EIR Economics

The Brandt Commission's new 'geo-economic order'

by David Goldman

Proposals that seemed insane when Zbigniew Brzezinski and C. Fred Bergsten surfaced them first in 1976, for a "raw materials standard" in world economic affairs, are now close to reality. At the policy level, proposals for "indexation" of credit to a combination of raw materials, the stabilization of raw materials prices (including oil) through "buffer stocks," and the re-direction of investment in the LDC's into raw materials production are the centerpiece of the report of the Independent Commission on Development, chaired by former West German Chancellor Willy Brandt. Mechanisms to make such proposals work are now under close study at the American Treasury. What makes this discussion most ominous, however, is the enactment of this scenario on the precious metals and commodities markets.

The world markets are tumbling into the sort of "One World" scenario that the EIR characterized in its Dec. 18 cover story. In the words of Bank of England advisor Sir George Bolton, the catchphrase is "a run from all currencies into commodities." The same phrase was used by Brandt Commission factotum for Asian operations Charles Robinson, Kissinger's old Deputy Secretary of State and the author of the International Resources Bank plan.

As *EIR* emphasized in its Dec. 18 coverage of the Brandt Commission, less interesting than the spectacular rise of the gold price (which closed at $623 on the New York market Jan. 3) is the parallel rise of silver, copper, platinum, and, most emphatically oil. (see Futures) This is not a mere panic reaction of investors but a result of a deliberate policy turnaround on the part of the U.S. and other Western governments. According to private industry metals experts who advise the State Department and Treasury on stockpiling policy, the government is not only committed to a commodity price buffer stocks plan on economic grounds, but is accumulating stockpiles of metals it deems strategic.

The perspective determining this action, according to one source, is identical to the content of a recent Center for Defense Information forecast of America's security position in the 1980's: the proliferation of local wars in the developing sector in raw-materials producing regions, which will threaten America's access to vital materials. Among the materials the government intends to stockpile, these sources report, are copper and silver. This explains the stupendous rise in the silver price and the impressive rise of the copper price (to $1.14 per pound on Jan. 3), in complete variance with so-called market fundamentals.

During the last round of such policy discussion, Robinson and others presented the International Resources Bank, commodity indexation, buffer stocks and similar plans as humanitarian gifts to the developing sector. Not so now, as Robinson stated in an interview transcript *EIR* obtained and publishes below. Faced with a $65 billion and up balance of payments deficit on current account, the LDC's, including some of the best-off like Brazil, have been left to forage for themselves. The commodity option presented by the Brandt Commission appears, to the advanced-sector governments, as a mere formality following what is already at work on the markets, and as a last way out to the better endowed LDC's.

Eurocurrency bankers believe that the collapse of the dollar this week—it briefly touched an all-time low of 1.69 to the West German mark in Jan. 3 trading—settles the question of whether the international banks will resume lending to the LDC's after the near-panic following the Iran assets freeze. If this did not, the sudden new rise in oil prices, bringing the OPEC average price to over $27 a barrel, could well settle the fate of these countries.

Options for financing the LDC's now under discussion include World Bank guarantees related to energy and raw materials development; commodity price-indexed bonds; or oil-linked debt instruments. However, as Charles Robinson emphasized, the short-term prospects for the realization of any of these schemes are extremely bleak, and "Murphy's Law"—what can go wrong, will—will apply in the months ahead. Prof. Robert Triffin of Louvain University told *EIR*, "The crazy rise in the price of gold is a reflection of diffidence concerning all governments' capacity to act."

The near-term implications for both the industrial and developing economies are devastating. Various commentators, including the editors of the London *Times* and the *Wall Street Journal*, have argued that the gold-oil price constitutes a basic sort of historical inflation index. Both prices have doubled in the past year; as other commodities follow them up, this implies an inflation rate far in excess of the current 15 percent dollar inflation rate. If credit is indexed to these prices, as the Brandt Commission and others propose, then "the rate of inflation becomes indeterminate," in the succinct phrase of Princeton University's Peter Kenen.

What will happen to oil prices, which have already undergond a second upward ratchet since the OPEC meeting (see OIL) is now difficult to project. However, the State Department's Office of Fuels and Energy currently expects Iran's oil exports to "go out" entirely due to one form or another of military action. It must be emphasized that the Soviet move into Afghanistan makes most of the State Department's calculations irrelevant. It is sufficient to emphasize that the current glutted state of world oil stockpiles ensures that any such price rise will be hard to put across unless there is a major disruption of supplies, and that this consideration must figure in the actions of the British, the Libyans, and others.

Iran shutdown to aid Brandt plan

Richard Hecklinger, of the State Department's Office of Fuels and Energy, dropped a strong hint in a Dec. 26 interview that a shutdown of Iranian oil exports was being considered as an option by the Carter administration.

According to Hecklinger, the curtailment of Iranian oil supplies would force other industrialized countries to reduce oil imports, as agreed on at the December International Energy Agency (IEA) meeting, and would effect the Brandt Commission's proposals through "less formal means." Hecklinger's statement appears below:

There is no government position yet on these proposals. Part of the problem is that OPEC cannot agree among themselves. But I will tell you this: The Brandt plan could be beneficial. The question is how much more will prices increase and what would happen to prices with a supply shortfall? What if Iran went down?...

We're looking at a number of plans. International oil buffer stocks, for example, which would work like those in other commodity arrangements. But would producers be able to agree on a quantity of oil to produce? There are a lot of ifs....

What we accomplished at the December IEA meeting was quite remarkable. We not only agreed on oil import ceilings but got an agreement to adjust these ceilings of supply conditions should warrant it. This is fairly important since last March, the maximum we got was an agreement to reduce oil imports by two million barrels a day collectively, and it didn't say when this would happen. To go from there to specific import ceilings, which are adjustable, is an important accomplishment. ... The IEA will meet again to assess supply conditions in early 1980. If Iran goes down, it will require tough policies....

But it's important to realize that we can achieve the same objectives (as the Brandt Commission) through less formal means. You have most of the world's oil consumption represented in the IEA and EEC. That's 80 percent of free world oil consumption, 38 million barrels a day.

Documentation

What Brandt's commission has proposed

At a Dec. 17 press conference in London, Second International leader Willy Brandt announced that the twenty-member Brandt Commission was issuing a call for a "global economic bargain" to deal with an "impending catastrophe." It's recommendations will be presented to United Nations Secretary General Kurt Waldheim in February and will be published in March. Excerpts from Brandt's press conference follow.

We have unanimously concluded that urgent and drastic steps must be taken to avert impending catastrophe....

In the transition to the "post-oil" economy, the oil-exporting developing countries and the other developing countries have a growing common interest with the industrialized nations in a secure world economic climate....

We have come to understand that, while the countries of the North are deeply concerned about stagnation, inflation and energy supplies, the South faces a threat not just to prosperity but to existence....

Many of our proposals are concerned with the need for long-term, structural reform of the world's economic arrangements. We urge programs of reform in the developing countries, who can do many necessary things only by their own resolve. We urge the need for proper conservation of natural resources. We recommmend how producing countries can not only stabilize the prices of raw materials, but also move into processing and marketing them....

We suggest reforms in the world's financial and monetary system: in the relationships between transnational corporations and most countries....

Most of the world's richer countries have already promised to give 0.7 percent of their national product as development assistance....

... Furthermore, such additional revenues might come from a modest levy on international trade, seabed minerals, and on armaments, objectively the most wasteful of all forms of spending....

We believe that the present system of financing development fails to meet some urgent needs. The existing international institutions, notably the World Bank, have an impressive record and should be enabled to do more. But many developing countries need broader loans, for programs as well as projects; and the Eastern countries remain outside the Bank's structure. We therefore propose that consideration should be given to the creation of a new universal development institution with broader participation....

We propose an immediate package of inter-related measures which would bring benefits to all the parties—the industrialized countries, the energy producers, the middle-income countries and the truly poor nations. The package has three key elements. They are: a large-scale transfer of funds to the Third World, an agreement on the security of energy supplies and conservation, and a start with key reforms in critical areas including the monetary system and means of financing development.

...The industrial countries, for their part, would undertake to safeguard the producers' earnings and to ensure effective energy conservation.

From such a world deal, we believe, everybody would emerge as winners. But to achieve a global economic bargain calls for global political will. To create that political will, we urge the convening of a new kind of summit conference, involving a limited number of national leaders from the world's main regions....

IRB-author opens up his bag of tricks

The following is an interview with Charles Robinson, who served as Deputy Secretary of State under Henry Kissinger in the Ford administration, specializing in Third World affairs, moved on to become Senior Managing Director on international energy policy with Lehman Brothers Kuhn Loeb and then Vice Chairman of Blyth Eastman Dillon before establishing last year the Energy Transition Corporation, of which he is chairman.

Q: What activities are you now engaged in besides the energy field?

A: I'm acting as an adviser to the State Department and Cy Vance on a number of things, especially on Southeast Asia. I had a major initiating role in the ASEAN Business Council, which was set up in February, 1979 and rapidly becoming a cohesive unit—the Philippines, Indonesia, Singapore, Malaysia and Thailand. I've traveled a lot in the area and met over the years with the various government leaders, with whom we are now cementing closer ties.

Q: The U.S. seemed to take a hard line toward the Third World in the 1974-76 period when there was a big push for a new international economic order (NIEO). Recently, through various moves by OPEC and a recent meeting of the Brandt Commission, this push seems to be rekindled. What are your views about what happened then and what is happening now?

A: Well, I've been working with the Brandt Commission, with people like Katherine Graham and Pete Peterson, along the lines of what the Commission is calling for....When developing nations talk of NIEO, our job is not to resist change, but to mold it to the free enterprise system. There will always be some radicals demanding extreme things, but that isn't really the problem. I firmly believe that what we have to talk about today, and then, is a geo-economic order, that is what the world must move toward to stabilize the chaos breaking out all over in every market—currencies, trade, commodities, etc.

Q: You played a prominent role in the North-South dialogue in 1975-76, did you not?
A: Oh, yes, indeed. I was the one who virtually set up the first producers-consumers conference in 1975. Right now I'm working closely with Bob McNamara of the World Bank on this kind of thing, though at the time I didn't work as closely as I would have liked. I chaired the 1976 UNCTAD Nairobi conference which took up the Third World demands for common fund, and I virtually wrote Henry's (Kissinger) Nairobi speech at that meeting. It was there that the idea of an International Resources Bank was brought up, which was largely Bob's idea along with mine. For a lot of bad reasons, the IRB idea has never really gone anywhere, primarily because developing countries have seen it as a threat to the common fund idea and diminishing their returns on raw materials, etc....But look, as I was saying, we had a hell of a fight in 1975-76 on all this. In 1975, I prepared Kissinger's UN speech on all this kind of thing, especially regarding the producers-consumers conference. That didn't happen because the UN blocked it, essentially, because they feared they wouldn't be able to control it, they had a rather proprietorial notion on these things. That was unfortunate, but as I said, I think this is changing, as the Brandt Commission work underscores.

Q: What is your prognosis for 1980? Do you think the dollar is on its way out, to be replaced by currency blocs and perhaps the SDR or ECU?
A: Well, let me answer that by looking at the long term first. There's no question about it, the dollar is indeed on its way, it's only a matter of time. I think all kinds of things are going to happen—currency blocs, baskets of currencies, perhaps the SDR replacing the dollar. There's just a growing reluctance these days to accept any currency at all. I think the move to pricing and trading in commodities is irreversible.

But let me be clear on one point. It is not OPEC that is bringing up the price of oil. Rising demand is doing this, and the same thing applies to commodities generally. We don't need a cartel to jack up prices, because the simple fact is that we are doing that ourselves, because we are not making the necessary investment to expand production. There's no reason why copper, for example, which is selling for around $1 now would not go up to the $2 mark this year, or $5 or $7 a little later.

Q: Do you think the role of private banks and financial institutions is going to decline? They have certainly facilitated the Third World's getting credit and circumventing IMF-type conditionalities.
A: No doubt about it. International financial institutions are just going to have to take on a much more important role. Look, we are running into an inflation problem because we are pressing upon the limits of our resources in energy, minerals, and waste disposal. There is no way to deal with that challenge unless we accept a significant decline in our standards of living, undertake many sacrifices, and endure a loss of national sovereignty—I'm talking about the world as a whole, not just the U.S. The growth rate must be brought down to zero; next year we are only going to have about 2 percent or so. Whether we can reverse this trend to grow is the question, and a crisis seems to be the only thing that can bring this about.

Q: But what about countries not accepting this? And what does that mean for the nation-state?
A: That's what I meant before about a geo-economic order. You know, in a sense, colonialism was not so bad because at least you had a more-or-less geo-economic order back then. We've never found an adequate substitute for colonialism. But that gets you into the philosophical questions of independence and freedom and the loss of sovereignty of nations. But you must have some form of order in this world, and unfortunately that seems like it can only come about through a sense of crisis.

Q: What does that mean for our system of government?
A: In an expanding pie, you can take from the more affluent and redistribute the wealth. But you can't do this when the pie is shrinking, as is the case now. This situation does threaten our free democratic system. ... But I am not pessimistic.

Q: When you speak of zero growth and stringent credit conditionalities, aren't you implying starvation and sharp population reduction?
A: I'm not a Malthusian, but in fact we are going to face food shortages, though not immediately. This will mean starvation, yes, but I don't foresee major population reduction.

Q: What of 1980 then?
A: I see continuing inflation, economic slowdown, and in short, the universal application of Murphy's Law—everything that could go wrong may in fact go wrong. The Saudis are walking a thin line and face an overthrow, whether through Marxist terrorism or the assassination of King Khalid. Iran faces ten years of turmoil, breaking down into four or five regions, with complete breakdown in 5-10 years. The dollar could be finished off this year. You know, back in 1976, I made sort of a facetious proposal, but it's not so far-fetched now. I mooted the idea of the "propet" as the new international currency. That would be a currency indexed to the two primary energy sources, protein for the body and petroleum for the mechanical energy, that is, 1 bushel of wheat and 1 barrel of oil.