

Energy, Petrocurrency, and the World's Future

by Robert Swann, June 1975

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The oil producing countries of the world, particularly OPEC countries, may be in a unique position to help determine the solution to two of the most pressing issues facing the world today.

One concerns the source of the world's future energy supply. After the world's supply of oil has run out, will the primary dependence for energy be on nuclear power, particularly fission? Or will it be solar, wind, or other sources of renewable power that are ecologically safe and have decentralized access to supply? The second issue is whether or not, or how soon, the world will develop an alternative monetary system with which to replace the present patchwork system, and its worldwide inflation and increasing economic instability.

Situated as most of the oil producers are in the Middle East, with the constant threat of regional, if not global, war, they find themselves sitting on a tinderbox that could ignite the world, not least of all because of the very oil that makes them rich. Fifty percent or more of the world's present supply of oil is under their control. Ninety percent of the world industry is dependent on oil, and thus they are in a position to set the course of history in a constructive direction.

It is now a commonplace speculation that the U.S. will go to war over any ultimate threat to the oil supply, even though at the time of the embargo, the U.S. was dependent on OPEC for less than 10 percent of its total oil requirements. (European nations and Japan are more heavily dependent on Middle East oil; it meets at least 50 percent of their needs.) Some people have gone so far as to predict that if OPEC were to demand payments in SDRs (Special Drawing Rights—the IMF's "paper gold"), the U.S. might consider this "an act of strangulation" (see Terence McCarthy's article in *Ramparts*, March 1975). It is now clear, however, that this fear is unfounded. OPEC's announcement at the recent meeting in Gabon of its intention to price oil in SDRs did not raise even a mild protest from the U.S.

On the other hand, there have been a number of pronouncements indicating great concern about any new increases that might go over certain amounts (usually \$2-\$3 per barrel). Such increases would presumably represent a threat to the U.S. economy, which might be considered the "act of strangulation" to which Kissinger and Ford referred. A confusing element in the situation, however, is that it is also generally recognized that only if oil prices remain high will it be possible to economically tap the more costly sources such as offshore oil, which are supposed to make the U.S. less dependent on Middle East oil. Meanwhile, in spite of Project Independence (President Nixon's much advertised effort to make the U.S. less dependent on oil), the degree of dependency on Middle East oil has increased, and is now 16–17 percent or more. How high prices can go, and whether or not a certain price would be "unacceptable" and call for military action, is a matter of debate. Less debatable perhaps, is the proposition of another oil embargo—especially if it were to last very long.

However, if Americans could take an objective view of the situation from the position of the OPEC countries, it would be obvious to them that the countries with oil under their feet consider it to be their major, if not only, resource. Most of them are greatly concerned that at the present rate of decline in oil supply, they will be reduced to less than half of their present value within five years. Even if these countries invest (or "recycle") their funds in various parts of the industrialized world as they are now doing, at the present interest rates their returns will only represent about one-half of the inflationary loss being sustained. Equity investments offer little or no better hope than fixed interest rates, and in addition carry the danger of confiscation at any time by other national governments.

The alternative for OPEC countries is either to try and secure an equitable return in some form or to simply to turn off the supply of oil, which by staying in the ground, can only continue to appreciate in value. Either alternative, however, is likely to be considered an act of "strangulation," which prompts the growing fear of many observers that say that such a move could lead to involvement of the major powers in a Middle East war—one that might be initiated by a preemptive Israeli attack on Syria, an act many consider likely.

While this threat is real and imminent, not only to the Middle East but to the entire world (with the possibility of nuclear war always present in such a confrontation), the situation, however, presents an opportunity to significantly redress the real source of conflict and to dramatize the desire of the OPEC countries to make constructive efforts toward world peace and economic stability.

Behind the fears of the industrialized nations about the economic effects of either another increase in the price of oil or the insistence on payments in SDRs (which in effect amounts to the same thing), there lies a deeper concern and a more widespread fear: the question of what will replace oil as a prime source of energy. Can adequate, safe alternatives be developed fast enough to replace the depleting supplies of oil? The powerful elites, both state and corporate, of the industrialized nations have clearly placed their hopes on the development of nuclear energy.

As it becomes clear to an increasing number of responsible scientists, economists, and commentators that nuclear energy is not only highly dangerous but also economically unfeasible as a source of net output, anxiety and fear about the future continue to grow. OPEC countries must share these same fears and concerns with the rest of the world.

OPEC countries are in a unique position, however, because they have not committed themselves to nuclear energy as the primary alternative to oil, even though U.S. nuclear salesmen, including former President Nixon, have been trying to sell them on the idea. Also, many of the OPEC countries have unique potential for capturing the sun's energy in their vast desert landscapes. Energy from the sun could be utilized for developing a safe and efficient technology, for which a growing consensus of endorsements has begun to emerge. It is likely that hydrogen, stored as a gas or liquid, and produced from primary sources of "income" energies (solar, wind, tidal, etc.) is the most hopeful alternative to oil, not only because its production will not be dependent upon limited sources of supply, but because there are no adverse environmental effects in production, or by-products in combustion (see *Energy, Earth, and Everyone*, Straight Arrow Press, San Francisco).

Consider this, also. What if, as one Dr. Arthur Tamplin suggested at the Japan Congress Against A and H Bombs in August of 1974, OPEC countries were to announce their willingness to contribute some of their surplus funds into a new fund for the establishment of worldwide centers of research and development into ecologically safe and universally available energy sources. Such a policy would offer new security to the OPEC nations for energy self-efficiency and economic well-being in the face of dwindling oil reserves. Yet equally important, it would provide equity and needed leadership to all nations, particularly those of the industrialized world, in seeking new options for meeting future energy needs. In his *Open Letter to the 29th Anniversary Conference Against A and H Bombs*, Dr. Arthur Tamplin gave this endorsement for the plan:

Such action on the part of these nations would in my opinion, be a most significant step toward world peace. Moreover, it would allow them to exploit their most abundant resource—solar energy. For example, solar energy can be used to generate electricity—the electricity can be used to electrolyze water—then using only a small fraction of the desert areas of the Middle East, more Btu's could be shipped from this area in the form of hydrogen than is available in the oil reserves. Moreover, solar energy can be used to create fresh water. It can also be used to construct and operate an extensive agricultural system of greenhouses in which this fresh water can be recirculated. In addition, solar energy systems would be far more useful to the undeveloped nations than the expensive, sophisticated and dangerous nuclear reactors.

Other suggestions have been made in a similar vein. For example, to implement one of the recommendations from the Pugwash scientists, the oil exporting nations of the Middle East should add an excise tax to each barrel of oil. The tax could be as small as 5 to 10 cents per barrel. This tax money would then be used to support one or more solar energy institutes.

Closely related to the price of oil and the future supply of energy that will meet the world's needs is the problem of building an alternative to the international monetary system. In the face of impending collapse beneath the combined

weight of inflation on the one hand, and growing unemployment on the other, the issue of monetary stability presses with singular urgency. Both capitalist and socialist countries (with the possible exception of China) are suffering from the ravages of inflation, and appear equally unable to proffer effective remedies. Within the International Monetary Fund (IMF) itself, a continuing battle goes on between the countries demanding a “hard” or stable international currency, generally those countries with substantial gold reserves, and the developing countries who do not have gold or other “hard” reserves who are demanding a more “liberal” system.

The new SDRs, or “paper gold”, which the IMF began to issue in the early 1970s in its effort to increase world liquidity, have been a subject of controversy between developed and developing nations from their inception. These new credits (literally new money but without gold backing) have been apportioned, as is usual in banking practice, according to the deposits at the IMF. Quite naturally, the poorer countries that have smaller deposits get fewer credits. They have been contesting, sometimes bitterly, this apportionment, but so far little change has taken place.

Nevertheless, the SDRs represent a step forward in world monetary affairs. They are the first international or transnational currency to ever be issued, and because several relatively stable national currencies (German marks and Swiss francs, for instance) are included in the index, or “basket of currencies,” from which they are composed, they are a more stable monetary unit than some of the weaker currencies included, such as the English pound. Therefore, the move OPEC made in December to use SDRs in exchange for oil, which some feared would be the first step toward nuclear confrontation between the U.S. and Russia, was a move toward greater use in international exchange of the first world monetary unit. All those who consider themselves to be “one worlders,” or who assert the primacy of global interest over that of a single nation, should applaud this move on the part of OPEC, because it challenges the inviolability of the nation state as an economic entity.

Moreover, to the degree that the SDR is a relatively “hard” currency, it was indeed a move toward not only a world economy but a more stable system as well. It puts pressure on the governments of the world, including the U.S. that has been deliberately inflating its currency to pay for politically irresponsible actions, such as the war in Vietnam. Thus, those who demand stable money should approve the action of OPEC as a move that will help enforce fiscal responsibility. However, conservatives will justifiably insist that SDRs do not represent a genuine hard currency, which in their opinion generally must represent some kind of gold standard or gold reserve. It is true, of course, that SDRs are not based on gold but are merely an index of sixteen paper currencies, and ultimately do not have any redemption value, except in terms of other paper currency. Naturally, SDRs are vulnerable to inflation to the extent that nation states continue to inflate the constituent currencies.

In the end, the broader use of SDRs may prove disastrous to third world countries inasmuch as their currencies are generally devaluing at an even greater rate than the dollar or pound (that is, if OPEC countries, most of whom consider themselves to be third world countries, or at least tend to identify with these countries, should insist on payments for oil in SDRs from the third world). When and if SDRs begin to replace national currencies in world exchange on an increasing basis, the weaker currencies that comprise the index will thereby tend to devalue even more precipitously. The result will be increasing conflict between the “hard” currency nations and the “soft” currency nations within the IMF itself. SDRs will remain a currency for the industrialized world, not a currency for the third world.

No one can predict what the next step might be, but the course currently set clearly leads to international confrontation, or at least a mutually unacceptable impasse.

However, a unique opportunity arises in this situation for OPEC.

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