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The Shah's Plan and the World Economy

It is really rather paradoxical and smacking of cynicism when the Shah of Iran — one of the pacesetters for higher oil prices — submits a proposal designed to avoid or mitigate potential damage to the world economy from the oil price policy of the oil producing states. To philosophise in this context about morality and the justification of price increases in our world economic system however would be futile: the oil producing countries would be acting irrationally were they to deny themselves what the market and their market power puts within their grasp.

That the world market is an interdependent system and that market power cannot be enforced beyond the point at which the system is impaired to the detriment of those wielding power in the market is now apparently appreciated, or so it seems, at least in Iran. To avoid such detriment, one must bring the oil prices down to an acceptable level and/or create appropriate defensive mechanisms for the world economy. In the absence of such action large deficits in the balance of current accounts threaten in the consuming countries and, springing from them, a world-wide erosion of purchasing power, an inflation of the international credit volume by rapid expansion of lendings to second- and third-rate public and private borrowers and, as a further consequence, greater vulnerability of the international financial system to crises, substantial changes in exchange rates and state interference with trade to

moderate international payments imbalances.

Whether this danger materialises depends largely on the answer to one question: what use will be made of the extra \$ 50–70 bn a year which will in the present conditions flow into the coffers of the oil producing countries? The consumer countries — i.e. the industrialised countries — are unlikely to suffer major negative effects if the producing countries are willing and able to absorb proportionate imports of goods and services from them. The injured party would be the developing countries which either lack the financial resources to pay for the required imports of oil or else must do without other imports of importance for their development.

It is a fact that not all the oil producing countries can spend their foreign currency incomes in full on discerningly chosen imports. Such use of their revenues will be easiest for countries with large populations and ambitious development aims, like Indonesia, Nigeria, Algeria, Iran and Venezuela: but even they will have to cope with temporary excess liquidity. The absorptive capacity of Libya, Saudi Arabia, the Gulf Emirates and Kuwait, on the other hand, will probably be insufficient: they have recorded substantial balance of current accounts surpluses in the past and will probably not be able to step up their imports over the medium term to match their increased revenues. As a surplus on one side implies a deficit on the other, there is a danger that each of the industrialised coun-

tries will attempt to raise its exports and/or reduce its imports at the expense of the others unless a mechanism is devised and started up to transfer the surplus revenue from oil to outlets which enable one group of countries — the industrialised ones — to increase their exports correspondingly and the other — comprising the developing countries — to obtain the imports needed for their development.

This is the vantage-point chosen for the Iranian proposal: 12 oil exporting countries and 12 industrialised countries are each to pay \$ 150 mn a year (a total of \$ 3.6 bn) into a development fund from which disbursements are to be made to developing countries on soft terms through the World Bank and IMF. Iran is willing to lend \$ 700 mn to the IMF at current market rates so as to ease the balance of payments problems in the oil consuming countries and, further, to subscribe over \$ 200 mn at current rates to World Bank loans.

Bearing in mind that the Iran's oil revenues have risen from \$ 3 bn to \$ 16 bn, these sums do not look particularly generous — but that is of less importance at this moment. What is crucial is the approach, and it can only be hoped that the other oil states, Saudi Arabia in particular, will not, out of political pique against Iran, close their eyes to the realisation that there is only one way of making progress with the solution of our problem — to regard the world economy as an integrated and interdependent entity.

Otto G. Mayer