Last week I started to talk of some of the structural changes that have occurred in the international system over the past decade: the decline of American dominance; the rise of the Soviet Union; the re-emergence of China; the vast increase in Japanese economic strength; the slow but also accelerating coherence of the European Community; and the rise of a number of new middle powers with increasing freedom of action. But structural change of this kind occurs as a consequence of quantitative or qualitative changes in the component societies of mankind: either they now have or exchange more things, whether it is guns or butter or both, or their ambitions and values are altering.

The most obvious quantitative change has been in the economic relations of the West: the value of world trade has nearly trebled since 1960, with the consequence that all the political units of the democratic world have become materially interdependent to a degree never known in human history even within the cradle of a great empire like the British or the Roman. It is as easy to buy delicacies from Taiwan as it is from Somerset, and cheaper to order a ship in Yokohama and sail it around the world than to build it on Clyde-side; as convenient to buy and service a car from Turin in the village where I live near Oxford as it is one built in Cowley. This is not a completely new development, for the interdependence of the world’s economies in the Thirties converted what might have been only an American depression into a world-wide one of immense political significance. It is the scale of interdependence that is altering so fast—and upsetting many of our values. For trading nations like ourselves or modern Japan, it is less revolutionary than for the United States, whose self-image has been that of a largely self-dependent nation.

But in a situation in which the now enlarged Community accounts for 40 per cent of world trade, in which Japanese TV sets and electronic goods dominate the American consumer market, trade relations which were primarily the concern of experts until a few years ago have become high politics. This is a re-ordering of the West’s own agenda for which we can in many ways be thankful. Concerns about wealth and welfare, employment and innovation, are the basic stuff of modern politics. The fact that they now have equal precedence in the minds of governments with more dire considerations of security or more metaphysical calculations of ideology or prestige is a sign that international society is turning to more beneficent preoccupations. But the difficulty is that, though we possess the ability to confer immense benefits on each other, we have an equally great power to confer damage: to throw a whole region in another country into sloth and unemployment, and to create anger there which translates itself into political hostility.

Fortunately, this revolution in interdependence has occurred at a time of continually rising prosperity. But what happens if the trick goes wrong? If our belief that we have mastered the techniques of economic stability proves hubristic? If the present world-
wide inflation should lead to the crash of a major industry in one country? Could our evolving sense of political interdependence within the West stand the strain of serious national or international economic damage? Or would it send the national economic barricades flying up again? Moreover, tariffs, which can be reduced by mutual agreement, are no longer such important barriers to trade as preferences are and the hundreds of differing national regulations about standards, packaging, customs valuation or government procurement. When the new round of trade negotiations starts, it will be clear that these can be ironed out only by applying the political principle of ‘community’ which has been evolved in quite special circumstances in Europe—namely, the readiness to give the general interest priority over the particular—within a much larger group of developed countries that stretches from Sweden to Australia. Yet this has to confront a slowly rising tide of popular hostility in the relationships between Europe, the United States, Canada and Japan against which political leadership everywhere has to battle: Item One on the broadened agenda of world politics.

**Multinationalism**

The tendency for old friends to look askance at each other is partly the consequence of another aspect of economic interdependence, again one with a very long history, again revolutionary in the sudden change in its importance: namely, the multinational company. Its rise is not the consequence of a sinister conspiracy between Wall Street and Washington to export American jobs or to turn the developing and the developed world into an American economic empire. It is not even a purely American phenomenon: witness Unilever, Hoechst, Massey Ferguson or Nestles. It is an obvious consequence of the conjunction of a highly interdependent world economy with an increasing scientific component both in the product and in its management. If you can concentrate research and development and higher management in one or two centres, but devolve production to the country in which you wish to market, you are likely to produce a better or cheaper product than the company with access only to national resources.

The multinational company has been a key factor in increasing skills, creating jobs and promoting economic growth in the developing world, and in trebling the international flow of investment capital in the past ten years. Moreover, it is vulnerable to the laws and decisions of the host countries in which it operates. But if it is to make efficient use of its resources, its strategic decisions must be taken centrally, even though by an international staff: yet this runs smack up against the susceptibilities of the nation states to which its production and marketing is devolved, especially those of the developing world, where political nationalism is still an important tool for building a coherent state.

But in addition to the social antagonism or unease which the multinational corporation tends to cause, it has, of course, helped put the world’s monetary system out of gear. The Bretton Woods system, based on a norm of fixed parities and a gold standard that soon became a dollar standard, was a remarkable product of human ingenuity. Because the strongest power since Babylon stood behind it, it enabled the phenomenal increase in foreign trade that I have mentioned to get under way, held currencies reasonably steady through the crises of the Cold War and decolonisation, and permitted the recovery of the vanquished powers of the Second World War. But Keynes and his colleagues, working against time to get the post-war world on its legs
again, did not envisage the scale and the speed of capital movements that would occur as a consequence of their own achievements and particularly as a consequence of the overseas investment of the great American corporations. The system did not provide a satisfactory means of managing changes in the market value of currencies that might arise from this and other causes, nor make adequate provision for expanding liquidity and reserves to keep pace with the rapid growth in world trade that has occurred.

No one worried greatly when the American balance of payments first started to go into the red in 1958, because there was a comfortable assumption, there and elsewhere, that the strongest power in any free system of trade and payments inevitably must run a deficit, as Britain did through much of the 19th century. Then, nearly ten years ago, American foreign investment increased to a rate of $3,000 million a year and continued to climb. In the same year, Lyndon Johnson decided to settle the Vietnam problem by force, which spewed dollars all over Asia, and a year or two later the United States began to lose to the Europeans and the Japanese its competitive edge in world markets for everything except the products of its farms and high-technology industries. If America had been an ordinary member of the monetary system, this could have been adjusted by a devaluation of the dollar. But this was thought for some years to be impossible, and it took a major debacle in the American balance of payments in 1971 to force a partial solution: namely, a devaluation of the dollar by a revaluation of other major currencies. Since then, we have lived with a series of improvisations. The dollar had to be devalued again this year, and there is as yet no agreement between the Europeans, the Japanese and the Americans on the permanent basis for a new international monetary system. Have we the mutual confidence to succeed where Keynes and his colleagues failed—in creating a system with the flexibility we require, based on an artificial currency, neither gold nor dollars?

The Energy Crisis
Item Three on the agenda is obviously the new concern, dramatised by the events of the past month, about the future of the world’s energy supplies. The Arab oil-producing states have imposed a sharp increase in price and have cut back production by a quarter. Because these measures were taken in the context of the Arab-Israel war, the European Community, which is dependent to the tune of 85 per cent of its oil on the Middle East, adopted a different stance from the United States to the war and its aftermath—and this has created new frictions in Transatlantic relations. But an actual oil-boycott is in force against the United States, which is already dependent on Middle East oil for 15 per cent of its consumption, and would in the normal course of events have become dependent on it for between a third and a half of its supplies by the end of the decade.

Oil and natural gas are the two cheapest and most convenient forms of energy the world has known or will know, but their supply is finite: hence the pre-war and post-war interest in nuclear power. Until recently, no one was especially concerned about the future availability of oil supplies: for much of the past twenty years there was a glut of oil on the world market, while the emergence of the super-tanker removed worries about losing Suez or Arab radicals blowing up pipelines. As we moved into the Seventies, several things began to happen more or less simultaneously. First, the energy industries in the industrial countries realised that they had underestimated economic demand for oil, which, having doubled between 1955 and 1971, would
more than double again between 1972 and 1985, whatever the price. They had also overestimated the amount of easily accessible oil outside the Middle East, especially North America. Secondly, the growing concern with the environment began both to increase the rate of oil consumption—American cars, for instance, now have a device to keep down lead pollution which makes them consume 20 per cent more petrol—and to create opposition to the acceleration of alternatives to oil: to the siting of nuclear power-stations, the use of high sulphur coal, or indeed the development of new oil sources themselves, such as the Alaska pipeline. Thirdly, and most importantly, in 1970, after 11 years of arguing, the oil-producing states of the developing world—Venezuela, Nigeria, Algeria, Libya, Iran, the Gulf states and Indonesia—mastered the trick of presenting a united front in negotiations with the great oil companies, so that it became the countries, not the companies, who began to set the price for their crude oil.

The Organisation of Petroleum Exporting Countries is the first effective producers’ cartel to emerge in the developing world. But it has done more than simply raise the price of crude oil so that the landed price of a barrel of Gulf oil is now about £2.25, where as recently as 1970 it was 90p. In addition, members have either nationalised extractive operations in their countries, or are acquiring a controlling interest, so that by the early 1980s, at the latest, the rate at which their oil comes out of the ground will be entirely under the control of the producer, not the consumer. This is not selfishness, but sensible collective bargaining. They know they have a finite asset that would be exhausted in a generation or less by our extravagant demands upon it, leaving them only a lot of money in some fickle currency which would almost certainly lose its value. So if and when a settlement of the Arab-Israel dispute lifts the boycott on shipments to the United States, production restrictions of some kind are almost certain to continue. They are not afraid of our turning to other sources of power, because they know that for a long time we will prefer oil if we can possibly get it. Besides, oil has unlimited uses in petrochemicals.

The oil market is now in such disarray that at this point one can only attempt some rather broad generalisations. The first is that a wholly aberrant period of human history, when energy was both cheap and abundant—the period since the First World War—has come suddenly to a close. There is no prospect of a reversal of OPEC oil prices, and all other sources of new oil, in the Arctic, in the Canadian tar sands, in the heavier layers of existing oil-fields, in the North Sea, will be as expensive or more expensive than Gulf oil has now become. This will affect our pattern of life: we shall have to use our legs more, which will also ease our traffic problems: the rapid annual growth in air travel—15 per cent a year in the past decade—will probably be reversed, making projects like Maplin look extremely dubious; we shall have to wear more clothes in winter. Industry, which is a direct consumer of about one-quarter of our oil imports, will have to be much more careful if many calculations about employment and prosperity are not to be overturned. Moreover, the effect on the balance of payments of industrial countries will be such as to force a reform of the international monetary system if, as seems possible, they have to pay several tens of thousand million pounds a year in revenue to the OPEC producers.

A second general deduction is that over the next fifteen years international politics are going to be continuously affected by calculations about oil supplies. Price increases we can probably absorb, though governments may have to shift part of the incidence of taxation to other sources of revenue. But a continuing restriction of output,
especially if it is maintained at last month’s level of a 25 per cent cut in the production of OPEC oil, may seriously dislocate the prospect of continuing economic growth in the industrial democracies. We may face a revolution of declining expectations. The Americans have been assuming that most of the additional nine million barrels a day which they had expected to be using by 1980 would come from a steady increase in the production of Saudi Arabia, and that the rising needs of Japan and Western Europe would be met by a tripling of Middle Eastern supplies, since over 60 per cent of proven reserves lie there. Now it is most improbable that the Middle Eastern states will let the rate of supply conform to our ravenous demands. Even the non-Arab members of OPEC, Indonesia, Iran, Nigeria—countries with big populations that need revenue for development, and have no particular quarrel with the West—can face some restrictions in supply if the price goes on up. Even if they should hive off from OPEC, those three, together with new sources of non-Arab oil in the oceans and elsewhere, can meet at best less than half the projected growth of demand in the world. We cannot dispense with Arab oil.

Into the dark?
In the long term, however, there is no energy crisis. It is true that if no more oil were found, which is most improbable, then at the level of world consumption that has hitherto been projected for 1980—nearly double that of today—there would be only about ten years’ supply of oil left in the world. But, in fact, it is not going to increase as fast as we thought, and if all sedimentary basins in the world are carefully explored, it seems likely that oil will be available, at a price, well into the next century—much of it probably from untapped sources in the Middle East itself. Moreover, even if we assume that in the year 2000 the world’s total energy consumption from all sources will, with a population double our own, be five times what it is today, there will still be up to two hundred years’ worth of coal and other fossil fuels, 600 years’ worth of nuclear energy with the use of breeder reactors, and, when the vast amounts of deuterium in the ocean can be converted into energy by fusion, enough to satisfy that level of demand for a million and a half years. In addition, there are useful local sources of power: solar, geothermal, hydro-electric. We are not heading into the dark.

The trouble is that because oil has been cheap and plentiful during the post-war era, there has not been an urgent incentive to push ahead with the development of alternatives. Electricity from nuclear power-stations has been uncompetitive with that produced by conventional power-plants until recently, and only 10 per cent of British and 2 per cent of French and German electricity comes from this source. There is an unresolved argument about the best and safest type of uranium reactor to go for, and new ones take eight years or so to build. In any case, uranium supplies are limited and we will not be certain for several years whether the alternative, the breeder reactor, is going to work. The long-term solution, the fusion at very high temperatures of hydrogen atoms encased within a magnetic field, has been mastered in theory, but it is thought that it would be so costly to move from research to development that it would take the combined skills of the Americans, the Russians and the Europeans to conduct the experiments to make it practicable. Finally, coal-mining is an increasingly unattractive calling.

So for the next fifteen to twenty-five years, oil and natural gas, plus some coal, seem likely to go on being our prime fuels, even if our consumption of them is considerably
reduced. But even if the difficulties that have recently emerged in Arab-Western relations can be partly overcome, there will remain formidable political and economic problems to be confronted if our vision is not wide enough. One of these concerns the position of the Soviet Union, which has 12 per cent of the world’s known reserves of oil but 32 per cent of its known reserves of natural gas: an energy source that is particularly valued by the industrial West because it raises virtually no environmental problems. The United States has been consuming its own reserves too fast, and in Western Europe natural gas consumption has doubled over each of the last six years. If the problem of energy supplies is not treated in a comprehensive fashion, there is an open opportunity for the Soviet Union to play politics as between the main components of the Western system, tempting them into bilateral bargains—as Brezhnev has been trying to with Nixon, Brandt and Tanaka. It is especially easy to do this with the United States, where 6 per cent of the human race at present consumes 33 per cent of the world’s energy, because it may take much stronger political leadership than it has today to persuade Middle America to reduce its level of energy consumption radically and for a long time.

The second politico-economic question is the upgrading of the world’s resources of oil, which are still enormous, into known reserves by exploration and by the use of new techniques: for instance, at present only 30 per cent of a normal oil-field can be exploited. The oil states will be rich, and it is in our interest that they should spend some of their riches on developing their own resources rather than on arms. But the capital cost of improving existing oil-fields and exploring new ones is high, and they can hardly be expected to address themselves to the task except in the context of an agreement which shares the burden between consumer and producer states.

The third and most important reason why a straightforward bargain between the industrial and the OPEC countries will not meet the problem concerns the position of the developing world as a whole. Because the unity of the Third World has vanished, the OPEC states have bargained in their own interests: and they have refused to consider a differential oil price for other developing nations, on the grounds that it would lead to circumvention and resale to the developed. This has already forced India and other poor countries to cut back on projected oil imports. Yet cheap energy is essential to development. So there may have to be a differential price for genuine developing countries, which will require some form of international policing.

Influential Americans have asserted for some years now that there is an inherent link between the future of Western trade and monetary and security relationships. I am inclined to doubt the formulation, for the security of the United States itself is so closely related to that of its principal alliances that it cannot easily forgo them. The closer link seems to me to be between trade, monetary and energy relationships. If national resentments come to a head over trade restrictions, if it proves impossible to organise a genuinely international monetary system, and if a competitive scramble for national oil contracts develops on the part of Europe, Japan and the United States, their relations will become those of adversaries, each seeking its own sphere of influence in the developing world. If that happens, the security link will ultimately snap, leaving us not in a plural but in a hostile world.

But there is one field of quantitative change which need not be on the agenda of high politics if we are prudent. Some recent analytical work has emphasised that, because our global society has been growing at a constant rate both in industrial production
and in population, the annual increment of our demand on all our resources is now very large, and argues that, since the world’s resources of land and minerals and the ability of the atmosphere to absorb pollution are finite, we shall suddenly come up against their physical limits, and experience a catastrophic decline in population and in production. According to this argument, it is time for a conscious political decision to stop economic and population growth.

This is not complete nonsense, for obviously in practical economic terms the world’s resources are finite. But in its extreme form the thesis is a recrudescence of a psychological phenomenon that goes back to the Old Testament and earlier: a belief that because we dislike certain aspects of our high-consumption society, we can rely on God to put an end to them. A strong consensus of scientists and economists has pointed out that the ‘limits to growth’ model overlooks two things. First, it confuses known reserves, what is exploitable with present technology and at the present price, with the Earth’s potential resources, which in most areas represent wholly different orders of magnitude. Changes in price and improvements in technology produce a quite different situation, as John Stuart Mill pointed out long ago that they would. In 1935, for instance, world copper reserves were officially reported at 100 million tons: in 1973, these are estimated at 340 million tons, despite a great war and despite a period of high consumption in the interval. In 1954, world iron-ore reserves were put at 85,000 million tons, and 12 years later at a figure five times as much. The same kind of ratios are true of a number of other minerals. Second, the doomsday syndrome ignores the continuous process of substitution that occurs as prices change and consumer habits change with them: for instance, scarce mercury is being replaced by nickel cadmium in electric batteries.

The politics of other raw materials will gradually change, however, as they have for oil. Most of the reserves of nickel, chromium, platinum and manganese lie under the Soviet Union, South Africa or politically unstable countries, so that decisions about our political and material priorities will be essential. By the same token, I would be surprised if countries that have a near-monopoly in a raw material— the main copper producers, Chile, Peru, Zambia and Zaire, or the main sources of aluminium, Australia, Indonesia, Guinea, Jamaica—did not attempt to copy the example of OPEC and insist on participation agreements, not merely to increase their wealth but to ensure that their asset is run down according to their time-table and not that of the consumers. We shall also have to make continuous choices between our concern for the environment and our concern to be warm, housed or mobile.

There are important resources of metals in the ocean bed, which has been recognised in the United Nations as the common heritage of mankind. Yet already some of the industrial countries are preparing to pry nodules containing copper, nickel cobalt and manganese from their bed. And this lends urgency to a recodification of the whole of oceanic law, if there is not to be continuous tension between the developed and the developing worlds: here is a fourth broad item of the longer-term agenda of world politics.