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BILDERBERG MEETINGS

TORQUAY CONFERENCE

22-24 April 1977

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CONTENTS

LIST OF PARTICIPANTS

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INTRODUCTION

The twenty-fifth Bilderberg Meeting was held at the Imperial Hotel, Torquay, England, on 22, 23 and 24 April 1977, under the chairmanship of Lord Home of the Hirsel, K. T.

There were 99 participants, drawn from a variety of fields: government and politics, diplomacy, industry, trade unions, banking, transport, journalism, education and foundation administration. They came from eighteen Western European countries, the United States, Canada and various international organizations.

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. To enable participants to speak frankly, the discussions were confidential with no reporters being admitted.

The Agenda was as follows:

North American and Western European attitudes towards:
(a) the future of the mixed economies in the Western democracies;
(b) the Third World's demands for restructuring the world order.
and the political implications of those attitudes.

In addition to the above formal agenda, a half day's discussion was devoted to current problems in European-American relations.

During the Conference, Lord Home, the Chairman, read messages which he had exchanged with H.M. Queen Elizabeth on the occasion of this twenty-fifth Bilderberg Meeting, which happened to coincide with Her Majesty's Jubilee. Lord Home also said that he had sent a private letter to H.R.H. The Prince of the Netherlands, giving thanks for his many years of service to Bilderberg.

I. THE FUTURE OF THE MIXED ECONOMIES IN THE WESTERN DEMOCRACIES

American Working Paper: "PROBLEMS IN THE MIXED ECONOMY"

While there are undoubtedly similarities among the problems faced by the U.S. and the rest of the industrialized world, this paper is not an attempt to find or analyze common problems. It focuses exclusively on the problems of the mixed economy found in the United States. Some of these are common – the desire to control inflation and unemployment – and some are peculiar to the U.S. – the low relative incomes of large minority groups.

I. *An Inability to Impose Economic Losses*

The lament is often heard that the U.S. economy and political system have lost their ability to get things done. Meaningful compromises cannot be made and the politics of confrontation are upon us like the plague. Programs that would serve the general welfare cannot be started because strong minorities oppose them. No one has the ability to impose solutions and no solutions command universal assent.

The problem is real but it has not been properly diagnosed. One cannot lose an ability that one never had. What is perceived as a lost ability to compromise is in fact (1) a shift from international cold war problems to domestic problems, and (2) a lost ability to impose economic losses.

As domestic problems rise in importance relative to international problems, action becomes increasingly difficult. International confrontations can always be portrayed as, and to some extent are, situations where everyone is fairly sharing sacrifices to hold the foreign enemy in check. Since everyone benefits, an overwhelming consensus and bipartisan approach can be achieved.

Domestic problems cannot be portrayed in this simple manner. They may not be zero-sum games where every winner is matched with a loser, but there are inherently winners and losers. Everyone cannot perceive himself as benefitting. A program to raise the occupational position of women and minorities, for example, automatically lowers the relative occupational position of adult white men. Every black or female appointed to President Carter's cabinet is one less white male who can be appointed.

People often ask why President Kennedy was so easily able to get the "Man on the Moon" project underway, while both Presidents Nixon and Ford found it impossible to get their "Project Independence" underway. There is a very simple answer. Metaphorically, some American has to have his or her house torn down to achieve energy independence, but no American lives between the earth and the moon. Everyone is in favor of energy independence in general, but there are vigorous objectors to every particular path to energy independence. In contrast, once a consensus had been reached on going to the moon, the particular path could be left to the technicians. In domestic problems the means are usually as contentious as the ends themselves.

The problem of domestic economic losers has been magnified by a change in the political structure. In the past political and economic power was distributed in such a way that substantial economic losses could be imposed on parts of the population if the "establishment" decided that it was in the general interest. These parts of the population are no longer willing to accept losses or are able to raise substantially the costs for those who wish to impose losses upon them.

There are a number of reasons for this change. Viet Nam and the subsequent political scandals clearly lessened the population's willingness to accept their nominal leader's judgments that some project was in their general interest. With the civil rights, poverty, black power, and women's liberation movements, many of the groups that have in the past absorbed economic losses have become militant. They are no longer willing to accept losses without a political fight. The success of their militancy and civil disobedience set an example that spread to other groups such as environmentalists, neighborhoods, and regions.

All minority groups have gone through a learning process. They have discovered that it is relatively easy with our legal system and a little militancy to delay anything for a very long period of time. To be able to delay a program is often to be able to kill it. Legal and administrative costs rise, but the time delay and uncertainty costs are even more important. When substantial time delays and uncertainties are added to the conventional program or investment analysis, both government and private industry find that it pays to cancel projects that would otherwise be profitable.

In one major environmental group, delays are such a major part of their strategy that they have a name for it – analysis paralysis. Laws are to be passed so that every project – public and private – must have environmental impact statements, economic impact statements, sociological impact statements, etc. The idea is not to learn more about the costs and benefits of projects, but to kill the projects. To be useful in deciding whether projects should be done, impact statements would have to be inexpensive and simple. Instead, they are to be expensive and complex so that they are a deterrent to undertaking any project and so that they can be legally challenged however they come out.

Consider the Interstate Highway System. Whatever one believes about the merits of completing the remaining intracity portion of the system, it is clear that it gives the country an intercity transportation system that would be sorely missed if it had not been built. Even those who argue against it do so on the grounds that if it had not been built, some better (non-auto) system would have been built. Yet most observers would agree that the Interstate Highway Systems could not have been built if it had been proposed in the mid-1970's rather than in the mid-1950's.

Exactly the same factors which would prevent the initiation of an Interstate Highway System would also prevent the initiation of any alternative transportation system. A few years ago, when a high speed rail system was being considered for the Boston-Washington corridor, a former governor of Connecticut announced that he would veto any relocation of the Boston-to-New York line on the grounds that it would be of prime benefit to those at either end of the line, but would tear up Connecticut homes. The groups opposing an intercity rail network would be slightly different than the groups opposing an intercity highway network, but they would be no less effective in stopping the project. Any transportation system demands that land be taken and homes torn down. At one time this was possible – at the moment it is impossible.

The Balkanization of nations is a world-wide phenomenon that the U.S. has not escaped. Regions and localities are less and less willing to incur costs that will primarily help people in other parts of the same country. Consider the development of the coal fields of Wyoming and Montana. There is no question that most of the benefits will accrue to those living in urban areas in the rest of the country while most of the costs will be imposed on those living in that region. As a result the local population objects. More coal mining might be good for the U.S., but it will be bad for them. Therefore they will impose as many time delays and uncertainties as possible.

The same problem is visible in the siting of nuclear power plants. Whatever one believes about the benefits of nuclear power, it is clear that lengthy siting delays serve no purpose other than as a strategy for killing the projects. If the projects are undertaken anyway, the consumer will have to suffer the same risks and pay the higher costs associated with the delays. What is wanted is a quick yes or no answer, but this is just what we find impossible to do. Siting also raises the Balkanization issue. Whatever the probabilities of accidents, the consequence of such failures are much less if the plants are sited in remote areas. But those who live in remote areas do not want the plants, since they suffer all of the potential hazards and do not get the benefits of the project. Everyone wants power, but no one wants power plants next to his own home.

Basically we have created the world described in Robert Ardrey's *The Territorial Imperative.* To beat an animal of the same species on his home turf, the invader must be twice as strong as the defender. But no majority is twice as strong as the minority opposing it. Therefore we each veto the other's initiatives, but none of us has the ability to create successful initiatives himself.

Given this stalemate, where do we go? One of the peculiarities of our mixed economy is that we have poor to non-existent systems for compensating those who legitimately lose when projects are undertaken in the general interest. There are a number of reasons for this: (1) Sometimes compensation would have to be paid to those who are already rich compared with the rest of the population. This seems to fly in the face of our other general income distribution goals, since there wil be cases where compensation is not paid to the poor. (2) To pay compensation is to raise the cost or lower the profits of any project. Project developers (government or private) are used to getting what they want without having to pay compensation. (3) To pay compensation is to admit that the government or private firms have income distribution responsibilities. Incomes do not go up and down because of the impersonal forces of the market. (4) Since many factors cause incomes to go up and down in a large economy, it is a difficult problem to decide when compensation should or should not be paid. Not all losses can or should be compensated.

Existing compensation systems are living examples of the problem. Instead of being run as if they were intended to be a generous compensation for losses actually suffered, they are run as if the aim is to deprive the citizen of his income or capital. Parsimony rather than generosity is the rule. In Urban Renewal, compensation is paid for property and moving expenses, but a very narrow interpretation is taken of what constituted a loss. No compensation is paid for disrupting lives or for the loss of neighborhoods – friends, comfortable habits, etc. These losses are undoubtedly difficult to quantify, but they are nonetheless real. Not being willing or able to quantify them precisely, we act as if they are not losses at all. Administratively the programs are often even less generous than they seem on paper. In Massachusetts, for example, if the state and the owner cannot agree on a price in eminent domain proceedings the state takes the property for $ 1 and then both parties go into court to find a fair price. For however long this takes, the owner is deprived of his or her property.

The same approach is followed in the Trade Assistance Adjustment Act. Since the benefits of free trade are general while the costs are usually localized, it would seem fair to compensate the losers from the general gains. Yet until recently, adjustment assistance has been run as if the aim is not to spend any money or to find any cases of valid disruptions and losses.

To conduct either public of private business, more adequate compensation systems are going to have to be developed in the future. Those who suffer the localized costs that generate universal benefits are going to have to be compensated. But this is also likely to make a change in the mixture of the mixed economy, since government will undoubtedly be called upon to help decide what constitutes fair compensation and how the necessary revenue should be collected.

II. *The Growth of Government: The Vanishing Disinterested Citizen*

Many people think that the mixed economy has become unstable. One part of the mixture – government – is threatening to swallow the rest of the mixture. In examining this argument, there are at least three ways one could measure the mix of the mixed economy. (1) What proportion of national resources is spent by government? (2) What proportion of national resources is transferred from one private individual to another by government? (3) To what extent does government influence (regulate) private decisions?

If we look at the U.S. economy from the perspective of each of these three measures, it is clear that the mixture has changed most in dimensions (2) and (3). Government purchases of goods and services have only grown from 18.9 percent of the GNP to 21.6 percent of the GNP from 1956 tot 1976. This is a relatively small increase, but Federal purchases actually went down from 10.9 to 7.8 percent of the GNP, while state and local purchases were going up from 8.1 to 13.8 percent. In terms of purchases, there has been growth of government, but the growth of 38,000 independent tax-levying agencies is not the same as the growth of some centrally-directed monolith. Just as there is not an integrated monolith called "the private economy", so is there not an integrated monolith called "government". Thirty-eight thousand governments are not going to swallow anything. Even within the Federal Government, one can ask whether the different agencies are really integrated and centrally-directed.

There has been an explosive growth of government in the second dimension. In 1956 only 4.1 percent of the GNP was transferred by government from one individual to another, but by 1976 this percentage had risen to 10.9 ($ 184 billion). If we added the cost of in-kind aid and business subsidies (maritime, etc.), the government's income redistribution expenditures would be even larger. (Purchases would, however, fall by a corresponding amount.) The ultimate spending decisions are still private, but government plays a role in determining the distribution of spending power within the private economy. The impact that this has on the mixed economy will be examined in a later section.

Government regulation is the third dimension upon which the mix of the mixed economy can change. While it is difficult to quantitatively measure changes in the mix on this dimension, it is equally clear that there has been explosive growth in regulation. But before examining the impact of growing regulation, we should look at the mirror image problems caused by the growth of government.

To be workable, a democracy assumes that public decisions are made in a framework where there is a substantial majority of concerned but disinterested citizens who will prevent policies from being shaped by those with direct self-interests. Decisions in the interests of the general welfare are supposed to be produced by those concerned but disinterested citizens. They are to arbitrate and judge the disputes of the interested parties. But as government grows, the number of such citizens shrinks. Almost everyone now has a direct economic stake in what government does.

The Watergate and associated corporate bribery scandals revealed the illegal side of this problem, but the real problem is not so much illegal acts as it is the incentive to use legal ones. With everyone's economic selfinterest at stake, we all form perfectly proper lobbying groups to bend decisions in our favor. But with the disinterested citizen in a minority, how are decisions to reflect the general welfare? Who is to arbitrate? Our natural inclination is to rely on the adversary process where different self-interested groups present their case, but somewhere there has to be a disinterested judge with the power to decide or tip a political decision in the right way. The general welfare is not always on the side of those that can mobilize the most economic and political power in their own behalf. If we really were to enforce the rule that no one could vote on an issue if his or her income would go up or down as a result of the action, we would end up with few or no voters on most issues. The problem is to establish a modicum of disinterested decision-making capacity in a political process where everyone has a direct self-interest.

III. *Regulating the Private Economy: An Irreversible Process?*

The growth of government regulations can be traced to a number of factors. In the first burst of regulations at the turn of the century, anti-trust laws were to break up man-made monopolies and government regulations were to control natural monopolies. The second burst of regulations in the 1960s and 1970s focused on the problem of correcting externalities. In cases like pollution, one individual can impose costs (dirty air, etc.) on another individual without having to pay compensation. The second individual's most natural recourse is to demand government regulations stopping the first individual's acts, and this is exactly what has been happening.

Non-market externalities have become much more important in the economy for a number of reasons. In our technically more advanced and much more congested society, one group's actions much more frequently impact upon another group – e.g., airport noise. But our technology has also revealed long-standing externalities that we previously did not recognize – e.g., the cancer danger of asbestos fibers.

The problem is real, but there are other solutions. Pollution externalities can, for example, be turned into market problems with effluent charges. Individuals and

business can simply be charged for their polluting activities until these activities are reduced to the desired level, until the funds raised from the charges are adequate to clean up the environment or to compensate those who must suffer the effects of the pollution. Similarly, many safety problems can be turned into market problems with accident charges similar to effluent charges. These accident charges are raised until they produce the desired level of safety or adequately compensate those being hurt. There are undoubtedly areas where such market solutions would be difficult to implement (cancer agents with long-time delays might be one), but they could solve the problems in many of the areas where regulations are now rampant. Yet despite our professed belief in the market, such solutions are resisted by everyone involved.

Those who want to protect the environment or the employee believe that people will simply pay rather than reduce pollution or accidents. Those who would have to pay in the first instance (in the long-run the consumer pays for any and all solutions) resist on the grounds that they do not want to pay for something that they have always had free of charge. This resistance is only rational, however, if you believe that the alternative – direct regulations – can be avoided or frustrated at a small cost. I would suggest that whatever the original validity of this belief, it has been proven wrong by history. Regulations will be adopted and substantial costs will be imposed regardless of whether the regulations do or do not produce the desired effects. Although it has resisted them in the past, the business community should become the prime proponent of market solutions to the real problem of externalities.

But other factors have also contributed to the growth of regulation. For reasons that are not altogether clear, society seems to be much more interested in protecting individuals from their own mistakes and failures than it was in the past. "Let the buyer beware" is not an aphorism that attracts much support anymore. This change is strange since one can make a good logical argument that we should be more willing to let individuals make their own decisions. Our citizens are now on the average much better educated, and better educated citizens presumably make fewer mistakes. Federal Housing Agency mortgage regulations act as if buyers are idiots, less important. We can now afford our mistakes more easily.

But the reverse is in fact true. We are much less willing to let individuals make mistakes. Federal Housing Agency morgage regulations act as if buyers are idiots, who must be protected against making any decisions for themselves. Similarly, consumer legislation acts as if the consumer is an idiot of the second degree, if not of the first degree. It is popular to explain the growth of these regulations as if they were forced upon society by some small extremely powerful minority that wants to torment the current economic system. This is a mistake. The problem is to understand why a majority of the voters want to be protected from their own mistakes.

In a similar vein the voter is no longer willing to tolerate substantial reductions in his or her real income without resorting to regulation in an effort to avoid the reductions. The OPEC energy price increase and the food price increases of 1973-1974 were both met with overwhelming demands for government regulations to mitigate the real income losses. Energy became a regulated industry and export embargoes were imposed on grain. In neither case could government regulation eliminate the price increase. At best all it could do was to spread the increases out over a longer period of time. But the regulations were adopted anyway. Perhaps these demands are connected with the growth of large institutions. Income losses are no longer seen to be the product of impersonal market forces, but are seen as the direct result of deliberate actions by some large economic actors.

While there were and are demands to have either horizontal or vertical divestiture in the oil industry, part of the growth of regulation must be traced to perceived failure of anti-trust laws. At one time it was thought that problems could be solved if markets were made more competitive. For a number of reasons this vision has faded from view. First, to the extent that the problem really is externalities, competitive markets are no solution at all. A competitive firm will generate as much, or more, smoke than a non-competitive one. Second, there is a suspicion that much of our economic progress is due to large firms. Without their research and planning, the economy would not operate as well as it does. Third, historical experience shows that breaking one very large firm into two of three smaller firms does not make much difference in industrial behavior. Slightly increasing the number of oligopolistic firms just is not worth the enormous effort it takes. Anti-trust laws have taken on a legal life of their own, but from the perspective of economics they have little meaning and no objectives. With the intellectual heartbeat dead in anti-trust action, regulation remains as the only alternative.

But large size also forces government to take many actions which it would not otherwise take. At the heart of competitive markets and capitalism lies the doctrine of failure. People are rewarded because they are willing to accept the risk of failure. Yet no government can tolerate the failure of any large economic actor. Neither Lockheed nor New York City can be allowed to fail since the disruption to our integrated economy would be too large to tolerate. Yet this creates a double standard with respect to the local grocery store and the small town that undercuts the whole rationale of the mixed economy. Individual economic actors are not on their own. If necessary, large actors will be rescued and controlled, but this creates a demand for rescuing small actors from their mistakes. If Lockheed can be rescued from its mistakes, why can an individual consumer not be rescued from his mistakes? But to rescue is to control.

Detailing the reasons why government regulations have grown, however, does not explain why the economy is becoming more regulated. If new regulations were matched by the abolition of old regulations, the economy would not become more

regulated over time. The failure of deregulation is also central to the process. To detail the failure of deregulation is to come right back to the lack of a disinterested majority and the problem of compensation for economic losses.

Consider the Interstate Commerce Commission and its regulations. The ICC was set up at the turn of the century when railroads were genuine natural monopolies. Since then, however, we have invented or perfected planes, autos, trucks, pipelines, and a host of alternative transportation systems. An industry that was at one time a natural monopoly has become one that could potentially be one of our most competitive. But the regulations continue.

The reasons are clear. Regulations affect incomes – capital and labor – after they have been in place for any period of time. Conversely, deregulation always poses large losses (capital or wage) on some of those in the affected industry. Often the people who will suffer the losses are not those who make the original income gains from regulation. The latter are long dead or they long ago sold out at capital values which reflected the value of regulations. In transportations deregulation, for example, many trucking firms would probably suffer losses. As a result it is not surprising that they and their employees resist deregulation strenuously. The rest of us may get cheaper transportation, but our economic self-interest is more diffuse and not as intense. A similar reaction could be seen in response to proposals to deregulate the airline industry. Who objected in an article on the Op-Ed page of the New York Times? Not some fool who wants to regulate everything for the sake of regulating everything, but the President of American Airlines. Regulations are held in place by economic self-interest.

Here again we face the problem that we have been unable to recognize the real economic losses that would be imposed and are unwilling to design compensation systems that would at least mitigate the losses. To compensate is to admit that the government has responsibilities when it suddenly imposes large economic losses, but the facto this is an admission that we long ago made.

IV. *Inflation: No Solutions Without Severe Side Effects*

For reasons that are not altogether clear, inflation seems to be endemic in the modern mixed economy. Historically prices have always risen in boom periods but they have fallen during recessions. What has changed is these periods of falling prices. They no longer occur. Monetary and fiscal policies can still be used to control unemployment, but they only have a one-sided effect with respect to inflation. They can make prices go up, but they cannot make prices go down. Given public demands to achieve acceptable rates of unemployment and inflation, pressures arise for the creation of new policy instruments to deal with the problem of inflation.

All of the suggested instruments will, however, make major changes in the structure of the mixed economy.

Direct price and wage controls need no comment since they obviously completely alter the structure of the mixed economy. All or most of the basic economic decisions must be made by some central planning process. As in wartime, it is highly likely that any long-run use of price and wage controls would also require labor controls such as those which existed in World War II.

"Social contract" solutions to the problem would also require major changes in the economy. If acceptable price and wage behavior is to be archieved by having the major groups in the economy sit down around a table and agree on acceptable price and wage policies, then the economy must be structured so that most of the population is represented at that table. Each group must also have the power to police its own members to enforce the agreed-upon arrangements. This means, for example, that the 75 percent of the labor force that is not now unionized would have to be organized into what would be de facto unions. Similarly, small business and farmers would have to be organized into representative groups with decision-making and policing powers.

Because of the ratchet effect in industrial prices, large fluctuations in raw agricultural prices are higly inflationary. When raw food prices go up, industrial prices go up with them, but when raw food prices go down (as they will and have), industrial prices do not go down with them. Agricultural price stabilization stockpiles can theoretically eliminate part of this instability, but they demand that government be a major buyer and seller of agricultural commodities at all points in time. This creates obvious pressures from both farmers and consumers to manipulate prices in their favor rather than to stabilize prices.

Bottleneck industries may also be part of the problem. Individual industries reach capacity operations before the entire economy has even approached capacity. Inflation breaks out in these industries and spreads across the economy. If this is the cause of inflation, the only solution is for government to develop policies for manipulating demand, industry by industry, or for it to develop policies for affecting supplies industry by industry. In wartime both types of policies are used to avoid bottlenecks that might stop military production. But either solution requires that government get much more heavily involved in industry, as opposed to economy-wide, decision making.

Similar problems exist if you work on bottlenecks in the labor market. From this perspective inflation occurs because of the structure of unemployment rates. Long before national unemployment rates reach acceptable levels, shortages of key groups, primarily adult white males, occur. Wage inflation starts among the groups in short supply and then spreads across the entire economy. Here the only solution is to alter the demographic composition of labor demands. At least in the short-

run, there does not seem to be any way to alter the number of women and young people looking for work even if you wanted to do so. Labor demands, however, can only be altered by either direct public employment or wage subsidies. Wage subsidies do not directly alter the public-private mix, but they will inevitably bring government more directly into the firm hiring decisions of individual firms.

Tax schemes have also been suggested for reducing inflation. In these systems, wage increases above some guideline level are not deductible business expenses and price increases above some guideline level push firms or individuals into higher rate brackets. When they are casually mentioned, these schemes seem like impersonal market mechanisms, but they are in practice simply price and wage controls with an agreed upon set of financial fines for violations. Acceptable price and wage behavior must still be defined and violators must still be caught and fined.

Another option is simply to learn to live with high rates of unemployment and/or inflation. Since the public does not accept high rates of either at the moment, it would have to be convinced that neither is as important as it has been led to believe in the past. Arguments could be made that inflation is, after all, a zero-sum game where there are economic winners to match each economic loser. Analysis indicates that the distribution of real incomes is little affected. On the other side, much of the unemployment problem is a youth unemployment problem and all young people will eventually grow older.

Alternatively, we could seek to reduce the public's resistance to unemployment and inflation by designing better compensation systems to reduce the welfare implications of either even further. Unemployment compensation could be made more generous and coverave could be extended to new workers. That part of the economy that is not now either de jure or de facto indexed could be indexed.

The problem with all universal indexing systems is that they cannot reduce the rate of inflation and will in fact probably lead to an acceleration in the rate of inflation. Living with high unemployment creates a human problem, since unemployment is very unevenly shared and creates gigantic losses in output. In the U.S. economy, operating at an eight percent unemployment rate rather than a four percent unemployment rate reduces the GNP by about $ 220 billion a year.

All of these suggestions for fighting or living with inflation leave something to be desired. They all have severe side effects that are going to impact upon the mixed economy. For many of the suggestions a good argument can be made that the cure is going to be worse than the disease.

V. *Job Security: An Unmet Demand*

One of the dimensions in which the U.S. mixed economy differs from its industrialized neighbors is the ease with which it is possible to fire labor in economic downturns. The U.S. usually has and tolerates rates of unemployment that are much higher than its industrialized neighbors. Both financial penalties and cultural or social mores against layoffs are much less restrictive. Yet at the same time surveys show that job security is the number one interest of the labor force. When workers are asked what they want in a job, pay usually ranks somewhere between third and sixth in desired characteristics.

The public opinion poll interest in job security is confirmed in a number of ways. Demands for seniority hiring and firing reflect a desire to confine job insecurity to a limited class of workers – new workers. Restrictive work rules are usually designed to guarantee job security. Businesses which look with envy at the lack of restrictive work rules in Japan would do well to remember that a price is paid for this freedom. Workers get tenure and are only fired as a very last resort.

Today's system of pension plans also means that job security is directly tied up with income security during retirement. The individual with a succession of short-term jobs will end up with a much smaller pension than an individual with one life time job. One's occupational skills are also tied to job security. Professional workers see job changing as a road to higher pay or better jobs, but for most of the population a job change means a reduction in income and a worse job. Incomes go down, not up. When skills are acquired on the job and when openings occur on a seniority basis, to move from one employer to another is to go to the bottom of the skill ladder and start all over again.

The rational economic man will also place job security at or near the top of his or her demands. Given that income is necessary to survive, most individuals are going to be averse to taking risks. They will be willing to trade a substantial amount of expected but risky income for the guarantee of a certain income. Workers often report that they would be willing to trade a lower rate of pay for more job security. Yet this is exactly what the economy does not deliver.

To most successful managerial or professional workers, the demands for guaranteed employment seem strange. This is because they do not usually face the risks of unemployment or the uncertainty in future income streams. As of late 1976, the average duration of unemployment was 16 weeks in the U.S. and 17 percent of the unemployed had been unemployed for more than 27 weeks. Given these probabilities, unemployment obviously looms as a major danger to be avoided. Businessmen are used to talking about the risks of business investments, but they forget the great risks of human capital investments. Going to college raises average incomes, but for white men there is a 60 percent chance that going to college will not lead to a higher income than if they had simply remained a high school graduate. How many businessmen would make investments where there was an expected rate of return of about 10 percent but an expected failure rate of 60 percent?

Job security is sometimes opposed on the grounds that is retards mobility and

hence productivity, but this is an argument that is difficult to sustain. Countries with much more job security have been outperforming us on a productivity basis for several decades and have now reached productivity levels higher than ours. If a lack of job security leads to restrictive work rules, job security may enhance rather than retard productivity.

In much of the rest of the industrialized world the demand for job security has focused on the private economy. Individual businesses bear the responsibility for providing job security. In the U.S., the demand has not focused on the private economy, but is now focusing upon government. Guaranteed public employment may not be an issue whose time has come, but it is certainly an issue whose time for public debate and discussion has come.

Some of the demand undoubtedly springs from the current recessionary unemployment rates, but the demand is unlikely to go away. There is little likelihood that high unemployment rates are going to disappear in the near future and the demand would remain even if the unemployment rates were lower. Job security tops the worker opinion polls even when unemployment rates are low.

If the government is to be the employer of last resort, however, then the government must produce something, even if employment rather than output is the prime objective. This creates a new mix in the mixed economy on two dimensions. First, there are few things which public employment could produce that would not compete with something that is already being produced by an existing private or public agency. Second, guaranteed public employment will significantly alter the nature of the labor market. The exact effects will depend upon the exact system of public employment, but all systems will make fundamental changes in how labor is hired and fired.

VI. *Income Distribution Problems: A Problem That Won't Go Away*

Income distribution problems occur in two fundamentally different dimensions. First, there is the demand for less inequality. Reductions are to occur in the gap between rich and poor. Second, there is the demand for parity among groups. Blacks, Hispanic Americans, American Indians, and women are all demanding parity with white men. The poverty programs of the 1960's, and the enormous increase in income transfer payments of the 1970's, have been our response to the first problem. Commissions against discrimination, manpower training, and affirmative action programs have been our response to the second. Often the two types of demands are lumped together under the general rubric of a demand for income redistribution, but they will in fact have very different effects on the mixed economy.

When it becomes clear that it was usually cheaper to lift someone out of poverty with income transfer payments than it was to raise the earning capacities of those in poverty, the emphasis of public policies shifted form skill-augmenting poverty programs to income transfer payments. From 1968 tot 1976, income transfer payments rose by $ 127 billion. Yet the mirage of self-sufficiency has prevented us from designing an efficient system of income transfer payments. Politicians who favor welfare reform and an efficient welfare system can always be portrayed as being in favor of welfare rather thans self-sufficiency. As a result they end up getting defeated in the next election. But self-sufficiency is impossible so we keep adding patches to the existing welfare system whenever problems arise. In the process it gets more and more inefficient, unfair and complex.

At the same time there is broad agreement on the general outline of what would constitute a fair and efficient income transfer payment system. Both President Nixon's family assistance plan and McGovern's "demo-grant" program were variants of the negative income tax. A national negative income tax could raise everyone above the poverty line for less money than is now being spent, but politically there does not seem to be any way of moving from the current system to it.

The current income transfer system has a number of negative effects on the mixed economy. The present system of complex, state-administered, but partially federally-funded, programs has enormous administrative costs per dollar delivered to the poor. Deficiencies in the structure of cash income transfers lead to even more cumbersome in-kind aid. Demands for rent control, food price controls, of energy controls arise whenever there is a sudden change in the prices of any of the basic necessities. Since we cannot adjust income transfer payments to cushion the income shocks on the poor of sudden changes in these prices, we are forced to institute partial systems of price controls. The demand for guaranteed public employment also arises to some extent because of the one major gap in the welfare system. Intact families with male heads less than 65 years of age are generally not eligible for any of the welfare programs. Yet such families constitute 47 percent of the population below the poverty line. (Overall 12.3 percent of the population lives in families that have incomes below the government's poverty lines.)

While the demand for what is in essence a guanteed minimum family income places strains on the mixed economy, the demand for parity is ultimately a much tougher problem. The problem of poverty can potentially be solved with an income transfer payment system that would not cost even as much as we are now spending, but the demand for parity can only be solved by a wholesale reshuffling of work opportunities.

As of 1975 there were 23.8 million blacks with an average family income 62 percent that of whites, 11.1 million Hispanic Americans with family incomes 67 percent that of whites, and approximately one million American Indians with family incomes somewhere between 30 and 50 percent of that of whites. In addition, the 44 million women who worked were asking why women who work fulltime year-round should make only 56 perçent as much as men who worked fulltime year-round.

Parity is a very intractable problem. Economic differences cannot be removed by eliminating discrimination except in the very long run. If discrimination were to cease now, it would take 45 tot 50 years for those who had been subject to discrimination and are already in the labor market to retire from the economy. If opportunities and characteristics are transmitted from parents to children, a much longer period of time would be required. The affected groups say that they are not willing to wait.

The strategy of the 1960's was to increase the skill levels of the affected groups in manpower training programs and to then let the individuals compete for higher earnings position in the labor markets. This strategy was a failure for a number of reasons: (1) Given the number of people involved, the costs would have been enormous. Even without the Viet Nam War, it is doubtful that the public was willing to pay the necessary bill. (2) When minority groups are aided, whites respond by increasing their own skills to maintain their relative position. Reducing black high school drop-outs increases the pressure for whites to go to college. (3) Since most U.S. job skills are acquired on the job and not in formal education and training, it simply was often impossible to give the necessary skills in government training programs. In addition seniority advancement systems made it impossible to use the skills even if they could be acquired.

But this leaves affirmative action as the only possible solution. Any program of affirmative action is, however, in itself a major change in the mixed economy. People must be advanced on some basis other than merit or productivity. Government must write the rules as to how and when people can be promoted. In addition, affirmative action requires that someone (usually a white man) must pay the costs of eliminating discrimination that occurred in the past and was not perpetrated by him. He did not cause blacks and women to have lower incomes, but his own job prospects must suffer to eliminate the problem.

Affirmative action is the paradigm example of why domestic problems are so difficult to deal with in the mixed economy. It is the ultimate zero-sum game where there must be a loser for every winner. If blacks, Hispanic Americans, American Indians, and women are to get a larger share of the high income positions of the economy, then white men must get fewer of these positions than they now have.

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In introducing his paper, the author pointed out that recent American public opinion polls had shown that a number of institutions – the Congress, the business community, the medical profession, among others – had lost a large measure of the people's confidence.

There was a new phenomenon of self-centeredness in U.S. society, with a decline in the willingness of individuals to make sacrifices for one another, including members of their own families. This mood did not augur well for programs calling for sacrifices, such as President Carter's energy plan (especially as some 70 percent of Americans apparently believed that the energy crisis was a fabrication of the oil companies).

The solution of problems such as inflation, the environment and job security was likely to involve more government regulation and interference in the economy, not less, so that the only hope for a net reduction in state intervention lay in the area of deregulation. To buy out opposition to such deregulation, new compensation systems would have to be devised.

The German solution had been to leave the market economy relatively free while at the same time effecting income transfers in aid of social welfare. Conversely, the reaction of most Americans during periods of crisis – energy and food, for instance – had been to call for government regulation rather than simply to aim to cushion the shock for poorer people by altering incomes through transfer payments.

In the author's view, the U.S. would be well advised to seek solutions to many of its problems through income transfer payments instead of regulating prices in the private sector. As an illustration, he suggested that the present food stamps be changed to "necessity stamps", which could be exchanged not only for food but for energy or other needs.

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German Working Paper:

"THE MIXED ECONOMY: SOME COMMENTS ON THE EUROPEAN EXPERIENCE"

The chairman of a British state-owned corporation recently delivered himself of a remarkable outburst. Sir Frank McFazdean, Chairman of British Airways, said that government had been "playing God in the marketplace with disastrous consequences". It had become a "vast industrial conglomerate, piling one unhappy acquisition on top of another, without purpose or direction, devoid over large areas of any proper financial control". The preservation of democracy and even elementary efficiency required a retrenchment of the arrogant interventionist urges of politicians and civil servants. Mr. Roy Jenkins recently asked whether democracy could

survive when 60 percent of GNP was distributed over the government budget.

The growth of public expenditure in all Western countries raises issues, not all of which shall concern us here. I intend to use the term "mixed economy" in the narrow sense of state interventions at the micro-economic level through a manipulation of the relative prices of the factors of production and of their allocation in the market. Although a clear dividing line towards two other forms of state intervention – regulation and the welfare state – cannot always be made, I see both these instruments by the state to respond to public needs as essentially market-conform alternatives to the mixed economy. The line becomes blurred when regulation involves, e.g., fiscal incentives, or when welfare state objectives are pursued via state-run services like education.

I hope to avoid these difficulties of definition by sticking largely to the industrial sector. This limitation of the subject also helps to avoid some of the very large questions familiar from the socialist-conservative debate about the essence of freedom (freedom to choose or freedom from want and security). Rather I intend to tell a rather tragic tale about a heroic attempt – to create wealth and to use it for public purposes – which almost came off.

My principal assignment, if I see it correctly, is to communicate some of the more exotic aspects of the contemporary European predicament by tempering criticism with sympathy. While ignorance and greed played their part in creating the problems of the contemporary European political economy, so did bad luck. "He never had a chance" is of course the starting point of many efforts, domestic and now also international, which lead to the manipulation of economic forces. Yet I for one would not wish to live in a society where this argument was considered irrelevant.

The postwar origins

The starting point of the story was the existence of serious deficiencies in the economic and social systems of 20th century Europe, and the emergence of a value system which refused to take these deficiencies for granted. The latter fact, a cultural phenomenon, is all too often left out of account in abstract discussions on the economic behavior of nations. Two things follow from it: One is that politicians never had the option of benign neglect enjoyed by their American and Japanese colleagues; the second is that the amount of state efforts to cope with deficiences is determined, to a considerable part, by the gravity of the deficiencies themselves. These vary among countries and over time.

Fascism and communism were, among other things, attempts to cope with these deficiencies. While postwar Western Europe opted for less drastic policies, a strong belief in the capacity of government persisted in most countries. In a sense, this is less puzzling than the reassertion of anti-Elizabethan instincts in post-Roosevelt

America. Had not fascist, communist, and Western war economies moved mountains?

Of coure, there were voices which warned against overtaxing democracy with tasks requiring a more robust form of governance. Yet the reverse also played a subtle role in shaping post-war behavior: democracy had to prove its legitimacy through performing according to the high standards of expectation fostered by ideology and past experience with alternative systems.

What were the "deficiencies and rigidities" which governments had to overcome? The case of the pacesetters of the postwar mixed economy, Italy and France, can best be understood by seeing them, as they saw themselves, as developing countries. Not only were they, by European standards, agrarian societies, they also shared a non-entrepreneurial banking system which had deprived industry of risk capital for decades. In addition, industrialization was very unevenly spread in the country. For Italy, the problems of the Mezzogiorno touched the very basis of its national existence (as did later Ireland and Scotland for Britain).

Since these deficiencies had persisted for a very long time, it seemed reasonable to assume that the spontaneous forces of the market would not relieve them in the future. Both countries started the postwar period with a large nationalized banking sector, as well as a number of nationalized companies. Italy, wisely, initially delegated most of the tasks of modernization and regional development to such a company, IRI, with the nationalized banking sector playing a supportive role. France, with a different tradition and with bureaucratic resources second to none, used the state's command over credit as a tool for manipulating the private sector. It is important to note that both models proved so successful in the 1950's, that other countries copied features of them in the 1960's.

In Northern Europe most people initially assumed that the task of postwar reconstruction, and the maintenance of a fair distribution of scarce resources among a disaffected citizenry would require very considerable state intervention for a long time. When the resiliency of the economies became apparent, and Marshall Plan aid promised to loosen the constraints of scarcity, a more or less conscious decision to return to a free enterprise system was made. At the same time, largely without impinging on the market economy itself, extensive welfare systems were developed. This alternative to the mixed economy, the separation between market and welfare, was nowhere as complete as in socialist Sweden and centrist-conservative Germany. In Germany, however, it was formulated into a theory, the "Soziale Marktwirtschaft", which has since hardened into a secular religion, almost as important to the basic polical consensus as the constitution itself.

This picture of the first decade of postwar normalcy would be even more grossly simplified than it is if mention were not made of the matter-of-fact attitude of all European countries towards the quasi-industrial service sectors: rail, electricity,

post and telecommunications, as infrastructure which had to be supplied by the state (sometimes even coal and steel were seen in this light). Subsidization of these sectors, in this initial phase, was often an act of deliberate policy, a way to subsidize industry in general and to keep inflation under control. Only later did these sectors develop into heavy burdens on all countries' budgets; not only because of inflexible management, but also because governments saddled these handy instruments with too many tasks of general economic policy (regional, manpower, procurement-industrial, anti-inflation policy). These sectors were thus the precursors of later failures of the mixed economy.

A number of generalizations can be made about the European experience of the fifties which should prevent us from making easy judgments on the merits of the mixed economy. The first point to make is that both the "liberal" and the more "managed" countries were successful in promoting high growth, consistently more successful than the United States. Andrew Shonfield sees a major explanation in the ability of the European welfare state at that time to generate high savings, in spite of the seemingly inherent tendencies of such states to over-consume. While in Latin Europe, venturesome state banking contributed towards this success, in Northern Europe heavy corporate taxation which could be avoided by the reinvestment of profits, and the establishment of obligatory social insurance systems, helped to mobilize investment capital. A crucial feature of the success of the fifties was, of course, the then prevalent reconstruction mentality of the trade unions, which allowed these instruments of forced saving to work.

Free trade: Threat to free enterprise?

The comparatively modest involvement of the state in the economy of the fifties took place under conditions of limited and managed external trade. Tariffs, quotas, exchange controls, etc., were only dismantled to a limited (if crucially important) degree through the OEEC, and then on a regional basis only. The founding of the Common Market, and the restoration of currency convertibility in the late fifties, which put into effect earlier and rather theoretical tariff concessions, ushered in a new period of growth for state intervention into the economy.

To put this reaction into perspective, it is useful to remind ourselves that few nations anywhere in the world have embarked on an experiment of this magnitude and opened their economies to outsiders to this degree. Foreign trade now accounts for almost a quarter of GNP on average in these countries, and in the crucial sector of manufactures the proportion is about double this figure. The U.S. and Japan, especially, if one considers the heavy raw material content of their imports, are not even in the same league. The proximity and basic similarity of the major trading partners (i.e., other Western Europeans) meant that trade could and did take place over the entire range of production. Being squeezed between the high-technology domination of the U.S. and the low-technology challenge of the Third World added to the pressures.

Not surprisingly, therefore, most European governments swore their oath of allegiance to a liberal world economy with their fingers crossed behind their backs. Governments intervened, both in order to strenghten, prophylactically as it were, weak sectors, and in order to take part in the race for the establishment of advanced industries. As Romano Prodi has written, much of Western Europe "passed from tariff protectionism to financial protectionism", and by the same token from what one could call "macroeconomic", noninterventionist protectionism to microeconomic, interventionist protectionism.

A second element of international liberalization pushed governments in the same direction: the freeing of capital movements, and hence the threat of foreign purchasers taking control over key economic sectors. Together these two forms of protectionism led to the policy of "national champions", the creation of strong companies able to meet or thwart international competition. The instruments were various:

- expansion of nationalized industries into high technology sectors (IRI and especially ENI in Italy; nuclear industry in France and Britain), with the aid of financing through the public purse or state-owned banks, social insurance funds, etc.
- the induced merger of fragmented industries with the help of credit incentives, often under specially set up "marriage bureaus" (e.g., the IRC in Britain). The French steel, aerospace, naval and computer industries are examples.
- the encouragement of mergers through benevolent suspension of antitrust laws (German steel).
- privileged procurement relations between state and favored firms, which thereby could be forced to merge (e.g., the nuclear and aerospace sectors).
- very substantial R & D grants to favored firms (in France, 35 percent of all private sector R & D).

If the term "champion" suggests a race horse, a quite different animal came in time to profit from some of the same instruments: the lame duck. Increasingly, firms which failed to keep up with international competition had to be rescued. Often the creation of national champions and the bailing out of bankrupt firms occurred simultaneously, as in the case of French steel in the mid-sixties, and of the British motor industry in the early seventies. Sometimes the rearing of a technological leader changed into the support of a lame duck, without an intervening period of commercial viability. The Concorde is a case in point.

Even Germany engaged in an extensive *Strukturpolitik* to render weak sectors

like textiles and shipbuilding "competitive", a term which falsely suggests an adherence to market principles.

Trade may have contributed to the growing weakness of European industry in ways more subtle than just by revealing losses of comparative advantage. One such effect may have been the introduction of genuine competition to such a degree that profit levels were depressed for all but the strongest. The various ways in which the market economy saves itself from its worst excesses, i.e., through restrictive business practices, informal oligopolies or formal cartels, did not disappear in this period, but were less effective as entrants to the market multiplied. Low rates of profit and hence investment led, of course, to a cumulative loss of technological advantage. While governments are usually accused of contributing to low profits through high taxes, in Italy and Britain they seem to have given almost as much as they have taken. The principle of the "squeaking wheel", e.g., short-time employment considerations, has consistently assured that money flowed to the weakest sectors starving the more successful ones of capital.

A further consequence of the liberalization of economic transactions which gave a boost to the mixed economy in Europe was the failure of macroeconomic management which resulted from it.

The need to maintain growth, full employment, a tolerable rate of job mobility, a reasonable income distribution between regions and classes is common to all European governments. To the extent these aims could be realised through macroeconomic policies, the private sector remained free and the economy prospered. The exception is Britain, which received such violent doses of macroeconomic management in the first two postwar decades (before giving up its liberal convictions and being forced into microeconomic management) that private industry suffered heavily.

With the exception of Italy, where belief in Keynesian macroeconomic policy was always weak and where countercyclical investment programs by the public sector are an established feature, the rest of Europe seemed, until the late sixties, to pursue a steady path away from the microeconomic conjunctural (as opposed to sectoral) intervention of the early postwar years. An example is France, where Keynesian theory only came into its own in the sixties.

There are signs that the shift which occurred in the postwar decades from reliance on micro- to macroeconomic tools of management is now being reversed. The reason for this is of course the failure of macroeconomic policy in the seventies. While there are many reasons for this failure, increased economic interdependence is doubtlessly one of them. The liberalization of trade and capital movements has produced a genuine world economy which has taken on a life of its own. Fluctuations in total demand, both inflationary and recessionary (probably amplified rather than dampened by international coordination of policy) have taken on such a magnitude that national countercyclical tools are simply overwhelmed.

This has two consequences for the growth of the mixed economy. One is that microeconomic intervention is brought in to supplement the blunt tools of macroeconomic management. Attempts at wage and/or price control in Britain, France, Italy and Sweden are one example of the suspension of market forces for demand management purposes. Other examples are the growing importance of countercyclical investment grants and policies for public and private enterprises in all European countries. During the slump of 1968 to 1971 public investment in Italy rose from one-third to one-half of gross fixed capital formation, a process which had a clearly countercyclical effect in the short term but may have contributed to a (further) misallocation of resources in the medium term.

In Britain as in other European countries, the already heavy task of public enterprises and state-run incentive schemes to promote growth and full employment in general, and within unfavored regions in particular, has merged imperceptibly with the manipulation of investment flows for countercyclical purposes, coupled with selective price controls familiar from the infrastructure sectors. Even Germany, during the 1975 recession, adopted a sectoral investment incentive scheme (for building) in addition to across the board anti-cyclical alleviations of corporate tax burdens which are common to the Atlantic world as a whole.

At least as important as planned microeconomic countercyclical interventions, are ad hoc rescue operations which become necessary to help firms and sectors which are most seriously hit by the general failure of macroeconomic policy. In the early seventies, state holding corporations were founded or strengthened in most European countries to help routinize the acquisition, financing and managing of lame ducks. Even free-enterprise-minded Sweden, which for decades had put its faith in a civilized form of labor mobility, founded its own lame duck organization, AB Statsföretag. In Italy, Gestioni e Partipazione Industriale (GEPI) was founded to take care of lame ducks, so as to relieve IRI of the constant pressure to nationalize them completely. In France, the Industrial Development Institute (IDI), also founded in 1970, similarly subscribes equity capital to ailing companies, on the model of the British IRC (abolished by the Tories in 1970, but reborn as the National Enterprise Board.

Space limitations (or rather the knowledge that lengthy conference papers tend to remain unread) prevent my arguing in greater detail the thesis that trade leads to adjustment burdens and a failure of macroeconomic policy which jointly push most European countries towards increased "mixing" of their economies. The great liberalization experiments initiated in the late fifties were planned, more or less unconsciously, for a world economy serenely and effectively managed under the Pax Americana. They were also based on the assumption, almost uncritically adopted from continent-sized America, that adjustment capacity was both infinite and hence equal for all countries.

If nothing else, that powerful indicator of adjustment capacity, the rate of replacement for capital investment, seems to be determined by a host of factors which form something like a national-cultural characteristic: the rate of profit considered legitimate, the entrepreneurial spirit of managers, the willingness of labor to adapt to new machines, the amount of total national saving devoted to social infrastructure investments (claims by the state on the capital markets), etc. One has only to look at the extreme case of Japan to realize the socio-cultural determination of the rate of capital replacement.

Having said this and, perhaps for the love of a paradox, related the decline of domestic liberality to the increase in global liberalization, I would be inaccurate to leave out of account the domestically-produced rigidities in European economic and social systems which have reduced the capacity to deal with fluctuations at the very time these were increasing.

Since we are here on very familiar ground they need only be stated briefly. One cause for rigidity is the increased struggle over distribution in all countries as the postwar reconstruction mentality faded and deferral of consumption in favor of investment became harder to justify. This not only applies to industrial wages but also to demands by groups such as civil servants or farmers, whose claims have to be met via taxation. High wages and taxes combine to weaken companies and make them ripe for state aid.

A high level of corporate taxation, moreover, has come to assume a symbolic aspect in Europe, as the quasi-logical counterpart of wage restraints. Recently, a tax cut considered necessary by the Dutch government to stimulate investment activity could not be pushed through against political opposition, so that direct grants to industries with employment problems were used instead. Similar tales can be told in most other Western European countries. This is one way to speed up the spread of the mixed economy.

While it is true that the recession brought calls for an equitable sharing of misery as between labor and capital, it also brought a slight rehabilitation of profits as a source, present and future, of job security. Of late, however, these gains of capitalist rationality are again being lost as the evidence shows that reinvested profits in a recession are used to rationalize production with a possible net loss in jobs.

The legitimacy of profits, and of the right of the owners of capital to allocate the surplus created jointly with labor has of course become a live issue, usually discussed under the heading of worker participation (in management and/or ownership). Although the state may get involved in legislating such a shift in power (Mitbestimmung, Bullock), this problem does not fall strictly within the definition of the mixed economy as used here. To do it justice would require another paper.

A further rigidity is reduced labor mobility. The traditional attachment of the European to his home community has been reinforced by increased home-ownership. The willingness to change skills, too, is reduced: by the rapidity of obsolescence in spite of retraining schemes, and by the tendency of technology to degrade the skill-level of many jobs. The revolt against the assembly line, whose clearest symptom is absenteeism, further reduces the adjustment options open to industry.

A great many rigidities, however, stem from the mixed economy itself, i.e., they are (again a paradox) the result of coping with earlier rigidities. There can be little question that active participation by the state in the running of enterprises tends to slow down their ability to respond to changed circumstances. Any multi-layered decision-making structure does, but especially one composed of men with quite different expertise and purposes, i.e., industrialists, civil servants and politicians. (State ownership as such is theoretically a neutral device, as the cases of Renault or German Salzgitter show; but such ownership lowers the threshold for direct state intervention.)

Not surprisingly there is a lively debate, especially in those countries hardest hit by the pathologies of the mixed economy, on how to establish a measure of efficiency into an increasingly messy situation. In Britain, the nationalized industries have formed an association to achieve, among other things, a more arms-length relationship towards their tutelary ministries. On the other hand, the existence of whole sectors of private enterprise living on the public purse, e.g., shipbuilding, have led to demands for total nationalization as a more honest alternative. In Italy, the communist party argues in favor of denationalization of large parts of manufacturing industry. (However, private industry has had access to considerable state aids, and in some cases bent the purpose of politicians to their own ends, e.g., by building high-technology industries in the Mezzogiorno with aids destined to raise employment.)

Germany: on luck and virtue

The precarious situation of many other European economies serves to enhance Germany's successes. While it would be correct to attribute much of this success to the free-enterprise commitment of industrialists, civil servants and politicians alike, the reverse causation may also be true: Germany's successes have saved it from the necessity of applying second-best approaches to economic order. The example of Germany as much as that of Italy supports the proposition that the mixed economy is a function (and only later the cause) of systemic failures.

Germany's greatest asset is that, with Sweden, it has perhaps the most sophisticated trade union movement in the world. This is due to luck (the British military government supported industry-wide over craft unions) and to virtue (the comparatively open-minded attitude of employers, the willingness to defer consumption for a long time after the war, the ability of union officials to read balance sheets and national accounts, etc.). This attitude of the trade unions practically solved two of the policy targets which are the despair of other governments: price stability (wage increases in step with productivity increases) and balance-of-payments equilibrium (high regard for the competitiveness of exports).

A second asset, largely under the heading of luck, is the comparatively even distribution of high value-added industrial and service activities in the Federal Republic. This has meant not only that fewer resources had to be made avaible for regional policy, but also that they could be concentrated on a few localities and cases and hence achieve lasting successes.

Another element of luck in the German starting position was the existence of very large firms (by then prevailing standards) which could tackle the huge technological development tasks of the postwar period without government help. Again, this freed resources for the few sectors where help was needed, like the nuclear industry, or allowed generous state support for irretrievable lame ducks, like the coal industry, without crippling the economy.

The small size of the problems confronting the economy also accounts for the success of the small, but efficient, public investment bank, the Kreditanstalt für Wiederaufbau which serves (on a modest scale) as a tool of public industrial strategy. Another German peculiarity, in striking contrast to France and Italy, is the special role of the three large private banks in serving as instruments of industrial planning and rationalisation which in other conutries have to be taken care of by public bodies. The German practice of transferring to banks shareholders' votes (*Despotstimmrecht*) gives their representatives a powerful voice on the boards of directors, reinforced through close creditor-debtor relationships. Being represented on the boards of all major firms in a given sector, the banks gain a complete picture of the situation and can proffer advice accordingly. The high technical competence of these unofficial planners contrasts favorably with all but their French public counterparts.

The argument so far has been to say that Germany had less need to take recourse to elements of the mixed economy, either because its problems were smaller or informal alternatives were available. We seem to be observing two processes in Europe: a virtuous circle in Germany and a vicious one in some other European countries, forced by weakness to deprive themselves of the basis of future strength, i.e., by misallocating resources. The importance of misallocation rather than capital shortage is brought out in the following table:

Investment and output, 1953–1973

Manuf. investment % of value added manufacturing		Increase in manuf. output per increment of capital expenditure	
Japan	24.2	Japan	100 (ref.point)
Italy	19.5	West Germany	80
Sweden	16.0	France	70
France	15.6	U.S.	70
West Germany	13.3	Italy	65
U.K.	13.1	Sweden	60
U.S.	11.9	U.K.	40

Source: OECD National Accounts – Deutsches Institut für Wirtschaftsforschung.

But the story does not quite end here. One of the most fundamental acts of public intervention in Germany has been to insure a consistently undervalued exchange rate. This not only contributed to a much steadier conjunctural path of the economy (wasteful deflationary periods could be avoided through an assured access to a seemingly dependable world market), but it also frequently hampered the task of the weaker European countries to cope with their balance-of-payments problems. These countries were thus forced into sub-optimal growth paths (deflationary correction of their payments balances).

The high export specialization achieved under this strategy continued for a while to facilitate economic policy making, even under floating exchange rates when cheating seemed no longer possible. When the whole OECD world was plunged into oil deficits, Germany's flexible industry could respond fastest to new opportunities when speed rather than price counted most. Nevertheless, Germany's successes, whether due to luck or virtue, contribute to the failure of its partners.

The German government is waking up, if slowly, to the dangers of this situation. In 1975, the recession of its European partners contributed to a fall in German exports and hence in GNP. Worse, voices were raised, especially in Britain, calling for a siege economy. The failure of some European countries to live with the world economy threatens to push them – after the failure of both Keynesianism and the mixed economy – towards more fundamental changes in regime.

In a sense, the German government is the prisoner of its past successes. The German economy cannot survive if 50 to 60 percent of its export market (Western Europe) suffers a decline of shuts itself off. A stimulation of internal demand would

help other countries, but cause inflationary uncertainties (it is hard to remain sympathetic to these anxieties in view of the stakes involved), and it would not necessarily raise domestic employment very much. The exchange rate will not function very well to redress the current account balance, and if it did, it would cause a recession in the export sector.

The method used so far, a kind of national deficit financing (of exports) on a huge scale, whether through central bank or private credits, is not sustainable even in the medium run as a means to keep up demand in pace with productivity increases.

It is hard to escape the conclusion that the government will need to take recourse to the tools of the mixed economy to carry out the long overdue shift away from export-oriented to domestically-oriented demand, without which both German and European economic security are jeopardized. One straw in the wind is the $ 5 billion public investment program for infrastructure decided on in early 1977. But this scheme is purely employment-motivated. The suggestion that the German consumer be allowed to enjoy the accummulated reserves (e.g., through a public "foreign" procurement program, both civil and military) which would correct the payments balances of our trade partners with sufficient speed, would be laughed out of court. So would the suggestion that the Bundesbank buy bonds in the European Investment Bank on a large scale, rather than in low yielding U.S. Treasury bonds. Are German virtues an obstacle to a timely response to a changed world? Will its luck run out?

We started out with the proposition that the mixed economy is a response to systemic failures in a context of shaky political legitimacy and high expectations. In a sense, the growth of interdependence has destroyed the dividing line between the healthy German and the troubled partner economies. There are no easy choices left.

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In his introductory remarks, the German author mentioned a few of the important themes about which he could have written, had space permitted: the relative limits of the state and the market in solving economic problems; or, how to improve efficiency in the service sector; or, the growth of the planning function, as exemplified by the French Seventh Plan and the Congressional Budget Office in the U.S.

Instead, however, he had chosen to dwell on the role of international economic interdependence in accelerating the trend towards the mixed economy. This was not necessarily the most important factor in that trend, but it involved some recent objective differences among European countries, and between Europe and America, and would help to steer the discussion away from utopian abstractions.

He reckoned that the most controversial part of his paper would be his thesis that free trade had, in effect, proved to be a threat to free enterprise. That is, the interdependence achieved through the GATT and the EEC had reversed the trend towards macroeconomic intervention which had seemed clearly established by the late 1950's.

One way in which free trade had encouraged the mixed economy was by replacing tariff protectionism with financial protectionism. Thus we had seen the "prophylactic" reorganization of key industrial sectors in anticipation – perhaps overestimation – of the competition to come. "National champions" had been created in industries considered important for future trade competition. The state had sought to rescue threatened industries through massive infusions of capital, and had assumed the financial risks of new technological developments.

But this financial protectionism had often brought the state to spend taxpayers' money in second guessing fairly straightforward market opportunities. Had economic growth continued unabated, we might have been able to say that the high cost of misallocating resources had been worth it to keep the peace domestically. As it was, though, we could only conclude charitably that governments had often been under irresistible pressure to do *something*. Nurturing "white elephants" such as Western European shipbuilding or the export-oriented refinery industry of the Mezzogiorno had been akin to using a presidential pardon to reprieve industries condemned to death by the marketplace. The economic costs of assuring political stability through such side payments might in the end endanger that very stability.

One was used to worrying about the loss of control over economic policy caused by the international integration of money markets, i.e., the blunting of the instruments of the bank rate and the money supply. But in addition we now had the effect on demand management of the very large trade shares in the GNP of the European countries, coupled with the increased amplitude and synchronization of world business cycles.

In those conditions, even a very restrictive domestic demand policy could not escape the inflationary effect of foreign demand for exports or of rising commodity prices for imports, and in a recession even the substantial deficit spending such as practiced by Germany could not offset the shortfall of export demand during a world slump.

Dumping a man in hot water and then pushing him out into the cold would quickly establish a need for medical treatment. In the author's analogy, this was what had happened to Europe in the 1970's and the mixed economy represented the required medical facilities. Germany's virtuous success in the present world economy was related to the weaknesses of its trading partners in a sort of feedback loop which threatened, paradoxically, to undermine the German success.

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1. *Introductory Comments*

To lead off the discussion of this part of the agenda, an American and a Dutch participant offered a brief analysis of the subject in light of the working papers.

The American speaker, referring to the problems outlined in his compatriot's paper, said that it was important to try to see how they were related to the role of government in the U.S. economy. He posed these questions:

(1) Had the expanding role of government caused or merely exacerbated the problems?

(2) Was it the very nature of government intervention, as distinguished from its extent, that presented the difficulty?

(3) Had the existence of the problems described in the working paper – or of other problems – called forth more government interference, which we were now complaining about?

(4) As the German paper suggested, was there a vicious circle at work here, in which economic problems evoked responses from the state which only made matters worse?

(5) Alternatively, were these problems which we were bound to face without regard to the role of government?

In seeking answers to these questions, the speaker proposed the following line of analysis:

(1) *Was government's involvement in the U.S. economy increasing?* He agreed with the assessment of the American author that there had been little encroachment on the private sector during the past 20 years. The rapid increase in the costs of local government had been largely related to the enlargement of school systems to accommodate the postwar "baby boom".

As measured by transfer payments, though, the role of the state in the economy had grown substantially. But a larger part of this increase was due to the expansion of existing programs (Social Security benefits and unemployment insurance) then to new programs (Medicare, Medicaid, aid to families with dependent children, food stamps, etc.)

In any case, the period of rapidly expanding transfer payments was behind us, and the two major areas of unfinished business – welfare reform and health insurance – would probably be approached with great fiscal caution.

On the other hand, the government was getting into new areas of regulatory intervention which would indeed prove costly: environmental enhancement, job safety, pension reform, consumer protection, etc.

(2) *What had led government to greater intervention in the U.S. economy?* Against the background of the depression, the Federal government had taken on a moral commitment at the end of World War II to assure the economic well-being of its citizens. At the outset, countercyclical macroeconomic policy had been the only instrument envisioned. But more recently, and especially in the last decade, the effort had been aimed more at providing minimum standards of living for individuals within our society, as distinguished from improving aggregate conditions and equal economic opportunity for minority groups.

At the same time, problems such as increasing population density, potential resource scarcity and growing technological sophistication had magnified our concerns about the side effects (or "externalities") of the private-sector market decisions. Government had become involved as the arbiter of these externalities, for instance in the field of environmental protection.

(3) *What were the consequences of this greater governmental involvement?* First of all, it meant that the state was caught up, almost unwillingly, in an unprecedented range of responsibilities and promises, with which it was ill-equipped to deal. We were no longer asking it just to build roads or deliver the mail, but to engage in social engineering. If we had achieved greater social equality, it had been at the expense of some economic efficiency. Moreover, we had reinforced the inflationary bias of our economy through the expectations which accompanied government's commitment to social welfare, and we had acquired a measure of rigidity in the process.

(4) *What were the alternatives?* If we believed that the adverse consequences of increased government involvement in our society outweighed the benefits, the forthright course would be to renounce the new commitments which had brought the state more and more into our personal and economic lives. But the speaker rejected this as the best route for the future.

If one believed, on the other hand, that these commitments of government were fundamentally justified, and that there was nothing inherently self-defeating about any attempt by the state to alter the economic process, then the appropriate response was to seek ways to improve the effectiveness of government intervention, rather that to bemoan it.

For one thing, we could introduce greater consumer choice into government programs (e.g., student vouchers rather than aid to universities), and we could replace or supplement regulation with market-like incentives (e.g., effluent charges, insurance premiums related to job safety, etc.) We could also emphasize pilot projects and experimentation in place of wholesale openended commitments to new social programs.

(5) *What were the prospects for government's role?* As the American working paper indicated, there was widespread disillusionment in the U.S. about government's ability to deal effectively with social and economic problems. On balance, though, Americans were not prepared to abandon the commitments taken on by the state during the past decade. At the same time, it was improbable that they would choose to strike out in new directions. They were therefore likely to be best occupied in refining existing programs. In this context, it was significant that President Carter had promised not only to balance the Federal budget by 1981, but also to hold down Federal expenditures to the same proportion of the gross national product as at present.

The major uncertainty in the future outlook had to do with the implications for the mixed economy of our attempt to deal with the energy problem.

The Dutch participant appreciated the analytical aspects of the working papers but did not share the apparent value judgments of their authors. He avowed that he had no mixed feelings about the mixed economy. In his view, it was here to stay and "we'd better try to get used to it and to understand it if we want the more democratic part of our world to survive."

Discussion had to be based on a proper conceptual framework, and he found that the working papers had not adequately defined the mixed economy. His own search for a definition would start with these questions: Why is a public sector needed if consumer preferences should rule and if there is a clear preference for decentralized decision-making? Why not leave things to Adam Smith's "invisible hand" of market forces instead of to government regulation?

Some would answer that the role of the state reflected ideologies which had less confidence in the wisdom of consumer choice, but this was only a partial reply. In the speaker's view, a more complete response was that it had been demonstrated that the market price mechanism alone was not capable of carrying out all the important economic functions, and that it had to be supplemented and protected by government intervention. The mixed economy was thus seen as a basic characteristic of any well-organized democracy, now or in the future.

One implication of this line of analysis was that the proper size of the public sector was not an ideological but a technical matter. This was so for several reasons:

(1) The conventional wisdom that the market mechanism led to an efficient allocation of resources was based on the unfulfilled condition of competitive factor and product markets. But how was this condition to be fulfilled in fact without government intervention?

(2) Even if all the barriers to competition were removed, the production and consumption characteristics of certain goods were increasingly such that they could not be provided through the market. Problems of externalities arose which induced market failure, requiring solution through state intervention or regulation.

(3) The rate of discount used in valuing future vs. present consumption differed when seen from a public vs. a private viewpoint. In a democracy, the private sector would vote for government policies which reflected the voters' evaluation of their own lack of foresight. The speaker said that his argument that market deficiencies called for public policy correction or compensation did not mean that any particular policy measure undertaken would be bound in fact to improve the economic system. Public policy, no less than private, could be mistaken and inefficient. But if a democratic system worked well, and consultation with the private sector were sufficiently intense, then it seemed probable that a highly mixed economy would function better than one with a low mix.

The speaker concluded with what he described as the "harsh judgment" that economics had failed both in diagnosing problems in our societies and in prescribing ways to help politicians. In his opinion, we would be on the wrong track if we assumed that the problems of the mixed economy encountered in America were fundamentally different from those in Europe, even though the scale and the institutional setting might be different. The key issues were the same: unemployment, inflation, growth, the environment. And the final goal of any economy had to be the preservation of a democratic society in which we could continue to survive.

2. *The Recent Historical Background*

As a British participant observed, political leaders throughout history had been led by motives of philanthropy or expediency to intervene in the workings of the economy, and political demands for state intervention would doubtless always be with us. A Canadian speaker said that some historians might choose to call an economy mixed where the role of the state had been limited virtually to defense, the conduct of foreign affairs and the preservation of the established church. But the passage from a private economy to a mixed one, in the sense of our present discussion, was generally thought of as occuring when government's share in economic activity as a whole began to be perceptibly larger than in earlier times. Something of the kind had taken place in Western society during the past quarter century, and a number of participants described the experience of their own countries during that period.

In postwar Italy, for example, the "mixed economy" had meant essentially a state presence in the basic sectors, such as steel, to insure a steady flow of materials and the absence of bottlenecks. Efficiency had been a primary consideration, and state-sponsored companies had had to find their funds in the marketplace at only marginally cheaper rates.

The orientation had begun to change by the early 1960's, with the state expanding into such sectors as electronics and nuclear energy. When electricity was nationalized in 1963, an Italian socialist leader had explained candidly: "There are no objective motives which call for nationalization of the electricity industry in Italy today. But we have to stick this pole in the wheels of the government's cart to keep the neo-capitalists from solving – through their policy of prosperity – the problems which constitute our raison d'être."

In an effort to assure economic expansion and employment, the state had invested in many weak companies, and efficiency had come to be replaced by loyalty as the cardinal attribute of management in state-controlled firms.

In the face of staggering financial losses, though, Italian sentiment – even among Communist leaders – now seemed to favor retrenchement of the state's role in industry. One view attributed this development in part to the advent of greater competition in Italian political life, the long dominance of the Christian Democrats having had, it was argued, a corrupting influence on the mixed economy there.

A similar corrupting effect was seen to have occurred in the U.K. One British participant said that the "soft option" approach at the heart of the mixed economy had done a debilitating job in Britain and elsewhere, producing a "cat's cradle of subsidies" under which more and more people were paying for other peoples' failure to satisfy the market. A combination of trade unions, academicians and pressure groups had created an avalanche of well-meant regulations, tax disincentives and demands for equality of condition, which added up to a substantial barrier to the spontaneous creation of jobs.

Another Briton alluded to the emergence in his country of a whole new "industry": governmental relations. With many salaries and dividends blocked – statutorily or voluntarily – management was spending an inordinate amount of time talking to politicians and civil servants trying to keep abreast of what lay ahead for industry. A pernicious side effect of the mixed economy was that people began to believe it was the responsibility of government to solve all economic problems.

Opinions were divided about the French experience. One view was that the nationalized sector was efficiently run and posed no threat to the country's sound development. The French preferred to seek a "mix" in every sector rather than to depend on direct regulation of the economy. Other French participants, while conceding that state-owned industries could be dynamic and productive, felt a need to infuse the public sector with greater entrepreneurial spirit and freedom to take risks. This would require substantial decentralization (which itself would have to be planned).

A French participant argued that "liberalism" in his country had produced a greater degree of socialism than had the German of Swedish brand of social democracy. A German participant described the philosophy underlying the postwar experience in his country. Running a mixed economy in a democratic constitutional society, he said, required a high degree of common basic understanding by both labor and management about economic processes, about what were the prerequisites and consequences of any proposed action.

The Germans had sought to achieve this in a number of ways: (1) by the election of workers' councils; (2) by the nomination and election of employee representatives to the supervisory boards of firms in the private sector; (3) by giving the workers a strong feeling, not only of participation and decision-making, but of being treated fairly; and (4) by providing, through a comprehensive social security system, a sense of assurance about the future.

As a result of these measures, state regulation of markets in Germany had been considerably less than in other countries, and there was little labor unrest. There was more class struggle rhetoric than there was actual class struggle. The good day-to-day working relationships among government, trade unions and industry seemed to be the only "secret" behind Germany's superior economic performance during the past decade.

The main problem facing all of our democracies today, the speaker said, was how to restore full employment and maintain economic continuity while improving political stability.

Although it was claimed that the issues presented by the mixed economy were essentially the same on both sides of the Atlantic, several participants referred to the absence of ideological pressures in the U.S. for greater government intervention in the economy. Indeed, a number of industries there which had undergone a period of state domination had been turned over to the private sector: nuclear energy, aluminum, satellite communications. American trade unions preferred to work with private employers, and one labor leader said that any significant enlargement of the public sector in the U.S. would come, not from ideological pressures from the left, but from actions by conservative administrations to rescue troubled companies, lest their failure have a depressing effect on business as a whole (e.g., Penn Central). Other American speakers countered that the principal proponents of less government involvement in industry were businessmen.

3. *Rescuing Lame Ducks*

A common feature of our mixed economies in recent years had been state intervention to aid distressed industries and firms. The role which government should properly be expected to play in rescuing these "lame ducks" was discussed at length.

Several participants supported a German speaker who said that such intervention should be discouraged, as it was bound to distract the state from its main task of ensuring general economic stability within an overall framework. Others – including Norwegian, Dutch and Belgian speakers – argued that considerations of employment, social tranquility or national security sometimes made intervention imperative

when important sectors (e.g., shipbuilding, steel, textiles) were imperiled by foreign competition or a business recession.

In any case, there was general agreement that help for lame ducks should be regarded as only a temporary expedient, since indefinite subsidies had no place in a pluralistic, liberal society. Several speakers thought the aim should be to nurse ailing companies back to competitive health and to restore them to the private sector as soon as possible. But the author of the American working paper insisted on a different emphasis. In his view, it was not companies, industries or institutions that we ought to worry about making viable, but the workers themselves. Accomplishing this by Adam Smith's "invisible hand" was too slow and painful, though, and more attention had to be given to state-sponsored compensation and retraining schemes.

The very existence of the lame duck problem implied domestic or international disequilibria, and the question just where the heaviest burden of adjustment should lie was the subject of lively debate. It was recognized that politicians, business management and labor could all be subject to strong pressures, but opinion differed about who was most in need of bracing up. A British participant observed that, when politicians saw local industries being made redundant by foreign competition, the natural and cheaper course was to try to keep them going for a while rather than to concentrate on developing new industries.

Several speakers said that politicians had to be exhorted to resist giving in to special interest groups, and a French participant advocated greater use of constitutional devices and statutory norms to enable government to resist such pressures.

On the other hand, an Italian speaker said that politicians should be prepared to support management in the private sector, who might otherwise give up and cave in to pressure from trade unions, some of whose leaders did not even believe in the mixed economy, much less the market economy.

A Canadian suggested that labor ought to be more mobile, but this prompted the reply from two U.S. participants that this was often sociologically impossible (as where the workers were women with families), and that one of our problems was that there had been too much labor mobility during the past generation.

4. *The Multinational Corporation and the Mixed Economy*

This led into a discussion of the role of the multinational corporations (MNCs), which were criticized by some speakers not only for "exporting jobs" but for seeking to maximize profits in ways that were often at odds with governmental programs and policies. The larger of the MNCs now had annual sales which surpassed the GNP of all but a handful of nations, and it was alleged that this made for a system which was qualitatively different from that of a generation ago.

In view of at least one American participant, the mixed economy of the future would be marked by the ever-growing size and power of private companies, and we would "be able to change governments more easily than we could change the boards of directors of multinational corporations". The occasional bankruptcy of a large firm was not a sufficient corrective, and one had to be concerned about the responsiveness of large corporate bureaucracies to society's need to produce sufficient goods and to distribute production equitably. It had to be remembered that an unemployment rate of, say, seven per cent was only an average, and that the rate among young people and minority groups approached 30 to 40 per cent.

Another American speaker took issue with the notion of converting MNCs into instruments of public policy by creating special advantages for them: subsidizing their exports, underwriting the credit risk of their foreign investment and allowing them to accept "antisocial invitations" to settle abroad for tax advantages.

These lines of argument provoked a variety of responses. The charge about "exporting jobs" was heard to have an "irrelevant protectionist ring" and was characterized by an American participant as "just one side of the century-old international trade question". A British speaker pointed out that huge projects such as the development of the North Sea and Alaskan oil fields would eventually produce domestic benefits for the investor countries, but they could not have been achieved without the transfer of resources abroad.

Various British and American participants with direct experience of multinational company management made the following points:

As MNCs had acquired more bargaining power with their ability to move investments internationally, it was understandable that trade unions should find fault with them. But is was pointless to chastise MNCs for troubles which had been caused in truth by changing world economic conditions. Far from being irresponsible, the managements of MNCs were accountable to their employees, shareholders and host governments, besides having to answer to such groups as environmentalists, feminists, consumerists and racial minorities. They could not make investments except for sound economic reasons and, once committed, it was not easy for them simply to withdraw from a country. Even the largest international company could not stand up to the smallest sovereign nation, and it was a myth to imagine that MNCs roamed the earth free of controls or social constraints.

A Canadian participant referred to the positive contributions made by MNCs in the internationalization of expertise and the creation of employment in relatively undeveloped areas, which often had the effect of saving jobs at home. In his experience, moreover, MNCs were better at adjusting to local conditions than were trade unions.

An American participant expressed concern about the preoccupation in his country with guaranteeing equality of condition, in addition to the Constitutionally-protected equality of opportunity. If the U.S. went too far down this road of "affirmative action", with quota systems imposed by the governmental bureaucracy, the speaker feared a substantial impingement on the freedom of businessmen, university administrators and others to manage their own affairs effectively.

5. *The Position of U.S. Trade Unions*

It became apparent during the course of the discussion that there was a degree of misunderstanding in Europe about the fundamental orientation of the American labor movement, and about how it differed from Europe counterparts. At the request of the Chairman, two participants who were American trade union leaders described the current union scene in the U.S.

Salient characteristics of the American system were these: (1) Enforceable labor agreements with no-strike clauses and well-developed procedures for settling grievances; (2) the shop steward's role confined to handling grievances; no authority to call work stoppages; (3) a well-developed system of jurisprudence; and (4) a system of mediation and conciliation served by an experienced cadre well-versed in the minutiae of industrial relations.

There was virtually no interest in the U.S. in the co-determination issue, outside of the media and the academic world. This was due to labor's relative faith in, and lack of frustration with, the process of collective bargaining, which was well suited to deal with a wide variety of questions (e.g., seniority, job security, promotion, discipline, new plants, day care, legal and medical problems).

Union leaders had all the tools they needed to protect their members, and did not feel left out because they were not represented on boards of directors. Labor relations in the U.S. were non-ideological, and not imbued with class overtones. While fraternization between union officials and management was not frowned upon, there was the conflict of interest inherent in any contractual relationship. Unions would therefore resist strongly any development which risked tingeing the representatives of the workers with the point of view of their adversaries.

The general serenity of the American labor scene did not mean, though, that there were not difficult areas. Union officials were still working hard to advance their cause in Southern textiles and in public service companies. They would continue to seek to regularize and standardize conditions of employment within industries and crafts regardless of fluctuations in profitability among firms.

6. *Combatting Inflation in the Mixed Economy*

An American participant offered the opinion that the average consumer was much more concerned with inflation than with the pros and cons of the mixed economy. The public inevitably looked to large institutions, including government, for the solution of problems arising from institutional causes, and it would tend to demand mandatory price and wage controls if inflation could not be curbed by voluntary means.

A Dutch speaker lent his support to the notion that more active government intervention at all levels was needed to curb inflation. If we relied only on global demand management, as we had since the 1950's, he predicted that inflation would be with us for a long time.

The implications of a British intervention were that the mixed economy by its very nature tended to foster inflationary wage settlements. With the state participating more and more as an employer in the economy, larger numbers of its citizens were brought into a new relationship with it.

While industrial disputes used to be between groups subordinate to the state, strikes were now aimed increasingly at the state itself. As these strikes grew in size, so did the political stakes, and settlements were increasingly based on voting power rather than on economic or even philanthropic considerations. Industrial policy thus became political policy and non-ideological strikes became political conflicts.

A German participant replied that, in his view, the implications of the mixed economy for inflation depended not so much on the amount of state intervention as on the reasons for it. Unfortunately, the truth was that – even before the breakdown of the Bretton Woods fixed-parity system or the quintupling of oil prices – most of us had been guilty of (a) consuming more than we produced, and (b) printing money to fill the gap.

We should not now delude ourselves by talking about "reflation", which was just a cheap disguise for inflation. Politicians, industrialists and labor leaders alike had to understand that the evils of our societies could not be abolished unless they firmly opposed the idea that claims on our gross national products could exceed 100 per cent of that G.N.P. "There is no G.N.P. in the world", he said, "this year or next, which adds up to more than 100 per cent. If you allow excess claims to rise to five percent, you get five percent inflation if the central bank allows that; otherwise you get unemployment".

The speaker urged leaders in all sectors to have more confidence in their own judgment and to take heart from their own endeavors. Governments might be weak, but industrialists, too, would be weakened if they allowed their self-confidence to be undermined.

A Canadian participant characterized inflation as "the greatest single menace, the most pernicious, corroding force loose in our society", causing destructive social effects and threatening the governability of our countries.

If inflation were not checked, it would mean the end of the mixed economy, and of the high hopes we had had for it as a compromise between abandonment to blind market forces and the dictatorial allocation of resources.

As he saw it, the first difficulty in combatting inflation lay in attacking a moral and social problem with economic tools. The second was the perseverance of myths, such as the one which held inflation to be the product of excessive and unscrupulous wage demands and the policies of greedy corporations. In truth, inflation was a product of government as arbiter of the money supply. Neither big unions nor big companies could produce inflation by themselves because they could not print money.

Another myth was that inflation could be overcome through an incomes policy, or price and wage controls. That would be to attack the symptoms, leaving the disease to grow and spread. High prices were the result of inflation; indeed, they were counterinflationary, in that they tended to reduce demand.

Still another myth was that nations were unable to cope with inflation, as it stemmed from global conditions. This was pure self-justification. The German and the Swiss experience had shown that nations with little or no inflation could exist next to neighbors with high rates of inflation.

Seeking an explanation for our inability to cope with inflation, the speaker found that, even after social welfare had become a prime political objective, it had long been thought wise for government to keep its hands off the money system. But this principle had been abandoned when, with the rising expectations of the electorate, the control of the "money machine" had passed from central banks to governments.

The strategy of demand management had fostered, from its inception, a strong inflationary bias, and the consequences of 30 years' experience had finally submerged the very solid objectives for which the strategy had first been adopted.

There was still a simplistic belief that "money doesn't matter", and those who thought that it did were labelled "monetarists", a pejorative term with rather reactionary connotations. That attitude among the public admittedly presented a problem for politicians who themselves saw what ought to be done. But whatever the political obstacles, we could no longer tolerate government deficits financed by money creation. "The sands are running out", the speaker warned.

7. *Guideposts for the Future*

An assessment of our experience so far with the mixed economy in the western democracies should help set some guideposts for the future, and several participants offered their conclusions.

A Finnish speaker confessed frankly that he had lost all faith in a general theory about the mixed economy, and felt that each country had to look at the matter from the viewpoint of its own special problems. By and large, though, the speakers tended to divide into two camps: those who had found compelling theoretical or practical reasons for nurturing the mixed economy, and those who were uneasy about the implications of its growth. Among the former were participants who said that the mixed economy was here to stay because the market price mechanism alone was incapable of carrying out the economic function of allocating resources, and that the mixed economy was not all that bad, there being no reason to suppose that private business had a monopoly on good management.

A Dutch participant alluded to the fundamental changes that had occurred in recent years; the technological innovative race in production systems, overinvestment in some sectors, demographic changes, and the satisfaction of the demand for consumer goods. He argued that the attendant adjustment was so radical and painful that the state had had to intervene to ensure social and political tranquility.

An International speaker said that a heavy dose of state control had become inevitable in many sectors – rail, post, energy, East-West and North-South trade – and that the main question was how to make it most effective. Finally, there was the notion, expressed by an American, that government intervention was warranted wherever business concentrated too much on "profit making" to the neglect of "social goals and responsibilities" (to provide employment, for example).

On the other side, another American claimed that the mixed economy was based on a kind of egalitarian-oriented welfare state that was incompatible with a democratic society aimed at promoting the most efficient use of resources. Furthermore, as a French speaker saw it, the mixed economy tended to be unstable, as more and more people learned to live with it and to make it serve them. For some, manipulating the state had proved to be more profitable than doing "straight" business, but in the end an expanding public sector led to a progressive erosion of human rights.

However one felt about the mixed economy in theory, it seemed to have achieved a degree of permanence, and the important practical issue was how it could be constrained so as to preserve democratic values and the dynamism of the private sector. An Italian participant suggested four rules which, he said, had been dictated by his country's experience: (1) When the mixed economy took a vindictive turn, with nationalization "by the back door", the results were likely to be disastrous; the best mix was an open, above-board partnership. (2) There had to be a clearly-defined code of conduct for state-owned firms. (3) A balance had to be found between management independence and the need for political control. (4) Accounting systems had to be devised to give the public a clear picture of state-owned enterprices, and they should not be allowed to beggar their competitors with capital borrowed at below-market rates.

Other participants agreed that the state should not compete with private enterprise except on a fully-equal, non-subsidized basis.

It was suggested that there were at least two "danger points" to look out for in the evolution of the mixed economy. One was where the level of government intervention tended to nullify the market mechanism. Even if there were a call to cut back at that point, as an American pointed out, there was the risk that the people, having got used to the government's being the savior of last resort, would lack the will to force a retrenchment. The second point was where the level of taxes rose so high that it killed personal incentives (a level which some participants felt had already been reached in the United Kingdom).

A German speaker reminded the meeting that our governments had all become involved as arbiters of externalities. As new exogenous factors, such as the oil price increase, would certainly continue to appear, some degree of international coordination was bound to be required.

An American participant spoke in a similar vein, referring to the experiene of his own business. From the end of World War II until the late 1960's, U.S. industry had generally operated with a sense of unlimited resources. It had been assumed that there was "plenty of everything" – money, raw materials, energy, labor – and industrial firms had been run internally as very enterprises, with considerable autonomy granted to division managers.

In time, shortages and increased costs of capital, raw materials and energy had manifested themselves, and businessmen had discovered that "there were more things we wanted to do than we had resources to do". This had led necessarily to "balance sheet management" and a centralization of asset allocation.

The speaker predicted that, so long as the world situation was characterized by such shortages, nations would have to do as individual businesses had done and accept a high component of central decision making and asset allocation. This would call for greatly improved performance by both government and business, neither of which had been functioning to the entire satisfaction of the general public.

The speaker admitted that, as a "free enterpriser", he would have preferred as little state interference as possible. But he now saw no likelihood of a return to the old days, and he felt that there was some cause to be hopeful about the outcome if we would face the reality of our new situation.

Other participants agreed that, rather than looking for panaceas, we should address ourselves to the long-range task of educating politicians, the public and the media in the realities of economics and business life. As a British speaker put it, the free enterprise system had not been defeated, but it was in danger of being lost by default, and it was up to business management to lead the way in this job of explaining fundamental economic relationships to the public.

According to a Swedish participant, the "disinterested citizen" referred to in the American working paper needed not only to be informed on economic questions; he was also supposed to be accountable to some overriding principle in acting to arbitrate the demands of special interest groups. As nearly everyone now had a direct economic stake in what government did, these disinterested citizens were becoming relatively few in number. Moreover, they seemed to be in danger of losing their sense of accountability. To safeguard our democratic institutions, we had to find a way to rekindle that sense.

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II. THE THIRD WORLD'S DEMANDS FOR RESTRUCTURING THE WORLD ORDER

French Working Paper:

"ATTITUDE OF THE EUROPEAN COUNTRIES TOWARD THE DEMANDS OF THE THIRD WORLD FOR A REFRAMING OF THE WORLD ORDER, AND THE POLITICAL IMPLICATIONS OF THIS ATTITUDE"

I. *The questioning of the world order*

The Third World demands for a reframing of the world order are part of a more general questioning of this order which must first of all be placed in context.

1. In the first place we must agree on the meaning of the words. The concept of world order implies a certain consensus on the rules of the game, be they explicit or implicit, which govern the relations between political units in the "world". Abstractly, one can say that an order exists within a system of political units when each one of these units is dissuaded by the others from not respecting the rules of the game. In the former European system, the Treaties of Westphalia and the Treaty of Vienna (to which some have made a rather audacious attempt to compare the final act of Helsinki), are classic examples of an order. In the period following the end of the Second World War, the Western economic system was subject to the IMF and GATT order.

Such a conception of order is ethically neutral. A political unit may be compelled to accept the existing order without a deepseated adherence to it. For example, one may think that the system formed today by the countries of Eastern Europe constitutes an order which has been imposed. Inversely, it is not enough for an order to be economically advantageous for all the units in a system for them to submit to it. An isolated unit, in the absence of any sanctions, may find it in its interest to "cheat" (this is what, in games theory, we call the "free rider problem"). In the simplest situation, there is a dominant unit which polices the system itself. This can be considered to have been the case for twenty years in the postwar Western economic system (having said this, leaving open the question of the benefits from free trade for each one of the units). The European order after the Treaties of Westphalia (1648) and Vienna (1815) is a more complex case, for there was no dominant unit. (In point of fact, the rise of Prussia was, on the contrary, the cause of the breakdown of the Vienna system). Obedience to the rules of the game was, in this case, the result of a long process of apprenticeship.

An international order is in danger when one or several of the units cease to respect the rules of the game which had previously been accepted without the others (the dominant unit where it exists), wishing (for example, the Prussian victory over the Austrians at Sadowa to the applause of the French nation) or being able (for example, the first time the price of oil was doubled in 1973) to compel it or them to respect the rules again. Save in time of war, it is never easy to put other than a symbolic date on the breakdown of an order in a political system.

2. The international order established after the Second World War may, in its broad outlines, be characterized as follows:

– bipolarization around the U.S. and the USSR, relations between these two powers being governed by the rules of nuclear deterrence.
– definition of the economic relations between the market economy countries around the IMF and GATT in accordance with the liberal viewpoint of the U.S., which, moreover, provided a *de facto* guarantee of the functioning of the system;
– relations between the industrialized and the underdeveloped countries governed within the framework of decolonization.

A gradual change took place in this order, and it can be said that by the beginning of the 70's it had broken down. The main causes of this evolution are:
– detente, following on peaceful coexistence which resulted in a certain "debipolarization", that is, as far as the Western camp is concerned, a certain breaking free from the U.S.
– a decline in American economic supremacy over Western Europe and Japan and an increase in the number of unauthorized deviations from the Bretton Woods and GATT rules of the game.
The breakdown of the international monetary system between 1971 and 1973 and the oil crisis in the autumn of 1973 can be considered as marking the end of the old economic order. Here again, the main point is the disappearance of the U.S. as leader of the system.
– decolonization (which has still not yet been accomplished, particularly in Africa), with the emerging of new independent nations which, because of their territorial sovereignty, acquire a certain freedom of action in the international system. By their number the new nations have completely changed the face of the United Nations Organization. As far as this institution is concerned, the entry of the People's Republic of China into the Security Council also marks the end of the old order.

3. We are at present in an intermediate stage between the old order which has disappeared and a new order which has not yet been conceived but which is the subject of debates of ideas and of diplomatic discussions. The day will come when, in a favorable situation, ideas will take shape and effectively lead to the setting up of a "new world order". This was the case in France where the Revolution and the Empire were able to implement projects which had been formulated under the *ancien régime.*

After the Second World War, the U.S. was in a position to establish an order in their own camp which corresponded to their own viewpoint (this term seems more apt than "interests") of the world. The superiority of this country was such that its will could not but assert itself, and furthermore, it did not lack support in other Western countries.

Today the situation is radically different; the U.S. and the Soviet Union are fairly equally powerful. Other centers of power have emerged or re-emerged, lastingly or temporarily, as varied as Germany, Japan, China or Saudi Arabia. The new nations of the Third World, because they have won their sovereignty and hence the possibility to control the use of their territory; because they can use blackmail in the East-West game while taking advantage of the concept of non-alignment; because their economic demands fall within the framework of the failure of the old liberal system; because, also, they have been able to transform the United Nations into a sounding board to their advantage and they do not lack support from the liberal democracies, will henceforth have a real disposition for disturbing the world scene. The principal event in this respect was the embargo and the first doubling of the price of oil in October 1973, followed by a second hundred percent increase at the end of the same year. The hopes of the Third World, and hence its unity, are still largely based on this remarkable exploit.

Finally, the spreading of power throughout the world today is such that no country is in a position to impose its own kind of order. This is obviously inconceivable as far as a world system is concerned. It is not even conceivable in a more limited system. Today, for example, we can no longer really speak of a Western bloc, since countries like West Germany and France, relying either on their economic strength of on the relative autonomy of their defensive capacity, have won considerable freedom of action in their dealings with the U.S. and the Soviet bloc. As for the Third World countries, they have escaped from Western tutelage and are seeking to compensate their economic dependence on the industrialized market economy countries by political support from the socialist countries without the latter managing to control them.

The international system is nowadays no longer under any form of regulation, and the various forces of protectionism which are beginning to appear are but the expression of a natural self-defense reaction in the light of this fundamental fact. By what process of apprenticeship will we achieve new rules of the game which will be commonly accepted in a leaderless system? How long will it take to achieve this? What trials will we have to suffer before a stable situation is possible once more?

The new international order will be defined by trial and error and the accidents of history will certainly leave their mark on the final product.

These then are a few of the very general questions which can be posed. It is obvious that specific matters as diverse as the setting up of an energy policy, the coordination of macroeconomic policies, nuclear arms limitation, the control of arms sales throughout the world, nonproliferation, pose very similar methodological problems. In other words, how is interdependence to be managed in a leaderless world?

This is the obviously vast framework in which we must, of necessity, place ourselves before tackling the specific question of the demands of the Third World and the attitude of the Europeans.

II. *The demands of the Third World and the attitude of the Europeans*

1. It is always delicate to speak of the Third World as if it were a unified entity with well-defined and coherent objectives. Nowadays, a distinction must be made between the OPEC countries (and distinctions must be made among them as well), the semi-industrialized countries such as Brazil, Taiwan or South Korea, and the "real" underdeveloped countries such as the landlocked African countries. It is, however, convenient to reason as if the Third World formed one bloc, since we are discussing demands of a general nature.

In political matters, the Third World intends to have its say; that is, it intends to have a front seat, not just a back seat, in the international organizations, in particular the monetary and financial organizations (IMF and World Bank). In the United Nations, they are questioning the principle of permanent members of the Security Council and the right of veto which they wield within the Organization. The Third World also intends to take the decolonizing process to the bitter end, winning independence or the application of majority rule for a certain number of territories in Africa: Rhodesia, Namibia, the T.F.A.I., the Union of South Africa.

In economic matters, the viewpoint of the Third World is largely inspired by the Leninist theory of imperialism. The market economy industrialized countries are accused of having built their prosperity on the looting of the Third World. The more specific economic demands of the Third World can be found in detail in several successive documents, texts of the VIth and VIIth special sessions of the United Nations General Assembly, Charter of Rights and Economic Duties of States, the Manila Charter, UNCTAD documents (and in particular of the Nairobi conference in May 1976), as well as in the positions expressed during the Conference on International Economic Cooperation (CIEC).

These demands may be grouped in five main chapters of which the titles will be quoted with a minimum of comment:

a) Trade in basic products: the Third World, with a certain nuance, supports the integrated program of UNCTAD.

b) Manufactured and semimanufactured products and international trade: this is a question of improved access to the markets of the developed countries, of controlling the activities of the multinational corporations, of financial aid for exports from the developing countries, of international cooperation in restructuring industry.

c) Financial and monetary questions: this entails the rescheduling or the remission of debts of the developing countries, the increase of capital flows in their favor, adjustments to the international monetary system.

d) Special measures in favor of the less-advanced, the insular and the landlocked countries.

e) Technology transfers: here it is essentially a question of facilitating the Third World's access to the "technology" of the Western countries.

2. What is the attitude of the European countries when faced with these demands?

From a strictly political point of view, the attitude of the major European countries remains purely defensive: formal opposition (in the case of Great Britain and France), not without ulterior motives (in the case of the Federal Republic of Germany) in the face of demands for a reformulation of the UN Charter and the rights of the members of the Security Council.

As concerns economic matters, first of all the Lomé Convention, which links 46 countries in Africa, the Caribbean and the Pacific to the European Community, which was signed at the end of February 1975 and which has been in force since April 1, 1976 should not be forgotten. This Convention covers all the aspects of cooperation: trade, industrial cooperation, financial and technical aid, the stabilization of income from exports. This convention clearly reflects the wishes of the Third World and, furthermore, has begun to operate in a way which, in the main, satisfies the partners on the whole.

Apart from this, the European countries are relatively divided. France and Great Britain, former colonial powers, are adopting open attitudes towards the demands of the Third World. The first concern of each of these countries is the protection of its customers' interests: mainly the French-speaking African countries and the Magreb countries as far as France is concerned, India and Pakistan for Great Britain. But whereas France which, in the past had endeavored to set up a centralized economic organization of its colonial interests and which has introduced at home the concept of "indicative planning" to correct the errors of the market, agrees to play with the idea of a certain organizing of international economic relations (for example France has defended for 15 years the principle of product agreements), Great Britain, whose empire was founded on trade and banking profits from international trade and on the supplying of the mother country at the lowest cost, remains attached to a free-trade viewpoint, even though the decline of its traditional positions makes it consider the problem differently now. Germany, which has no strong colonial tradition and which is assured of its economic strength, maintains a free-trade position which is not devoid of dogmatism.

The attitude of Holland is particularly interesting. In 1974, the Dutch Ministers of the Economy and of Cooperation set up a program of industrial reorganization as part of the national policy of development cooperation. This fund was granted 35 million florins a year for 1975 and 1976, that is, roughly $ 16 million. The idea is to give financial assistance to industrialists who agree to abandon the manufacture of a traditional product in the Netherlands when it appears that the same product imported from a developing country is competitive. Although the implementation of this program has come up against a certain number of practical difficulties, the idea behind it is very interesting. It is the first attempt to apply the idea of a new international division of labor which is more in line with the interests of the Third World and yet which is compatible with the free-trade ideal to which Holland also remains attached.

On the diplomatic scene, France has, without doubt, been the most active country as regards the demands of the Third World. It has sought bilaterally to develop its links with the Arab world and strives to give a satisfactory response to the demands and preoccupations expressed by its African friends (strengthening of diplomatic links, embargo on the export of arms to South Africa, proposing an African development fund, etc.). It took the initiative of a multilateral concertation between industrialized countries and Third World countries which was to lead to the CIEC. Its efforts, however, are marking time. It has been directly implicated in the affairs of Djibouti (which are being settled) and of Mayotte. The pressure of economic difficulties has prevented it, so far, from going further than the others in the framework of the CIEC.

3. In the short run, the problem of the attitude toward the Third World has two aspects:

- a political aspect: How must the CIEC exercise materialize?
- an economic aspect: The world has not come out of the economic crisis and the recovery of the foreign balances of the industrialized countries has been achieved at the expense of the increasing indebtedness of the non-petrol producing developing countries; or, if one prefers to put it this way, the counterpart of the financial surplus of the oil producing countries is found almost entirely in the Third World countries. We are faced, then, with a very urgent problem of how to avoid the bankruptcy of certain Third World countries which would inevitably have repercussions on the industrialized countries as a whole.

On these two points, the attitudes of the European countries seem to be quite similar and, moreover, comparable with the attitude of the U.S. The CIEC must produce results sufficiently concrete for all of the parties concerned to be able to speak of a success or at least of a non-failure. No one wishes an intensification of Third World demands which could result, in particular, in a strengthening of the common front formed by the extremists of the OPEC and the poorest countries of the Third World, and hence oblige Saudi Arabia and the moderate developing countries to harden their positions once again.

Economically, a reduction in the demand of the Third World countries would have a negative effect on the economic activity of the industrialized countries After all, 20 per cent of the European Community's exports go to non-petroleum producing developing countries. Contrary to what is too often said, this argument is valid only in the short run (in the long run the problem of outlets does not arise because supply is adjusted), which does not make it any less important. Furthermore, a payments crisis would have serious repercussions which it would be hard to control on the functioning of an international financial system, which, it should not be forgotten, has since the beginning of the crisis been the supplier of funds to the Third World. (The indebtedness of the developing countries tripled between 1969 and 1976; two-thirds of this debt was covered by private loans, which went from 40 percent in 1970 to 65 per cent in 1976).

Naturally, the political and the economic aspects are linked; the question of indebtedness is one of the stumbling blocks of the CIEC. Differences of opinion appear as to what action should be taken. What concessions should be made as far as indebtedness is concerned? On what countries should possible recovery efforts be concentrated? As concerns this last point, the neo-liberal approach, well reflected by the Germans and the Americans, consists in laying the accent on the "semi-industrialized" countries like Brazil, Taiwan or South Korea, whereas a more "social" approach would insist on the case of the poorest countries. The advantage, in the first case, is that the capital injected would be more capable of producing income later, and so would make a surer contribution to the recovery of world activity. Naturally a combination of both approaches is possible. Conflicts will not fail to arise between the European countries and the U.S. when it comes to deciding the criteria for chosing the countries to be favored, for their economic and political interests in the various Third World countries are not identical and each will strive to grant privileges to those countries which are normally within the orbit of its export trade interests.

Another source of conflict will appear, of course, when it comes to deciding who is to bear the cost of these new injections of capital into the Third World. The countries whose balance of payments is in deficit will not hesitate to send the ball into the court of those which have a surplus, who will, at least in part, seek to avoid paying. They will try, in particular, to make the countries which are structurally in surplus pay (Saudi Arabia, the Emirates), and the latter will no doubt be reluctant to do so.

The solutions to these two types of conflict are obviously interdependent, the countries which finance these transfers being better placed to defend their views on the criteria which should be applied to the receiving countries. It is very probable that Europe, and France in particular, will be the losers.

4. As far as the long term is concerned, it is much more difficult to reason in terms of interest other than in a very general way. It is rather to a "conception" of the role of the Third World in the international system that reference must be made.

The European countries, for various reasons, are conscious of their dependence as respects raw materials. Furthermore, the geographical proximity of some of the Third World countries attracts attention for security reasons (the Mediterranean basin as a security zone for Europe, Africa). The Keynesian argument of economic interdependence, i.e., the notion of the Third World as a potential market, is also important.

Politically, and to speak like the Chinese, many Europeans think that the "second world" will not be able to maintain its independence of the "first world", that is to say the super powers, unless it is capable of allying with the Third World. Naturally, this argument can be interpreted in a more or less extreme way. It is often defended in France by the supporters of a privileged alliance with the Arab world, which they see as the basis for greater European independence as far as the U.S. is concerned. It may also be thought that, because of its wealth of relationships, Europe can play a part in guiding the evolution of certain Third World countries, particularly in Africa. Are these countries condemned to fall under the sway of totalitarian regimes which are Marxist-inspired, or which at least use Marxist rhetoric, or can it be thought that the experience of development on a liberal model, such as in the Ivory Coast or in Senegal, may have a lasting success? Is not the cooperation of France with these two countries, for example, highly significant in the very long-term prospects for developments on the African continent?

These considerations have so far failed to lead to the precise formulation of a policy (save perhaps that which is embodied in the Euro-Arab dialogue, the association with the Africa-Caribbean-Pacific countries, and the generalized preferences granted by the Community to the developing countries), but the feeling is widespread in Europe that the old continent has a particular role to play as regards the Third World. Relations with the Third World may also be a federating theme for the European Community.

III. *Political implications*

1. Everything is happening, finally, as if the European countries were divided into two camps but with a cleavage which differs according to whether one considers what they say or what they do, whereas their interests seem uniform enough as regards the U.S. If we consider what they say, we find on one side those who are in favor of more or less orthodox free trade (Great Britain, the Federal Republic of Germany), and on the other side those who are in favor of a controlled and corrected free trade (the Netherlands, France). If we consider what they do or want to do, we find on one side those countries which are not in a hurry (Great Britain, the Federal Republic of Germany), and on the other side those which would like to take account immediately of the changes which have occured in the Third World (in particular the Netherlands).

If we now consider what are the real interests of the Western countries, we find that the cleavage this time is between Western Europe (Japan is completely omitted from this study) and the U.S. Western Europe, as we have already seen, is historically and geographically nearer to the Third World and more dependent on it for its supplies of energy and raw materials.

2. So long as the countries of Europe are not sufficiently aware of their common interest in this matter, and so long as the pressure of necessities is insufficient, they will attempt to scheme in order to safeguard their short-term interests, while at the same time they will endeavor to keep open the range of long-term possibilities. Europe, then, will probably make the minimum of concessions in the short run which are compatible with the political interests of its members and the preservation of its trade flows. It will attempt to oppose any developments which would tend to subordinate North-South relationships, which are in fact West-South relationships, to East-West relationships. It will attempt to develop specific relationships with the countries associated with the Community. In all likelihood, it will be led to accentuate its efforts towards the Mediterranean basin (as foreshadowed by the enlarging of the Common Market toward Greece, the Euro-Arab dialogue and toward Africa). It will gradually become less free-trade in outlook and will so have a more organized conception of international economic relations. During these changes, difficulties with the U.S. will not be lacking, for the American short- and long-term interests are different and its long-term conception of the international system will take some time to adapt itself to the fact that it is no longer the sole center of power in the non-communist world.

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In his introductory remarks, the French author referred to the principal means available to the LDCs for bringing pressure on the industrialized world. The first was OPEC; if it had succeeded so far in retaining the friendship of the less-developed countries (who had been the first to be hurt by the oil price rise), it was because OPEC was seen as a unique spearhead for the demands of the Third World.

The second instrument was public opinion in the developed countries, where there existed a large reservoir of ideological sympathy for the plight of the Third World. Finally, there was the dependence of the industrialized world on the raw materials produced by the LDCs.

In the longer run, there was the prospect that by the year 2000 the population of the industrialized countries would represent only ten per cent of the world total, putting them in a beleaguered position which the author compared to that of the Rhodesian whites.

Then there was the possibility that some Third World nations would acquire nuclear arms; some spokesmen had already openly stated their objective of doing so in order to bring pressure on the industrialized world.

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American Working Paper:

DEVELOPED COUNTRY REACTIONS TO CALLS FOR A NEW INTERNATIONAL ECONOMIC ORDER

In recent years numerous groups, some governmental, some private, have put forward appeals or claims or demands for changes in the workings of the world economy and in the decision-making machinery regarding how it is to work. While the claims differ in detail from forum to forum, they share several common themes. The first is that there should be larger transfers of resources and of technology from the rich industrial countries to the poor countries of the world. A second theme is that the poor and non-industrialized countries should be subject to specially favorable treatment, and that in general they should be exempt from the prescriptions for government behavior with which the rich industrialized nations are (appropriately) charged. A third theme is that the decision-making machinery governing international economic questions should be revised to give greater participation and greater weight to the poor or nonindustrialized nations.

The rationale for these claims rests in part on the contention that all peoples have a right to satisfaction of certain basic human needs and that those who are able to do so already have a corresponding responsibility to satisfy that right for others in the name of the solidarity of humanity. They rest in part also on the contention that, at best, the existing international economic order – meaning the set of institutions, formal rules, and informal conventions that govern economic transactions among nations – disregards the special problems and concerns of developing nations, and at worst has fostered the exploitation of poor countries, so that some restitution for past and present injustices is in order.

The particular proposals that have stemmed from these claims are numerous and vary from group to group, but they include such items as:

1) establishing international commodity agreements on those commodities produced by developing countries, to assure that they receive equitable and remunerative prices (a variation of this involves indexing commodity prices to prices of manufactured goods, to assure that commodity prices rise no less rapidly than other prices in an inflationary world);

2) increasing official development assistance from the rich countries up to the United Nations target of 0.7 percent of gross national product;

3) renegotiating the principles of allocation of Special Drawing Rights at the International Monetary Fund to give developing countries a larger share;

4) providing general debt relief in the form of forgiveness or postponement of the repayment obligations of developing countries on their external debt;

5) granting and enlarging preferential treatment for imports from developing countries into the developed countries;

6) increasing the flow of relevant technology to developing countries, at reduced cost to them;

7) asserting the right to all property within national boundaries, and hence, the right to take over foreign-owned property without regard to international legal conventions regarding compensation;

8) changing the decision-making procedures in such institutions as the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (hereafter, the World Bank) to give greater weight to developing countries.

It is noteworthy that these claims have been directed almost exclusively at what in United Nations terminology are called the developed market economies, i.e., western Europe, North America, and Japan, Australia and New Zealand. (These will be called the "western" countries hereafter). In particular, they are not generally directed toward communist countries such as East Germany or the Soviet Union. The reasons for this are no doubt complex. The communist countries (Yugoslavia excepted) themselves do not participate in some of the important international forums, such as the World Bank, the IMF, and (with the further exceptions of Poland and Romania) the General Agreement on Tariffs and Trade (GATT). This would not restrict their contributions in other contexts, however, such as granting development assistance, participating in commodity agreements, or granting trade preferences. In general, the communist countries have lower per capita incomes than do the western countries, and this might seem to absolve them from being called upon to meet the claims. But some of the claims (such as those for rectification) are not especially related to income, and in any case some communist countries have per capita incomes that exceed those of the poorer western countries such as Italy and Ireland. Indeed, by 1976 the per capita income of East Germany exceeded that of the United Kingdom. What is probably more important is the perception of leaders in developing countries that they are unlikely to alter the policies of communist countries much by making appeals in international forums, in part because of the nature of communist governments, in part because the communist countries cannot so easily be held hostage to them in terms of needed materials or vulnerable foreign investment. Their success with the western countries is likely to be substantially greater, largely because with appropriate arguments they can enlist important segments of public opinion in their cause.

Public response to calls for a new economic order

The initial response of publics in western countries to the stance adopted by developing countries was one of shock and astonishment: first, at the Arab oil embargo imposed in October 1973 – the event that brought publics into general awareness that important changes were taking place – and then, by the four-fold increase in oil prices announced by the Organization for Petroleum Exporting Countries (OPEC) for January 1974. This assertion of market power emboldened the developing countries, under the leadership of Algeria, in 1974, to put forward a "Program of Action" in a special session of the United Nations for establishment of a new international economic order. In November 1974, the UN General Assembly approved the "Charter of Economic Rights and Duties of States", which among other (on the whole straightforward and widely accepted) provisions asserted (Art. 5) "the right to associate in organizations of primary commodity producers in order to develop their national economies . . ." and the corresponding duty of all states to refrain from applying economic and political measures to limit that right – a provision that would legitimize OPEC's actions and those of other potential cartels among producing countries. The Charter also asserted (Art. 2) the right of any state to expropriate foreign-owned property within its borders, paying "appropriate compensation . . . provided that all relevant circumstances call for it". Resolution of any controversy regarding expropriation and compensation is to be determined

under the domestic law of the nationalizing state. The Charter also asserted (Art. 28) the duty of all states to cooperate in adjusting the prices of their imports, i.e., to "index" the prices received by developing countries.

The Charter of Economic Rights and Duties of States had its origins long before the increase in oil prices, as did proposals for changing the international economic order. Many of the specific proposals that made up the content of the proposed new international economic order had been under consideration for some time. And the developing countries had increasingly used their majority in the UN General Assembly to push through resolutions over the objections of the western countries, as when, in 1969, they voted a moratorium on all attempts at mining the seabed until a new international regime for the seabed was worked out. But what astonished members of the western public was the new assertiveness with which these proposals were advanced, the extreme claims of some of the provisions, and the unwillingness of the majority of the General Assembly, made up of a cohesive group of developing countries, to compromise on many of the provisions. While many of the provisions of the Charter were unexceptionable to all countries, a theme of extreme state sovereignty runs through the Charter. The U.S. objected especially to the three provisions noted above. The provision for settlement of disputes exclusively under domestic law, in particular, seemed to sweep aside a long (western) tradition regarding international settlement of disputes.

The initial reaction of astonishment was soon overtaken by a more differentiated reaction. Some westerners applauded the new assertiveness of the developing countries and in their own writings supported them and contributed further to the claims for redressing past wrongs and for a moral obligation to make transfers from rich countries to poor countries. Others reacted with a sense of guilt, implicitly acknowledging the merit of the positions taken by the developing countries, and urged negotiation and a willingness to compromise on both sides in the emerging debate. They wanted some kind of accommodation. Still others reacted with anger at the seeming exploitation of newly-found power – in votes in the General Assembly and in monopoly in the provision of oil – and urged stiff resolution against yielding to what was regarded as extortion. Numerous shadings, of course, exist within all of these groups, and to them must be added the diplomatic pragmatists, who are less concerned with the substantive merits of the particular proposals and the arguments for or against a new economic order than with the fact that a large number of countries are resolutely serious in their claims for a new order, and who urge diplomatic accommodation as necessary to restore a degree of harmony in relations among countries.

It must be observed that the idea of a new international economic order is, itself, a profoundly western idea. It has been advanced and rationalized by western-trained leaders in developing countries and even by a number of westerners. Philosophically, the notion that conscious human action can change the "order" of things, even human things, and moreover that mankind can attack world poverty in a systematic way with ultimate success are fundamentally western ideas, drawn from the idea of progress. They have no counterparts in the reflective philosophies of the East or in the doctrines of Islam concerning the execution of God's will.

The varied reactions to calls for a new economic order can be found to some extent in all western countries, and to some extent they correspond to the political spectrum from left to right. The radical-liberal-conservative political debate within countries has now become global.

Governmental responses to calls for a new economic order

Governments of the western countries also differed in their responses to the new claims, but the variation was far less than it was among the literate public. The U.S. tended to be the most resistant to the various proposals to change, and the rhetoric that accompanied them. Europe and Japan, much more dependent on imported materials, hence more vulnerable to serious deterioration in relations with primary producing countries, were verbally more accommodating in their responses. These differences can be found, for instance, in the response to the oil embargo and the increase in oil prices. The United States sponsored the formation of the International Energy Agency among the western countries, designed to deal with future embargoes should they arise; whereas France sponsored the Paris talks among oil-producing and oil-consuming countries, in order to establish a dialogue with the presumed objective of making future embargoes, or further large price increases, less probable. The U.S. initially resisted the idea of producer-consumer talks altogether, on the grounds that oil prices, in all likelihood, would be discussed and that such discussion would not be in the interests of the consuming countries. This resistance was based on the conviction that sooner or later the forces of competition would reduce oil prices. Immediately after imposition of the oil embargo (which formally was directed only at the Netherlands and the U.S., because of their support for Israel), Japan, in an open effort to curry favor with the Arab oil producers, called on Israel to yield the occupied territories.

Even earlier, the U.S. (openly supported by Germany, but only silently supported by a number of other European countries) opposed changing the formula for the allocation of Special Drawing Rights (SDRs) to favor economic development, on the grounds that monetary management and resource transfers for development should not be commingled. And the U.S. had also opposed the extension of tariff preference to less-developed countries, wheras the European Community and Japan each made a symbolic nod toward developing countries by introducing a system of tariff preferences in mid-1971, although the systems then introduced were shamefully restrictive in the degree of preference actually provided. (The U.S., bowing to international pressure, also introduced tariff preferences in 1975, with a scheme less restrictive than the European and Japanese ones, although it could hardly be called generous). Resistance to price-raising commodity agreements has been more general among western countries, with the exceptions of Canada (which as a large exporter of primary products would stand to gain) and France.

The general picture, then, is one of western governments being skeptical of most of the proposals that have been put forward in the name of a new international economic order, but differing among themselves in their willingness to discuss the various proposals and even, if necessary, to implement them. The U.S. (often supported by West Germany) has tended to adopt a principled stand on the desirability of preserving relatively free markets, whereas other western countries have tended to adopt a more pragmatic approach aimed at mollifying the developing countries.

Ethical and Prudential Reasons for Resource Transfer

The calls for a new international order raise a host of questions, some concerning the philosophical foundations of claims for resource transfers between nations – or indeed between individuals –, some concerning the system of governance at the global level, and some concerning the desirability and the feasibility of the particular proposals that have been advanced. It is not possible, in a short paper, to deal with all these questions satisfactorily, since a fair assessment must deal sometimes with profound philosophical questions and at other times with technical economic evaluation of the consequences of certain policies. But a modest philosophical excursion on the rationale for resource transfers will be usefull in putting the proposals into broad perspective, before turning to some constructive suggestions for the North-South dialogue.

Although many of us have come to take the desirability of foreign assistance for granted, it is not in fact self-evident that nations should voluntarily relinquish some part of their incomes to provide transfers to other nations. Incomes in industrial countries, while high both by historical standards and in comparison with incomes in many parts of the world today, have not yet reached the point of psychological satiation. We know from the perennial battle over wage claims and from the often agonizing decisions that have to be made over the size of government expenditures that industrial countries can quite comfortably absorb higher incomes than they now have.

The arguments for extracting some (usually tiny) fraction of this income for transfers to other poorer countries have rested partly on ethical or moral grounds, party on grounds of prudence and political expediency. There has been a good deal of tension between the ethical arguments and the prudential arguments, for they often require both the character and the direction of foreign assistance to be quite different. Ethical arguments call for transfers from the rich to the poor, while prudential arguments call for transfers to those who can harm. There is a second tension which is likely to become even more pronounced in the years to come, between the ethical arguments for foreign assistance and the exaggerated sense of national sovereignty which all nations, but especially in this context developing nations, have acquired. I want to say something about each of these tensions, but particularly the second one.

The western industrial nations have a long tradition, both of religion and of rationalism, favoring a distributive justice that pushes toward greater equality. The Christian tradition of charity is deeply rooted. Economists have perhaps been more influenced by the rationalistic utilitarian tradition, which early attempted to show that a more equal distribution of income would lead to greater overall welfare. More recently, we have the attempt by the philosopher John Rawls to show, through original social contract reasoning, that society should organize itself to maximize the net income of those of its members that are worst off. There are intellectual difficulties with all these various attempts to rationalize some measure of redistribution toward greater equality, from Bentham's sum-of-utilities to Rawls' maximin criterion. But it is significant that the effort persists; and there is little doubt that the sentiment for some form of distributive justice – if not in circumstance then at least in opportunity to better one's circumstance – is very strong. And there is widespread recognition that adequate nutrition, health, and (in today's world) education are necessary conditions for creating and taking advantage of opportunities for individual betterment.

This is not the occasion to dissect the various ethical frameworks that have been put forward. But it is important to note that all of the main lines of ethical thought apply to individuals (or families), not to collectivities such as nations. Much recent discussion on transfer of resources falls uncritically into the practice of what I would call anthropomorphizing nations, of treating nations as though they are individuals and extrapolating to them on the basis of average per capita income the various ethical arguments that have been developed to apply to individuals. This is not legitimate. If ethical arguments are to be used as a rationale for transferring resources, either a new set of ethical principles applicable to nations must be developed, or the link between resource transfers must be made back to the individuals who are the ultimate subjects of standard ethical reasoning. We need therefore to ask explicitly about the connectives between any given proposed transfer of resources and the ultimate ethical objectives that are to be served.

Not to ask questions about these linkages would be morally obtuse. Yet to ask them involves peering inside the national shell, an activity which many developing countries view as a gross and unwarranted infringement of their national

sovereignty. The current mood among developing countries resists strongly the notion that donor nations have a legitimate interest, much less (on the above argument) a moral obligation, to inquire closely into the use of resource transfers to be sure that their ethically-based objectives are being served.

A clear impasse thus results. Ethical arguments, based on the welfare of individuals, cannot be used to support resource transfers that do not serve the ethical aims; but attempts to assure the service of ethical aims leads to rejection by recipient countries as an affront to national sovereignty.

If we are to justify resource transfers on ethical grounds, it must be on the basis of knowledge that the transferred resources will benefit those residents of the recipient countries that are clearly worse off than the worst-off "taxed" (including taxes levied implicitly through commodity prices) residents of the donor countries. That is, general transfers must be based on some kind of performance criterion satisfied by the recipient country, or else transfers should be made only in a form that benefits directly those who the ethical arguments suggest should be benefited. But this proposition has profound implications for the acceptability of a number of proposals outlined above, for it implies that no completely general transfer of resources from country to country can be supported on ethical grounds. This restriction would encompass the proposal for more SDRs to be allocated to poor countries, general debt relief, and actions to improve (not merely to stabilize) the terms of trade of developing countries. Ethically-based transfers should discriminate among recipient countries on the basis of performance in improving, directly or indirectly, the well-being of their general population, and/or they should discriminate among uses of the transfers to maximize the flow of benefits to those who are the intended beneficiaries, which generally means concentration on general nutrition, health care, and education in the recipient countries.

Pursuit of distributive justice is not the only reason for giving foreign assistance. There are "prudential" reasons as well; foreign assistance can play a role, occasionally even a decisive role, in maintaining good relations between donor and recipient countries and more generally in giving recipient countries enough of a stake in ongoing international arrangements to behave according to conventions acceptable to the donor nations. Here it is governments, not individuals, that are the relevant units for examination, and the appropriateness of assistance is not necessarily related to economic performance and is certainly not related to relative poverty. On the contrary, it will tend to be the better-off developing nations that could, if so minded, create the greatest difficulty for the developed nations, both in the short and in the long run, in terms of such issues as making nuclear weapons, supporting radical political activities in other countries, or withholding cooperation from issues of global concern that requires their cooperation. Therefore, these middle-range countries, not the poorest ones, are the most likely recipients of assistance. Moreover, prudential considerations often (though not always) dictate that assistance should flow bilaterally, from individual donor to individual recipient, rather than through multilateral channels. Thus, it is unlikely that completely general transfers of resources, such as the SDR-link or general debt relief, would be supportable by prudential considerations either; indeed, several of the most important developing countries have specifically rejected the suggestion of across-the-board debt relief, presumably on grounds they can do better without it.

Less-developed countries are themselves ambivalent on the question of appropriated foreign assistance. On the one hand, they have expressed disappointment that the developed countries are not meeting the official development assistance target of 0.7 percent of gross national product in each donor country that was agreed in the United Nations General Assembly. On the other hand, they have a host of dissatisfactions with foreign assistance, both bilateral and multilateral, as it is actually administered. Too many conditions attach to such assistance – stipulations regarding economic policy on program loans, requirements to buy in the donor country giving bilateral assistance, limitations on the types of goods and services that can be purchased with project loans, and so on. The reactions, of course, vary from country to country, and in many instances the restrictions are not onerous, or may even be welcome. But the donor-recipient relationship is an intrinsically difficult one, and is likely to leave both parties dissatisfied.

The ambivalence in developing countries is met by increasing questioning in donor countries about whether foreign aid is worthwhile to the recipients and justifiable to themselves. The United Nations target of one percent of donor-nation gross national product to be transferred (through private as well as official channels, through official export credits as well as foreign aid grants) to developing countries was in fact achieved for the first time in 1975, for a total of $ 39 billion. It is a comment on the times that there was no rejoicing, only assertions that the amounts were not high enough and the terms were not easy enough. There is an intrinsic difficulty with direct resource transfers between countries based on distributive considerations: more is never enough, so targets are arbitrary and their attainment merely provides the occasion for setting a higher target.

With respect to conditions attaching to foreign assistance, it is worth noting that while inter-governmental transfers *within* countries are common, they usually carry with them strong implicit or explicit conditions. Totally unconditional transfers, such as the developing countries are calling for, are rare. In most countries (e.g., Britain, France) local governments are the legal creatures of the national government, so the recipient is directly accountable to the government which is making the grant. In Federal countries such as the U.S. certain sub-national governments (the states) have a constitutional existence and are not subordinate to the national government. But U.S. government grants to the separate states are all conditional. Either they are restricted to certain categories of expenditure, by program, such as highway construction, aid to families with dependent children, urban renewal, improvement of sewage systems, etc., with financial accountability to the federal government under each program. Or, in the case of "revenue sharing", they are not restricted as to program, but they are subject to general requirements on the behavior of the recipient state, notably on questions of civil rights and racial or sex discrimination, conditions of a type and stringency that would strongly offend developing countries if applied to them. Thus even within the U.S., with its relatively high homogeneity of values and where governments are politically responsible to the same voting publics, transfers are used to influence the pattern of expenditure and governmental behavior. Totally unconditional aid is not congenial.

A clear impasse exists on the question of unrestricted transfers from developed to less-developed countries. The less-developed countries demand more in transfers, channeled in a variety of different ways: higher commodity prices, a larger share in the creation of international money, straight foreign aid, and so on. Given the current American suspicion of government in general, and of the governments of less-developed countries in particular, these proposals are not likely to be well received.

Proposals for a new international economic order involve a deep paradox: developing countries want maximum freedom of action and assert strongly their demands for sovereign equality, including lack of interference in their internal affairs. Yet many of the proposals they have put forward, if implemented, would require profound internal changes within the western countries, for example, with respect to the functioning of markets, the generation and dissemination of technical knowledge, the enforcement of contracts, and tax-expenditure programs. The inconsistency in position has not been missed.

In reality, the proposition that countries should not be subject to outside-generated influence and change – developed and less-developed countries alike – is untenable in today's interdependent world. An extreme position of self-reliance, such as China and Burma each adopted, would be required. Collective self-reliance, now strongly supported by many leaders in developing countries, will not be sufficient to assure insulation from outside influence. In the context of resource transfers, donor countries will at least want enough influence to assure that the funds are used for their stated purposes, whether those be to foster economic development, to relieve poverty, or what have you. One way to provide some assurance that the transferred funds are in fact serving to satisfy basic human needs is to restrict their use, with appropriate auditing, to activities that in their nature will do that. Examples would be activities to increase the production of food, to improve water supplies and sanitation facilities, to extend local health care and family planning clinics, and so on. Developing countries could be told that funds are available for incremental activities in the areas indicated, subject to periodic audit for effectiveness. Beyond that, the recipient country would be on its own.

More generally, however, "transfer of resources" is an unfortunate choice for emphasis in discussions of the new international economic order, for it suggests taking from one group and giving to another, a process which is rarely harmonious and which is especially unlikely to be so when the developing countries insist that the transfers be made with minimum of scrutiny and guidance, for that undermines the one basis on which transfers are likely to be agreeable to those making them, namely, satisfying general sentiments in favor of distributive justice.

The implicit assumption underlying focus on resource transfers is that B's route to prosperity is by getting it from A. In game-theoretic terms, it involves a zero-sum game: B's gain is A's loss, and vice versa. This has been the dominant assumption throughout much of human history, and remains the dominant assumption within many developing countries today. A major contribution to material success in western countries was the ability to break out of that framework into "positive sum" thinking: the 18th century doctrine of progress shifted the "game" from one of man against man to one of man against a parsimonious nature. By cooperating with one another, or by establishing political-economic regimes whereby men's actions were mutually reinforcing rather than mutually destructive, men could improve their collective condition and at least lay the groundwork for improving the condition of each one of them.

Possibilities for Mutual Gain

Human "solidarity" is not a sentiment in harmony with zero-sum thinking. If we want to achieve global solidarity rather than global discord, the emphasis must be shifted to the areas in which there are possibilities for *mutual* gain. Here is not the place to spell such areas out in detail, but five in the economic arena can be mentioned briefly.

First, the commercial policies of the developed countries should be geared more clearly toward accommodating the growth in exports of industrial products from developing countries. In particular, tariff structures that now distort the location of early-stage processing of raw materials in developed countries should be altered to permit economic location nearer to the raw materials. In the long run, all countries would gain by such a change. In addition, the developed countries should avoid the use of trade restrictions on competitive manufactures from developing countries; problems of dislocation to domestic industries can be handled with adjustment assistance to the factors that are injured. The developing countries would do well to concentrate their negotiating efforts on limiting the resort to "safeguards" by developed countries rather than on gaining further preferences on paper. They would

also gain by reducing their own sometimes absurdly high protection against imports, which increasingly will deny other developing countries important markets and inhibit mutually productive specialization among developing countries.

Second, the western countries should manage their own economies much better than they have in the past; that alone would go a long way toward stabilizing the export earnings of developing countries. To the extent that they fail to manage demand smoothly, they can rightly be called upon to provide foreign exchange assistance to developing countries through generous compensatory financing arrangements. Beyond this, both developed and developing countries have an interest in reducing the wild commodity price fluctuations such as have been experienced in the past decade. Reducing price variability is a task distinct from raising average prices, and has much greater chance for realization. Wide price swings, quite apart from their effects on earnings, are disturbing both to consumers and to producers, and commodity agreements based on buffer stocks could reduce the variation of prices.

Third, the high mobility of multinational corporations creates potential problems for all governments, home governments as well as host governments. At their best, multinational corporations can contribute greatly to the process of economic development (but those countries that do not accept this judgment, or for other reasons prefer not to rely on them, should not be pressured into doing so.) But by skillful manipulation, they can also evade taxes and exchange control regulations, exert undue influence on national policies, and diminish world competition. Governments have a collective interest in providing an environment in which the social benefits from the activities of these great corporations can be enjoyed while minimizing the costs. In particular, closer coorperation on global antitrust policy and on disclosure of financial information should be undertaken.

Fourth, management of some of the global "commons" requires the joint efforts of many nations. This is especially true of the world's stocks of marine life and of the quality of the oceanic and atmospheric environments. Many of these are regional rather than global issues, and global solutions would often be inappropriate. But international cooperation on a regional basis is essential for effective management. Moreover, the revenue potential of proper management of the world's fish stocks is substantial, but cooperation in installing the right kind of management regime is essential not only if the stocks are to be utilized for maximum human benefit but also to realize those potential revenues (estimated at over $ 2 billion a year at today's levels of harvest from the Oceans).

Fifth, in the long run the relationship between the earth's food supply and its population will govern whether it can evolve into a humane, pluralistic global society or whether large masses of people are condemned to starvation and the populations of the relatively rich countries must inure themselves to the continuing presence of poverty, destitution, and starvation – with undesirable consequences for their own system of values. Sound long-term policy calls for whatever efforts can effectively be made by the developed countries – partly through financial assistance, partly through transfer of relevant technology – to improve food supplies, nutrition, family planning information, and general health care in the developing countries.

These suggestions are not meant to exclude resource transfers from developed to developing nations – indeed, proper management of the oceans would generate a useful source of revenue for such transfers – but rather to shift the focus of discussion away from those areas that are in their nature conflictual and potentially acrimonious, to those areas where all participants to a negotiation among sovereignly equal nations may hope for some gain. Such a shift in focus would improve substantially the prospects for a new international economic order.

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In presenting his paper, the American author observed that the rhetoric in the Third World seemed more subdued than a few years ago, but this might indicate simply a "wait and see" attitude.

The immediate forum for the North-South dialogue was the Conference on International Economic Cooperation (CIEC), which was scheduled to hold its final ministerial meeting in the month following this Bilderberg conference.

The substantive positions on both sides of the Atlantic seemed to be converging nicely. There were no major differences of view, and there was notable agreement on the point that there should be no completely unconditional foreign assistance. Whether the CIEC could be concluded "successfully" depended very much on the LDCs, who could play it one of two ways: (1) They could note the very real progress that had been achieved, and hope for a continuation of the dialogue; or (2) they could emphasize the real gap remaining and concluded that it had failed. Some indeed hoped that it would fail, although most hoped to go on working toward a successful conclusion.

Among the important longer term questions were these:

(1) *The proper management of national economies.* Because the economic environment in which the LDCs operated was crucial, the management of the economies of the developed countries swamped anything that the latter might seek to do directly to aid the LDCs.

(2) *The openness of markets* which we would be willing to maintain vis-a-vis the products of LDCs. This was not a sensitive issue concerning raw materials exported from the LDCs, but it was sensitive with respect to their exports of manufactured goods. The Third World was aspiring to – and increasingly succeeding at – producing competitively a range of the less-sophisticated, labor-intensive manufactured goods. It was important for them to know if they could count on a continuation of an open world economy, or whether they would meet restrictionism at every turn.

(3) *The level and conditions of foreign assistance,* especially its general orientation. The moral and ethical argument for assistance from rich to poor was a strong one, and would continue to be used, even if cynically. We were in need of a strategy which addressed that ethical motivation without doing violence to the ethical objectives themselves. The author recommended a strategy which would suggest that, within large margins, the developed countries stood ready to support programs for nutrition and health care (including family planning). But we would need to have an audit power to be sure our financial grants were not wasted. This sort of strategy, unlike foreign aid generally, would not involve resource transfers which were out of line and politically unmanageable in the developed countries, and it would do much to take the wind out of the sails of the high rhetoric we had heard from the LDCs.

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DISCUSSION

1. *The Philosophic Basis of Resource Transfers*

An International participant analyzed the reasons behind the growing belief that stricter conditions should be applied to transfers of resources to the LDCs. In the beginning, the idea had been that unconditional development aid would inevitably serve to raise production, employment and standards of living in the Third World (which had been thought of vaguely as a monolithic bloc).

Many years of experience, however, had shown that this "trickle down" theory was not valid. The growth strategy had failed to alter life in rural areas and among the urban poor, and the masses of the Third World remained in absolute poverty. Moreover, the concept of a unitary Third World was found to be simplistic; there was a wide range of LDCs, including ones newly rich with petroleum resources.

With these new perceptions, support was declining in the West for broad-based transfers, and several participants agreed with the author of the American working paper that the strategy ought to shift to favoring basic human needs in the LDCs. Some felt, however, that we could not limit ourselves to feeding and adding to the life of the Third World peoples, but should also supply them with primitive tools to enable them to build their own money economy – somewhere between craftsmanship and real industrialization.

A German speaker thought that we had been wrong to approach North-South problems "in the mood of a reluctant do-gooder instead of an enlightened egoist". We should shift now from a passive to an active attitude, shaped more in the light of our own interests. It was a mistake to think that the countries most vulnerable to rapid change in the international monetary and supply systems were the LDCs, when in truth it was the free democracies, particularly in Western Europe, who were vulnerable. We were the ones who had the greatest stake in stability and predictability of change, and we had to work to steer change in the direction of our interests. Stability was needed not only in the LDCs – in their purchasing power and balance of payments – but also in our own economic systems.

An American participant pointed out, though, that with the industrialized countries increasingly preoccupied with local problems, their voters would require more compelling arguments in favor of the mutual advantage of Third World transfers. If we put into sharper relief our own idea of how the international economic system should be managed, we might be surprised to find the LDCs agreeing with us on many points.

But what were our real interests? one American asked. We all tended to assume that we ought to do something for the LDCs, and then to concentrate on a discussion of the best means. We ought to stop to consider exactly what it was we were trying to accomplish. Some were inclined to equate Third World assistance programs with the Marshall Plan, but the speaker found this comparison irrelevant. The Marshall Plan had been aimed at repairing the gap between prewar capacity and postwar penury, which was not at all the case with the LDCs.

Nor was it instructive to try to link our eighteenth century Western revolutionary tradition– which had its roots in the aristocracy and the upper bourgeoisie – with twentieth century Third World revolutionaries, who tended to be authoritarian, anti-Western and Marxist (not out of economic conviction, but because it gave them a rationale for staying in office without elections). Despite the insistence of such leaders, industrialization and economic development would not assure the salvation of the LDCs. The peoples who had the best reason to be hopeful were rather those who had preserved a legacy of moral or educational standards left by colonizers such as the French and the British.

Too often the Western nations strained to try to fulfill the demands of the Third World without analyzing them, impelled to undertake major projects by a kind of "international masochism". It was unclear what sort of theory might eventually come to be accepted as justifying the transfer of resources to the Third World, but for the present we could hope at least to forestall a coalition of the Soviet Union, OPEC and the LDCs, and to work at separating the moderates of the Third World from the radicals.

Support was expressed for the view that a Western show of firmness at the right

time would help constrain nonaligned nations from falling into the Communist orbit. It was odd, said a Portuguese speaker, that many such nations considered the East bloc to be their natural allies, while the Western democracies, who had given them the most help, were looked upon as adversaries. Perhaps this was because Marxism purported to offer global answers, which the West did not. Another factor, mentioned by a Canadian, was undoubtedly the residual tendency, especially in Asia and Latin America, to equate private enterprise with colonialism (e.g., India and Sri Lanka).

In any event, it was important that we try to engender confidence in our intentions by giving a positive response to the expectations of the Third World, and continuing to make our presence felt in their development work. A useful ingredient in this process was the MNC, which was an efficient distributor of technology, and had been a progressive force where it was made welcome.

Other participants countered that it would be unfortunate to put our assistance efforts in the service of political purposes, and that the aim should be no more than to help one's fellow man. A Dutch speaker said that, during periods of recession in his country, foreign aid was the last government expenditure to be cut, and the trade unions would have it no other way.

A Briton suggested four objectives in foreign aid: (1) to keep the other fellow alive; (2) to keep him sufficiently alive to be human (which meant that he might disagree with us); (3) to develop mutual links of respect with him; and (4) to pursue his interest and ours by tying conditions to our aid so that we would be protected from the risks of misgovernment.

An Italian sensed some ambivalence in the poor countries' requests for aid, and advised moving carefully to avoid poisoning our relations with the Third World. Distributive justice was not a sufficient reason for transfers, nor was mere political calculation. We could not "just set up a new set of moral principles as one would buy an evening dress", she said. It was perhaps enough simply to take note of the fact of inequality.

With the best of motives, though, it would not be easy to work against the background of constraints imposed by the attitudes of LDCs, who felt they were owed something and were emboldened to emulate OPEC in trying to obtain it. An American predicted that the future of North-South relations would be shaped not so much by ideology as by such large new forces as shortages (of energy, capital and raw materials), rising expectations, demographic changes, and the widening gap between rich and poor. Our interdependence called for long-term cooperation, but many nations wanted to stop short of such a commitment, apparently feeling that interdependence was to be resisted rather than embraced. We could therefore expect more confrontation than cooperation between developed and developing nations in the years ahead.

According to an Italian participant, the imbalance in the flow of information between LDCs and the developed countries would complicate our dealings. It appeared that the Third World was now intent on creating their own government-controlled news agencies, so as to be able to give a distorted, always favorable image to the outside world. This was an example of the comprehensive plans of the LDCs for a new world order. The West was not prepared for this, and still clung to outmoded concepts of diplomacy and assistance.

2. *The Importance of Agricultural and Commodity Arrangements*

It was generally agreed that a high priority should be given to helping LDCs with food production, but as one American pointed out, their attitudes and policies had regrettably often been detriments to progress. Self-sufficiency would require plantations large enough to be economical, which might disrupt patterns of peasant life, but pilot farms could be established to show the way. LDCs would have to recognize that it was farmers, not governments, who grew crops, and that they would need, among other things, fertilizers at affordable prices, harvested crop management and distribution systems.

It was true that the LDCs were hampered by a lack of access to technical know-how, but this problem was more apparent than real, at least in the sphere of food and agriculture, where technology was available at a reasonable cost. A Swiss speaker reported that the UN had recently sent a mission to various developing countries to survey their technological needs. Most of the respondents had put food and agriculture at the top of their list, followed by population control and industry (non-research oriented). The speaker, who had been a member of that mission, noted that two countries Brazil and Mexico – had so far been the recipients of the lion's share of technology transfers, but he felt that conditions were promising for private enterprise to play an important part in achieving a much wider dissemination of technology through licensing and direct investment in the Third World.

Commodity markets and agreements were discussed at some length. While price fluctuations could admittedly be distressing to both exporters and consumers, many were suspicious of attempts to supplant market mechanisms. There had to be room for flexibility in trading, given the fact that commodities were both perishable and subject to substitution.

A British suggestion was that the best solution lay in selective income guarantees, with agreements of the Lomé type meriting careful consideration. In the judgment of a German participant, though, the stability promised by the Lomé Convention now looked more expensive than originally imagined. It seemed to give all the benefits to the LDCs, and none to the developed countries. When prices were low, there was likely to be radicalism across the board, expressed by a willingness to withdraw from the system. If commodity agreements got prices very wrong, it could be extremely disturbing for trade balances and inflation.

An American speaker, however, was attracted to commodity agreements because they could "enable us to find a formula for rewarding countries which conduct themselves responsibly rather than assaulting the international order".

A British participant took exception to the contention in the French working paper that it had been counter to British policy to support commodity agreements. He thought it was hypocritical to expect commodity markets to remain free so long as governments in the developed countries intervened. From an industrial point of view, one had always to be mindful of the condition of primitive people, and the best guarantee of stability was a recognition that contractual rights could be as important as national sovereignty.

3. *Financial Considerations*

Several interventions touched on the role of the banking system, which – since the oil price increase – had taken on an abnormally large proportion of the expanding debt of the LDCs. The transfer of resources, masked as commercial debt, had thus taken place on a much greater scale than would ever have been made possible by the mechanisms of national budgetary arrangements. Although it had been said that no man was impatient with his creditors, we now lived, according to a British participant, "in a world of anxious creditors and indignant debtors". (A Norwegian speaker thought it was partly our fault if we were mistreated by our debtors, as we had been careless bankers in misjudging the credit risk).

There was some disagreement about what the future was likely to hold. A Briton implied that a large volume of Third World loans had in effect been aid disguised as debt, and might not all be repaid. We should explain to our constituents that this was an aspect of the development process and try to allay their worries. A French participant thought there was good reason to worry: we had reached the limit in credit extensions to the LDCs, and moreover the effects of this recycling were highly inflationary. A different view, expressed by an International speaker, was that loans to the Third World had been not so much inflationary as anti-deflationary, in a period when the world economy needed a stimulus.

The author of the French working paper said that indebtedness of some countries – both developed and underdeveloped – ought to be accepted over a very long period and funded in a non-inflationary way. This presupposed two things: (a) that financial circuits between the ultimate creditors and ultimate debtors should be as short and stable as possible; and (b) that the existence of long-term indebtedness ought not to be an excuse for the lax management of national economies. In this regard, anything that could be done to strengthen the power the I.M.F had over deficit countries was desirable, however difficult that might be to achieve politically.

According to an American participant, the banks had done a skillful and prudent job in financing the balance of payments deficits of the oil- importing countries following the 1973 price increase. Contrary to some observers, the speaker did not believe that the private banking system faced massive difficulties because of these loans. For one thing, the bulk of the debt was owed by the stronger, less vulnerable, of the developing countries. For another, he expected a shift to more government assistance and less exposure for the private sector. In this connection, there was a place for both the proposed "safety net" arrangement and the special IMF fund.

4. *Trading with the Third World*

As state-to-state aid was often regressive, failing to engender mutual respect and to raise standards of living in recipient countries, Italian and British speakers advocated that "trade, not aid" should become a watchword in our dialogue with the Third World, much as it had been in American-European relations after the war. This would mean shifting our commercial policy to encourage the LDCs to export manufactured goods, and accepting a deterioration in our own terms of trade to accommodate them. Even then, there was bound to be a widening gap between expectation and reality in the LDCs, as their aspirations were not compatible with the likely rate of expansion of their trade with the developed world.

Several participants – notably Britons and Americans – felt we had already gone too far in accommodating the export of finished goods from the LDCs. Wage rates in Korea were onetenth of those in Western Europe, Taiwan's one-half, and Hong Kong's three-quarters. In textiles and fibers, for instance, Europe had exported its best technology to those countries, and as a consequence had lost 300,000 to 400,000 jobs within the past four years. Germany and the U.K. were now getting about 23 per cent of their textiles from the LDCs, and European industry might well find itself with ghost towns reminiscent of the disused New England textile mills.

During the past decade, the U.S. had lost over 140,000 jobs to foreign competition in textiles, and the unemployed working people felt as if they were bearing a heavy part of the foreign aid burden. The psychological and economic impact of such dislocations was often underestimated. There was a growing constituency opposed to a further liberalization of trade so long as domestic unemployment remained high. Labor was not asking that trade with the LDCs be stopped, but that its rate of growth be slowed to match our domestic growth rates. Some measure of fairness would have to be restored, by quotas or other regulations.

The author of the American working paper said that, while he dissociated himself from some of the foregoing remarks, he agreed that our governments had the responsibility to preserve a high level of employment within our economies. Several governments, including that of the U.S., had failed in this regard, and there was no question but that it was more difficult to undertake structural adjustment in an environment of slack demand in the labor market.

On the other hand, he said that it was important to keep one's perspective about the time dimension. Understandably, most people were preoccupied with what had happened in the last few years and what might happen in the next few years. In principle, though, those concerns could be separated from consideration of a strategy for a longer period of time.

The speaker said that when he spoke of trade adjustment and U.S. willingness to undertake it, he was thinking in terms of the next decade or two, not the next year or two.

In any case, he felt that, of all the adjustments our economies had undergone over the years, the adjustment to imports was surely one of the least consequential. Changes in technology, in the pattern of government procurement, and so forth, had called for much more extensive adjustments in the structure of our production and our labor force than had the increase in imports.

The speaker looked forward to the day when Americans would mature out of the feeling that foreign competitors belonged in a different category from competitors from another part of their own country, such as the Southerners who had during the last generation created serious problems for New England industry.

A Canadian wondered, however, whether the Western countries in general were not running a "high wage cartel". Had we not, through the inflationary printing of money, created in our own countries a fictitious scale of living that was pricing us out of world markets?

III. CURRENT PROBLEMS IN EUROPEAN-AMERICAN RELATIONS

No working paper was prepared for this topic, but the discussion was introduced by a German participant who analyzed European impressions of the Carter administration and then enumerated certain areas of potential friction between Europe and America.

No European who had recently been in the U.S. could have failed to detect the change in national temper. There was a new mood marked by buoyancy, effervescence, dedication and hope, and President Carter had to be given much of the credit for this.

But many Europeans took a wary view of the new mood because it seemed at the same time to engender self-righteousness, cockiness and high-handedness. There was great panache and a proclivity to "throw stones in the pond and sort out the ripples afterward", a toughness on questions of principle combined with a lack of detailed argument on practical matters. Some Europeans applauded this, feeling that the main task of a new administration was to stir things up and let the practical results grow out of the ensuing confusion.

Others, though, felt strongly that in today's interdependent world not even the U.S. could singlehandedly impose its imprint on the international system. Proclamations of American interests and "gut feelings" dit not constitute policy. What was needed beyond that was accommodation of other interests as well. Things had to be spelled out, translated into operational strategies and discussed thoroughly with both partners and adversaries.

The style of the Carter presidency so far seemed to compound America's built-in tendency toward unilateralism. The new administration had on several important occasions violated the basic rule calling for consultation with one's partners: in issuing its statements on human rights (a high-level aide remarking that it was not necessary to consult about what the nation stood for); in lecturing the Germans and Japanese on how to reflate, "having neglected to do its own homework"; in sending Secretary Vance to Moscow with a SALT offer "patently loaded against the Russians"; in trying to 'stare down" the West Germans on the issue of the Brazilian deal; and in inviting comments within a three-day deadline on its draft statement on nuclear non-proliferation (over which the Germans gave themselves "considerable trouble sub-editing the imperious language").

The speaker acknowledged that initial apprehension about President Carter among European leaders may have been traceable to his representing a new government, while they represented old ones. New governments, full of ideas, tended to cast manners to the wind in their hurry to remake the world, wheras old ones were preoccupied with relationships, stability, procedures and protocol. All the same, Europeans were coming to feel that they could "do business with" President Carter because (as a Greek participant put it) he was a "fast learner", and the prospects seemed propitious for the May summit meeting.

There were nevertheless bound to be areas of friction between America and Europe and the speaker's enumeration of these topics set the frame work for the discussion:

(1) *The style of the Carter administration and its implications for consultations with America's partners.* While several participants criticized the Carter administration for failing to consult its allies, others said that reactions in their countries had not been so negative; that it was too early to pass judgment; that the U.S. continued to participate fully in international forums; and, as a Turk remarked, that it was ironic to hear speakers from the Nine complain of non-consultation. An International speaker remarked that, after all, the American style had always had a streak of self-righteousness and that it was not a bad thing to believe you were in the right.

Other participants, though, feared that President Carter was *too* quick a learner and showed a tendency to back down under pressure (e.g., tax rebate, change of tone after Secretary Vance's return from Moscow, muting of the human rights statements, and aftermath of the German-Brazilian affair). While improved relations with the allies had at first been given top priority, it now looked as if the Soviets were receiving greater consideration.

Various American responses were heard: that these changes in style tended to move in eigth-year cycles, with newcomers to Washington "tearing up all the trees to see if the roots are still there"; that the new administration had in fact inherited "a logjam in foreign policy" and needed time to set up new patterns of policy- and decision-making to deal with both old and new issues; and that the President's withdrawal of the tax rebate signified no change of priorities but a changed estimate about the course of the domestic economy.

A member of the new American administration who was present protested that he could not possibly consult more without moving from Washington to Europe, while a member of a former administration observed philosophically that intensified consultation would not always solve our problems. Nations disagreed not just because they misunderstood each other, he said, but sometimes because they understood all too well.

(2) *The human rights issue* had a double significance: it exemplified both the positive mood of the new administration and its tendency to act without consulting its partners. An American speaker emphasized that the human rights question was deeply felt on both sides of the Atlantic, and that President Carter's speaking out had struck a responsive chord in the U.S. But the President dit not purport to speak for other governments, who were free to handle the matter in their own way.

Europeans replied that how the U.S. acted inevitably affected other nations. They were no less committed to the principle of expanding human rights but, as one German put it, we all had to avoid articulating our claims in ways that risked being counterproductive. The question was whether we should take our stand in the marketplace or behind the scenes, where we had already made progress.

It was not widely known, but since Helsinki tens of thousands of Germans, including whole families, had been allowed to come home from the East, and it was hoped that equal numbers would be permitted to follow during the next few years. This explained why some countries had to pursue their claims somewhat differently from others, so as not to jeopardize further progress.

For the upcoming Belgrade conference, a Briton said it was vital that the West present a solid front, with no one appearing to be more or less interested in the matter than his partners. It was also important that expectations should not be aroused in the East which did not have a reasonable chance of being satisfied.

A Greek participant wondered how the Russians could possibly justify having done so little about human rights after signing the Helsinki agreement, and a Turkish speaker cautioned against our letting the Soviets conclude that human rights was the only field in which we felt improvement was needed. There were many others, he said.

Both Americans and Europeans agreed that the human rights issue was not confined to the East bloc countries, and reference was made to conditions in Uganda, Chile and Argentina.

(3) *Nuclear non- proliferation.* The Brazilian affair had produced the first real difference on a fundamental policy question between the Germans and Americans in a quarter century. German industry felt that the export of non-military nuclear technology was a field in which it could hope to excel, and that U.S. disapproval of the Brazilian deal was not in line with America's treaty obligations.

An American participant replied that, despite our differences, we all shared the objective of trying to halt the spread of nuclear weapons, and even of halting the capacity to build them. Unfortunately, that technological capacity had outstripped our political capacity to insure against the proliferation of nuclear weapons. We had a long way to go to find appropriate political means to stop the growth in the number of nuclear powers.

While Europeans felt sure there was no commercial motivation behind the U.S. position, the nuclear issue pointed up for them the problem of America's deciding what was best for others. Europeans fully shared the U.S. concern about proliferation, and they ought to have a voice in solving these questions. But what forum was available for discussions that did not include non-Western nations? It was recommended by an International speaker that ad hoc meeting of the suppliers' group in London be arranged for this purpose.
Close policy coordination among France, Germany and Japan on matters such as the fast breeder and reprocessing was deemed essential to foster Europe's energy independence.

An American participant pointed out that nuclear issues were inherently divisive because (a) the whole concept of nonproliferation was discriminatory, and (b) there were wide differences of opinion within the scientific community on safety questions. We were paying now for many years of neglect of the subject. If it had been properly anticipated, the Brazilian dispute could probably have been resolved with much less abrasive consequences. Because discussions had been so long overdue, it was not surprising that there was some initial friction, but an Irish speaker counselled against getting excited about that.

(4) *On the energy question,* the Carter program was welcome in Europe because it promised to reduce America's dependence on Middle East oil. But an International participant advocated urgent consultations about its likely impact on trade. Some criticism of the Carter measures as Draconian had been heard in Europe, but the Americans, having been lectured so long for their profligacy, found it ironic to be now told that they were moving too fast.

(5) *Economic and monetary issues.* The Carter administration's call for a reflation of the German and Japanese economies was criticized by another International speaker as a departure from the agreed OECD strategy of June 1976 to aim for moderate growth which would not lead to a speedy and inflationary return to full employment. A German speaker – who cautioned against overestimating the influence of any single country on the world economy – pointed out that Germany was currently running the largest budget deficit as a percentage of GNP of any of the industrialized countries (4½ per cent vs. about 3 per cent for the U.S.). So Germany was in effect reflating, although perhaps not in the manner the Carter administration had had in mind. He also urged that attention be focused not so much on trade surpluses as on current accounts, Germany's current surplus having dropped substantially because of tourism abroad.

An American participant replied that the size of the budget deficit was not a measure of the stimulus, but of the dimensions of the problem. He went on to say that the American-German disagreement was minimal and was related not so much to targeted 1977 growth rates ($5^1/_2$ per cent vs. 5 per cent) as to the likelihood of reaching the target. The U.S., he said, was not seeking to impose solutions but was looking for a "shared appreciation of problems" such as that of the global imbalance of payments deficits. The discussions in Bonn this spring had indicated that the Germans indeed shared this appreciation.

(6) *African policy* was seen by some participants as a subject of European-American disagreement and by others as an illustration of cooperation. A Briton, for example, said that his government welcomed the degree of commitment the U.S. seemed ready to undertake in southern Africa. A German was pleased that Vice President Mondale had evidently been given a brief to define a new African policy, and they would not be inclined to follow a "hands off" policy. While they did not

An International speaker commented that Europeans felt a primary sense of responsibility for Africa, which lay within their "natural sphere of influence", and they would not be inclined to follow a "hands off" policy. While they dit not need U.S. stimulation to do anything in Africa, they would need American help.

Some speakers praised France's recent action in Zaire, saying it had restored Europe's sense of mission in Africa. Others were not so sure that European opinion was unanimous on this point.

(7) *The imperfect state of European unity* presented a serious obstacle to effective consultation, according to an American participant. When the EEC had no mandate to negotiate, he said, no one was able to "deliver". On the other hand, when there *was* a mandate, the position was usually inflexible. This was a source of constant frustration for the U.S.

European speakers recognized this problem, but one of them was tempted to ask who was able to "deliver" for the U.S.: Congress of the executive?

Some participants were inclined to agree with an Italian speaker who said that "Europe" was no more than a collection of nation states. A German claimed that this was the fault, not of the Eurocrats in Brussels or of the Americans, but of the weak national governments of Europe. Others objected to equating Europe with the Nine. An Austrian speaker pointed out that there were ten or eleven other nations, with 100 million people, who were also part of Europe and ought to be included in transatlantic and intra-European consultations.

Europe was indeed an entity, but one which a German participant described as a "strange animal . . . now you see it, now you don't". It had a job to do in identifying its common interests and in finding a united way to approach the U.S., which had consistently encouraged the process of European integration. A Belgian speaker remarked that the words spoken by Paul-Henri Spaak about the urgency

of the matter were now truer than ever: "Il n'est pas trop tard, mais il est temps".

An International participant said that he hoped to live long enough to hear the Americans complain about the unilateralism of the European Community!

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At the close of the meeting, the Chairman thanked all those whose work had contributed to the success of the Conference: authors of working papers, interpreters, secretariat, and hotel staff. He expressed his special gratitude, on behalf of all the participants, to Sir Frederic Bennett and his British associates for serving as hosts at Torquay.

An American participant, speaking for all those attending the Meeting, thanked Lord Home for his having acted as Chairman in such a skillful and kindly fashion.

The announcement that Lord Home had accepted to continue the Chairmanship for another two years, was received with enthusiasm.