ECONOMICS, LABOR & BUSINESS

The Economic Realities of Oil

"OPEC's Threat to the West" by Robert S. Pindyck; "Limits of Arab Oil Power" by S. Fred Singer; in *Foreign Policy* (Spring 1978), P.O. Box 984, Farmingdale, N.Y. 11737.

Gloomy predictions that world energy demand will exceed supply by the early 1980s, leading to another jump in oil prices and worldwide recession, are unrealistic. They fail to account for the fact that oil demand and production capacity are highly sensitive to changes in price. They also ignore the contrary objectives of the OPEC "spenders" (e.g., Iran, Venezuela, Nigeria)—countries with limited oil reserves that want much higher prices now—and the "savers" (e.g., Saudi Arabia, Kuwait, Libya) with larger reserves and long-term interests.

M.I.T. economist Pindyck finds the "savers" to be the stronger group; hence, the likelihood of a steady, gradual price rise (perhaps 2 percent annually over the coming decade). Singer, a University of Virginia political scientist, adds that a continued increase in excess productive *capacity*—now equal to about 20 percent of world production—may endanger the existence of the OPEC oil cartel as producing countries begin to try to undersell each other.

Many of the traditional perceptions of "oil power" bear little relation to practical politics, says Singer. An Arab oil embargo cannot effectively cut off all U.S. oil imports; the shortages that developed in 1973–74 were mainly due to fumbles in fuel allocation by the U.S. government. Furthermore, financial ties between the Arab countries (chiefly Saudi Arabia) and the United States mean that Arab investments in the United States are potentially hostage; Saudi security is also heavily dependent upon U.S. military assistance and diplomatic support.

Disruption of the Western banking system due to abrupt shifting of petrodollar accounts by Arab interests can be largely discounted. Arab refusal to recycle petrodollars, forcing ever-larger deficits on the Western oil-importing countries, would only mean that the oil producers were getting paper dollars for oil. To give value to that paper, they must either invest in the oil-consuming countries or buy from them.

Looking for a Sure Thing

"Make Way—The Foreign Investors Are Coming" by Robert J. Samuelson, in *National Journal* (Apr. 29, 1978), 1730 M St. N.W., Washington, D.C. 20036.

Foreign private investment in the United States is soaring, reports *National Journal* correspondent Samuelson. Far from discouraging this trend, American officials now welcome foreign investment and, at the state level, actively compete to get it. (Twenty-three states now have offices in Europe and three states have representatives in Tokyo.)

Until a few years ago, foreign private investment in the United States focused almost exclusively on the stock market, where foreigners held an estimated $45 billion worth of securities at the end of 1977. This is now rivaled by a great spurt of direct investment, says Samuelson, including the purchase of U.S. companies (e.g., Miles Laboratories by West Germany's Bayer AG), real estate (e.g., the purchase of farms and small real-estate developments by German and Italian investors), and in a few cases the construction of plants in the U.S. (e.g., Volkswagen's new factory in New Stanton, Pa.).

Although U.S. direct investment abroad ($137 billion at the end of 1976) still surpasses foreign investment here, the latter is growing faster. The flow of foreign direct investment jumped 50 percent between 1973 and 1976—from $20.5 billion to $30.2 billion. The OPEC oil countries, however, have channeled most of their funds into U.S. Treasury securities ($14.5 billion at the end of 1977), stocks and bonds ($10.6 billion), or interest-bearing deposits ($6.7 billion). The remaining $10.7 billion in oil funds, says Samuelson, is thought to represent prepayment of imports (including military items) and repayment of outstanding debts.

Why the surge? Often, says Samuelson, "fear is the driving force." Individuals and medium-sized companies see the United States as a refuge from upheaval at home. In other cases, companies have reacted to growing U.S. trade restrictions. Japanese television manufacturers and ball bearing producers, for example, have invested heavily here to minimize the impact of U.S. trade barriers.

The investment flow also reflects the impact of large, foreign-based multinational firms searching for markets and profits in the American economy, which is now expanding more rapidly and steadily than that of the European community. Lastly, investments in the United States have been made cheaper by the decline in the value of the dollar.

SOCIETY

The Reassuring Barbarian Myth

"The 'Barbarians' in World Historical Perspective: Myth and Reality" by W. R. Jones, in *Cultures* (vol. IV, no. 2, 1977), Université Catholique de Louvain, 62 Tervuurse Vest, 3000 Leuven, Belgium.

The Greek word *barbaros*—first applied to those non-Hellenic people who "babbled" or "barked" like animals—has always carried overtones of cultural and ethical prejudice. Through the ages, the concept of "barbarian," argues University of New Hampshire historian Jones, was less an historical reality than a mythical invention used by "civilized" men to furnish reassurance of cultural superiority and to justify the most brutal forms of political, religious, and cultural aggression.