The financial and political feasibility of the GIF approach to investment

by Richard Katz

Masaki Nakajima is very clear that the GIF is to be quite distinct from the International Monetary Fund (IMF) and World Bank. "The reason why we advocate a fund separate from those established by existing international organizations, such as the United Nations and World Bank," Nakajima's proposal states, "is because we believe such organizations have become the scene of international conflicts of interest, in particular between the North and the South. . . . They would not be effective in promoting this concept."

Nakajima's credit policy is also diametrically opposite to that of the IMF and World Bank, which have ordered entire countries to enforce starvation-level cutbacks in food imports in order to pay short-term debts to the IMF and to private banks. In contrast, for the GIF, Nakajima wisely proposes, "GIF should consist of both 'grants' and 'loans.' Primarily, however, GIF should be directed toward a type of multinational public investment project that could not be adequately handled by any type of existing international organization because of its massive fund need and/or extra-long duration of execution. . . . For this type of 'super-project,' typically, a grant or an extra-long-term soft loan would apply—a good example of this nature being a project for food production, establishment of large-scale irrigation systems, development of alternative energy sources. In contrast, for a macro-engineering project such as a canal construction which might become profitable upon completion, loans might be preferable."

Nakajima, however, sidesteps the need to reform the currently diseased international monetary system—the complex of speculative Eurodollar funds, immense Third World debt overhang, high interest rates, and enforced austerity—that has produced the world economic crisis he wishes to cure. "The GIF,"
be regarded as a monetary relief measure aimed at alleviating the accumulated foreign indebtedness of developing countries, a problem that calls for solution today and *within the existing international system* [emphasis added]."
etary reform, the GIF simply cannot be realized. Such massive infrastructure projects cannot proceed while production and living standards are devastated around them due to financially dictated austerity drives.

A series of proposals for monetary reform has been circulated by *EIR* founder Lyndon LaRouche, Jr., who also serves as Chairman of the Advisory Committee of the National Democratic Policy Committee. In 1975, LaRouche presented a proposal for an International Development Bank (IDB). Like the GIF, the IDB is to act as a new international development funding institution separate from the IMF-World Bank; indeed, the IDB is intended to replace the IMF and World Bank.

LaRouche proposed a system of outright grants and long-term loans with 10- to 15-year grace periods to finance projects even grander than those cited in the GIF, e.g. Rio de la Plata agro-industrial, Sudan-Sahel-Savanna irrigation, Mideast agriculture, and Himalayan irrigation. LaRouche also envisioned a program on the scale of several *trillions* of dollars.

The chief distinction, however, in the IDB and subsequent LaRouche proposals was the question of international monetary reform. LaRouche has proposed the combination of the IDB and a "gold-reserve system" to clean up the international debt problem. The IDB, to be created by agreements among sovereign states, potentially including the U.S.S.R. and Eastern European nations, would issue gold-denominated bonds at 2 to 4 percent interest, to finance the international projects. These bonds would be rediscounted through national and private banking systems at no more than 4 to 6 percent interest, providing credit for the industrial ventures needed to produce the goods both for the international projects and for domestic rejuvenation. Such low-interest credit would be restricted to direct investment in industry or agriculture, and hard-commodity trade. Because the credit was ultimately based on a gold reserve (*not* a pre-World War II-style deflationary gold exchange standard) system, the interest on the bonds, albeit "low" by today's standards, would be guaranteed against inflation. Therefore the real return would in fact be more than it is on a 10 percent bond during 12 percent inflation. Banks holding short-term high-interest, but insecure, Third World or other debt could rediscount the debt for longer-term, low-interest debt—that in fact guaranteed a "real" return—provided the new credit was restricted to the productive tasks as defined above.

Nakajima's 'American System' economics

Once monetary-reform measures are added to the GIF proposal, the plan is eminently feasible from an economic viewpoint. The reason is simple: behind the GIF proposal stands a legacy of economic theory that is responsible for the two most successful cases of the rapid transformations of backward, agricultural countries into industrial powerhouses: Japan and the United States. "The American System" theorists include Alexander Hamilton and the economists who created Lincoln's Republicanism: Mathew and Henry Carey, Friedrich List, and Erasmus Peshine Smith. The founders of modern Japan in the 1868 Meiji Restoration took these writings as their guide; for five years, Smith, a State Department official in the Grant administration, was the Meiji government's senior economic adviser. To this day, the ideas of Hamilton, Carey and List are very widely known among Japan's business leaders.

Nakajima is a product of this system. It is particularly fitting that he comes out of the Mitsubishi business group, since this was created *de novo* in the 1870s by the Meiji political leaders as the business vehicle for their industrialization plans. After graduating in 1928 from the elite Tokyo Imperial University, Nakajima joined Mitsubishi Bank, eventually becoming a director. In 1973 he was named Chairman of Mitsubishi Steel. In 1970, he founded the Mitsubishi Research Institute (MRI), where he produced the GIF proposal in 1977.

Perhaps the most direct influence on Nakajima's development of the GIF conception was his position as a trustee of the powerful Keidanren business federation, and as a member of the Industrial Structure Council (ISC) of the Ministry of International Trade and Industry. In 1970, the ISC developed a *Long-Term Vision of Japan,* which proposed a "knowledge-intensive" economic strategy to propel Japan to the frontiers of industrial technology, and declared that the long-term economic health of the advanced sector was impossible without industrialization of the Third World.

Nakajima versus the naysayers

Many of the most powerful political institutions of the United States and Europe insist that Third World industrialization is both impossible and dangerous, a threat to "limited resources" and political stability.

These institutions suggest that developing countries are too backward for real industry and must limit themselves to what they call "appropriate technology," e.g., cow-dung energy. In contrast, Nakajima told a Norwegian audience, "GIF would make it highly effective to transfer technologies from the developed countries to the developing countries, especially "standard" technologies that are so abundant. . . . A typical GIF project would require 10 to 15 years to complete. During that period of development . . . recipient nations would have a great opportunity for applying transferred technologies locally by means of on-the-job training at various stages of project development. The results would be the enhanced basis of the Third World for further economic and industrial takeoff."

The Club of Rome-Global 2000 school also insists that there are too many people in the world, particularly in the developing countries, and that their population must be curbed, not only by birth control, but by *lowering* living standards. Nakajima counters, "Another important problem is how to deal with the food shortage in the South [developing countries]. . . . I agree with biologists that greater, better nutrition would reduce birth rates. As commonly observed among all living creatures, the multi-birth phenomenon is for the purpose of survival of particular species, which would eventually face the crisis of famine and extinction. We must avoid this happening with the South."

In response to those who claim that "limited resources" preclude Third World industrialization, Nakajima comments, "[S]ince the major objective of such multinational investment [the GIF] would be to remove restraints of resources, it would also serve to eliminate stagnant economic activities and unemployment. . . [through] the development of untapped energy resources, the development of oceanic resources, and the improvement of environments."

The final objection of many U.S. authorities, particularly at Commerce and Treasury Departments, is the assertion that transferring industry to countries like Mexico, Korea, or Brazil will bankrupt American industry. In reality, this problem exists only if the United States does not advance technologically. In a Washington, D.C. speech, Nakajima pointed to Japan's role in modernizing Korea, a prime example of the Industrial Structure Council strategy. "Some quantitative studies on the interdependence between Japan and Korea indicate that both countries have acquired much more industrial development than usually conceived—quite contrary to the prevailing theory of the boomerang phenomenon [the theory that promoting other countries' industrialization will undercut the more advanced nation's advantage]." Moreover, he added, "GIF would not only serve to stimulate direct demand for the machinery and other capital goods which would be required for the construction of global infrastructure, but also kindle the spark of interest in new industrial innovations, if not radical breakthroughs. . . . Consequently, the development of newly created technologies will contribute to the growth of economies on the part of industrialized nations as well."