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BILDERBERG MEETINGS

MONT TREMBLANT
CONFERENCE

26 - 28 April 1968

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INTRODUCTION

The seventeenth Bilderberg Meeting was held at the Lodge at Mont Tremblant (Canada) on 26, 27 and 28 April 1968 under the chairmanship of H.R.H. The Prince of the Netherlands.

There were 87 participants from the United States, Canada and fifteen Western European countries as well as from various international organizations. They consisted of members of governments, politicians, prominent businessmen, representatives of employers' organizations and trade unions, journalists, leading national and international civil servants and important figures in other fields.

In accordance with the rules adopted at each meeting, all participants spoke in a purely personal capacity without in any way committing whatever government or organization to which they might belong. In order to enable participants to speak with the greatest possible frankness, the discussions were confidential, the press not being admitted.

The Agenda was as follows:

- I. The Relations between the West and the Communist Countries.
- II. Internationalization of Business.

ITEM I

THE RELATIONS BETWEEN THE WEST AND THE COMMUNIST COUNTRIES

H.R.H. The Prince of the Netherlands opened the meeting and recalled the Bilderberg rules of procedure. The Prince expressed the hope that all participants from both sides of the Atlantic, the many newcomers certainly not excepted, would take an active part in the discussion. In the Prince's opinion, a frank exchange of views would be particularly valuable in the present political circumstances, even if the prospects for European integration did not appear very encouraging.

* * *

The background for discussion of this item of the Agenda consisted of a paper prepared by a German participant which was distributed before the meeting.

SUMMARY OF AND INTRODUCTION TO GERMAN WORKING PAPER

The author of this paper began by noting that for more than a decade relations between the Western powers and the Soviet bloc had been characterized by the development of limited but important elements of co-operation along with the persistence of overriding conflict. The conflict found expression in the competitive development of armaments, in the continuing military confrontation of the rival alliances in Europe, in the expansion of Soviet influence in the Middle East, etc. At the same time, elements of East-West co-operation had developed both from the recognition of certain common interests by the two "bloc leaders", specifically in avoiding a nuclear world war and, more generally, in limiting the risks and burdens of their conflict, as well as from the increasing tendency of the other members of both blocs to pursue their individual national interests independently.

It was evident that in such a protracted conflict, periods of growing tension were followed by periods of détente. The climate of détente, since the early sixties, had encouraged the growth of new elements of co-operation across the

bloc lines, and had led to a marked loosening up of the formerly rigid political fronts. Yet in the absence of serious efforts to negotiate solutions for the main issues in the conflict, new developments in Viet-Nam, in the Middle East and Mediterranean and in the arms race had undermined that climate. Just as "peaceful co-existence", in official Soviet terminology, had come to mean no more than the absence of nuclear world war, so "détente", in Western diplomatic terminology, had become depreciated to mean little more than the absence of an all-out confrontation between the super-powers or of an acute crisis involving the two blocs as a whole.

The author noted that his paper confined itself to relations between the Western powers and the states of the European Soviet bloc.

Three major shifts in East-West relations had occurred since the beginning of the latest détente. The first concerned the relation of the military potential of both sides; the second concerned the relative political cohesion of NATO and the Warsaw Pact; the third concerned the diplomatic initiative in Europe.

1. The détente had been largely the product of American military superiority, both in nuclear striking power and in the mobility of conventional forces. While American superiority in the strategic nuclear field still existed, this had tended in recent years to be reduced as a result of both the growth of Soviet rocket forces and the installation of ABM's in Russia. The continuing world-wide mobility of American conventional forces was visible in Viet-Nam, but the new fact was the remarkable increase in Soviet mobility; the rapid growth of the "Mediterranean detachment of the Black Sea Fleet" was politically the most significant aspect of this new mobility. Further, the proportion of American forces available for use in Europe had diminished while the proportion of Soviet forces in Europe had not. Finally, the tendency in recent years had been towards a reduction in the military effort of the European member states of NATO, and an increase in the strength and firepower of Russia's allies in the Warsaw Pact.

2. Efforts to reduce the degree of independence acquired by Rumania had failed, but Soviet leadership of the other member states of the Warsaw Pact had been consolidated with marked success, even if that success had been achieved at the price of considerable internal tensions in at least some member states. Conversely, disintegrative tendencies within the Western alliance had continued to increase. Its military potential had been weakened by the French withdrawal from the integrated command structure, by the reductions of the American forces under NATO command and by the lowering of the military effort of other member states. Its loss of political cohesion had been demonstrated by its inability to use the détente for developing joint proposals for

solving the outstanding issues of the East-West conflict in Europe and by the growth of a competition between the leading Western powers for improving their relations with Moscow by separate negotiations. Disagreements on the conduct of diplomacy towards Russia, on atomic non-proliferation, on Viet-Nam and on the Common Market had become much more prominent among the NATO members than their common policies; and the growth of influential anti-NATO currents was discernible in most of them.

3. The net effect of these developments was that the Soviet bloc had recovered the political initiative in Europe, largely because it had consistently given priority to this theatre over other interests. It was Soviet proposals for a European security system to replace NATO and the Warsaw Pact, or for some form of revival of the Potsdam agreement for the control of Germany, that formed the main material for diplomatic discussion in allied and neutral European capitals. It was Soviet moves in the Middle East and the Mediterranean and Soviet warnings on Berlin that determined Western expectations about possible future crises. For the Soviets were, consciously and consistently, using the détente to promote their solution of the conflict.

The two basic goals of Soviet policy in Europe had remained unchanged for many years. They were the consolidation of the Soviet power sphere including the universal acceptance of the present East German régime as legitimate and permanent, and the dissolution of NATO and particularly of the alliance between the United States and Western Germany.

Up to the Cuban crisis the Soviets sought to achieve these goals by pressure on the Western position in Berlin. Khrushchev's successors had pursued these same goals, but initially by radically different means: instead of seeking to force the break up of NATO by threats, they had sought to promote its spontaneous disintegration by offering the parallel dissolution of the Warsaw Pact and the alternative of a "European security system".

This offer, however, had been preceded and followed not only by practical measures to strengthen military and political co-operation under the Warsaw Pact, but by the conclusion or renewal of a series of bilateral treaties among all member states except Rumania. These treaties, including in particular the new treaties between the other member states and East Germany, bound the signatories to continue their alliance for another twenty years - regardless of any possible dissolution of the Warsaw Pact.

"European security" had come to be interpreted in Soviet statements exclusively as security against "West German militarism and revanchism". Instead of an all-round system of mutual guarantees among equal partners, the Soviets had lately begun to propagate a partial return to the joint control

of the victorious powers over defeated Germany. Of course, if Western consent to such an arrangement could be obtained, it would effectively break up the present Western alliance without requiring steps on the Soviet side.

Along with the revival of Soviet initiatives in Europe, "harder" policies of a revival of the arms race and of expanding the Soviet power sphere on NATO's southern flank had developed in recent years.

In the arms control field, the Soviets had been reasonably co-operative on the non-proliferation treaty, merely insisting that signatories whose civilian nuclear installations were at present controlled by EURATOM must negotiate arrangements to adapt themselves to the IAEA controls within a fixed time – an issue which they perhaps hoped would create difficulties for the German Federal Republic and between the latter and the United States.

On a problem of far more direct impact on the power relation between the United States and the Soviet Union, the installation of anti-ballistic missiles, the Soviet attitude had been far less co-operative. The Soviets had made it clear that they would not negotiate a ceiling on ABM's unless a ceiling of offensive strategic rockets was negotiated at the same time, and that their objective in such a negotiation would be the replacement of the present United States superiority in strategic nuclear weapons by parity. This would decisively reduce the credibility of the nuclear protection at present offered by the United States to its exposed allies.

Finally, Khrushchev's successors had steadily increased the Soviet Union's political, economic and military stake in the Middle East. The Soviet rôle in the Middle Eastern war of 1967 had to be considered in this context. This was the one region of the Third World in which the Soviets had clearly advanced from a mere "strategy of denial" to a deliberate policy of installing themselves as the predominant power – a policy which had begun to pose a new threat to NATO's Mediterranean flank.

In Viet-Nam the Soviets had been faced with the decision whether to concentrate on diplomatic efforts to end the war in the interest of overall détente, or to regard its continuation chiefly as a drain on American power and prestige that might be useful to their own world position. The decision seemed to have gone increasingly in the latter direction.

The author proceeded to trace the main outlines of the separate policies of three Western states – the United States, France and the German Federal Republic.

a) The United States, under President Kennedy, entered the détente without a detailed plan for negotiating a solution of the central problem of the East-West conflict, but with the definite intention of using the détente to make those questions negotiable.

The high priority which the United States assigned to bilateral arms control negotiations with Russia in general and to nuclear non-proliferation in particular involved it almost at once in conflicts with its own allies: first the Nassau agreement with Britain led to the sharpest French attack yet on American "hegemony" and then the United States reacted to the French proclamation of an independent "European" policy and to the simultaneous signature of the Franco-German treaty by pushing the project of a "multilateral nuclear force" – a project that was intended to preserve political unity at least among the other leading NATO powers but which proved divisive among them as well.

The new Johnson administration, faced with the growing difficulty of finding European partners for a common policy of détente, not only dropped the MLF-project, but lost active interest in using the détente for a constructive initiative in European affairs. This attitude deepened as the imminent threat of a collapse of the South-Vietnamese régime led to a shift of American priorities from the European to the Asian and Pacific theatre, expressed not only in a growing pressure for troop withdrawals from Europe, but in a tendency to ignore the increasing deliveries of Soviet armaments to North Viet-Nam, to hope for eventual Soviet help in inducing a less intransigent attitude on the part of Hanoi, and therefore to regard the preservation of the climate of détente with Moscow as valuable in itself, independent of Soviet behaviour in Europe or elsewhere or even in the arms race.

President Johnson returned to a more active pursuit of East-West détente in Europe, but he linked it to an explicit option to use the détente only to lower the risks, burdens and barriers of the East-West conflict within the framework of the opposing alliances rather than to try to transcend that framework and prepare the ground for a European settlement. American policy was thus striving to prevent a deterioration of the European status quo with a minimum of military and diplomatic effort, not to explore ways for an improvement by new initiatives.

In other fields, the United States had so far confined itself to reacting to rising Soviet pressures piecemeal without seriously questioning their compatibility with the overall climate of détente. The United States had maintained its Sixth Fleet in the Eastern Mediterranean but it had silently accepted the growing activities of the Soviet fleet in these waters. The United States had set limits to the new Soviet advances, but had lacked either the strength or the will to stop them altogether.

b) France: The French Government of General de Gaulle saw in the détente both the danger of a Russo-American understanding on the permanent domination of a divided Europe and the chance of creating a new European

settlement which would make both the opposing alliances and the physical presence of their leading powers in the heart of the continent superfluous. The French President seemed to have assumed from the outset that the United States would be more opposed than the Soviet Union to any replacement of the existing alliances, and that the diplomatic preparation for the desired change would therefore have to be accomplished in contact with the Soviets but without and to some extent against the United States. A Britain wedded to its "special relationship" with the United States was equally considered an opponent of the French vision of a "European Europe", while Federal Germany, because of its vital interest in overcoming the German partition, appeared as France's natural supporter on the new road.

French détente policy thus started logically with the 1963 veto against British entry into the Common Market and with the simultaneous conclusion of a treaty of friendship with the Federal Republic. But West German opinion did not agree in seeing Washington as the main obstacle to any long-term change in the European status quo, and continued to regard close and confident co-operation with Washington as indispensable for its short-term security. The resulting divergence impelled General de Gaulle to pursue his rapprochement with the Soviets as a priority task, in isolation from his NATO allies and with a deliberate stress on those issues where he agreed with the Soviets rather than with his allies. This policy reached its culmination in 1966 with France's departure from NATO and General de Gaulle's visit to Moscow.

However, the search for Franco-Russian agreement on a new European settlement met an obstacle, on the one hand, in the rigid Soviet commitment to the maintenance of the Soviet power sphere, including an unchanged East German régime dependent on Soviet military support, and, on the other, in the French interest in an inter-European balance that could one day be maintained without the American presence. For the French perceived clearly that such a balance would require the willing co-operation of the West Germans and would be incompatible with the presence of Soviet forces on the Elbe. For these reasons, France had continued both to refuse diplomatic recognition of the East German régime and to keep the Federal Government carefully informed about her Eastern diplomacy, at the same time encouraging and supporting all West German moves in a similar direction.

After the formation of a new Bonn Government committed to an active improvement of relations with Eastern Europe, there was a marked revival of Franco-German co-operation. Undeterred by the new hardening of Soviet policy on the German question, France continued to support the new Bonn diplomacy towards the member states of the Soviet bloc.

The development of an independent French nuclear capability had had

remarkably little impact on East-West relations and French withdrawal from NATO's military organization, apart from increasing France's diplomatic freedom of manoeuvre, seemed to have mainly served the purpose of re-insuring France against a possible involvement in the escalation of East-West conflicts originating outside Europe.

The growing rigidity of the Soviet attitude to European problems made it improbable that the new French strategic doctrine of all-round defence would have concrete political effects, and permitted the assumption that France might be willing in 1969 to renew her membership in the Atlantic Alliance, at least provisionally and in a suitably loose form.

c) Germany: It might be said that, because of its vital interest in overcoming German partition, the Federal Republic had more to gain from a détente that might loosen the status quo than any other Western power. Yet the Adenauer Government at first interpreted "détente" merely as a Russo-American agreement to cement the status quo and hence came to be regarded internationally as the principal obstacle to a lowering of the tensions and barriers between East and West; and the damage to the international standing of the Federal Republic was compounded by the Adenauer Government's support for the MLF-project, which was widely interpreted abroad as due to an urge to gain "a finger on the nuclear trigger".

Under the leadership of Erhard and Schröder, West German foreign policy was primarily governed by a stubborn desire to preserve the country's sheltered existence as part of the Atlantic Alliance – irrespective of the fact that this alliance no longer had a common policy. In practice, this meant both that it became more one-sidedly dependent on American leadership at the very time when less American leadership was available for Europe, and that it took a more favourable attitude towards East-West détente. Yet the efforts of Herr Schröder in particular to make use of the climate of détente to improve Germany's relations with the East European states and diminish their fear of Germany were frequently frustrated by the resistance of elements within the governing majority that were either opposed in principle to any dealings with the Communist world or wedded to demands for a revision of Germany's Eastern frontiers that excluded any reconciliation with her Eastern neighbours. The resulting paralysis led to Bonn's growing international isolation in the latter part of 1966.

By the time the Erhard Government was replaced by the "grand coalition" under Kiesinger and Brandt, a new Eastern policy had become possible. The government declaration expressed the desire for full diplomatic relations with all the Communist states of Eastern Europe in a spirit of reconciliation. While refusing to recognize the East German Government as representative

and legitimate, the declaration also offered to deal with this government on any level in order to obtain practical improvement for the human, economic and cultural contacts between the inhabitants of both parts of Germany.

This change of policy suddenly projected the Federal Government not only into the stream of détente, ending the danger of self-isolation, but into the centre of debate within the Soviet bloc. When the Soviet Government, after some hesitation, came down on the side of the "hard-liners", the Czechs, Hungarians and Bulgarians had provisionally to reject the West German bid for normal diplomatic relations and to conclude bilateral twenty-year treaties with East Germany instead. The question did not, however, disappear from the international agenda: the West Germans kept their offers open, achieved a trade agreement with Czechoslovakia in August 1967 and also initiated a dialogue with the Soviets on a possible exchange of declarations renouncing the use or threat of force, not only with them but with all the members of the Soviet bloc. A Soviet demand to exchange similar declarations with East Germany had not been flatly rejected. The net result of this new flexibility in Bonn to date had been the appearance of growing differences on the appropriate response both in the Soviet Union itself and in the bloc.

The Bonn Government had not tried to influence the course of East-West relations outside Europe. Its one overriding interest in the Third World had remained to prevent the diplomatic recognition of the present East German régime by non-Communist states, and in this it had continued to be successful.

The one other question on which Bonn's attitude was of potential importance for East-West relations was the non-proliferation treaty. While no responsible West German leader was interested in national control of nuclear weapons, and the Bonn Government had no desire to obstruct the treaty, it felt obliged to safeguard German interests on some specific points and felt it had been insufficiently consulted in the early stages of negotiation. The wish to keep the European option open had been met in the treaty for the case of a fully federated West European state. Differences remained concerning the duration of the treaty and the possibilities of revision, but the most important issue for West Germany was an economic one - to make sure that the necessary inspection procedure would not expose German reactor technique to the eyes of competitors. Yet the decisive political elements in the Federal Republic seemed to be aware that a refusal to sign the treaty, or even a prolonged reluctance, could do much more harm to its national interest than the treaty itself could possibly cause.

In conclusion, the author of the paper said that what emerged from the course of Western policies during the years of détente was, on the one hand, a hard core of continuing common interests and, on the other, a basic division

concerning the degree of readiness to take risks for the sake of attempting to overcome the East-West conflict in Europe.

On the side of common interests, the need to maintain a balance of power against the Soviet Union was accepted by all Western governments, including that of General de Gaulle, though there were marked differences about the amount of effort and sacrifice required for that purpose. Recognition of the desirability of reducing the risks and burdens of the arms competition and eliminating insofar as possible the barriers dividing East and West by the promoting of economic and cultural exchanges had become equally general, notwithstanding substantial disagreements on the prospects of particular forms of arms control. Finally, all those concerned, including the Germans themselves, agreed that the guarantees against an uncontrolled increase in German military strength in general and against the possibility of German nuclear arms in particular should be no weaker than under the present system of opposing alliances.

The basic division in the West, on the other hand, was between maintenance of the existing alliances at a reduced level of cost and effort (a view shared by the United States, Britain and some of the smaller Western countries) and the replacement of those alliances by a new type of all-round security system ending the partition of Europe and reducing the super-powers to the rôle of guarantors from a distance (France being the principal exponent of this view). The peculiarity of the intermediate position of the Federal Republic was that it shared the French preference for a basic change, but not the French belief that such a change could, should or need be achieved against American and British resistance. The German view was, on the contrary, that the hardest resistance against a real solution of European problems would continue to come from the Soviets, and that it would not be possible to overcome it without American and British support. This gave the Federal Republic in the present phase a special interest in seeking to reconcile the views of its allies not only for reasons of its immediate security, but also as a pre-condition for achieving its long-range aim of a change in Eastern Germany.

As the hardening of Soviet policy and the partial success of Soviet efforts to change the balance of power made both the preservation of détente at a low level of effort and the achievement of constructive change by the isolated action of France increasingly unlikely, the chances of such a reconciliation of Western policies might eventually improve.

In introducing his paper the author followed the lines developed in the preceding summary.

On one point the author, however, wished to revise his paper. Since the beginning of 1968 the trend for a reconstruction of the Eastern alliance had to some extent been reversed. He specifically had in mind the Soviet reaction to the new Eastern policy of the German Federal Government. In an effort to prevent this new policy from improving West German relations with, and influence in, Eastern Europe, the Soviet Union had tried to tighten contacts in Eastern Europe beyond the degree which appeared acceptable to many important elements in Eastern Europe. The Soviets had succeeded in inducing all the countries concerned, Rumania excepted, to reject the offer of diplomatic relations with the Federal Republic but this aim had only been reached at the price of increasing tensions in some of these countries. In this context the author referred to recent developments in Poland and Czechoslovakia.

Whereas the author had previously associated the harder Soviet policy towards the West in regard to the German and the European question in general with increasing confidence and impatience, he would now speak of increasing insecurity coupled with impatience. The atmosphere of détente had been largely dissipated by recent Soviet policies and this had obviously influenced the author's views on the changes in Western policy.

In its assumption that the Soviets could be swayed from their present objectives without the full weight of the United States in the balance, General de Gaulle's concept now appeared unrealistic. Conversely, the American concept of détente between unchanged alliances would not, in its nature, be stable.

Another element to be taken into account was the unwillingness of modern youth to accept the necessity for continuing unchanged alliances, for continuing the partition of Europe and of Germany.

The author concluded that the opportunity to make a major effort for negotiated solutions during the present phase of détente was probably lost. We would, however, have to prepare our own concepts for possible diplomatic negotiations and negotiated solutions which, one day, might be put forward as a common policy of the West, if the Soviets were willing to talk again. But this was a long term prospect.

DISCUSSION

GENERAL SITUATION

Prior to the discussion of the various subjects raised in the paper, several speakers gave their views on the general political and military situation in the world.

A Canadian participant with particularly extensive international experience noted that this situation had greatly deteriorated and suggested that co-operation in the Atlantic Alliance was declining because of the actual strengthening of Europe, the existence of American commitments outside the Atlantic area and the popular feeling that aggression was no longer likely in present circumstances.

A Portuguese speaker considered that the climate of détente had been unfavourably influenced by recent Communist initiatives such as the Russian naval penetration in the Mediterranean and in other areas and the stepping up of ideological propaganda. United States, French, United Kingdom and other participants concurred in the view that the political and military activities of the Soviets in the Near East constituted a threat to NATO's South Eastern flank.

Opinions varied concerning the extent to which a change in Russian attitude and policy might be expected in the near future. Whereas an Italian participant did not believe there was any continuity in Russian aggressive policy, a Netherlands, a United Kingdom and a United States speaker were among those who failed to see any improvement in the political behaviour of the Soviets. An American and a Turkish speaker warned that the present Soviet leaders could disappear overnight.

DÉTENTE

Against such a background the prospects of détente did not appear very encouraging.

A United Kingdom speaker agreed with a remark made by the author of the paper that the Russians used détente as a weapon in their political arsenal against the West. A Canadian participant called the wish for détente "an illusion" and an American speaker cautioned that the climate for détente could change rapidly. A United Kingdom speaker described a policy of détente without a clear line of action for the future as "nonsense", and his opinion was supported by a fellow countryman.

However, a Turkish participant said that we should go further on the road to détente. This view was shared by many other speakers and it was suggested that initiatives in this direction should come from the Western countries because they were not aggressive and were less nationalistic than the Communist countries of Europe.

BALANCE OF POWER

The balance of power was a subject to which various speakers referred in their interventions and an American speaker agreed with the suggestion by the author of the working paper that there was some move toward a change

in that balance: Russia had come nearer to strategic parity and was interested in achieving greater flexibility but the shift had not been as large as the author had claimed and the West was militarily preponderant.

The author's pessimistic view was also contested by other participants. A British speaker said that the basic balance of power between the United States and the USSR was not moving in a direction unfavourable to the West. There had been some modest increase in Soviet nuclear capability and some element of mobility had been introduced into their forces but he did not consider this threatening. Nor did he think that missile and retaliatory force parity between the two sides would necessarily mean any decline in the credibility of the United States guarantee to Europe.

An American participant disagreed strongly with the author's view that there had been a recent shift in the balance of power to the advantage of the Soviets. In fact, he continued, the United States has not possessed a position of strategic nuclear superiority for many years; in terms of usable military power or military power translatable into political advantage, parity in strategic nuclear forces has existed for at least a decade. Furthermore, he did not think that this parity had been or would in the future be a handicap to the West, nor did he believe there was a significant risk of the Soviets moving to a position of strategic nuclear superiority in the foreseeable future. In this context he felt that both the increased mobility of Soviet forces and the recent Soviet moves in the Mediterranean, although of psychological importance, had little military significance.

Various other speakers emphasized that stresses also existed within the East European area. A British speaker said that there was more disintegration in Central and Eastern Europe than there was in the Atlantic Community while a fellow countryman took the view that developments in Czechoslovakia were far more serious for the Soviet Union than the previous defection of Yugoslavia.

Yet another British speaker said that, now the standards of living were rising in Czechoslovakia and elsewhere in Eastern Europe, people there were anxious to get away from bondage to the Soviet Union. In his view, the West was not taking sufficient advantage of this decreasing cohesion in the East and he pointed out that some Eastern countries were anxious to get close to the West not only industrially but also politically.

NATO STILL NECESSARY

Despite the belief of many participants that the balance of power had not changed significantly to the disadvantage of the West, there was a general consensus that it was still vital to preserve NATO.

A British speaker already quoted said that in present circumstances NATO had three essential functions to perform:

1. to maintain the balance of power in Central Europe;
2. to keep a watch on an increasingly fluid diplomatic situation in the Mediterranean;
3. to provide means of keeping the United States' allies in touch with the relationship between Moscow and Washington.

Additionally, another British participant pointed out that the cohesion of the Western Alliance was still very important in exploiting difficulties within the Eastern bloc. For the East European states, too, there were advantages in the existence of such a cohesive Western Alliance since, without it, Russia might be tempted to put more pressure on the East European states.

A Portuguese speaker, at a subsequent stage, expressed surprise that no mention had been made of either disarmament or of the United Nations as a possible corrective to the unsatisfactory development of world relations.

ATLANTIC ALLIANCE NOT WHOLLY SATISFACTORY

Despite this consensus of opinion on the necessity of maintaining NATO there was broad agreement that the state of the Atlantic Alliance was not wholly satisfactory. A Canadian and a German participant were among those who detected a weakening of co-operation within the Atlantic Community while a Belgian speaker regretted that too little advantage had been taken of the opportunities offered by the Rome Treaty: the six Common Market countries had failed to reach greater political depth as well as territorial extension.

A tendency on the part of the United States to deal with various problems unilaterally - e.g. Viet-Nam, Latin America, - was blamed by a Canadian participant as a factor which discouraged any sense of global responsibility among America's allies and created a feeling of alienation in Western Europe.

PUBLIC OPINION ON NATO

In appraising the shortcomings and imperfections of the Atlantic Alliance, considerable attention was paid to the unsatisfactory state of public opinion vis-à-vis NATO. This was attributed by an Icelandic participant to the fact that people felt the threat from Russia was less real than in the past, a view supported by a Canadian speaker. Along similar lines, a German participant said that decreasing interest in NATO might be due to the fact that many people thought that the real reason for the status quo was the existence of United

States nuclear capacity and that NATO was therefore not absolutely necessary to their security.

Analysing the attitude of the public in the United States, a participant from that country said that there was an opting out attitude toward NATO among the younger generation. This was not merely passive and negative; the new generation in America was concerned about racial justice, the problem of the cities, etc. What was involved was not a withdrawal into a passive troglodytic existence but a withdrawal so as to re-order priorities. In reply to a question by the author of the paper, a United States participant answered that no young American was inclined to believe that the United States was in a position to produce security in practically any part of the world any more.

Another American agreed that public interest in NATO and its problems was steadily declining in the United States, and not merely among young people. The public was largely indifferent to European problems and was not even concerned with the threat of the Soviet Union.

Turning to the attitude among young people in Europe, another American concluded that they would not be alarmed by the possibility of an American withdrawal of troops from Europe and this view was implicitly supported by the author of the working paper when countering the suggestion by a British participant that French action in leaving the military organization of NATO was purely governmental. On the contrary, he said, there had not been a ripple of opposition to De Gaulle's policy from French public opinion. There was a growing opposition to NATO burdens in all European countries, especially among the younger generation.

In the view of an international participant young people found it difficult to understand NATO because they had no experience of the past. To them NATO was set up to deal with problems of the past, and they were more interested in the future. They felt NATO's priorities to be wrong and, more specifically, believed that improvement of the lot of the poorer countries was being hindered by the expenditure of money and energy on military establishments.

A Netherlands participant saw an explanation for the present attitude of European youth in the fact that the American image in Europe had been "tarnished": young people were shocked by the war in Viet-Nam, by the disintegration of American society and by the murder of President Kennedy and Martin Luther King.

Various speakers stressed the importance of taking action to win the support of the public for the Western Alliance. Suggestions included the need expressed by a Norwegian speaker "not only to work for détente but to be seen to work for it" and the further need, voiced by a Turkish speaker, to recognize that that part of the public which failed to support NATO could be divided into

three sectors: one was disinterested because of its ignorance; another was disinterested because, although it knew something of NATO, it did not know enough to make a proper judgement; and still another was flatly hostile to NATO. The first two sectors could be worked on and the speaker urged that each country should study specific ways of effecting a change in public opinion. He went on to say that discussions between NATO leaders should deal not only with technical aspects but with the possible effect of their decisions on public opinion. Finally, an Italian participant argued that we must offer the younger generation new institutions for the management of détente policy.

GERMAN REUNIFICATION

Closely related to the subject of East-West relations was the German question, particularly the problem of German reunification.

A German speaker explained the object of the new German "Ostpolitik" which aimed at a greater flexibility and at an arrangement in Eastern Europe, in close collaboration with the United States and the other allies.

An American speaker said that he found it difficult to imagine the reunification of Germany being brought about through the creation of a new German nation state of larger dimensions. He did not believe that ultimately either Western Europe or the Soviet Union would permit this and held that we would have to create a wider West European political framework designed to absorb both East and West Germany. In this view the speaker was supported by another German speaker.

The German participant first mentioned underlined that the partition of Germany meant the partition of Europe and that European unification would largely solve the German problem. If the German Democratic Republic were to become a democratic state within a wider European framework, it would be possible to reconsider the problem of reunification, more especially since all sectors, including German youth, realized that Germany must not be allowed to become a new threat.

THIRD WORLD

In this context some speakers touched on the problem of the Third World, a subject which, strictly speaking, fell outside the scope of the Agenda.

An American speaker argued that European problems could not be isolated from the existence of Third World instability and went on to say that the Cold War might well be shifting predominantly to the area of the underdeveloped nations. He wondered whether existing international arrangements were sufficiently flexible and stable to absorb this new situation.

Similarly, a Portuguese participant advanced the view that the problem of

disarmament was directly connected with the question of economic development not only in the Western world but also in the Third World. If there were no economic development there, then tension might increase and if tension increased, there was less likelihood of bringing about disarmament.

PROPOSALS FOR IMPROVEMENT IN EUROPEAN RELATIONS

Against the above-mentioned analysis of the Atlantic problem, many speakers presented various proposals to improve the chances of détente, or at least to arrive at more satisfactory global relations.

SECURITY SYSTEM

There was a visible trend in Europe, according to a German speaker, already mentioned, towards the creation of a so-called European security system designed to replace the present system of blocs, and historical experience of such systems, he suggested, was not encouraging. Creation of such a system, for instance, without a solution having previously been found to the division of Europe and the division of Germany could only lead to legitimization of the status quo. Russia insisted on such a security system only to use it against the Federal Republic.

Similar doubts as to the validity of a European security system were expressed by a Netherlands and a United States participant, the American stating that it was a somewhat dangerous doctrine to recommend a security system to end the division of Europe, bring about the reunification of Germany, etc., especially if it involved American withdrawal from Europe.

Nevertheless, a Canadian participant said that NATO itself was not really an alliance of necessity but an early component of a European security system which might later develop into a world security system. A British speaker argued that, although the structure of alliances, especially our own, had to be fundamentally altered, yet the existence of alliances was the only hope of eventually negotiating some sort of broader system of security in Europe. In this concept he was supported by the United States participant just mentioned who also favoured a solution of the problem in the context of a European political framework with room for the East.

REDUCTION OF TROOPS IN EUROPE

The question of an eventual reduction of United States forces in Europe was the subject of a number of comments.

The author of the working paper affirmed that American forces were needed in Europe not only to deter a highly improbable attack but also as a vital bargaining asset to overcome the partition of Europe. The Soviets must know

that the American troops would remain in Europe as long as the Russians refused to leave.

Support for the continued presence of American troops was also forthcoming from a Canadian participant who said that the United States had not only to be involved in the general strategy of the area but also in the details: they even had to know "what happens to a corporal on the autobahn". Unless America was present, even at the lowest level, its guarantees could not operate safely.

On the other hand, another American said it was not true that the United States had to maintain a very high level of forces in Western Europe in order to prevent NATO from disintegrating. In view of the balance of payments situation, a unilateral reduction of forces would probably be necessary anyway and this could have real and positive advantages in encouraging a substantial Soviet withdrawal while still enabling America to maintain a force sufficient to discourage any Soviet adventure.

Support for this approach was forthcoming from a German speaker who said that neither the United States nor Germany alone would be prepared indefinitely to bear all costs of maintaining the present forces. A reduction of troops might be carried out in the hope that the Soviet Union, in line with its own interests, would reduce theirs.

A Netherlands speaker wondered how the Russians might be induced to leave the Elbe line. If Russian and American troops were both to leave, this would adversely influence the existing balance of power and he wondered what would be the value of the United States guarantee without the American military presence?

In the subsequent discussion, various other speakers expressed similar doubts as to the value of a "distant" United States guarantee.

A United States speaker said that it would be completely unrealistic to assume that a withdrawal of United States troops from Europe would induce Russia to give up the DDR and permit reunification.

A Canadian speaker wholly agreed that NATO was indispensable in present circumstances but asked whether a general reduction of troops might not be possible after the Viet-Nam war was over.

NATO VERSUS WARSAW PACT

Various speakers believed that insufficient use was made of the possibility of achieving a détente by negotiations between the NATO and the Warsaw powers.

However, a United Kingdom participant strongly objected to such an arrangement at a moment when the Warsaw organization was in a state of crisis. We would be exchanging a body in being for the weakening of a body

which was already in the process of disintegration. He believed, on the contrary, that NATO should be strengthened with British troops which were to be withdrawn from other parts of the world. Such a procedure would, moreover, be an inducement to the Americans to keep their troops in Europe.

Another United Kingdom speaker supported this view: a NATO - Warsaw "détente" would adversely influence the existing balance of power. It should be borne in mind that, not long ago, 20-year treaties had been concluded between Russia and Eastern European states which might replace the Warsaw arrangement so that there would be no equivalence in a possible NATO - Warsaw deal.

ECONOMIC SOLUTION

Several speakers wondered whether better relations between East and West might not be reached along economic and financial lines.

Many speakers believed that it was desirable to increase trade contacts with Eastern Europe and the Soviet Union and, in this connection, a German speaker pointed out that Eastern European countries still relied very largely on the export of agricultural goods but that new measures taken by the Brussels Community meant that such exports were decreasing and thus creating a new difficulty in East-West relationships.

In the opinion of a French and of a United Kingdom participant, it was essential to bring about a certain economic interpenetration of a progressive kind between countries of the East and West.

Another note of caution was sounded by a British speaker who, while agreeing that trade contacts should be increased, said we had to recognize that we had not yet figured out a system which could tolerate a very high level of trade between decentralized enterprise-oriented economies, on the one hand, and state trading economies, on the other.

In the view of an Italian speaker, the central problem in East-West relations was the development of the Soviet economy, its capacity to transform itself into a modern economy and at the same time satisfy the increasing demand for consumer goods. The results of the present reform of the Soviet economic plan, he said, were uncertain. If successful, the Soviet Union might easily keep its second place in the world and adopt policies of détente and even co-operation with the West; conversely, failure of the reform would lead to domestic turmoil and to a generally serious situation. The success of the reform, he concluded, depended on Western support, all-out East-West agreements for long-term credits, transfer of technology and management know-how, and the opening of the Western markets to Soviet goods.

On the same subject of East-West trade, a Belgian speaker recalled that

there was a disposition in the Atlantic Treaty providing for economic planning or co-ordination between the different countries and that this provision had not been applied. He felt it could be used as a framework for the discussion of new relations between East European and West European countries since, without co-ordination, there might be competition between West European countries regarding credits, etc., which could lead to an anarchic situation. In reply, an American participant said that past efforts to use this provision had not proved successful. The fact was that no common NATO policy existed and he was not optimistic about any agreed policy being achieved.

The author of the paper submitted that major political issues would not be solved by economic measures.

EAST-WEST APPROACH

The problem of which approach should be chosen to improve East-West relations was widely discussed.

A United States participant believed that the more developed Western countries should act collectively in efforts to reach arrangements with Eastern European states.

Some speakers cautioned against thinking and acting unduly on the basis of the "bloc mentality". A different approach should be adopted towards Russia, on the one hand, and the various other Eastern European states, on the other, the latter being less rigid and more willing to collaborate with the Western world.

A number of speakers supported a Netherlands speaker who favoured bilateral contacts as a method of reducing existing tensions. As a Norwegian participant pointed out, such contacts were flexible, more direct and more informal while the repercussions of any failure on a bilateral basis were less serious than a failure of bloc discussions. A Turkish speaker, however, said that bilateral efforts should not go beyond a certain point while an American also said that such approaches had their limitations. Many East European countries felt attracted towards Western multilateralism and no amount of contacts between small nations could solve the central problem of Germany. For his part, he felt that the OECB should open its doors to the East, a move which might now appeal to the Czechs and later also to other East European nations. What was needed, as he saw it, were new institutions for East-West relationships - a quiet, discreet informal forum for discussion, something similar to the Bilderberg meetings themselves.

A German participant said that greater cultural, scientific and other exchanges with Eastern countries, combined with disarmament arrangements between both alliances, were pre-conditions for any further change in the

political scene. This speaker may be said to have summed up the general view of the Meeting but a few speakers had referred in this context, even if marginally, to the effect which a special relationship between the two "super-powers", the United States and Soviet Russia, might have on the future development of East-West relations.

ITEM II

INTERNATIONALIZATION OF BUSINESS

The groundwork for discussion of this item consisted of three papers prepared by an American and two French participants. These papers had been distributed among participants some weeks before the meeting.

SUMMARY OF AND INTRODUCTION TO AMERICAN WORKING PAPER

The author of the American paper observed that he would use the term "world company" to signify a corporation, organized under the laws of a domiciliary country, which met two standards:

First, it did business in substantially all non-Communist areas, obtained its capital and raw materials, produced its goods and sold its products throughout the world; and second, the management shaped its policies not in terms of national economies but in terms of the overall world economy.

At a time when the demand for goods of every kind was multiplying almost at a geometric rate while world resources remained finite, the world company made a unique contribution, by enabling men for the first time in history to deploy resources freely throughout the world in accordance with principles of comparative advantage measured by the objective standard of profit.

For more than half a century, a handful of great companies had been active around the world. Since the Second World War their number had multiplied many times. How could we best preserve and advance the value of the world company within the world political structure without excessive loss to other values?

It was important to recognize the lack of phasing between the development of the world company and the continued existence of an archaic political structure of nation states which was evolving only at glacier pace in response to new world requirements. This lack of phasing was responsible for most of the problems confronting the world company, which, in broad terms, could best be considered with respect to two sets of relationships.

The first concerned relations between the government of the country in which a world company was organized and the governments of the various host states in which it operated. For a variety of reasons – such as the desire to prevent evasion of their own laws or the wish to extend their own jurisdiction

as far as possible – domiciliary governments frequently sought to control activities of world companies even though those activities took place outside their geographic boundaries. An example was the United States Government's efforts to restrict foreign subsidiaries of American companies in their dealings with Red China and today the United States was again stretching the principle by requiring the repatriation of part of the monies that foreign subsidiaries of American companies earned in various parts of the world.

Much more serious problems surrounded the second type of relationship – that between a world corporation and the governments of the host states in which it did business. Traditional international good manners as well as treaty stipulations would require that the corporation be accorded "national treatment". Yet sometimes, because it did not fully respond to reality, this principle was more honoured in the breach than the observance. No words in a treaty could alter the fact that the absentee management of a world company did not view its problems within the same frame of reference as a host government, with its responsibility for the national economy, its reasons of national pride, its interests and other elements.

Since a world company was more likely to be a dominant element of economic power in a small nation than in a large one, the prosperity of many less-developed countries was heavily dependent on decisions made by managements of world companies located five or six thousand miles away.

Problems of this kind were part of the uneasy context of North-South relations, and hence confused by a wide range of tangential issues. The author of the paper said he would therefore concentrate on the less cluttered problems encountered and created by world companies in the industrialized nations of the Northern Hemisphere.

Even here, the fact that most world companies were domiciled in America was a significant political element that infected economic arrangements with national jealousies and resentment; but if the world company had a great potential for good as an instrument for efficiently utilizing resources, there was no need to apologize for the sensible and vigorous way American industry had organized itself to serve an expanding world economy. What American entrepreneurs were doing was exactly what European industrialists should be doing if the conditions existed in Europe that would make this possible.

Those conditions seemed to be in the making. Next summer, for the first time in history, goods would move with full freedom throughout six nations of Western Europe to serve the needs of 200 million people and the writer was confident that the European Community would within a year include Great Britain and very likely several other important European trading nations.

Yet, great as the achievement had been, it still fell far short of what was needed. An environment had to be created that would make Europe a seed bed for new world companies, regardless of the preoccupation with the so-called "technological gap" and concern about the "American invasion".

Until Europe achieved greater political unity, however, European business was unlikely to make adequate progress toward a more satisfactory economic structure. With the Treaty of Rome already ten years old, for instance, social, fiscal and legal complications still made mergers across national lines difficult, if not impossible.

The United States would welcome a European counter-invasion. If European companies were buying American corporations and establishing production sources in and outside the United States, it would be to everyone's advantage.

The development of a modern structure of enterprise in Europe – which would probably not be possible without greater political unity – was by far the best way to ease the problems of the world company in the advanced nations.

To realize the full promise of the world company it was not enough to liberalize world trade, including the free movement of capital. Ways would also have to be found to assure peaceful co-existence between two overlapping circles of authority – corporate managements and local host governments.

A limited amount could be accomplished by improved corporate diplomacy. Over the past few years many world companies had sought to mitigate the prejudices and fears they might otherwise engender by taking local partners, employing local managers, etc. But, in many cases, the costs of seeking recognition as a local citizen could be excessive. The peculiar genius of the world company stemmed from its ability to view the world economy from a single vantage point and to deploy resources without regard to national origin in response to a common set of economic standards. The disadvantage of local partners was that they were, in a sense, enemies of such mobility, since their judgements were based on benefits to the local subsidiary rather than on the interests of the world enterprise as a whole.

Conflicts were likely to occur, for example, with respect to dividend policy. A local partner might wish earnings distributed while the management of the world company might wish to plough them back – or vice versa. Or a local partner might wish particular facilities expanded, while the world company might find it more profitable to sell or abandon them.

Since the device of local partners was almost certain, therefore, to hobble the ability of managements to gear their decisions freely to the world economy, its indiscriminate use should not be encouraged. It might be wiser to approach the problem centrally by internationalizing or denationalizing the parent.

Such a suggestion would be strengthened if the problem were considered on a philosophical level as a case study in the legitimacy of power. Where was there a legitimate base for the power of corporate managements to make decisions that could profoundly affect the economic life of nations to whose governments they were only responsible to a limited extent? Did corporate managements have the right to make decisions affecting not only the mass of shareholders but the economic welfare of whole communities and the pocket-books of consumers?

There was no overriding political authority to supervise the totality of the world company's operations nor was there any organic arrangement to prevent national governments from interfering with the fulfilment of its rôle in world commerce.

The author said he was not proposing a federal governmental structure at the world level, or anything like it; but there was no reason why world companies might not be accorded some form of denationalized status by a multi-lateral treaty. Basically, his suggestion was that the world companies should become quite literally citizens of the world. This implied the establishment by treaty of something in the nature of an international companies law, administered by a body made up of representatives drawn from signatory countries, who would not only exercise normal domiciliary supervision but would also enforce the kinds of arrangements that are normally included in treaties of establishment.

Such an international companies law could set limits, for example, on the restrictions that signatory states might be permitted to impose on companies established under its sanction. The operative standard defining those limits would be the freedom needed to preserve and protect the central principle of assuring the most efficient use of world resources.

The author of the paper strongly urged that any such treaty should be outside the machinery of the United Nations and that, in the first instance, no attempt should be made to gain signatories outside the small circle of industrialized nations. Like the GATT, it would be regarded primarily as a mechanism for creating a code of rules among the major trading nations, reserving the possibility that, over the years, it might provide a world charter as more and more of the less-developed countries adhered to its provisions.

Obviously such an international company would have a central base of operations since it was clearly necessary that there be a single profit centre. And its operations in its home country would, of course, be subject to local law to the extent that the organic treaty did not contain overruling regulations. But in all cases the enterprise must become international. This meant, among other things, that share ownership in the parent would have to be widely

dispersed so that the company could not be regarded as the exclusive instrument of a particular nation, which, in view of the under-developed state of most national capital markets even in economically advanced countries, was not likely to occur very soon. But, over the long pull, as in more and more countries savings were effectively mobilized for investment, companies should assume an increasingly denationalized character, while, at the same time, a gradual internationalizing of Boards of Directors and parent company managements could be expected.

Although some international treaty might be envisaged, directed solely at resolving conflicts, an international companies act offered the best means of preserving for all society the great potential of the world corporation. A common companies law for the EEC together with a body of regulations to be administered by the EEC Commission was within the realm of present-day contemplation. Conceived in these terms a world company law could serve a vital economic purpose. At the same time its larger political implications should not be wholly ignored. Freeing world business from national interference through the creation of new world instrumentalities would inevitably, over time, point up the inadequacy of our political arrangements. At least in a small way it might thus serve to stimulate mankind to close the gap between the archaic political structure of the world and the visions of commerce that vault beyond confining national boundaries and foresee exploitation of the full promise of the world company.

In his introduction, the author of the American paper said that there was nothing peculiarly American about world companies. The reason that the growth of world companies was more marked in the United States than elsewhere was primarily a function of structure.

The speaker noted that the author of one of the other papers had deplored the fact that world companies had resulted in the transfer of economic and monetary sovereignty. But in the speaker's opinion as far as economic domination was concerned the basic problem was to reconcile the existence of world companies with the legitimate exercise of power. The disparity in scale of economic and political units in the United States and Europe was fundamental and the best European answer was to get on with economic integration and exploit the full potential of the Common Market. Meantime, the absence of a European companies law was a great disappointment to Americans who, for their part, should do nothing to stop or slow down direct investment. Turning to the monetary aspect, the speaker said that what big companies were doing by developing sources of production abroad was essentially a healthy process. Europeans should not discourage this but, on the contrary, should try to export

capital themselves. In this connection, a very bad practice was the extra-territorial application of laws of domiciliary countries while a major cause of difficulty was the habit of European countries of "sitting" on their gold instead of using it productively.

The speaker also said that the world company should not be so much internationalized as denationalized – in other words, that it should become a citizen of the world.

After having strongly rejected the impression given by the author of the second paper that Europe was becoming a United States colony, the speaker remarked that the third paper was not so much directed against world companies as towards the effects of commercial civilization as the author saw them. For his part, the speaker doubted whether the present trend could be reversed.

SUMMARY OF AND INTRODUCTION TO FRENCH WORKING PAPER

The author of the French paper began by pointing out that, while the elimination of international trade barriers remained an important concern, the implantation of businesses beyond their national frontiers was tending to replace the export of finished goods, and this would certainly modify the basis of inter-state relations in the future.

Political problems caused by the mushrooming of big corporations were nothing new – the writer mentioned the political implications of the petroleum companies in the immediate post World War II period – but a series of factors over recent years had given a new character to the problem of internationalizing business:

- Economic expansion had considerably accelerated the growth rate of major corporations.
- Technological progress had increased at such a pace that research had become a fundamental factor in development and in the corporate power structure. The imposing budgets required to support research were in general feasible only for corporations of the first magnitude.
- The scope of scientific and technological development had transformed the export outlook: it was no longer possible to export products without adapting them inside the importing country to the needs of its national market; at the same time the target market had to be made receptive to such products.
- Finally, the overwhelming majority of corporations able to support the costs of internationalization happened to be businesses whose headquarters were located in the United States. Therefore, problems raised on that account did not really have a reciprocal character.

Strong arguments could certainly be advanced to demonstrate that, despite

new elements, this form of internationalization still served as a conduit for spreading prosperity and that host countries had every reason to welcome the dynamism of big corporations established on their territory.

Now, however, a point had been reached where the advantages of immediate efficiency were tending to enter into contradiction with human and longer-term political imperatives.

On a short- and medium-term basis, the free development of North American international corporations was probably the process that led, as far as economic efficiency was concerned, to the most rapid rise of living standards in developed countries. Only corporations with international operations were able to spread out ever-increasing fixed costs over a sufficiently high volume of business. These fixed costs were related to:

- expenses for research and development, which gave profitable returns only when supported by significant budgets;
- human and technical factors in management (planning, financial controls, marketing, computerized management, etc.).

When international companies held less than pure monopoly positions, the direct advantages they offered in host countries to local businesses could be manifold:

- They provided healthy competition, particularly desirable in European business with its penchant for price-fixing agreements.
- They offered a concrete demonstration and example of the application of modern methods in a local context.
- They trained management personnel who, at least in part, eventually became available to national corporations.

Through its repercussions on the international monetary system, the development of globe-girdling United States companies had indirectly been a decisive factor in Western economic growth during the past 15 years.

Since the end of the Korean War, the United States balance of payments deficit vis-à-vis non-American countries had enabled all other countries to experience positive balance of payments situations: when Germany, for example, showed a surplus, this did not necessarily cause a deficit to emerge in France, Italy or Japan. As a result, these countries collectively found themselves able to apply expansionist policies without being over-hindered by external restraints as would have been the case under a system vigorously applying the gold standard.

The United States deficit was closely linked to foreign investment. International investments by major American corporations enabled the United States to enter into short-term indebtedness, thereby creating liquidities, a rôle which only the United States was able to play and on which economic

expansion depended. All parties recognized that this was not a deficit in the usual meaning of the term.

Thus, directly or indirectly, the international growth of major United States companies was one of the driving forces behind European expansion, just as the Marshall Plan had been the source of European recovery.

At the same time, this growth had resulted in the transfer of a part of sovereignty into American hands: monetary sovereignty linked to the rôle of the dollar, economic sovereignty tied to the functioning of international corporations. The writer here drew a parallel with the world rôle played in history by the Catholic Church receiving its instructions from Rome.

The development of multinational firms signified, in practice, that an increasing portion of a national community's work force would be employed by such business; that vital decisions might be taken by bodies outside the communities in question; that the intellectual and cultural life of these communities could be transformed. Such an evolution could not fail to contain specifically political implications and consequences which had also been recognized in various United States circles. The writer stressed some aspects highlighted in two deeply reflective American studies:¹⁾

- The uneasiness of sovereign states over the existence on their territory of business concerns that received orders from abroad, sometimes even directly from a foreign state. This uneasiness was heightened by a feeling of impotence: an international business refused permission to operate on a given national territory could establish itself just across the frontiers of that country, employ its citizens and penetrate its markets.
- The concentration of foreign businesses' activities in key sectors which could progressively eliminate national corporations from those fields that were shaping the future.
- The fact that local employees of such companies, whatever their nominal position, frequently lacked real management responsibility and responsibility with regard to research policy, such research being largely carried out in the United States.
- The impossibility for national investors to underwrite capital investments in branches of international groups.
- Disturbances on capital markets where American signatures enjoyed a premium, and sometimes on the labour market, where habits of professional mobility would only slowly approximate to the cadence in the United States.

¹⁾ L. MODELL: "The Politics of Foreign Investment", Foreign Affairs, 1967.
R. VERNON: "Multinational Enterprise and National Sovereignty", Harvard Business Review, March, 1967.

- The fact that self-financing had become more than ever the key to industrial development. In business, this presupposed a dividend policy regulated by investment prerequisites. Demands dictated by political powers foreign to those where a business was established could tend to orient this dividend policy and transfer to a foreign country the means of self-financing developed on a given national territory.

Additionally, host countries could not but be alarmed by the potentially increased vulnerability of their credit market and their balance of payments because of the growth on their territory of businesses whose policies for repatriating profits were dictated from abroad and based on foreign conditions and contingencies.

Finally, despite its unquestioned advantages as far as economic efficiency was concerned, a development plan based on an internationalization of productive economies too uniformly polarized towards the United States could not be accepted without reservations by other countries.

In the light of the foregoing, constructive initiatives should be taken, both by governments and by private business.

Concerted government action should first be directed towards finding a satisfactory solution to the international monetary problem. No monetary system could be accepted in the long run when it enabled a single country to increase the foreign growth of its companies with the help of an uncontrolled deficit in its balance of payments.

Government action should then seek to define an economic and juridical framework in which there could be harmonization of the multilateral relations between governments and that new economic and juridical entity, the international business.

Whilst such a framework should specify what jurisdiction would be applicable under what circumstances, it should stringently limit the rights of the state over foreign affiliates. Specifically, it was indispensable that the United States Government abandon the idea of keeping under its jurisdiction foreign affiliates of American companies, at least in certain respects (trading with the enemy act, anti-trust laws, etc.).

Such a framework should additionally define the special rules which international business should follow when establishing foreign affiliates. This would be a sort of "good conduct code" covering the following areas:

- Foreign companies should avoid eliminating all competition in the sectors in which they operated and, on the contrary, should seek to develop healthy competition.
- The international company should give national companies access to its scientific and technological resources.

- The international company should allow citizens of the countries in which it had affiliates to participate in the company's most advanced activities and occupy the principal management posts.
- The international company should also agree to conduct part of its basic and applied research programmes in host countries.

To ensure respect for such a "good conduct code" it might well be necessary to create a specialized international jurisdiction.

The author went on to say that anything that helped to increase the number of truly international corporations of European origin would constitute a decisive factor in ridding Europeans of their inferiority complex.

To achieve this, it would be necessary for such companies to be able to operate profitably within the North American market, a development which would also be of decided assistance in righting the United States balance of payments deficit. But prior to achieving this truly world-wide dimension, European industries would have to develop the ability to operate on a scale commensurate with Europe as a whole.

Similarly, international companies should recognize that it can be good policy to yield on the principle of controlling 100% of their foreign ventures and to associate the greatest number of foreign nationals in the risks and opportunities presented by their operations in different countries.

Holding companies could, in certain cases, perhaps provide sufficiently flexible solutions. They might, for example, regroup and control all of a major American company's European interests; their capital could be introduced onto various stock markets. This formula, resulting in the creation of the first truly European companies, would constitute a noteworthy contribution to the defence of the dollar while, politically, it would be less controversial than methods currently employed to finance European affiliates.

Turning to the rôle of banks and financial intermediaries, the author said that the economic scene today was marked by the acceleration of technological progress and, as a result, a strikingly quickened pace of equipment obsolescence. Because of this, problems of self-financing had moved into the forefront of financial preoccupations; when funds for self-financing were insufficient, problems of long-term loans and increased capital funding became paramount.

In this context, European financiers would increasingly be called on to provide a permanent form of support and, consequently, to take a closer interest in those corporations in which they would increasingly be associates and decreasingly mere creditors.

For their part, American industrialists operating in Europe - before they reached the point at which the general public could become shareholders in their companies - might find it desirable to associate European financiers in

their operations. The financier's rôle would be that of an active counsellor, guiding the foreign industrialist through the jungle of unwritten national rules.

More generally, within the formulae associating businesses of differing nationalities the presence of financial third parties able to act as arbiters, counsellors and, in a certain measure, catalysts, could be particularly beneficial.

In conclusion, the author of the paper recalled the historical development which had resulted in decolonization which, despite the sometimes dramatic difficulties involved, had come at the right time. It would be, in the author's opinion, paradoxical and very dangerous if a new and anonymous form of colonization were to emerge which would derive from the methods of business expansion the means needed to establish a greater dominance. This would no longer operate between developed and still primitive countries, but between an industrial super-power and the industrialized countries of an older civilization, countries anxious to preserve their long historic tradition but weighed down by the lethargy of evolution that was the inevitable counterpart of the tradition.

In introducing his paper, the author began by saying that he agreed with the author of the American paper in feeling that the internationalization of business should be considered primarily in regard to relations between the industrialized countries of the Northern Hemisphere rather than in regard to relations between developed and under-developed countries. This indicated that the problem lay essentially within the framework of the United States' relations with other Western countries.

The author said that the previous speaker had, at any rate implicitly, presented economic efficiency as a paramount imperative which should be the primary concern of nation states whose structure he considered archaic. This had led the previous speaker to regard the key problem in respect of world companies as consisting of protecting their freedom of action vis-à-vis possible political demands put forward by those same nation states.

The speaker said that he concurred in hoping that political unity would steadily develop in the Atlantic world and in believing that such unity necessarily implied a prior unification of the European continent. However, he emphasized that the diversity of European countries, whatever the resultant economic disadvantages, would long remain a pre-condition for human liberty and the cultural wealth of the Western world.

Continuing, the speaker said that the absence of a concerted control over the internationalization of business embodied a particularly serious danger

insofar as it might ultimately lead to a diminution of the desire to achieve international co-operation.

He went on to say that there should be a concerted effort on the part of states to draw up a specific international agreement covering world companies. He added that, whereas the previous speaker felt that such an agreement should concentrate on the rights of such companies as citizens of the world, he himself would prefer to emphasize their duties as citizens of the individual countries in which they were operating.

Private business, in turn, should take spontaneous action: European firms should try to achieve an international dimension and, more especially, to establish themselves in North America and take advantage of the opportunities there. The world companies themselves should likewise improve their structures, particularly their financial structures, so that their world-wide nature would not be solely the product of their extensive implantation but also of the international distribution of their capital. For their part, banks and other financial agencies should assist the world companies, firstly, to extend their implantation and, secondly, to achieve a satisfactory *modus vivendi* with the population and the governments of the various countries where they operated.

SUMMARY OF AND INTRODUCTION TO FRENCH MEMORANDUM

In a memorandum drafted by one of the French participants the author began by noting that the internationalization of business signified the latter's transition from the national to the world-wide level. From the social angle, this meant that the problems involved in relations between human beings were increased insofar as financial and technical divergencies were supplemented by cultural, historical and linguistic differences.

At first glance, he said, the extension of science and technology to the whole world gave, if not an impression of unity, at any rate one of growing uniformity. A sort of international class was coming into being, made up of men concerned with the same problems who would like to apply a mathematical formula to the world and have it considered as a vast technological and economic organization. This was a social consequence of a technological achievement.

The process involved several stages which seemed to make for closer contact or, at any rate, a better understanding between technicians of different cultural backgrounds. To begin with, it was "ethnocentric" with the parent company deciding and imposing its policy abroad; then it became "polycentric" as the local situation and the necessary degree of decentralization were accepted;

and, finally, it became "geocentric" insofar as it was conceived on a world-wide scale and had world-wide aims.

Technically and socially, "geocentrism", because of what might be called its transcendental internationalization, made for a closer relationship between men of different race, language and education but having similar training backgrounds and conceptual levels. On the other hand, as Professor Perlmutter had said, from the legal point of view, "the infrastructures of the international community act as a brake where technological progress acts as a spur".

Thanks to the internationalization of business, the transition from the concept of the national community, i.e. a sum of individuals limited to one region, to that of the international society, i.e. a body of complex and diversified structures, and eventually that of the transnational community – the product of geocentric impulses – was manifestly in line with man's instinctive search for a real and authentic exchange which would embody that peace which is universally desired. Why then was it no less obvious that this was extremely difficult to bring about?

In the first place, this very geocentrism, while significant within a group at international level, nonetheless remained limited to an entity which would be better described by the word "coalition" than by the word "co-operation". The element of distortion involved was the concept which treated profit as the standard by which to measure the true value of labour. Reversing this element would not consist of eliminating profit but of making it subordinate to the quality of the products and the means of production. This implied that concept of human value to which our contemporaries carefully avoid referring in order to emphasize all the more strongly the concept of organization. The geocentric enterprise should clearly express human values and the concepts which underlay it.

In the second place, the trinomial formula "information-education-promotion" was still not widely enough applied and this failure was at the root of the superficial and emotive nature of relations which were all too often distorted by a confusion between the image and the reality. It was evident that information, if it were to bring about any change in behaviour, must be accompanied by training adapted to the motives which governed the attitude involved. Man was more and more powerful, had mastered matter, was less and less restricted by distance, but he was still emotionally unstable and psychologically ignorant and this hindered any genuine co-operation.

Finally, the contemporary economic and social system was apparently developing only on a horizontal plane with no regard to the vertical process leading towards a transcendence which was denied or, at best, rejected as scientifically unprovable. But, equally, it had not been proved that happiness

could be ensured by limiting human activity to material realities. The transition of business from the regional and national level to the world-wide level, like the systematic development of technology, unless accompanied by parallel research in respect of the inner reality of man and the harmony of his personality, could only lead to regression through a return to a narrow positivism.

In introducing his memorandum, the author said that the social aspect of the internationalization of business ultimately reflected the problem of an adaptation between rapid technical evolution, on the one hand, and, on the other, the protection of certain human values to which we were all still attached.

Emphasizing the difficulty of achieving a rapprochement between two large blocs, he went on to say that this would perhaps be easier to bring about through the intermediary of smaller countries and still easier through the rapprochement of companies. Efforts directed at a common goal tended to eliminate many barriers and misunderstandings and trans-national companies developed a certain realism in international developments so that those concerned came to regard political difficulties as unreal. Already, a cosmopolitan élite of senior cadres was beginning to emerge but this development was hindered by out-dated juridical infrastructures which also interfered with a real possibility of achieving internationalism.

The speaker said that international companies should clearly express human values and, in this connection, saw a pressing need for information through wider exchanges, for permanent education to enable such information to be constructive, and for a combination of these two elements leading to a genuine promotion of the complete man – the technician combined with the family man and the citizen.

DISCUSSION

A number of those participating in the subsequent discussion spoke from personal experience derived from their leading position in world companies.

GENERAL ASPECTS OF THE WORLD COMPANY

A United States participant began by noting that the world company was the logical result of a development which had to be accepted whether one liked it or not, and in this connection, a fellow countryman pointed out, by way of example, that, as a rule, no American law prevented national companies from extending their activities abroad.

Another American explained that the problem of the world company was by no means a new one. The same difficulties which had to be faced today had already been experienced decades ago in the United States when business concerns in the Eastern states had extended their activities to the West and had found the legislators there opposed to them.

A Canadian and a United States speaker concurred in the view that the problem was not new but they emphasized that it had changed very considerably in kind as well as in magnitude. A Netherlands participant, however, warned against exaggerating the risks connected with the size of the world companies. Size was not power and, in many cases, very large world companies were at the mercy of the governments of small countries, as had been found, for example, in relations with some of the Arab states.

In the subsequent discussion there was a wide measure of agreement as to the advantages inherent in the existence of world companies. An American speaker pointed out that international companies could help to spread economic well-being and make a contribution to world unification, while a fellow countryman noted that the advent of the American corporation abroad had brought with it a considerable educational influence insofar as it had induced some countries to apply new and creative methods of financing. A German participant affirmed that world business was necessary to the progress of research, technology and management.

In the view of an Italian participant, the world company could, by its success, demonstrate the advantages of the Liberal concept on which it was based as opposed to the Socialist principles of the state-owned company. The latter could never be truly international and was indeed essentially nationalistic.

At the same time, a number of those present stated that certain risks and disadvantages were involved. The world company had, in many cases, become unpopular because national companies in the "host" countries could not compete with the far more advanced technology and practice of their foreign rivals.

Referring to the very advanced and internationally minded forest products industry of his country, a Finnish speaker stressed the great difficulties experienced by a small country like Finland in competing with the financially preponderant international concerns in conquering new markets, these world companies being, for example, in a position to "buy up" customers.

In the view of a Canadian participant, a potential source of difficulty lay in the fact that world companies possessed great market powers and also had a significant part of research and technological progress in their hands. The risk to the host country was not that too little research would be done locally

but that access to such research would be used as a crutch and that not enough would be done nationally to keep domestic industries up to scratch. A Swedish speaker suggested that international companies were partly responsible for the brain drain.

Various speakers referred to the political implications of the issue. An American speaker said that many nations were alarmed by what they considered to be semi-autonomous centres of economic decision and influence within their boundaries and a similar view was echoed by a Netherlands participant who believed there was a danger of world companies becoming forces quite out of control. Similarly, a Belgian speaker said that there was a distinct imbalance between the power of international companies and that of most states.

A French speaker pointed out that the duty of each government was to see that full employment was maintained and said that, rightly or wrongly, governments were afraid that international concerns might cause their affiliate factories to close down and thus put a large number of people out of work.

A Canadian speaker thought that the very dimensions of world companies could prove unfortunate since size often led to rigidity of thinking, lack of imagination and unwise experimentation combined with excessive caution.

A United Kingdom speaker put forward the view that a danger of international big business lay in the fact that it was very difficult to see inside a major international company. Governments were compelled to be "visible" in their activities within democratic societies but this was not true of international companies, which should recognize that it was part of their duty to be more visible if they were to survive as efficient instruments. In this context a German speaker pointed to the lack of democratic parliamentary control over the growth of international machinery on all levels, a view with which a United States, a Canadian and a Netherlands participant sympathized.

Nevertheless, the foregoing criticisms did not mean that world companies were unpopular in all European countries. A Netherlands, a Belgian and a German speaker, for example, were glad that world companies were operating in their countries and said they would deplore a termination of their activities. A Canadian speaker, while stressing the various economic, social and monetary advantages of such foreign activities in his country, recognized, however, that a political and even a psychological problem was involved for Canada.

SOCIAL ISSUES

Various speakers took up the social problems raised in the French memorandum. A Belgian participant said that we would deserve the blame of young people if we failed to affirm that the international company was essentially

a community of men which created human values and in this he was echoed by a Canadian speaker who said that an international company, to be successful, had to pay great attention to all the motivations of people. Further support for this view was forthcoming from an American speaker who argued that there was not necessarily any incompatibility between efficiency and the necessary human considerations; the most effective organizations indeed were those having the best human element. On the same lines, a Netherlands participant noted that many international firms had been pioneers in regard to personnel policy and the promotion of fertile human relationships.

The author of the relevant memorandum summed up by saying that if we concerned ourselves solely with efficiency to the exclusion of social goals, we would have brilliant technological results but also an absence of enthusiasm; if we concerned ourselves solely with objectives to the exclusion of efficiency, we should probably deserve to be condemned by later generations. It was essential to establish a synthesis which would lead to harmony.

INTERNATIONAL POLITICAL ISSUES

The enormous growth of the world company had raised many international issues and problems which were mentioned by various participants in the course of the discussion.

The world company might not be a new phenomenon but the problem had now gone far beyond the pre-war framework and this had, of course, had its consequences.

An Austrian participant pointed out that problems of the kind presented by the world company today had previously arisen particularly between colonies and the metropolitan powers. Today, however, these problems had become a source of friction between various developed Western countries and more particularly between the United States and Europe.

However, other speakers pointed out that it would be a misconception to assume that the world company was essentially an object of controversy between the United States and Western Europe. A Netherlands speaker and other participants, many of them officials of companies having their head offices in European countries, warned against exaggerating the predominant American character of the world companies and a United States speaker pointed out that many European concerns had considerable interests in the United States.

Nevertheless, the predominantly American nature of the world company was recognized and an American speaker mentioned the asymmetry resulting from the spectacular growth of the United States as an explanation of the occasional exacerbation of relations between the countries concerned.

It was generally admitted that a compromise should be reached and a German speaker considered that this should take place on the basis of United States - European parity.

One German and two Belgian speakers were among those who pointed out that, in order to make such a compromise possible, Europe should be in a position to act as a political unity, a point of view which had already been stressed by the author of the American working paper.

In this context many other participants argued that the European idea was still fully alive but that it would take a long time if we had to wait for the achievement of European integration. The period of one year mentioned in the American paper was considered as decidedly optimistic.¹⁾

POSSIBLE SOLUTIONS

Regardless of the possibility of international contractual settlement (dealt with below), various speakers indicated practical steps which might be taken unilaterally by both sides to avoid or eliminate difficulties.

A British speaker stressed that, in taking decisions, parent companies should always allow for the effects on the economy of the host countries, a point of view which was strongly supported by a Netherlands, a United States and other participants.

Concerning relations between governments and world companies, a British speaker deprecated the tendency of governments to dictate the extent of repatriation of profits and the investment policies of overseas companies. In this same connection, an American participant said he agreed with the author of the first working paper in opposing President Johnson's policy on the remittance of earnings but added that this policy had since been so largely modified that it was now virtually cancelled. Such prime causes of friction as efforts by the country of the head office to exercise extra-territorial control over exports, anti-trust legislation, etc., should be eliminated and countries should not use corporations as instruments of national policy. A British participant agreed that such action was to be deplored but he did not think this occurred very frequently.

A Canadian speaker added that, for their part, host countries should not act in a discriminatory way.

The question of local participation to eliminate possible frictions was also extensively examined and a British participant already quoted at various times argued that local capital should be taken into partnership and dividend policy

¹⁾ A special aspect of this item is dealt with in the Annex on the "American Balance of Payments" on page 59.

should harmonize with local conditions. Wherever possible, moreover, real management should be left in the hands of locals.

In this he had the support of an American speaker although the Netherlands participant quoted above contended that it was impossible to assert that local management should always be appointed: suitability for the job had to be the determining factor. In any event, said another American, the people managing an overseas company should always show a perceptiveness and an understanding of local and national interests involved.

The same speaker pointed out that the behaviour of companies was basically the behaviour of people and that unless a company was a good corporate citizen at home, it was unlikely to be a good corporate citizen abroad.

The importance of international corporations behaving as good corporate citizens was also underlined by a fellow countryman who said that such corporations should denationalize in the sense of decentralizing their operations and research to the maximum. A similar approach was favoured by a Swedish participant.

Conversely, a Canadian said he was left very cold by the concept of denationalization. He felt that it implied an elimination of differences in culture and national attitudes which some companies had found very valuable.

A Belgian speaker wondered whether a denationalized status for world companies based on multilateral treaties, as suggested by the author of the first working paper, might not call on the machinery provided by OATT.

As far as the use of international agencies was concerned, a French participant suggested that efforts should be made in conjunction with ILO to see what machinery should be established to ensure security of employment for workers in the light of the existence of international companies, while two Canadian speakers held that, more generally, some such body as OECD might contribute a great deal by holding periodic seminars or conferences to discuss the functioning of world corporations, perhaps along the lines of Bilderberg itself.

Finally, the issue of a "European counter-offensive" was widely discussed.

While recognizing that most European corporations were not big enough to invest in the United States, a Netherlands speaker pointed out that America itself put many difficulties in the way of European countries wishing to invest in that country. A similar point was made by other speakers and in particular by an international participant who said that Europe had shown great imagination by not only allowing but actually welcoming American co-operation and the establishment of American subsidiaries in Europe, adding that the same could not be said of the United States attitude. Two Americans agreed that some of the United States laws and practices with regard to foreign companies were regrettable.

On the other hand, a British speaker, whose point of view was, however, contested by a fellow countryman, suggested that the absence of a European counter-invasion was mainly attributable to the fact that investment in Europe over the past decade or so had been more profitable since growth had been faster in Europe than in the United States.

For the author of the second working paper, an increased flow of capital investments from Europe to the United States would not only help to solve the United States balance of payments problem but would also have important political and psychological advantages since the extensive implantation of European business in the United States would help to eliminate an inferiority complex which introduced an emotive element into the situation.

CODE OF BEHAVIOUR

There was discussion of the suggestion put forward by the author of the first working paper that conflicts connected with the world company might be resolved by an international treaty, as an extension of a future company law for the EEC. This gave rise to an extensive exchange of views, most speakers referring to a "code of behaviour" in this context.

The American author's view was supported by the author of the French paper who said that, in the absence of a code, however difficult it might be to establish, we were reduced to simply having confidence in international firms. A Belgian participant agreed with the desirability of a world code for multi-national companies but felt that the first step should be to establish a European code for European companies. Further support came from a United Kingdom participant already quoted who felt that an international code offered more hope of progress than the alternative, which might well be a series of piecemeal administrative measures of an arbitrary and discriminatory nature. Finally, a British speaker contended that those who refused any code as a first step were "hiding their heads in the sand" because it was essential for governments to undertake to do certain things together and for international enterprises to follow a similar line.

A fellow countryman was among those who were opposed to any such code since he considered it could only be extremely vague and superficial and hence quite useless. If, by some chance, it could be made specific, then it would be unacceptable both to world companies and to governments. The variety of companies and the variety of operational methods was so great that there could be no code.

Still another British participant said that he could see the attractions of a code but was doubtful as to how effectively it would work out in practice, particularly with respect to its enforceability. In some countries, national laws

already gave power to deal with such dangers as monopoly by foreign investment but this power was not always used because it could conflict with the advantages provided by foreign investment. If such national powers were not employed, he asked how any code could be enforced since the same conflict of interest would arise.

In this context another British participant noted that those who had addressed the meeting had in fact proposed four different types of code. Two speakers had suggested a code governing the behaviour of countries towards foreign investors; two others had suggested a code governing companies' behaviour towards host governments; the author of the first working paper had argued in favour of a code to persuade countries to co-operate constructively in the handling of trans-national enterprises; while he himself had recommended a code to prevent countries from tangling with each other in their instructions to multi-national enterprises. History suggested, he said, that the first two concepts were "non-starters". The question was how to get countries to come together co-operatively so as to enable international enterprises to carry out activity across national boundaries and at the same time make those international enterprises responsible to a group of national authorities appropriate in size and scope to the enterprises themselves.

The majority of those who took part in discussion of this question seemed to agree in doubting the feasibility and desirability of any code of behaviour.

However, the author of the French working paper stressed that, however difficult it might be to establish a code of good conduct and to decide which international authority would enforce it, it would nonetheless be essential in the future to do something. Such action would also enable governments to reassure public opinion that precautions had been taken and that there was an agreement requiring firms to observe certain rules of good conduct so that it was no longer necessary to rely solely on their innate sense of good behaviour. Failure in the past, he said, should not discourage us from seeking to establish a code since, unless we did so, we would have to face a widespread feeling of frustration as international business developed and assumed a more and more dominant rôle.

At an earlier stage the author of the American working paper, referring to the reaction to most of his proposals, had noted that in the near future existing conditions would have changed very considerably. For his part, he had not the slightest doubt that, within a decade or so, some sort of institutional arrangement would be unavoidable to cope with conflicts of sovereignty which would have arisen by then.

* * *

Before closing the meeting, His Royal Highness expressed the gratitude of all those present to Mr. Griffin and to the many other members of the Canadian group for all they had done to make the meeting such a success, and to General Allard for the valuable contribution of the Canadian Armed Forces. The Prince also expressed his special appreciation to the authors of the working papers and thanked the members of the Secretariat as well as the interpreters for their excellent work.

A United States participant thanked the Prince for the admirable way in which he had chaired this very fascinating and stimulating meeting.

ANNEX

AMERICAN BALANCE OF PAYMENTS

Although the subject did not, strictly speaking, come within the compass of the Agenda, at the end of the meeting several participants alluded to the United States balance of payments problem. The most comprehensive statement in this connection was made by an American speaker who, on the basis of detailed figures, explained that from the end of the war until 1957, the United States had tried to bring about a better distribution of reserves throughout the world. In a sense, he explained, the United States "did not care" that it was confronted with trade disadvantages and that it had to meet the bulk of defence costs. During the period from the end of the war until 1957, America did not lose anything to speak of; thereafter its reserves began to run down.

He went on to say that both the United States and Europe had developed a set of bad habits since the war: the former had acquired the bad habit of treating deficits as automatically good and virtually a way of life, the latter adopted the same attitude towards surpluses. America had continued to export capital to a considerable extent with the result that the European reserve position improved substantially while that of the United States declined correspondingly. At the beginning of 1950, said the speaker, the volume of official dollars held all over the world was about 4 billion; by the end of 1967, it was between 17 and 18 billion. In 1950, there were about 25 billion dollars in gold in the United States; by 1967, about 11 or 12 billion.

In this context, he queried the observations made by the author of the French paper concerning the United States incurring of short-term liabilities abroad which enabled it to buy up foreign industries on a large scale. This, he suggested, was "looking at the problem through the wrong end of the microscope". The United States dollar balances were built up not just because of capital outflow but for a whole complex of reasons: some capital export plus very heavy expenditure on military and other government accounts plus a declining trade balance plus the demand for reserves from abroad.

The present situation, said the speaker, could not be allowed to continue. The inescapable conclusion was that a different set of conditions had to be established if the international monetary system was to be viable. If the United States was to go on exporting capital and to carry heavy defence burdens, it would have to improve its current surplus. If the present system was to con-

tinue, Europe would have to reduce its current surplus and/or export capital back to the United States and perhaps do more with respect to foreign exchange costs incurred for common defence. Alternatives to the present system were not appealing: we would probably have to work with what we had and for this a joint United States-European effort was essential.

The author of the French paper replied that he fully agreed on the importance to Europe of United States capital and even the United States deficit and the slight inflationary trend created in Europe. American private investment and the balance of payments deficit represented, so to speak, a continuation of the Marshall Plan.

There was, however, a certain coincidence between the figures for the American balance of payments deficit and those for the export of private capital. The countries to which that capital was exported therefore had the impression that such exportations were largely financed from the balance of payments deficit and, since the same sums would not be available for investment in the United States were they themselves to have a balance of payments deficit, they also had the impression that the reserve currency system was to some extent unilateral and enabled America to enjoy an unduly privileged position.

Nevertheless, he agreed that it was desirable to expand the export of European capital to the United States – for technical reasons, because it would help to solve the American balance of payments problem, and for psychological and political reasons because it would help to eliminate a certain inferiority complex.

This, however, was not immediately practicable because European business was still on too small a scale and also because European international companies met with some difficulty in investing in the United States and operating businesses there.

A German participant stressed that the American balance of payments deficit was not of the ordinary kind, since United States foreign assets were increasing faster than liabilities and he added that a number of President Johnson's proposals to overcome the deficit were regarded in Europe as highly dangerous for European industries exporting to the United States. Conversely, an American speaker observed that controls on direct foreign investment would prevent a number of small companies from getting into the international race and further prevent existing international firms from investing as much as they would have wished.