

World ownership changes hands

by David Goldman

The world is now passing through one of those extraordinary periods exemplified by the transfer of financial dominance from Amsterdam to London in 1773, the post-Vienna reorganization of European state finances in the second decade of the 19th century, or the post-World War II ascendancy of the United States. It is not altogether clear whether, unlike most previous such events, the world will avoid major financial panics or war. But the trend is no less important for being quieter.

Two years ago this month, *EIR* presented the agreement to create a European Monetary System as "the seed-crystal of a new monetary system." The diplomacy of European leaders since the spring—French President Giscard's March trip to the Persian Gulf, his visit to Moscow, Saudi Arabian King Khaled's June visit to Bonn, German Chancellor Schmidt's visit to Moscow—have made that seed-crystal viable. The entire world is scrambling to stay upright, because the ground underneath has changed.

What Khaled worked out in Bonn is already understood by a few, with the result that the average share price on the Frankfurt exchange has risen 10 percent in the past three weeks. The agreement is, in essence, that Saudi Arabia will invest a large share of petrodollar deposits now sitting in short-term bank deposits into European equity under the supervision of the European governments; and that the point of these equity investments will be to equip Western European industry for major expansion into the developing sector's "threshold countries."

Thus the essential importance of the plan is that it directly relates international credit to the question of

productivity. The usual way the question of the oil producers' surplus comes across is entirely wrong. Private bankers, IMF spokesmen or U.S. Treasury officials generally want the Arabs to take the surplus and hand it back to oil-importing countries, either in the form of treasury bills, and so forth, or debt rollover for Third World countries. What is wrong with this is obvious: it merely circulates more paper through economies already weakened by higher oil prices.

Some argue that the Arabs are greedy to have raised oil prices and owe the West all the money they can lend back to it or to its debtors. That is the kind of sanctimonious nonsense that has gotten us nowhere. OPEC's oil reserves are a large chunk of the world's available capital; that is, surplus production available for new investment. Who happens to have title to it is much less important than how it is invested.

Properly deployed, the OPEC surplus represents a fund to improve the productivity of world industry, a means of centralizing the surplus production of the industrial countries for high-technology investment. This is what the West Germans propose to do with it. Despite their bouts of monetarism since the heyday of Ludwig Erhart, they know very well that any credit that leads to productivity rates above paper interest rates may soundly be issued by the public or private sector, and will in fact be counterinflationary.

Revamping conditionalities

At the same time, the scaling down of so-called conditionality on lending will enable the International

Monetary Fund and World Bank group to prevent the financial collapse of less fortunate developing countries—according to European banking sources *EIR* believes are reliable.

The reported turnabout at the International Monetary Fund was given fairly strong motivation at a speech by its managing director, Jacques de Larosiere, at a meeting last week of the United Nations Economic and Social Council in Geneva. De Larosiere urged an easing of the previously brutal conditions attached to IMF lending, which have dissuaded eligible countries from using most of the \$50 billion in potentially available IMF resources.

The Fund's managing director additionally said that the IMF should take into account countries' long-term potential for economic growth in assigning conditions to loans, an implicit attack on the previous approach of enforcing the most extreme balance-of-payments constraints and disregarding such questions as the survival of the population in question.

De Larosiere may after all be a French submarine at the previously American-run institution. Suspending that question, what is central is a political agreement between Europe, the Arabs, and, as a silent partner, the Soviet Union, to solve the "petrodollar problem" in the grand fashion.

What was patently incompetent about most of the "petrodollar recycling" schemes the Arabs saw and rejected is that they proposed simply piling debts on top of debts. Recycling excess Arab earnings into the International Monetary Fund to lend to poor developing countries would merely send these funds indirectly to their banking creditors. Lending them to the American Treasury would not have much better effect. In the long term, simply lending large amounts to European governments would not improve matters either.

Direction of equity buildup

However, the Germans propose to invest the petrodollars—a total surplus of \$400 billion by 1982—in increases in global productivity. As *EIR* reported last month in some detail, West Germany got its economy back onto a long-term growth track by matching productivity increases in industry to the higher cost of imported oil. The core of the new investments will be in nuclear energy and associated high temperature reaction coal-gas technology, advanced computer-guided machine tools, and petrochemical industry expansion to exploit oil as a feedstock rather than as an energy source.

Without going into more detail than is prudent, we can state that the West German and French operation is comprehensive, exhaustively planned, and basically competent on economic criteria. The influence of the European initiative has been felt in the United States and Western Europe.

In America, the slogan is "reindustrialization," a topic to which we devote next week's cover story. The perception strongly urged on American leaders, such as they are, by the Europeans is that the entire 15-year accumulation of junk called "the postindustrial era" must go. Every American economic policymaking center is rushing to retool, in order to have something interesting to say about reindustrialization. Both the collapse of America's competitive position on world markets, and the obvious inadequacy of American armed forces and industrial mobilization capacity, have sunk into some of the thickest heads on this side of the Atlantic.

To preview next week's report: the quality of the sudden volume of commentary on this issue is extremely uneven, ranging from stream-of-consciousness from *Business Week* magazine to carefully thought through, eminently feasible work at Stanford University under the supervision of Dr. Edward Teller. What is most impressive is not so much the specifications of various "reindustrialization" plans as much as the emerging consensus around the project. It is clear even to such formerly antinuclear spokesmen as Democratic Senator Paul Tsongas of Massachusetts that nuclear energy is vital to America's future. The Office of Technology Assessment of the White House has suddenly started to issue reports on the need to rebuild the American steel industry and other basic industrial capacity. The Europeans and, in their own tactless way, the Russians, have forced the debate here onto the right terms.

Survival questions

In Britain, most of the country's best minds are hard at work at two problems. One is how to make Britain's standing in raw materials in the Commonwealth, especially in South Africa and Australia, improve the flea-bitten lion's bargaining position with Europe (see International Credit). The second is how to make the impossible Mrs. Thatcher bargain Britain's way into what has clearly become a European game. Discussion in the City of London includes replacing her with the "more flexible" Lord Carrington, now Britain's Foreign Secretary.

During one of a number of seminars we conducted in the U.S. West and Southwest recently, a subscriber asked how businessmen can survive at a time when the Carter administration has apparently chosen economic suicide. That remains a difficult question, but it can be said fairly that if anything holds America back from the brink, it will be a combination of European pressure and the political upset inside the Democratic Party conducted by Lyndon LaRouche. In their own dinosaurish way, some large American companies are orienting towards the European Monetary System and its corollary developments. *EIR* intends to help a great many others do the same.