, though, are of central importance.

Contrary to the largely one-dimensional nature of the Pearson Report which preceded the work of the Brandt Commission, the latter was able to capture and convey the interdependence of several of the central problems facing developing countries. Thus, facile and evasively partial policy solutions, which have often dominated the agenda of North-South discussions in the past, are brought into question. Also, the Report did not accept the institutional base as given but called for specific reforms. Its value then consists in lending its support, through an articulate presentation and the weight of the Commissioners' names, to these two

notions: interdependence of problems, and inadequacy of existing institutional mechanisms to deal with them. The usefulness of its impact is pedagogic. It 'legitimises' some general concerns on development that have often been expressed in the past but which have not succeeded in being more broadly accepted.

The validity of its analysis, though, and the political acceptability of its proposals in the two areas we examined (namely, the massive transfer of resources to the South and the activities of the transnational enterprises) are highly questionable. The Brandt Report misreads both the political realities of the North and the essence of some of the efforts of the South in asserting itself as an emerging force in international

economics relations. In several crucial cases we concluded that the Report's concrete proposals, in the two above mentioned areas, will prove harmful to the interests of developing countries.

Poverty and power in international and domestic relations are not separable. Although the Brandt Report preoccupies itself seriously with the first, it only tangentially touches the essence of the latter. Thus, the analysis and positions taken did not address themselves to the field that, in view of their past experience, the Commissioners should know best. In their attempt to reach a consensus among themselves, they failed to present and analyse it as explicitly as they should.