EIR Economics

A comeback for project financing

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Recently, well-informed sources in Europe have persuaded dailies such as *Rheinische Merkur*[1] that we must expect the biggest postwar "recession" to erupt some time after midsummer. Such a U.S. financial crash could turn out, over the longer term, to become very good news for the world's economy.

If governments react to a 1989 U.S. financial crash with the right choices in sweeping policy-changes, a genuine general economic recovery would be set into upward movement. Dumping the bankrupt economic, monetary, and trade-agreement policies left over from the Nixon, Carter, and Reagan years, could mean such included benefits as an early and spectacular revival of the market in international project financing.

One of the perversely achieved, sometimes indispensable benefits of a financial crash, such as the "Richter 10," already overdue, is that a terrifying avalanche of bankruptcies in security and real-estate markets may be the only way in which society is induced to abandon ultimately suicidal, but popular habits of shaping economic and monetary policies of practice. That observation is a sentiment suitable for engraving, very soon, on the tombstone of many among Wall Street Yuppiedom's bastions of "Social Darwinism."

For two decades, Wall Street and Washington, D.C. have insisted on "monetarism or bust." Soon, as the bust is realized, hopefully, we may see a return to old-fashioned industrial and agricultural banking.

1. *Rheinische Merkur,* June 2, 1989, comments by Frankfurt University economist Peter Kroeger.

That coming "bust" confronts our world with a sharply defined set of choices. Either we put our planet's economic, monetary, and fiscal structures on a sound "mercantilist" basis, as President Washington's Treasury Secretary Hamilton did, or we all slide into the virtually bottomless pit of a planetary New Dark Age.

Were the latter, monetarist's policy-option selected, the spectre of the late Soviet dictator, N.S. Khrushchov, would be sorely disappointed. There would be no available undertaker to bury a bankrupt West; the Communist world is already in worse straits than the Western.

The job to be done, is to raise the per capita physical productivity of the labor force taken in its entirety. It is in the setting of that drastic change from present policy, a change to rapid economic recovery, that a spectacular revival of international project financing is now awaited.

Let us examine, as briefly as possible, how the urgency of fostering rises in per capita rates of physical productivity defines the role of large-scale infrastructural and related kinds of investments, and this to the effect that a spectacular revival in international project financing is to be expected.

Recovery in productivity

Organizing a general economic recovery under the condition of the expected 1989 financiers' debacle, is elementary "mercantilism."

The medium-term and long-term objective is to effect continuing, successive rises in levels of technology and physical productivity, through increasingly capital-intensive investments in agricultural and industrial operatives' workplaces. However, in an economic recovery, at the beginning, for the near-term, we must use the special circumstances, of drastic slashes in employment of clerks, sales personnel, and low-skilled service functions. Such deep cuts in those margins of social overhead expenses, serve us as the opportunity to shift these newly unemployed into operatives' employment, so as to increase substantially the percentage of the total labor-force employed in producing useful physical goods.

That latter action causes a significant rise in per capita productivity and real income of the nation as a whole. Without this relatively shorter term, preliminary phase, of shifting to operatives' emloyment large rations from clerical, sales, and service employment, a general economic recovery were nearly impossible.

That initial shift is beneficial, indispensable, but there is an upper limit to its usefulness. Soon, the attempt to increase the scale and productivity of employment in this way encounters two most notable, and stubborn obstacles: the presently collapsed cultural quality of the labor-force's younger generations, relative to the 1960s, and a global collapse in per capita and per hectare quantity and quality of basic economic infrastructure.

As a matter of principle, the upper limit for recovery of physical productivity of national labor focus, is defined chiefly in terms of the three following, unfortunate results of the past 20-odd years' policy-trends:

1) A terrible shortage of suitable capital goods, and also of existing, established production capacities for supplying such goods.

2) A disastrous, 20-odd years of rot in basic economic infrastructure of most formerly industrialized nations.

3) An ominous collapse of literacy and even mere rationality among all socio-economic strata of emerging generations of adults.

That set of circumstances confronts any economic recovery effort with the importance of large-scale international financing of projects of development of basic economic infrastructure. This means the wholesale bankruptcy among investments in tourism, and a shift into large-scale ventures in energy, water management, transportation, and associated agro-industrial "development zones."

If we place educational and related improvement of the labor-force onto its own, somewhat distinct category, the remaining problem of sustaining an emergency economic recovery is as follows.

The most limiting factor in effecting increases of productivity in agriculture and industry, is level of development of basic economic infrastructure. We may think of basic economic infrastructure as preparation and improvement of the fertility and fecundity of land.

The ceiling for both a society's potential (sustainable) level of relative population-density and its productivity, for any specific level of technology employed, is defined chiefly by four elements of infrastructure: These four physical-economic constraints upon the efficient assimilation of technology are: *energy, water management, transportation,* and *communications*.

During the recent 20 years, the formerly industrialized nations have performed relatively well in expanding communications, although the quality of what is usually transmitted is often of decidedly negative value to the economy. In contrast to investment in communications, there has been a catastrophic disinvestment in *energy,* in *water management,* and in *general transportation*. The collapse of new investment, of maintenance and repairs, in these latter three categories, has shifted the world's economy into a pattern of accelerating economic contraction, leading toward collapse, during approximately the past 15 years.

The reversal of that trend of disinvestment will show itself early a most urgent priority within emergency recovery programs. Large-scale domestic and international projects in energy, water, and transportation will be the dominant feature of the new markets.

The case of China

The present revolution in mainland China, is in large degree a result of the Beijing government's refusal to copy the government of Taipei in the matter of emphasis on state-directed programs of development of basic economic infrastructure. As a result, mainland China's rate of net economic growth fell way below that of Mrs. Indira Gandhi's India— and India has had a most laggard performance on *energy, water management,* and *transportation* development.

Ironically, Beijing's post-1970 détente with the capitals of Western Europe and Washington, D.C. impelled Beijing to repeat the economic-policy follies of the 19th-century Manchu dynasty, tending to foster foreign concessions in some selected urban coastal regions, without developing significantly the infrastructural potential of China's deeper, rural-dominated interior.

In consequence of that stubborn error of the Beijing government, as in the case of the Gorbachov economic reforms in Moscow, the de-emphasis upon urgently needed basic infrastructural development lowered the physical productivity of the economy as a whole, and so fostering aggravation of the festering existential crisis of the nation as a whole.

China is imbued with its now-erupting revolution, because the economic and related failures of Beijing's policy have threatened China's prospect of future existence as a viable nation.

Take China, the Asiatic Island Rim, and other regions of Southeast Asia, the Asia subcontinent. Here is approximately half the population of the planet. In this area as a whole, no significant improvement is possible without a finite list of rather well-defined, and very large-scale infrastructural development projects.

These include the management of water on scales never before attempted by mankind. This includes programs for generation of new terawatts of energy during a period of a generation or so. It includes the development of general transportation in a pattern dictated by projects of development of energy and water management.

If we examine these needs, we are shown that the key to the effective, most economical result, is a collection of very large-scale development-zone infrastructural complexes. This is centered around three or four regional water-management projects for mainland China, Southeast Asia, and the Asia subcontinent. These regional water-management projects define implicitly regional and local programs of large-scale development of energy and transportation grids.

The hopeful view, is that out of the revolutionary process within China today, there emerges a three-way cooperation program on such infrastructural development among China, the Asiatic Rim and Southeast Asia, and the Asia subcontinent, very soon.

The economic recovery will require a new mode of generation of large masses of state credit, channeled through systems of national banking. . . . Private finance will function . . . as partners in deployment of national-banking's long-term issues of new, low-cost credit.

There are analogous cases in the Middle East, in Africa, and in the Americas. The case of Brazil is a clear illustration.

One of the advantages of such large-scale infrastructural ventures, respecting financial, is that they are very long-term performers with built-in investment hedges. It is much easier to finance a large-scale project administratively than a large variety of smaller ones.

So, a relatively small number of very large-scale infrastructural projects along indicated lines, will dominate a world undergoing economic recovery.

New methods of financing

The chain-reaction effects, throughout the world, of the coming U.S. financial crash, mean an end to central banking as we have known it in world markets during the recent hundred years. The U.S. Federal Reserve can not weather the coming financial storms in its present form of functioning. The International Monetary Fund (IMF) and World Bank, as known for about 20 years, will virtually cease to exist.

The economic recovery will require a new mode of generation of large masses of state credit, channeled through systems of national banking akin to U.S. Treasury Secretary Alexander Hamilton's Bank of the United States. Private finance will function in world trade and large-scale financing of domestic infrastructure development as partners in deployment of national-banking's long-term issues of new, low-cost credit.

In every nation of the world, or virtually so, we shall be confronted, with a great sense of political, social, and economic urgency, with the simultaneity of massive unemployment, and massive needs immediately to be satisfied—the challenge to governmental policy-shaping, is to selected courses of action which reduce these and related critical problems to an administrable form of remedy.

Therefore, the preference must tend to be to eliminate as much of the total problem as possible, by prompt action on the most limited number of infrastructural and related investment projects.

For example, inside North America, the urgent need to employ millions in satisfying critical power and water-management wants, signifies early action to implement the North American Water and Power Alliance (NAWAPA) program. The proper action to unleash the development of a terawatt of new power-generating capacity is a complement to the NAWAPA program.

Reduce the problem of suitable employment of the unemployed, by putting priority on these well-defined infrastructure programs which are urgently needed, ready for immediate implementation, and employ the relatively largest rations of the unemployed.

This does not ignore the need for industrial expansion in manufacturing and so on. The stimulant to agriculture and industry is supplied in industry's role as vender to large-scale infrastructure projects.

The loans issued will usually not be in the form of advances of cash, but as term-credit for purchases of materials, supplies, and so forth.

In general, in the case of very large development projects for developing-nation regions, 80 to more than 90% of the advances for construction, payroll, and related investments should be supplied in the form of combined national-banking and trade-credit from nations associated with the benefits of the project. Foreign credits should be limited to the function of funding required imports of the undertaking.

It is in the latter aspect of financing that international project financing assumes its special role. The function is to organize term-financing of export-credit for foreign venders to, and investment in the project and undertakings auxiliary to it.

Such projects will emerge in the aftermath of crisis as the lever which moves the expanding world trade of our planet.

Since we shall all certainly be consigned to a horrifying New Dark Age unless events turn in our proposed direction, the only thing much worth doing is to prepare oneself for a world in which such projects are a dominant feature.