

OUTLINE OF REMARKS BY SENATOR HUBERT H. HUMPHREY

MIDDLE EAST CRISIS -- EFFECT ON INVESTMENT,  
ECONOMIES, AND MONETARY POLICY

NATIONAL EXECUTIVE CONFERENCE

Madison Hotel  
Washington, D. C.

March 27, 1974

The Yom Kippur War, which lasted only 16 days has done more to change the face of international economic and political relations than any single military conflict since the end of the Second World War.

In the aftermath of the fourth Arab-Israeli war, the balance of global economic and political power has been altered.

-- The Arab oil exporters, excluding Iran, with a combined population of only 37 million people have become a major economic power. Their oil revenues will grow to more than \$50 billion by the end of this year. Although Arab unity is not always certain, the tendency towards collective use of their vast economic resources is great. There are no clear signs yet that their new wealth will be used to disrupt world financial markets.

-- The nations of western Europe, the former colonial rulers of the Middle East -- were pressured by Arab oil producers and their allies to shift their foreign policies, thus antagonizing their most powerful ally and demonstrating their severe economic vulnerability.

-- The phenomenal Japanese boom has been slowed by energy cutbacks. Some economists say Tokyo's golden age is permanently over. Japan's Middle Eastern policy was also forceably changed by Arab pressure.

-- The Yom Kippur War caused a major unravelling of Soviet American detente. Soviet actions in the Middle East shattered the illusion that the Russian desire for improved commercial relations with the United States would hold Soviet political and military ambitions in check.

-- Despite our relative energy independence, the Arab oil producers were able to place great economic and political pressure on the United States. Increases in the price of crude oil has been a major factor in our spiraling inflation and the concurrent slowdown in industrial production.

We do not know the ultimate impact of these shifts in the global power balance. But it is clear that before we have reached the decade's midpoint, the world economic situation has already approached a stage that we were predicting for the 1980's:

- Shortages of supply instead of shortages of demand;
- The growing threat of cartelization of raw materials;
- Greatly increased economic competition between the United States and Europe;

-- And population pressure on food and resource supplies being equalled by exploding affluence in the industrialized world;

-- Finally, the Arab oil embargo and the energy crisis have forced American policy makers to consider our economic interdependence with the rest of the world. We may be able to become self-sufficient in energy, but we will be unable to achieve similar self-sufficiency with 10 of the 13 critical materials needed for our industrial production, which are found outside of the United States.

These economic facts of life have come rushing forward in the aftermath of last October's clash in the Middle East. We are totally unprepared to deal with them. We lack the national and international mechanisms to solve the global problems which confront us.

In addition to these issues suddenly placed on our doorstep is the political uncertainty in the Middle East which only heightens global tensions and makes cooperative international efforts more difficult.

Let me quickly review the present situation there.

Thanks to efforts by Dr. Kissinger, the first steps of troop disengagement on the Egyptian front have been successful. The Syrian front continues to be a problem and could become an active battleground again unless Damascus shows more self-restraint. I am hopeful that both Israel and Syria will send their negotiators to Washington next week to resume the disengagement talks.

Beyond the disengagement state, I am not overly optimistic about a quick settlement of the basic political issues which have for so long troubled this region. The final disposal of the lands won in the 1967 war, the resolution of the Palestinian problem, and the ultimate security of Israel are not issues easily or quickly resolved. However, the conditions which would enable negotiations to begin are present:

-- The military balance between Israel and Arab nations has temporarily been secured, despite large Soviet arms shipments. This balance is essential to a successful negotiating process.

-- The United States has been able to earn the trust of the more moderate Arab governments.

-- Soviet political influence in the area -- especially in Egypt -- has been greatly diminished.

It is clear that until the outstanding political issues can be settled and a stable peace negotiated, the global economic problems growing out of the October war cannot be resolved. This is especially true for the energy related issues which confront us today.

One of the critical issues I would like to discuss briefly within the energy context is world food supply and general economic conditions in the developing world.

These are not esoteric subjects. They have a direct bearing on the American economy and the fundamental question of global economic interdependence.

Before October 1973, the prospects for continued economic growth in the developing world appeared reasonably good. Since the oil price increases of last December, 40 of the poorest countries containing more than one billion people face bankruptcy, malnutrition, and political instability resulting from massive price increases of oil, fertilizer, and food imports.

If these prices remain at current levels -- which are four times greater than in 1972 -- the developing countries will have to pay \$10 billion more for necessary oil imports in 1974 than in 1973.

And the money flowing from the poor countries of Africa, Asia, and Latin America into the treasuries of the oil producers will be recycled in the form of investments in the economies of the industrialized world.

The price tag for imported food and fertilizer for poor nations will add another \$5 billion to the \$10 billion oil input figure bringing the total to \$15 billion.

The massive impact of these price increases is indicated by the fact that they are equivalent to nearly five times the total of net American development assistance in 1972 and nearly double the total worldwide development aid to poor nations in the same year.

As the developing world is plunging deeper into poverty, the industrial world is afflicted by rampant inflation and sharp declines in industrial production. In addition to these problems, the serious fertilizer shortage in the U.S. threatens to limit expected bumper crops. Land recently ordered into production by Secretary Butz is marginal and needs great amounts of fertilizer which simply are not available.

In past years, if there were shortfalls in agricultural production, we could fall back on accumulated reserves. This year, our reserves are at a 27-year low, due to Soviet purchases and other export sales. Our grainery is nearly empty, and worldwide reserves are down to less than a month's supply of food.

This is a dangerous situation. Low reserves offer no safety margin against famine. And famine is now raging in Africa and is almost a certainty in India, Bangladesh, and other Asian countries later this year, due to the fertilizer shortage and expected bad weather. A Nobel prize winning nutritionist has predicted that as many as 20 million people may starve to death this year.

The spectre of widespread famine not only raises serious moral issues, but political ones as well.

There are no easy solutions to the severe economic problems of the developing world. If anything is to be done, both new-rich oil exporters as well as the industrialized nations will have to contribute resources to various multilateral lending institutions, as well as maintain present bilateral aid levels.

Our economic and political stake in the developing world is great. If we let the poor nations starve or decline into more abysmal poverty, we will be alienating those nations

which control many of the critical materials we need for our own economy. If out of frustration and bitterness we retreat from our humanitarian responsibilities, we will only be encouraging the alienation of the developing world. The poor nations would surely resort to the formation of raw material cartels in order to pursue their own economic interests if we neglect their needs.

From a moral and economic point of view, we must seek global solutions to these problems. I believe that we must enlist the support of the oil producers -- we certainly cannot carry the entire load ourselves. Frankly, I am not sure that we can obtain the active participation of the OPEC countries. But, we must search for ways to convince them that it is in their interest, as well as ours, to work together to alleviate the problems of the developing world.

Such cooperation will require peace in the Middle East. It may also require a willingness on our part to offer additional world food aid and expect in return a commitment of OPEC oil revenues to avert global famine and economic collapse in the developing world.

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- Kerby Jones - Exec Director
- Ted Van Dyke
- Frank Manheim

on October War  
↳ THE YOM KIPPUR WAR, WHICH LASTED ONLY 16 DAYS, HAS DONE

MORE TO CHANGE THE FACE OF INTERNATIONAL ECONOMIC AND

POLITICAL RELATIONS THAN ANY SINGLE MILITARY CONFLICT SINCE

THE END OF THE SECOND WORLD WAR.

↳ IN THE AFTERMATH OF THE FOURTH ARAB-ISRAELI WAR, THE

BALANCE OF GLOBAL ECONOMIC AND POLITICAL POWER HAS BEEN

GREATLY ALTERED.

-- THE ARAB OIL EXPORTERS, EXCLUDING IRAN, WITH A COMBINED  
POPULATION OF ONLY 37 MILLION PEOPLE, HAVE BECOME A MAJOR

ECONOMIC POWER. ↳ THEIR OIL REVENUES WILL GROW TO MORE THAN

\$50 BILLION BY THE END OF THIS YEAR.

ALTHOUGH ARAB UNITY IS NOT ALWAYS CERTAIN, THE TENDENCY  
TOWARD COLLECTIVE USE OF THEIR VAST ECONOMIC RESOURCES  
IS GREAT. THERE ARE NO CLEAR SIGNS YET THAT THEIR NEW WEALTH  
WILL BE USED TO DISRUPT WORLD FINANCIAL MARKETS.

-- THE NATIONS OF WESTERN EUROPE -- THE FORMER COLONIAL  
RULERS OF THE MIDDLE EAST -- WERE PRESSURED BY ARAB OIL  
PRODUCERS AND THEIR ALLIES TO SHIFT THEIR FOREIGN POLICIES,  
THUS ANTAGONIZING THEIR MOST POWERFUL ALLY AND DEMONSTRATING  
THEIR SEVERE ECONOMIC VULNERABILITY.

-- THE PHENOMENAL JAPANESE ECONOMIC BOOM HAS BEEN SLOWED  
BY ENERGY CUTBACKS; SOME ECONOMISTS SAY TOKYO'S "GOLDEN AGE"  
IS PERMANENTLY OVER. JAPAN'S MIDDLE EASTERN POLICY ALSO WAS  
FORCEABLY CHANGED BY ARAB PRESSURE.

-- THE YOM KIPPUR WAR <sup>*threatened a*</sup> ~~CAUSED~~ A MAJOR UNRAVELLING OF SOVIET-  
AMERICAN DÉTENTE. *↳* SOVIET ACTIONS IN THE MIDDLE EAST SHATTERED  
THE ILLUSION THAT THE RUSSIAN DESIRE FOR IMPROVED COMMERCIAL  
RELATIONS WITH THE UNITED STATES WOULD HOLD SOVIET POLITICAL  
AND MILITARY AMBITIONS IN CHECK.

-- DESPITE OUR RELATIVE ENERGY INDEPENDENCE, THE ARAB  
OIL PRODUCERS WERE ABLE TO PLACE GREAT ECONOMIC AND POLITICAL  
PRESSURE ON THE UNITED STATES *↳* INCREASES IN THE PRICE OF CRUDE  
OIL HAVE BEEN A MAJOR FACTOR IN OUR SPIRALING INFLATION AND  
THE CONCURRENT SLOWDOWN IN INDUSTRIAL PRODUCTION.

WE DO NOT KNOW THE ULTIMATE IMPACT OF THESE SHIFTS IN THE  
GLOBAL POWER BALANCE, BUT IT IS CLEAR THAT BEFORE WE HAVE  
REACHED THE DECADE'S MIDPOINT, THE WORLD ECONOMIC SITUATION  
ALREADY HAS APPROACHED A STAGE THAT WE WERE PREDICTING FOR  
THE 1980's:

- SHORTAGES OF SUPPLY INSTEAD OF SHORTAGES OF DEMAND;
- ~~SHORTAGE~~ THE GROWING THREAT OF CARTELIZATION OF RAW MATERIALS;
- GREATLY INCREASED ECONOMIC COMPETITION BETWEEN THE  
UNITED STATES AND EUROPE;
- AND POPULATION PRESSURE ON FOOD AND RESOURCE SUPPLIES  
BEING EQUALLED BY EXPLODING AFFLUENCE IN THE INDUSTRIALIZED  
WORLD;

-- FINALLY, THE ARAB OIL EMBARGO AND THE ENERGY CRISIS  
HAVE FORCED AMERICAN POLICY MAKERS TO CONSIDER OUR ECONOMIC  
INTERDEPENDENCE WITH THE REST OF THE WORLD. WE MAY BE ABLE  
TO BECOME SELF-SUFFICIENT IN ENERGY, BUT WE WILL BE UNABLE TO  
ACHIEVE SIMILAR SELF-SUFFICIENCY WITH 10 OF THE 13 CRITICAL  
MATERIALS NEEDED FOR OUR INDUSTRIAL PRODUCTION, WHICH ARE  
FOUND OUTSIDE OF THE UNITED STATES.

↳ THESE ECONOMIC FACTS OF LIFE HAVE COME RUSHING FORWARD IN

THE AFTERMATH OF LAST OCTOBER'S CLASH IN THE MIDDLE EAST,

*we were and are*  
~~we~~ WE ARE TOTALLY UNPREPARED TO DEAL WITH THEM, WE LACK THE

NATIONAL AND INTERNATIONAL MECHANISMS TO SOLVE THE GLOBAL

PROBLEMS WHICH CONFRONT US.

IN ADDITION TO THESE ISSUES SUDDENLY PLACED ON OUR  
DOORSTEP, THERE IS THE POLITICAL UNCERTAINTY IN THE MIDDLE EAST  
WHICH ONLY HEIGHTENS GLOBAL TENSIONS AND MAKES COOPERATIVE  
INTERNATIONAL EFFORTS MORE DIFFICULT.

↳ LET ME QUICKLY REVIEW THE PRESENT SITUATION THERE.

↳ THANKS TO EFFORTS BY DR. KISSINGER, THE FIRST STEPS OF  
TROOP DISENGAGEMENT ON THE EGYPTIAN FRONT HAVE BEEN SUCCESSFUL.

↳ THE SYRIAN FRONT CONTINUES TO BE A PROBLEM AND COULD BECOME  
AN ACTIVE BATTLEGROUND AGAIN UNLESS DAMASCUS SHOWS MORE  
SELF-RESTRAINT. I AM HOPEFUL THAT BOTH ISRAEL AND SYRIA WILL

SEND THEIR NEGOTIATORS TO WASHINGTON NEXT WEEK TO ~~MEET~~ *be forwarded*

*with*  
↳ DISENGAGEMENT TALKS.

BEYOND THE DISENGAGEMENT STAGE, I AM NOT OVERLY OPTIMISTIC

ABOUT A QUICK SETTLEMENT OF THE BASIC POLITICAL ISSUES WHICH

HAVE FOR SO LONG <sup>troubled</sup> TROUBLED THIS REGION. THE FINAL DISPOSAL

OF THE LANDS WON IN THE 1967 WAR, THE RESOLUTION OF THE

<sup>the future status of Jerusalem</sup> PALESTINIAN PROBLEM, AND THE ULTIMATE SECURITY OF ISRAEL ARE

NOT ISSUES EASILY OR QUICKLY RESOLVED. HOWEVER, THE

CONDITIONS WHICH WOULD ENABLE NEGOTIATIONS TO BEGIN ARE

PRESENT:

-- THE MILITARY BALANCE BETWEEN ISRAEL AND ARAB NATIONS

HAS TEMPORARILY BEEN SECURED, DESPITE LARGE SOVIET ARMS

SHIPMENTS. THIS BALANCE IS ESSENTIAL TO A SUCCESSFUL NEGOTI-

ATING PROCESS.

↳ THE UNITED STATES HAS BEEN ABLE TO EARN THE TRUST OF THE  
MORE MODERATE ARAB GOVERNMENTS.

↳ SOVIET POLITICAL INFLUENCE IN THE AREA -- ESPECIALLY  
IN EGYPT -- HAS BEEN GREATLY DIMINISHED,

↳ IT IS CLEAR THAT UNTIL THE OUTSTANDING POLITICAL ISSUES  
CAN BE SETTLED AND A STABLE PEACE NEGOTIATED, THE GLOBAL  
ECONOMIC PROBLEMS GROWING OUT OF THE OCTOBER WAR CANNOT BE  
RESOLVED. THIS IS ESPECIALLY TRUE FOR THE ENERGY RELATED  
ISSUES WHICH CONFRONT US TODAY.

↳ ONE OF THE CRITICAL ISSUES I WOULD LIKE TO DISCUSS BRIEFLY  
WITHIN THE ENERGY CONTEXT IS WORLD FOOD SUPPLY AND GENERAL  
ECONOMIC CONDITIONS IN THE DEVELOPING WORLD.

↳ THESE ARE NOT ESOTERIC SUBJECTS, ↳ THEY HAVE A DIRECT BEARING ON THE AMERICAN ECONOMY AND THE FUNDAMENTAL QUESTION OF GLOBAL ECONOMIC INTERDEPENDENCE.

↳ BEFORE OCTOBER, 1973, THE PROSPECTS FOR CONTINUED ECONOMIC GROWTH IN THE DEVELOPING WORLD APPEARED REASONABLY GOOD.

↳ SINCE THE OIL PRICE INCREASES OF LAST DECEMBER, 40 OF THE POOREST COUNTRIES CONTAINING MORE THAN ONE BILLION PEOPLE FACE BANKRUPTCY, MALNUTRITION, AND POLITICAL INSTABILITY RESULTING FROM MASSIVE PRICE INCREASES OF OIL, FERTILIZER, AND FOOD IMPORTS. *Add to this, India with over 1/2 Billion.*

IF THESE PRICES REMAIN AT CURRENT LEVELS -- WHICH ARE FOUR  
TIMES GREATER THAN IN 1972 -- THE DEVELOPING COUNTRIES WILL  
HAVE TO PAY \$10 BILLION MORE FOR NECESSARY OIL IMPORTS IN

1974 THAN THEY DID IN 1973 ~~and \$5 billion more than~~  
~~in 1970.~~

AND THE MONEY FLOWING FROM THE POOR COUNTRIES OF AFRICA,  
ASIA, AND LATIN AMERICA INTO THE TREASURIES OF THE OIL

PRODUCERS WILL BE RECYCLED IN THE FORM OF INVESTMENTS IN THE  
ECONOMIES

ECONOMIES OF THE INDUSTRIALIZED WORLD.

~~George Bush~~  
~~Richard Nixon~~

THE PRICE TAG FOR IMPORTED FOOD AND FERTILIZER FOR POOR  
NATIONS WILL ADD ANOTHER \$5 BILLION TO THE \$10 BILLION OIL

IMPORT  
~~MAJOR~~ FIGURE, BRINGING THE TOTAL TO \$15 BILLION.

of then Transportation -

THE MASSIVE IMPACT OF THESE PRICE INCREASES IS INDICATED  
BY THE FACT THAT THEY ARE EQUIVALENT TO NEARLY FIVE TIMES THE  
TOTAL OF NET AMERICAN DEVELOPMENT ASSISTANCE IN 1972 AND  
NEARLY DOUBLE THE TOTAL WORLDWIDE DEVELOPMENT AID TO POOR  
NATIONS IN THE SAME YEAR.

AS THE DEVELOPING WORLD IS PLUNGING DEEPER INTO POVERTY,  
THE INDUSTRIAL WORLD IS AFFLICTED BY RAMPANT INFLATION AND  
SHARP DECLINES IN INDUSTRIAL PRODUCTION IN ADDITION TO THESE  
PROBLEMS, THE SERIOUS FERTILIZER SHORTAGE IN THE U.S., THREATENS  
TO LIMIT EXPECTED BUMPER CROPS LAND RECENTLY ~~ORDERED INTO~~ *released for*  
PRODUCTION BY ~~SECRETARY BOYD~~ IS MARGINAL AND NEEDS GREAT  
AMOUNTS OF FERTILIZER WHICH SIMPLY ARE NOT AVAILABLE.

IN PAST YEARS, IF THERE WERE SHORTFALLS IN AGRICULTURAL  
PRODUCTION, WE COULD FALL BACK ON ACCUMULATED RESERVES. THIS  
YEAR, OUR RESERVES ARE AT A 27-YEAR LOW, DUE TO SOVIET  
PURCHASES AND OTHER EXPORT SALES. OUR GRAINERY IS NEARLY  
EMPTY, AND WORLDWIDE RESERVES ARE DOWN TO LESS THAN A MONTH'S  
SUPPLY OF FOOD.

THIS IS A DANGEROUS SITUATION. LOW RESERVES OFFER NO  
SAFETY MARGIN AGAINST FAMINE. AND FAMINE IS NOW RAGING IN  
AFRICA AND IS ALMOST A CERTAINTY IN INDIA, BANGLADESH, AND  
OTHER ASIAN COUNTRIES LATER THIS YEAR, DUE TO THE FERTILIZER  
SHORTAGE AND EXPECTED BAD WEATHER.

*Dr. Borlaug*

LA NOBEL PRIZE WINNING NUTRITIONIST HAS PREDICTED THAT AS  
MANY AS 20 MILLION PEOPLE MAY STARVE TO DEATH THIS YEAR.

THE SPECTRE OF WIDESPREAD FAMINE NOT ONLY RAISES SERIOUS  
MORAL ISSUES, BUT POLITICAL ONES AS WELL.

THERE ARE NO EASY SOLUTIONS TO THE SEVERE ECONOMIC PROBLEMS  
OF THE DEVELOPING WORLD

IF ANYTHING IS TO BE DONE, BOTH  
NEW-RICH OIL EXPORTERS AS WELL AS THE INDUSTRIALIZED NATIONS

WILL HAVE TO CONTRIBUTE RESOURCES TO VARIOUS MULTILATERAL

LENDING INSTITUTIONS, AS WELL AS MAINTAIN PRESENT BILATERAL

AID LEVELS.

*(U.S. withdrawal on this -  
Congress not sympathetic)*

OUR ECONOMIC AND POLITICAL STAKE IN THE DEVELOPING WORLD IS GREAT. IF WE LET THE POOR NATIONS STARVE OR DECLINE INTO MORE ABYSMAL POVERTY, WE WILL BE ALIENATING THOSE NATIONS WHICH CONTROL MANY OF THE CRITICAL MATERIALS WE NEED FOR OUR OWN ECONOMY. IF OUT OF FRUSTRATION AND BITTERNESS, WE RETREAT FROM OUR HUMANITARIAN RESPONSIBILITIES, WE WILL ONLY BE ENCOURAGING THE ALIENATION OF THE DEVELOPING WORLD. THE POOR NATIONS WOULD SURELY RESORT TO THE FORMATION OF RAW MATERIAL *to procure and* CARTELS IN ORDER TO PURSUE THEIR OWN ECONOMIC INTERESTS IF WE NEGLECT THEIR NEEDS.

FROM A MORAL AND ECONOMIC POINT OF VIEW, WE MUST SEEK  
GLOBAL SOLUTIONS TO THESE PROBLEMS. WE MUST  
ENLIST THE SUPPORT OF THE OIL PRODUCERS -- WE CERTAINLY  
CANNOT CARRY THE ENTIRE LOAD OURSELVES. FRANKLY, I AM NOT SURE  
THAT WE CAN OBTAIN THE ACTIVE PARTICIPATION OF THE OPEC  
COUNTRIES. BUT, WE MUST SEARCH FOR WAYS TO CONVINCE THEM THAT  
IT IS IN THEIR INTEREST, AS WELL AS OURS, TO WORK TOGETHER  
TO ALLEVIATE THE PROBLEMS OF THE DEVELOPING WORLD.  
SUCH COOPERATION WILL REQUIRE PEACE IN THE MIDDLE EAST. IT  
MAY ALSO REQUIRE A WILLINGNESS ON OUR PART TO OFFER ADDITIONAL  
WORLD FOOD AID AND EXPECT IN RETURN A COMMITMENT OF OPEC OIL  
REVENUES TO AVERT GLOBAL FAMINE AND ECONOMIC COLLAPSE IN THE  
DEVELOPING WORLD.



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