



**13<sup>th</sup> McDOUGALL  
MEMORIAL  
LECTURE**

**His Excellency**

**Bruno Kreisky**

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When the Director-General of the FAO, Dr Edouard Saouma, invited me, many months ago, to deliver the McDougall Memorial Lecture, I was still in office as Head of the Austrian Government. I pointed out at the time that I was by no means sure I would still be Federal Chancellor by the time of this event. Director-General Saouma replied that the invitation to address you was not necessarily tied to my office, and he renewed this invitation after my resignation. Quite frankly, I am very glad to have this opportunity, because throughout my career I could never help espousing certain trains of thought afresh, even if there was no chance of realising them at the time.

During my long political career I have learned one thing above all, which is that in politics as elsewhere ideas have to be formed and propagated long

before the time is ripe for their implementation. Then one day comes the moment when they can be put into practice in one form or another. Much of what was thought and dreamed about the welfare state in the thirties came true only after the Second World War.

I was still a very young man - you will permit my reminiscing - when I had the good fortune to be able to take part in the 1931 Congress of the Socialist International, as a messenger boy, so to speak. It was my job to carry forgotten umbrellas after delegates, and to see to it that the pencils on their desks were sharpened. Naturally I did it in order to be in on the speeches delivered by the great men of democratic socialism.

It was in the midst of the severe world economic crisis that the spiritual leader of Austrian social democracy, Otto Bauer, developed the stupendous idea of fighting the crisis in Central Europe by initiating a system of international loans, to be made available by the richer countries - primarily the USA and France - for the benefit of those Central European countries which had been hardest-hit, and by this means not only to overcome the world economic crisis, but also to save democracy,

Otto Bauer foretold that the destruction of democracy in Germany would mean the end of democracy in Central Europe, and would inevitably bring about the Second World War.

At that time, a large-scale international credit scheme would not only have assisted the European industrialized states to overcome the crisis, but would also have led to a modernization of production facilities in Eastern Europe and accelerated the process of original accumulation - to use an expression by Karl Marx - a development which in most Eastern European countries started at great sacrifice only after World War Two. This idea by the Austrian Otto Bauer had its magnificent resurrection and expansion in the so-called Marshall Plan - modified, of course, and employing techniques unforeseeable in detail in 1931.

There is something else I should like to mention in this context: the fact that an idea will not be translated into reality immediately has the advantage that in the course of time it will attract both support and criticism. Both happened with the ideas I espoused in speeches before the United Nations, and eventually before the third General Conference of UNIDO on 31st January in New Delhi. These

thoughts have been criticised, and described as economically unsound, but there have also been eminent men and women who have supported them - or perhaps more importantly have thought them through afresh and independently.

The extent to which these ideas are gaining ground is evidenced by the fact that the Nobel Prize Winner Leontief, who was awarded the Prize for Economics in 1973 and is Director of the Institute for Economic Analysis at New York University, argues along lines resembling the ones I have followed for a considerable period of time. He writes:

"To the great surprise of the authors of the report, many less-developed countries took off fast... How did this happen?... Banks untied their purses and lent to the less-developed countries all the money they could use for productive investments.

...Under a government programme like the Marshall Plan... There is, however, another way. ...The Western democracies should help the banks and their clients continue the good work. ...Inauguration of a long-delayed, worldwide Marshall Plan. It could combine a guarantee of old bank loans and new ones - on condition that interest rates be

appropriately reduced - with substantial direct assistance to particularly poor areas".

Let me go even further. The "Neue Zürcher Zeitung", a newspaper close to the Swiss industrial and banking world, wrote on 28th September of this year that even the Trilateral Commission had in any case shown a certain open-mindedness, and understands the connections between the First and the Third Worlds.

Let me just say here that I can well imagine all these ideas being brought to a synthesis, if we could only resolve to find out where the pertinent decision-making processes should take place.

In this connection I should also like to state that I am well aware that the communist states have no desire to take part in these activities, a fact brought home at the Cancún summit. The question facing us is how to put these ideas into practice. The only way I see is for some like-minded countries to work out and to implement a model based on the example of one specific project.

Permit me to recapitulate the ideas I have propounded now for more than two decades. I believe, and have always believed, that development aid as it has been practised for many years does not permit

an organic and steady development of the economic resources in the countries concerned. Long before the oil shock, for example, I held the view that the developing countries would have to arrive at a continental railway system like the one we have in Europe, and that such gigantic projects could be realised only by way of multilateral plans.

As we know from the past, such a development would have provided jobs for hundreds of thousands of people. Those to whom it would have meant jobs would have viewed the problem of hunger with different eyes from those of the millions of jobless. Similar ideas would have had to be implemented to supply the developing countries with water and energy as well as with modern telecommunication systems. To put it in a nutshell: the countries of the Third World are incapable on their own of creating the infrastructure they need in order to play their part in the international division of labour in accordance with their potential.

Only when they are in possession of more or less satisfactory infrastructures will they be able to do so, and these must of course include systems of modern vocational training geared to the prevailing conditions. It will be their only chance to make

the best possible use of the credit facilities available to them. In a meeting such as this I don't need to cite specific examples to explain the significance of such measures.

In implementing such far-reaching international infrastructural measures it would naturally be impossible to apply the standards currently prevailing in the field of international credit. When anyone mentions the problems of financing this worldwide, this global project, I can only point out that according to the Peace Research Institute in Stockholm between 700 and 750 billion dollars were spent on armaments during 1982. Only one seventh of that amount would suffice to implement such a plan on the most grandiose scale.

The direct costs of one person out of work in Austria amount to approximately AS 7 000 per month which is equal to US\$ 400. Austria is positioned somewhere in the middle of the income pyramid of the Western countries, also with respect to special supplements. We may consequently depart from the fact that the 35 million jobless cause direct monthly expenditures of 14 billion dollars. It goes without saying that in addition to this sum substantial social costs accrue from the loss of the

production factor 'labour', adding up at least to once more the same amount, so that the total loss is to be estimated at about double the above-mentioned sum.

There is another observation I should like to add in this context. The criticism which has been expressed against these ideas is not new. It strongly reminds me of the critical voices which were raised when Keynes propounded his ideas for combatting the crisis. They came from both Right and Left, but I shall refrain from enlarging on them, and merely single out a few points.

The very notion of calling this idea a new Marshall Plan suffices to raise the opposition of the Left. They say that the Marshall Plan was not prompted by humanitarian considerations, which is true enough, and the very reason why it was so effective in terms of practical politics. I chose the term at the time I did in order to awaken certain memories.

Another objection is that such a policy will cost money, and would have to be pursued à fonds perdus. This again is true enough, but what can it possibly signify when balanced against the huge expenditure on armaments? Considering the fact that there are

35 million unemployed in the modern industrialised states, I wonder whether we can still afford a long-term cyclical policy which - as I recently heard at a colloquium in Liège - will inevitably lead not only to deserted factories, but also to deserted offices.

This gigantic unemployment imposes huge financial burdens on the modern industrial countries, burdens which are estimated to amount to 168 billion dollars annually.

What critics overlook is the salient need to fight the phenomena of this crisis in the industrialised states in many different ways, and their argument totally neglects the dynamic impact of cyclical measures on economic growth.

When objecting that this may involve keeping obsolete structures in being for a certain amount of time, they fail to consider that it is undoubtedly much easier to plan structural changes when working at partial capacity than in a situation of capacity rundown. One of my economic aides has formulated it so: "Even a short-term cyclical policy will cause dynamic spillover effects".

My left-wing critics take a very negative view of the role played by foreign capital in the overall economic and social development of Third World countries. But it is for the very reason that I am just as sceptical as they are that I have taken up the cudgels for such a global plan. We know from practical experience that infrastructural development has very favourable effects, and that it is the prerequisite for conditions favouring economic growth.

So let me briefly remark on the current world economic situation, and specifically voice a politico-psychological observation:

I think I observe a certain tendency to declare that there is really no crisis at all, and that one should not dramatise matters.

I feel that this is due to the inability to get rid of unemployment in a period of allegedly incipient prosperity.

It starts with economists discussing how to define the crisis.

I can only repeat what experience has taught me, namely that a crisis like the present one - and I have already lived through an extremely severe one -

cannot be overcome by means of economic measures, but only through political methods. It was the gigantic rearmament which Hitler set in motion, and which was gradually emulated in the democratic countries, that led out of the crisis. It was the war which ended the crisis. Theorists may explain it differently, but this is my explanation. We know the political end of the crisis, which turned out to be a nightmare.

The crisis need not end in a nightmare, for every crisis can be brought to an end. What are the alternatives to armaments? Today it is evident that armaments will not put an end to the crisis. At the stage of economic development which we have reached, armaments production often runs parallel to economic production, leaving the general business cycle untouched.

We live in a society characterised by the ability to produce an immense wealth of goods, and if this capacity is not used, if we are unable to say how it could be used, if we cannot direct our thoughts beyond new technologies and smart products to questions of global redistribution, then we will not be able to reintegrate the 35 million unemployed in the Western industrialised countries back into working life.

In its recently published "Employment Outlook", the OECD stated that demographic developments alone would make it necessary to create 18 to 20 million jobs in the Western industrial countries between 1984 and 1989. The creation of these new jobs would not achieve anything beyond maintaining the current high level of unemployment. Let me draw a more graphic picture: even if 20 000 new jobs were to be created daily in the industrial countries, millions of people would still remain jobless. That illustrates the magnitude of the task we face today in the industrial countries.

In recent years the Western industrial countries have pumped vast amounts of capital into the developing countries through the usual channels of credit supply via the capital markets. According to conservative estimates, the developing countries' debts now run to the tune of 700 billion US dollars. The interest payments alone are estimated at far in excess of 70 billion US dollars. The banking system is now resorting to rescheduling the debts, which means that the existing debts are augmented by additional interest, with interest rates being raised because of the added risk.

This is clearly no solution to the problem. Let's be quite frank about it - the industrial countries will have to write off a good deal of that money. If the sum involved is no more than one third of the total debts, then it will amount to a 233 billion US dollars at present values.

But it will do us no good to let those countries get deeper into debt and economic misery. The former US Secretary of State Henry Kissinger was among those who pointed out that those countries will be able to pay their debts only if more capital flows into them than out of them. He went on to emphasise that all industrial countries would have to contribute their share in order to prevent conditions fostering anti-Western sentiments among broad sections of the populations.

I have already mentioned that Nobel Prize winner Vassily Leontief underlined in a recent article entitled "For a Marshall Plan II" that concerted action by the Western democracies was the only answer to the crisis of indebtedness.

What can be done? One can provide massive aid and implement infrastructural projects in the countries of the Third World, by building power stations,

developing the transport system, and carrying out similar projects which would have to form part of a large-scale international scheme.

The point at issue is the implementation of a large-scale plan involving a high degree of political cooperation. Through such a project the democratic industrial countries could deploy their political strength and develop a type of cooperation which many would be reluctant to give up.

At this point I should like to remind you of a factor which has made a not insignificant impact on the economies of the industrialised countries over the past few years, namely East-West trade. At the height of the Cold War nobody believed there would again come a day when economic cooperation between the communist states and the Western industrialised countries would become important for world trade as a whole.

The period from 1950 to 1980, however, saw an increase in exports from the OECD area to the COMECON countries from 770 million dollars to 42.4 billion dollars. During the same period imports from the Eastern bloc to the Western states rose from 1.1 billion to nearly 43 billion dollars.

In real terms, of course, this increase is much lower than these figures would seem to indicate. Nevertheless, they show that the sixties and early seventies were characterised by buoyant expansion.

During the first half of the nineteen-seventies, imports by the COMECON group rose by more than 30 percent annually, and exports by 22.5 percent. For well-known reasons which I need not discuss here, this exchange of goods has recently begun to stagnate. I merely wanted to draw your attention to the considerable potential for economic development through an intensified exchange of goods, which exists once the right political climate has been established.

It could be argued that the expansion of trade constituted the basis for a policy of détente between East and West, and that the atmosphere of détente, in its turn, contributed significantly to closer economic relations between East and West.

Without drawing any direct parallel, I believe that the industrialised countries must recognize the opportunities which are available to them through development of the economic potential of the Third World countries, what trading possibilities can

open to them, what chances of using capacities which are currently under-utilised at this time of crisis.

What fundamental steps must be taken in order to create the preconditions for these objectives? Measures will be needed in the following areas: transport, energy, agriculture, irrigation, telecommunications (it is easier to disseminate information by television than to teach people to read so that they will be able to acquire the same information from books), and finally illiteracy, sister to hunger and need.

One of the arguments used in this context is that the conditions under which the Marshall Plan was implemented in the industrialised countries were much more favourable, because a relatively small injection of capital was enough to set the economy in motion again. Obviously, fewer resources had to be transferred in order to rebuild the destroyed capacities of the traditional industrialised countries, but we should bear in mind that at that time the infrastructure and the industries of those countries had to be rebuilt, and that the United States was the only possible donor.

My proposals are aimed exclusively at developing the infrastructures and the agricultural sectors of the Third World countries. In agriculture, in particular, a relatively low capital input will be necessary, in contrast to the capital-intensive area of the infrastructure. Of course it will take a long time - longer than in the case of the European Reconstruction Programme - for these countries to achieve self-sustaining growth, but that cannot be an argument against immediate action on our part.

Some also argue that the solutions to our short-term cyclical problems cannot be reconciled with the needs of the developing countries. In part this argument is certainly justified, but only in part. The existing over-capacities in the iron and steel industry are so great that even if, for example, we were strongly to encourage the construction of railway networks in the developing countries, that would not suffice to utilise them to the full. On the other hand, nobody will seriously deny that such a construction programme would help to alleviate our problems, and at the same time create positive effects in the Third World. And since we must in any event restructure our economies, and the new high-technology industries will come nowhere near

providing a sufficient number of jobs for people in the industrialised countries, why should we not strive for adjustments orientated towards the needs of these new Third World markets.

It is further argued that Counterpart Funds are not suitable instruments for implementing infrastructure projects. I have pointed out that we must be prepared for an extended development period, and that we consequently need longer-term loans. But it cannot be denied that these projects will have positive effects, both directly and indirectly. In my opinion these would be more significant projects than could be realised hitherto under normal commercial financing arrangements.

The role played by foreign capital in these countries, and the concept of economic development on which my ideas are based, have also been heavily criticized in certain quarters. It may be true that our industrial development model cannot simply be transferred to the Third World without modifications. But an expansion of the infrastructure and the building up of agriculture are an absolute "must", even for economies which follow a different pattern of growth.

And even in cases where industrialization projects have been launched in recent years, those which failed did not do so because it was not possible to ensure industrial production, but simply because they were not adequately integrated into the economies of the countries concerned, or because the necessary infrastructure did not exist.

It is not my objective to export to the Third World a certain model of society and economy, but to prepare the ground for satisfying the basic needs of the people living in these countries.

The problems of indebtedness by developing countries are often viewed in a purely financial perspective, with attention being drawn to the resulting threats to the international financial system and our banks in particular. Meanwhile, the inability of these countries to pay back their debts has given rise to very serious consequences. Lionel Olmer, the US Deputy Secretary of Commerce, recently stated that US exports to the eight Latin American states with the highest debts declined from 14.4 billion dollars reported for the first six months of 1982 to 9.1 billion dollars in the first half of 1983. He concluded that nearly a quarter of a million American workers have meanwhile lost their jobs as

a result of the repayment difficulties of those countries and of the terms and conditions imposed on them by the International Monetary Fund.

This is so despite the vast domestic markets which make the United States practically independent of foreign demand. How much greater is the repercussion on the Western European countries, which are forced to earn up to 50 percent of their gross domestic product from exports.

In the face of this crisis, and the insanity of the arms race which has seized us, I can think of no better alternative. What would we have done had the Americans said that they were not prepared to reconstruct steel works or automobile factories in Europe, because Europeans would one day emerge as their keenest competitors - which has in fact happened.

What sort of a free economy do we have if we are afraid of such developments? In this spirit, I should like to make one final remark: We must not overlook the human factors. It is not only the export of goods and resources which matters; we must combine this with a transfer of knowledge. I am saying this with some hesitation. We must be

willing and able to integrate hundreds of thousands of Europeans (just think of our surplus of teachers, for example) into this economic process in a sensible manner. The "ugly European" need not become a reality, provided that Europeans are able to heighten their awareness of the tremendous tasks, the need for solidarity and the challenges facing them.

Once Europe sent forth its soldiers. Today we must send forth development aid volunteers and teachers. These are the great tasks awaiting us. Even an old man must be credited with having vision. In the dark days of our recent past we had the strength of such vision, and this kept us going. It is my vision that the idea of international solidarity must be given a new dimension.

