

BILDERBERG MEETINGS

MEGÈVE
CONFERENCE

19-21 April 1974



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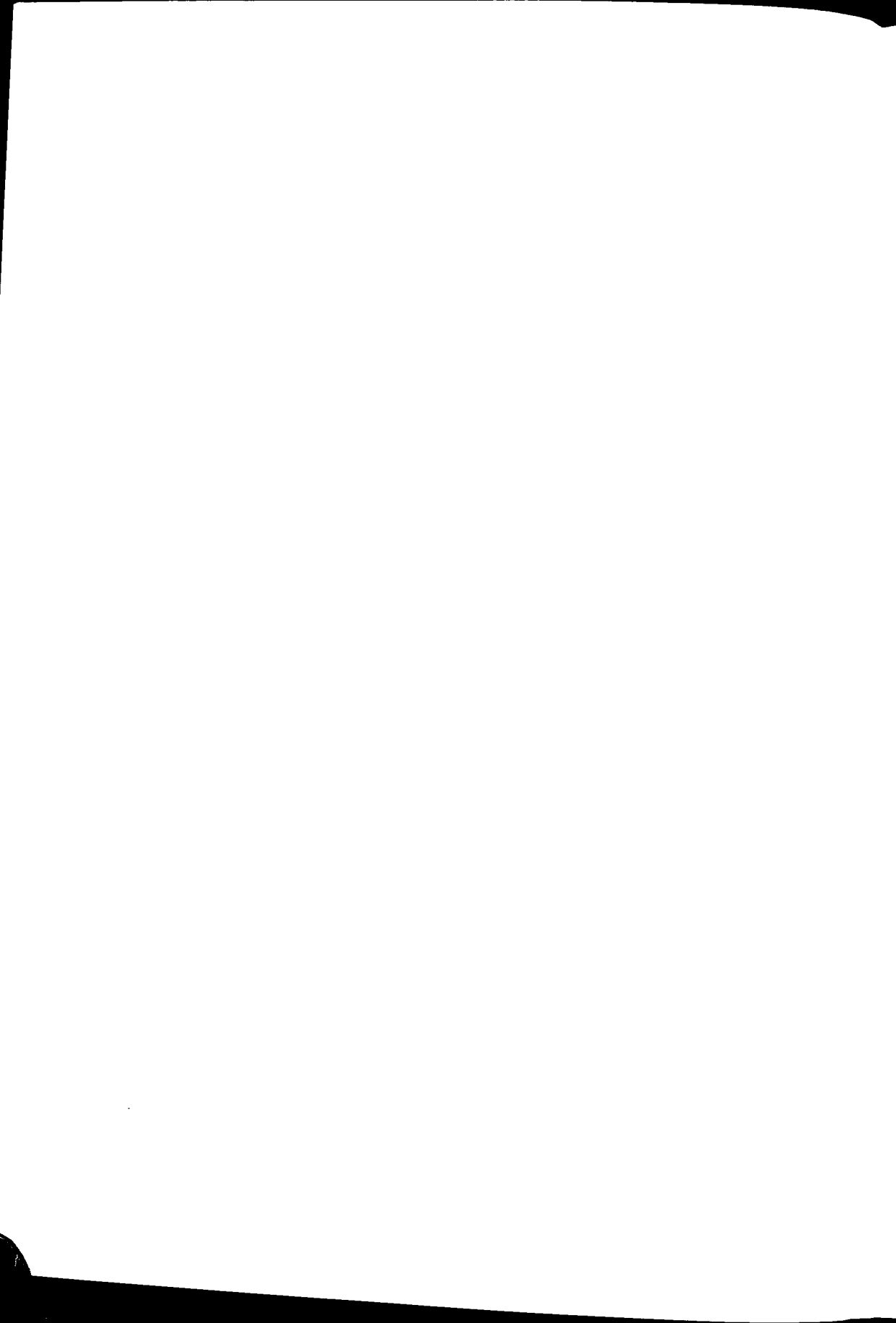
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FRANCE
NETHERLANDS
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INTRODUCTION

The twenty-third Bilderberg Meeting was held at the Hotel Mont d'Arbois, Megève, France, on 19, 20 and 21 April 1974 under the Chairmanship of H.R.H. The Prince of the Netherlands.

There were 87 participants, drawn from a variety of fields: government and politics, universities, journalism, diplomacy, industry, transport, the law, banking, foundation administration and military service. They came from fourteen 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 press reporters admitted.

The Agenda was as follows:

“Prospects for the Atlantic World.”

In opening the meeting, H.R.H. The Prince of the Netherlands invited all the participants to stand for a moment of silent tribute to the memory of the late President Pompidou. He then read a telegram which he had sent to President Poher, expressing sympathy to the French nation at the loss of Monsieur Pompidou, who himself had been a Bilderberg participant. (President Poher's telegram of response was read later in the meeting.)

The Prince reported that Secretary Kissinger had written to convey his great disappointment at having been prevented by his official duties from attending the meeting.

His Royal Highness gave a special welcome to Professor John Pasmazoglu, who had been unable to attend six previous meetings by reason of the refusal of the Greek government to issue him a passport. Professor Pasmazoglu replied that his presence was a sort of accident, and should not be taken as a sign of change in his country. His thoughts went out to his compatriots under arrest and threatened with deportation. The Greek people were committed to continue their struggle for constitutional rights and liberties.

After recalling the rules of procedure, the Prince turned to the subject of the agenda.



WORKING PAPERS

The groundwork for the discussion consisted of four working papers dealing with the agenda topic, written from the point of view of a French, a British, a German and an American observer.

Following are summaries of these working papers, and of the comments of their authors in introducing them to the meeting:

A. The author of the *French paper* claimed that history was the key to France's attitude toward the Atlantic world. The theme of independence abroad and centralism at home was traceable to the reign of the Capets and had survived the vicissitudes of intervening centuries.

French policy, designed to harness all the nation's wealth and energies to its service, could not be explained solely in material terms. It was based rather on a concept of cultural identity: the belief that France possessed a distinctive personality conferred by her special inviolable mission.

This refusal to accept any assimilation and the determination to preserve the national identity were the crux of what Secretary Kissinger had once called the "transatlantic misunderstandings". In fact, there was no misunderstanding, but the confrontation of two flatly contradictory philosophies. The US, like the USSR, was an imperial nation, bearer of a universal ideology. When ideology and interests conflicted, interests usually came first. Did not "the Atlantic spirit" and the "defense of the free world" sometimes constitute the "fig leaf of American respectability"?

The Gaullists thus saw the world as a jungle, in which France too had to defend her own interests. This had led her at times to err on the side of mistrust, prejudice and ignorance, but that was matched by the recent emergence of a harsh American *Realpolitik*.

These philosophical differences had produced contradictory approaches to the alliance. The US had foreseen an evolving Atlantic community, in which it would perforce exercise the leadership. For Gaullists, though, alliances were always ad hoc. They reflected the interest of the moment, and should never result in the forfeiture of one's identity or power of decision, especially in defense matters. As de Gaulle used to say: "A great people has no friends".

Although de Gaulle's disappearance had brought little substantive change, it had served to mute the voice of France, and to rule out openly defiant

attitudes. Pompidou had sought accommodation with the US and the USSR, as part of his drive for industrial and commercial power, while concentrating his diplomatic efforts on the Mediterranean and on the European Community – “the only hope for the peoples of Europe to recover their destiny”.

The spectacular Soviet-American rapprochement had confused and troubled France as well as other European countries, accompanied as it had been by the strengthening of Russian military forces and the crackdown on dissident intellectuals. The Yom Kippur war had then revealed that the US, while remaining in close contact with the Kremlin, did not trouble to consult with its European allies, whom it addressed instead in censorious tones.

The explanation probably lay in Washington's desire to strengthen its hand before the new phase of SALT and MBFR talks. Any division within the Western world was thus viewed as obstructive and singularly untimely. While such an intimidating approach might serve to rally weak governments, it would not facilitate the creation of a united Europe supported by the great majority of its peoples.

The defense of the “free world” against the Soviet threat (in which no one outside government circles still believed) was no longer an adequate inspiration for European unity. Only a broad vision of a European federation – able to defend itself, imbued with an ideal of social justice and a redefinition of its relationship with the Third World – could revive the faltering European political will. It was futile merely to plaster over an Atlantic façade riddled with cracks, and to speak of “partnership” (which was anyhow untranslatable into French).

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The author pointed out to the meeting that he had written his paper in the full expectation that France's path for some time to come would be that of Monsieur Pompidou. This was now not to be the case, and a clearer view of the future would have to await the outcome of the French presidential election.

Some general predictions could nevertheless be hazarded. Whoever won, it was unlikely that the French emphasis on independence would be reversed. No politician could ignore the results of a recent poll, which had shown that, while 60 per cent of the electorate were critical of the government's social and economic policy, some 73 per cent favored the current foreign policy. France could be expected to be in the forefront of a re-launching of “Europe”, but in a way which would preserve the identity of its member nations.

It was clear that French foreign policy could no longer be set by one man.

Leaders of all important parties could hope to retain their influence only by taking proper account of elements in the programs of other parties (including the Communists, who would be the last to be enthusiastic about Western European integration).

Finally, the French author conceded that he had been struck by the relatively more constructive tone of the other working papers. He did not mean to be less constructive, but he felt keenly the urgent need to seek and nourish a current of public enthusiasm in France, without which the patching up of a European – or an Atlantic – façade would be of little use.

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B. The role of history was also invoked by the *British author*, who said that it had compelled the British people to think in terms of cooperation in an Atlantic world. They would accept partnership between Europe and America without question. Moreover, they believed that only US support could give the Nine the sense of security necessary to the assertion of their own identity and unity vis-à-vis their real opponent, the Soviet Union. Nevertheless, Britain's confidence in the American administration had been shaken by the presidential crisis, and it would be folly to take for granted the American commitment to Europe regardless of European attitudes.

Although they were somewhat mystified by the continental preoccupation with the definable European identity, the British would want the European side of any partnership to be as strong and assertive as possible. All the same, the first year of Common Market membership had been a disappointment to its British supporters and a joy to its critics, with the attendant rise in domestic prices, the ineffective performance of the Council of Ministers, the eccentricities of Brussels procedure, and above all the behavior of those who had been foremost in questioning the British commitment to Europe.

In short, the attitude of the majority of British people towards Europe, if not one of indifference, was at best one of caution tinged with hostility and at worst one of outright opposition. British opinion was thus confused and suspicious of both its natural allies – Europe and America. It recognised the risks of standing alone yet resented the need for allies and the sacrifices that this demanded.

Britain would be well advised to position herself near the center of three groupings: a strong EC for her prosperity and political influence; a reformed Atlantic alliance for her security; and an industrial Western grouping as the framework of a world economic and monetary system built in sympathy with

the developing world. But little hope could be seen for any of these groupings in a continuance of existing attitudes and policy.

The attempt to create Europe via the economic route was failing; not only was the Community structure unsatisfactory, but the will to make it work was lacking. Theoretically, a "root and branch" solution could be undertaken, but no one could realistically envisage a renegotiation of the Treaty of Rome at this time.

But simply to carry on as a loosely connected group of European nation states, renouncing the possibility of becoming a collectively decisive world influence, would be an appalling loss of opportunity. As a practical alternative, the author proposed urgent concentration on work to create a common Western European political will, a realistic European defense, and the acceptance of a flexible partnership with the U.S.

As regards political will, certain unpalatable facts had to be faced: that the economic and monetary problems caused by the energy crisis could only be resolved multilaterally; that a customs union and CAP were insufficient to create Western European unity; that détente was more apparent than real; and accordingly that present defense arrangements were inadequate. To help create an effective political will, European leaders should meet regularly and frequently, without ceremony and with no subjects barred.

Even if the EC stagnated for the time being, defense arrangements ought to be revised. European-North American collaboration should be strengthened and a council of European defense ministers created to replace the Eurogroup. The North Atlantic alliance was where Europeans and Americans found their most important common interest, and defense was the field now offering the best prospects for fruitful cooperation.

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The author remarked that his paper had been written just after the British election. Although the issue of European Community membership had in fact received relatively little attention during the election campaign, the author felt in retrospect that he had perhaps done the British public an injustice by exaggerating their lack of interest in the European question, which appeared to have greatly revived.

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C. The *German writer* felt the present crisis was unprecedented in that it threatened the survival of Europe and Atlantic cooperation. Only by rationally confronting potential dangers would the Atlantic world be able to marshal its resources to master the problems of the approaching age of scarcity.

Tensions in the Atlantic world had resulted from basically defensible positions being blown out of proportion. As an example, Europe and the US were quarreling about Europe's world role when it had none, and about its identity which was only just emerging, in such a way as to jeopardize both. But Europeans should not overlook valid reasons for American positions. At a time when the US was practicing "crisis diplomacy" for peace in the Middle East, and attempting to resolve matters of vital interest to Europeans as well, theoretical discussions about Europe were out of place. Unlike authoritarian powers which could implement decisions arbitrarily, democracies like the Nine were hard negotiating partners because of the difficulty of revising positions once taken, so outside powers naturally sought consultation at an early stage.

A major impediment to EC progress had been France's refusal to go along with Community decision-making. While claiming a world role for Europe, she had denied the preconditions for such a role, accepting common external policy only when it agreed with her own views. While expressing fear that Germany might become neutralized, she had declined to join groupings which would bind the GFR to the West. Without US protection and strong EC integration, Germany might be forced onto a neutralist course. The Community's progress – internally and in world affairs – required either a change in French policy or a decision by the remaining eight to proceed without her.

In the current debate, the GFR was caught between France and the US. Because of its contiguity with Warsaw Pact nations, it had to give priority to security considerations. It had therefore cultivated good relations with the US and was the only government to help finance the US military presence, although such actions benefited Europe as a whole. France, thus guaranteed security to the east, could afford to leave the military organization of NATO in the assurance that no others would follow.

Bilateralism was a dangerous approach to economic problems. While governments on both sides of the Atlantic had resorted to it in the energy crisis, France's hasty measures had had a particularly negative impact. Nevertheless, while multilateralism was preferable, bilateralism should not be entirely renounced. Diversification of approach was also beneficial.

Unilateralism violated the basic Atlantic principle of mutual consultation. Examples were Kissinger's Atlantic Charter speech and London energy proposals, and the Nixon-Brezhnev agreement. The EC in turn had acted unilaterally vis-à-vis the Arab states. Calls for consultation were not demands

for submission, nor were pleas for an EC role in the Mideast signs of anti-Americanism. A coordinated approach on the Atlantic, European and national levels was needed.

Three basic alternative structures for Atlantic cooperation emerged. If the concept of partnership was to be pursued, France would have to accept US-European security and economic relations and to concede EC decision-making power. American support of European unity would have to be restated and with it, recognition of Europe as an equal partner entitled to its own - possibly divergent - views. The "empty chair" approach was based on the conviction that joint undertakings should not be subject to the veto of one country. This would mean continued partnership but without France. In the past France had often left Europe no choice but to proceed without her, though she had always been welcome to occupy her empty chair. While this approach had the merit of breaking some deadlocks, a truncated Europe was bound to be comparatively weak.

The third and least attractive course was "cooperative bilateralism", resulting from a breakdown in existing multinational frameworks and an increasing trend toward nationalism. There were many dangers to stability in this approach. Only multilateral procedures based on interdependence and cooperation could find satisfactory solutions to economic and security questions. The Atlantic world could not be allowed to disintegrate into a network of bilateral relationships.

We needed a cooling of emotions, a sober analysis of the disastrous consequences of the present course, and a clear restatement of the goals of cooperation. A coordinated approach to the energy problem was essential. The approaching era of scarcity would have a deep effect on the Atlantic world, with rising inflation, the scramble for raw materials, and increasing government intervention in free trade aggravating the problem. A stemming of present trends was a prerequisite to continued détente, as the Soviet Union was likely to take advantage of Atlantic disintegration.

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The writer said he was grateful to the author of the French working paper for having demonstrated how deep was the French attachment to the idea of national independence. As long as that tradition survived, it would stand in fundamental conflict with the concept of European integration - whether on the economic, military or political level. Without some form of Community decision-making, in which dogmatic interpretations of national independence

were at least reduced, there would be no role for Europe in world politics, and no possibility of organized links with the US.

Mr. Callaghan's speech in Luxembourg had come just at the time when a British contribution to a common European approach was needed more than ever. It seemed to signal the relapse of British foreign policy into "parochial insularity", which was unfortunately bound to foster bilateral relationships at the expense of the multilateral system.

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D. The author of the *American paper* conceded that Atlantic relations were adrift, mainly because of the unprecedented weakness of individual governments in a time of rising demands by their citizens for economic security. Blame for failure to fulfill these expectations was inevitably placed on foreign causes. But the author questioned how serious the crisis really was. Personal, idiosyncratic diplomacy had contributed to problems which were more of style than substance. Economic relations, conducted recently in an atmosphere of improved goodwill, had proved less troublesome than security negotiations, marked by rancor and consultative disorganization.

The essential Atlantic problem lay in the "deeply rooted asymmetries" which spanned the entire relationship. While Europe had bridged the economic and technological gap, it remained dependent for its security on the US, whose commitment it had begun to doubt. America in turn was questioning the wisdom of defending allies who did not pay their share and who withheld their support on important issues. The US could no longer use its "security blanket" for political leverage in the face of a Europe unified for the purposes of power but rarely of policy.

The US would have to (1) wait indefinitely for a common European position to evolve, or (2) deal with countries individually, which would disrupt Europe and contradict stated American policy, or (3) do neither and stand accused of abandoning its allies. Fundamental to the choice among these alternatives was an assessment of what "Europe" would amount to.

While a certain European stand on security issues had evolved, the idea of the "European Community" was in trouble. Economic and monetary union had been unrealistic from the start, as fixed exchange rates were to prove unworkable in the face of the trend to flexibility. EMU had really been a Deutschemark zone; floating the French franc had underscored this.

The CAP had also proved ineffective, with most world food prices exceeding CAP prices. This tended to erode the support of the French (and of some

others) for the EC as a means of assuring agricultural income. The customs union also appeared vulnerable, with energy-related export controls sanctioned and the possibility of import controls as well to combat trade deficits. Joint European policy was lacking in a number of areas, including the response to the energy crisis. Any "great leap forward" in Europe seemed remote, in view of the lack of innovative ideas and potential leadership.

Paradoxically, those who most feared a restoration of American hegemony in Europe were inviting it by default. This uncertainty as to "whither Europe" exasperated those in the US who had traditionally favored close transatlantic ties, and undermined their influence.

In spite of weaknesses and asymmetries, Atlantic economic relations had been marked by impressive progress. The monetary system had been drastically reformed; confidence in the dollar was returning; Arab oil money was being recycled; import controls had not yet been imposed; agricultural trade had been liberalized; and Europe and the US continued to welcome each other's investments. Energy as such was no longer the crisis it was purported to be, but was a "surrogate" for the deeper political tension between America and Europe.

Although the Atlantic countries and Japan were coping skillfully now with their economic problems, greater issues might lie ahead: inflation resulting in export controls; competition for scarce raw materials; cooperation to develop new energy sources; guidelines for intervention in the exchange markets; and excessive tapping of private capital markets.

Despite the weakness of the political underpinnings, the outlook for economic cooperation was nevertheless reasonably favorable, thanks to the development of transnational communities, which were overriding the shortcomings of governments to deal with economic issues.

One danger, though, was that the more politicized economic issues became, the less susceptible they would be to transnational influence. The unlikelihood of "spillover" of economic success into the security area was also due to the misplaced focus of the European integration movement, which was pursuing an unnecessary economic community at the expense of an effective political community.

Europe had either to (1) restore momentum toward economic union, (2) reform the integration movement along security lines, or (3) admit that nationalism had again prevailed. As far as the Atlantic relationship was concerned, the first two of these alternatives would reconfirm the basis for past European-American policy. Conceivably, both economic and political community could proceed simultaneously, though divisions might arise and a commitment to a costly security orientation seemed unlikely.

Economically, the third choice would be acceptable but politically it would be uncertain, possibly leading to a special US-German relationship. Psychologically, scuttling "Europe" might be as difficult a task in the individual nations as setting it afloat again, but a consensus to shelve it might be reached. Any of the three options would be preferable and more conducive to a clean-cut policy than the uncertainty of the status quo.

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In introducing his paper, the author said that the British call for a fundamental renegotiation of the terms of entry into the EC had reinforced his feeling that the very survival of the Community was in question. At the same time, international economic cooperation was continuing to register notable successes in extremely difficult times. The period immediately preceding this conference had presented an even sterner test than had the months prior to the writing of his working paper. Much of the credit for the constructive handling of such a wide range of economic and monetary problems had to go to the emergence of transnational forces, i.e., effective working relationships among individuals and organizations in the private and public sectors.

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DISCUSSION

The discussion was organized around six principal topics:

I. *The process of European integration; causes of the present disarray; temporary setback or total breakdown?*

The diagnoses as to the state of the movement toward European integration ranged from "senescent, near death" (the view of the author of the American working paper) to "not nearly as bad as it has been described". The latter was the impression of a Belgian participant, who could not believe that the very important agreement reached at the Paris summit meeting would not survive.

Several participants felt that the current gloom was excessive and that Europe would surmount the present crisis as it had previous ones. An Italian speaker argued that strong elements of coincidence had led to this particular moment in

European history, and it would be naive to apply too rational an analysis. He suggested an analogy to Swiss cheese; one should look at the cheese and not the holes. It had to be remembered that the primordial object of the European movement had been the avoidance of another war between Germany and France. Transnational forces were now even stronger in the European environment than in the transatlantic setting.

Few went so far as to endorse the contention of the author of the American paper that the Economic Community was perhaps an unnecessary link between the strong European national economies and an open, liberal multilateral system. But many seemed to share his assessment that - in spite of disappointments in the evolution of the EC - international economic cooperation was in fact registering notable successes, thanks largely to the operation of transnational forces.

It was difficult to be optimistic, however, about the state of affairs within the EC. In the view of a Dutch participant, this was not "just another crisis". The unprecedented accumulation of economic and political problems posed a serious threat, not only to the life of the Community, but to the welfare of the member states. Transnational forces, although useful, would be inadequate in his judgment to cope with many problems which called for formalized international cooperation: inflation, environmental pollution, unchecked growth, relations with the Third World.

The current spectacle of economic and political disarray in Europe led an American speaker to remark that "the clothes have no emperor". Institutions often decayed and disappeared without war. If Europe were to lose its inner meaning and purpose, it could become just "a rich Balkans tomorrow, then a poor one the day after". This vision should be made vivid in our various countries, he said, and should supply the cement of fear that we no longer derived from the Soviet Union.

The mood of pessimism was felt most keenly by those who had attributed to the EC primarily a political significance, and who were still awaiting some manifestation of a common will. An International participant observed that we had lost our sense of direction in moving toward European integration. Very little had been achieved in the way of cooperation on monetary affairs, external relations or defense, and it was hard to imagine the substance of an European *relance*, whoever might lead it. Nor was there any real sense of urgency about this in any member state. Governments liked to point to the fact that problems were equally bad in neighboring countries, but no serious effort was being made to work out common solutions.

The speaker drew some encouragement, however, from the evidence that people seemed to have a bad conscience about the present state of affairs.

While we could probably expect a pause of at least a year or two, in which little progress would be seen, he was personally convinced that European union would eventually be achieved, although perhaps not by 1980.

Another International participant said that it was not enough for the Nine simply to stick together; they had to find a common sense of purpose. The image evoked by a Belgian speaker was that of a headless body. Europe weighed heavily in the world economy, but it would remain relatively impotent politically so long as the veto power existed. An International speaker supported this view.

An Italian speaker said that his nation, like the US, had come into being because its people had decided, above all, that they wanted to be independent. Until Europeans, as a whole, took a similar decision, little further progress would be made. Europe might show great economic strength and a degree of independence in the formulation of foreign policy. But as long as it was dependent on the US for its security, it would always have to yield to the superpowers. It was time for Europeans to stop talking about what kind of Europe they wanted and to attack the political question of whether they really wanted to be able to speak with their own voice.

Two American participants suggested that the focus in the EC might better be shifted from economics to political/security matters, as economic cooperation was likely to take place on a much broader field than just Europe. A Danish speaker warned, though, that the Community's political content and the European nuclear striking force were taboo subjects to many voters at present. He said that the Danes would not have come into the EC if they had foreseen that priority would be given to political aims over economic ones.

At the same time, the speaker was personally convinced that a European "political continent" was needed to match the other "political continents" that had emerged in the post-war era: the US, USSR, China, Africa and Asia. Perhaps Europeans had lagged behind in this because of a sense of guilt about their colonial past. But the Third World looked to Europe to assume a larger role than the regional one indicated by Secretary Kissinger. "To be a European today should mean to be concerned with the whole world and Europe's place therein."

Another Danish participant sought to dispel the notion that his country was particularly opposed to political cooperation. He wondered whether the electorate in any of the Nine would now empower supra-national organizations to take political decisions. But for the Nine to focus their cooperation on security matters was especially difficult, as they were partners in NATO of non-EC members.

A Dutch speaker thought that shifting the European emphasis from econom-

ics to politics and security would be putting the cart before the horse. If the stalemate in the EC was indeed attributable to its political orientation, then little would be gained by accentuating the political aspect and de-emphasizing the economic basis which, after all, provided the common infrastructure of the Nine. The Paris summit communique of 1972 had been too ambitious, but it had been right in calling for an even greater coordination of economic and monetary policies, which was essential to preserve the achievements of the last dozen years.

An International speaker, who was supported by an Italian, argued that it was artificial to try to separate "economic" from "political" questions in discussing the proper focus of the EC. We were witnessing a rebirth of the science of "political economy", in which every discourse about economics was seen to be fundamentally a discourse about power, and hence political in nature. We were moving toward increasing government intervention in economic life on a case-by-case basis "ad hoc-ery". The institutions charged with executing these discretionary decisions required a large measure of autonomy, which had not been the case under a system of rules agreed upon in advance (e.g., GATT and IMF). The EC member states therefore had to make a "quantum jump" in delegating authority to an independent entity.

If the structure of the EC was not yet working satisfactorily, it was the fault of the member states, who would not allow it to function, according to another Italian participant. This was a reflection of the weakness of nearly all Western governments, most of which had to operate with precarious parliamentary majorities. Under these conditions, a Norwegian speaker said that it would be unrealistic to trust in regular frank summit meetings, as proposed in the British working paper. Government leaders would be laboring under the feeling that domestic political opponents were constantly watching over their shoulders.

Furthermore, although there had been agreement in principle on the election of the European Parliament by universal suffrage and majority rule in the EC (except where the veto was deemed essential to preserve vital national interests), realization of those objectives still seemed a long way off to many participants. A German speaker was willing to agree with the author of the French working paper that majority voting might be difficult if not impossible at this stage, but he said that small steps in that direction had to be taken.

Several speakers pointed out that the European movement was fundamentally one of *people*. A German participant felt that the citizens of member states would agree to give more power to a central European authority if their governments would only explain the need for this, without resorting to hypocrisy, euphemisms and wishful thinking. It was ironic to hear members of national governments and their opponents complain about the lack of progress in Euro

pean integration, when they themselves had failed to make it clear to their own constituents that Europe was faced with problems which could not be solved on a national basis.

The European crisis also involved a test of our parliamentary democracies, he said. The electorate would one day discover that their representatives could no longer guarantee their economic and social welfare, and by then it would be too late for the nation states of Europe to go back to "business as usual".

A British speaker observed that governments tended to move slowly unless they were pushed, and a Belgian participant thought that political parties were the "natural engines" to get things moving. He had in mind reformist political action on a supranational level, as had been proposed by Dr. Mansholt. This idea was endorsed by an Italian and an International speaker.

A continuing campaign would be required to educate and enlist public opinion, particularly among young people. As a British participant pointed out, half the present population of Europe had not yet been born when the North Atlantic Treaty was signed. We had to demonstrate to the youth of our countries that we cared about problems of the environment, social policies and regional development.

An Italian speaker characterized the current European crisis as essentially the sum of various national crises, and a substantial part of the discussion dealt with the implications for European integration of current developments in France, the UK and Germany.

Several participants laid the blame for the European stalemate at the door of France. In the words of an International speaker, "France has been the one who has blocked the deepening enrichment of the Common Market as foreseen by the Treaty of Rome". A German participant detected a note of hypocrisy in the attitude of the French, who preached Europe while practicing Capetian nationalism. "It's like castrating a fellow and then wondering why he speaks in a high voice".

Another International speaker said that, while successive French governments had recognized the European interests of France, it was hard to find this conviction being translated into decisions in the practical work of the EC. In the judgment of the author of the German working paper, France's notion of independence was inconsistent with progress in integration, which required the transfer of a measure of sovereign power to the EC.

French participants offered various answers to these charges. One speaker emphasized the importance of European union as one of France's ultimate aims. This had been reaffirmed by President Pompidou in 1972. Confederation might not be achieved within a few months, or even years, but the French had

no intention of leaving their chair unoccupied. Indeed, they had often taken more concrete action than their partners in the building of Europe.

They were likely to attach great importance, however, to two conditions, whoever might be at the head of their government:

1. that the foundation stone of the EC – the Treaty of Rome – not be called into question. Solutions could be found for the particular problems of each member country without reopening debate on the Treaty;

2. that an excess of new international organizations not be created, as much better use could be made of the existing ones: the EC, NATO, GATT, OECD.

In the speaker's view, the notion of independence was not incompatible with that of alliance, or of the delegation of certain powers.

If one was prepared to be patient and to work gradually and pragmatically, there was cause for optimism about European integration. And it should not be forgotten that, if France had produced Capetians, she had also been governed by Carolingians.

Another French participant cautioned against taking the expression "national independence" too seriously. In France, as elsewhere, there was a vast potential reservoir of public opinion in favor of the application and extension of the provisions of the Treaty of Rome. It could easily be channelled in support of such proposals as monetary integration and the election of the European Parliament by universal suffrage.

An American participant wondered whether the Schuman/Monnet interlude had simply been an aberration growing out of the particular postwar situation, or if it had reflected a more durable vein of French thinking. The author of the French working paper replied that the Schuman/Monnet policy had envisaged a slow movement toward European federation through a gradual economic construction, e.g., the Coal and Steel Community. This policy had received widespread support in France until it appeared that it was leading to political and military integration, at which point the French wanted to slow down. The European Defense Community had been rejected by France with something of the feeling that had once been expressed by Monsieur van Zeeland: namely, that it was far easier to mix together two bags of coal than two platoons of soldiers.

The consensus seemed to be that, whoever won the presidential election, there was likely to be a French *relance* of Europe – but a Europe with its own identity. The author of the German working paper warned, however, that the *relance* should consist of more than just words. There would have to be substantial policy changes, or we would revert to a set of bilateral relationships.

The author of the French working paper claimed that the British, like the French, were less attached than other Europeans to the ideal of supranation-

ality (although a German participant argued that recent public opinion polls indicated that the French were not in fact all that opposed to supranational solutions). In any case, it was to those two peoples – both “oppressed by their past”, as an Italian speaker put it – that one had to look for a new impetus in the EC. The attitude of the UK toward Europe in the light of the recent change in government was thus a subject of capital importance.

One British participant expressed serious doubts about the outlook for the EC in the best of circumstances. From the beginning, it had been a curious amalgam of a common agricultural policy and a free Adam Smith-type market in industrial goods. Although a Common Market now existed theoretically, and tariff reductions had been carried out, the price of industrial goods still varied tremendously from country to country. History had shown that “democratic governments would not be allowed by their electorates to renounce their right and ability to protect their own people, or groups of their people, against the operation of blind market forces.”

Moreover, he said, it was generally agreed by member governments that the idea of creating monetary and economic union by 1980 was totally impossible of achievement, and most governments thought it was not desirable either. A major problem was that a number of measures to which governments had committed themselves in Brussels were justifiable only as steps toward a complete economic union. If such union was indeed not going to be achieved, it was foolish to pursue vain measures – such as the harmonization of taxes – that were extremely damaging to the ability of governments to run their economies or to win public support. “The idea that a Sicilian landowner can ever be persuaded to pay the same rates of income tax as honestly as a Dutch manufacturer has only to be stated to be rejected.”

The Common Market could only get out of its impasse and achieve greater unity by concentrating on seeking cooperation in areas where all member countries genuinely recognized a visible common interest, such as energy and defense. And in both those fields, cooperation inside Europe would only make sense if it were an integral part of a program of cooperation with the US and Canada (and in the case of energy, with Japan as well). Europe would be well advised to renounce the pursuit of “an impossible vision of a type of economic union which nobody in his heart of hearts believes can be achieved until the end of the century.”

This line of reasoning provoked a strong and lively negative reaction from many participants. The author of the German working paper seemed to echo the feelings of several others when he said that Britain was already as good as out of the EC if she really believed that it should abandon its goals as unrealistic. This was tantamount to Britain’s opting out of its responsibility for the political stability of Europe.

In reply, the same British speaker conceded that on balance it would probably be more sensible for Britain to stay in the EC than to get out, but only if her net external financial burden could be reduced to a level acceptable to British voters. It did not much matter how this was achieved: by offsetting the cost of the CAP, by creating a regional policy which would bring the UK countervailing benefits, by reducing defense expenditures, or by sharing the EC budget in a different way.

The British needed to effect a redistribution of their nation's wealth and income and to achieve an export-led growth. The status quo from which they had to start was worrisome. Britain's GNP was well under half that of West Germany's, but it was spending on defense 50 per cent more than Germany, measured as a proportion of GNP. In addition, Britain's contribution to the EC budget was about £100 million net, which was likely to rise to £500million by 1980 as a result of the existing terms of entry. This was on top of a deficit in trade with the Common Market of over £ 1,000 million (accounting for two-thirds of last year's balance of payments deficit).

Unless this external financial burden could be reduced or eliminated, continued membership in the EC would be rejected by Britain, which was growing tired of its reputation as the "sick man of Europe" and was determined to improve its performance.

Another British speaker thought that the reckoning of the cost of getting out of the EC would be the most important element in the final equation for Britain. It would weigh more heavily than the supposed advantages of staying in.

An American participant intervened to observe that, if the UK's problem with EC membership was essentially one of short- or medium-term financial accommodation, that could somehow be managed. It was much less worrisome than a fundamental philosophical difference would be.

There were many references to Mr. Callaghan's recent controversial speech in Luxembourg. One British participant said that he had only been speaking the truth, and that there would have been less alarm had the rhetoric been more subdued. A compatriot thought that Mr. Callaghan had performed a useful service in pointing out that "the emperor has no clothes." Some sort of rethinking about the EC was called for.

Two other Britons remarked that the speech had been essentially designed for home consumption, and should not have been taken so seriously by hardened politicians. Its substance had in fact been fairly moderate, in line with Mr. Callaghan's speech in the House of Commons on March 15. He had expressed the hope then that the Treaty of Rome, and perhaps even the treaty

of accession, would not have to be renegotiated, and had spoken of the need to "steer round the rocks".

Disagreement with the foregoing analyses was expressed by still another British participant, who was inclined to take Mr. Callaghan's Luxembourg speech at face value. Abroad, he had said exactly what he thought, whereas in the Commons he had been restrained by the presence of pro-EC colleagues looking over his shoulder. The main trouble with the Luxembourg speech, though, was that it narrowed the room for maneuver.

An American intervention also alluded to this risk that the rhetoric of Luxembourg would survive, acquiring a momentum of its own and leading Britons to think that withdrawal from the EC might not be a bad thing. A German speaker said that, if the danger of verbalism in France was of the government *not* living up to its words, the danger in the UK was just the opposite: that the government *would* prove true to its word.

More important than the wording of Mr. Callaghan's speeches, in the judgment of an International participant, was the actual strategy of the Labour Government. What did they want to do with respect to the EC, the US and the rest of the world? What position did they mean to take with the voters in the next election? The speaker said that he had fought elections in his own time on the assumption that it was the task of candidates for public office to try to convince the electorate of the merits of a certain program. What exactly was Labour's program?

A Dutch participant said that if the Labour Government's strategy was indeed to seek renegotiation of the Rome Treaty as a means of staying in the EC, and not as a prelude to getting out, they could generate sympathetic understanding and support by saying so frankly. The other members would be willing to accommodate Britain and to adapt themselves to the exigencies of her difficult circumstances, if they felt the perspective was favorable. But it would be difficult to have to negotiate in an atmosphere of threatened withdrawal.

The author of the German working paper said that it would be equally unfortunate if Britain remained in the EC and paralyzed it. Mr. Callaghan's statement that the British were unwilling to accept the political nature of the Community went to the heart of this problem. (A British participant discounted such a risk.)

According to an American speaker, many had underestimated the effect of de Gaulle's veto of UK membership in 1963. It had stopped the momentum of Europe, and had caused a loss of vitality which had not been restored by Britain's subsequent entry.

A British participant spoke of the strong sense of rejection in his country, and the resultant vacuum in public opinion. Many were still not sure that

Britain was wanted in the EC, or that her interests lay there. There was an absence of European spirit in the UK at the moment, or little enthusiasm for sharing in a supranational authority.

Moreover, the internal political situation since 1970 had contributed to a polarization on the subject. Labour's loss of office, followed by a period of Conservative government – with uncertainties about how firm it would be and how long it would last – had pushed the Labour party into a rather extreme position, leading to the present situation.

This political background, together with coincidental economic factors such as inflation and the rise in food prices, had to be kept in mind in judging the “parochial insularity” referred to by the German author. The best course now was to “sit tight, cool it, and be a little more patient with the harshness of the British government's present approach”. There was not the language of diplomacy, but politicians who resorted to that language were often removed from reality and were “on the way out”.

Another Briton was apprehensive that the present mood of discontent might be exploited by the leaders of both major parties, leading to a wave of anti-Common Market sentiment.

At this critical juncture in the life of the EC, for the British government to call a referendum on the issue of UK membership would be a reprehensible “abdication of political leadership”, in the view of the author of the German working paper. It would be like “putting their head on a chopping block”, according to another German. The decision of such vital issues should be taken on the merits, and not be left to demagoguery. The introduction of plebiscites into the conduct of foreign policy of representative democracies would set a “baneful precedent”, he said.

Several other speakers argued that the renegotiation of the Treaty of Rome was not authorized, and that even to propose it compromised respect for the legality of other international institutions and agreements, such as the treaties with the East. An International participant found it disturbing that England was expressing disdain toward solemnly negotiated international obligations in the same way that Germany had in the thirties.

Some British speakers, though, felt that the facts of domestic political life made it imperative to review the conditions of UK membership, and one said it was “theological” to worry about whether this process constituted an impermissible “renegotiation”.

The analysis of another Briton led him to quite an optimistic outlook. Although the UK was faced with complex problems, its position was relatively simple: it shared many common interests with its partners in the European

Community and in the Atlantic alliance, and, as the Duke of Wellington had said, "interests never lie".

In supporting Britain's entry into the EC in 1967, Mr. Callaghan had said that he could see no problem more easily solved outside the Community than in. However, one would still have to expect to hear the language of the hustings. The important thing about a speech like Mr. Callaghan's recent one in Luxembourg was not its rough tone but its content, which was really not so frightening. It expressed a concern for expanding trade, for reforming the common agricultural policy, and for finding a fairer way of financing the EC budget. (We had always recognized that the size and shape of that budget would change over the years, and that room would have to be made for regional policies.) A Tory Government would have pursued the same aims within the Community.

The speaker felt that the wisest course now was to talk about important questions - such as what we wanted to do with the European Community - and to let the civil servants handle the detailed problems. Care should be taken to keep the list of issues as short as possible and to avoid a political confrontation. It should also be remembered that Europe was not just the EC. Enlargement of the Community should have been followed by a more manifest effort to bring in associate members. Better use ought to be made of OECD and the Council of Europe, and consideration should be given to establishing a political secretariat for Europe.

What future was there for the EC if, after all, the role of the UK and/or France were to be limited or ended? Some thought that there was no special magic in the number 9, and that if necessary Europe could move ahead with at least one "empty chair", and maybe even two, although that would be difficult. It would not be easy, however, for Britain to cooperate on just a limited number of subjects.

Others were convinced that the withdrawal of any one major member state would make it pointless, if not impossible, to continue the EC. An International participant thought that it was unreal to try to return to a Europe of the Six, or the Seven or the Eight. A German feared that, with the UK no longer present to act as a buffer, the EC could not survive the inevitable Franco-German confrontation. The misgivings of these two latter speakers were intensified by their feeling that the present British government had devised a strategy which seemed likely in the end to lead the UK to withdraw from the EC.

The consequences would be profoundly unsettling for the Germans, who had accepted the partition of their country as their contribution to the pacification of the Continent. The author of the German working paper observed

that no other political unit in Europe was so thoroughly shaped by the international system, including the "European idea", as was the Federal Republic. A particular constellation of forces had determined its constitutional and internal structure, the nature of its political parties, and the consciousness of its class of political leaders.

The breakdown of the EC – which for the Germans had become a substitute fatherland – might set Germany dangerously adrift, "without home or harbor, goal or national purpose", in the words of another German participant. It was difficult to discuss this issue openly, though, without seeming to suggest an incipient madness in German political life.

The monetary crisis and the "empty chairs" had already forced on Germany the unwelcome *de facto* leadership of a sort of "North European co-prosperity sphere", according to an International participant. Paradoxically, it was largely the current French and British policies which had obliged Germany to take up unwillingly this role it had aspired to a generation ago. The prospect of continued "empty chairs" would only add to the disappointment of Germany's hopes.

An Italian speaker said that Germany, with its strong economy and monetary reserves, would necessarily be an important factor in determining the momentum of European integration. Other participants agreed that Germany was the "sleeper" in the situation, and that it would be useful to have a clearer idea of the intentions of German leaders.

Whatever the future held, we had come to an end of a chapter, in the opinion of an International participant. It was not the end of the book, because no European country had any real alternative to effective cooperation. But it was now clear that there was no "royal way" to unity. The expectation of making regular progress in complex matters according to a simple calendar had to yield to a flexible, undogmatic attitude, content with piecemeal achievements.

In his view, Europe would need an improved institutional focus, and groupings of parliamentarians and others should be studying possible forms. The institutions we would need tomorrow might be the same as the ones we had today, but not necessarily.

A German participant, rejecting the three options for Europe suggested by the author of the American working paper, counseled a fourth way. Europe should take a step forward every time it could, and not be nervous when it could not. It should seek pragmatically the evolution of a sort of common European establishment, and should not despair after every setback, of which there would be many in this long process.

A Belgian speaker said that Europeans had to re-create a framework in

which they could talk to one another again, to see if they still agreed on the final aims of the Community, and to set limits within which civil servants could work. The essence of the Luxembourg compromise was that philosophical differences among the member states need not be an obstacle to their cooperating on common problems, such as energy policy. But unfortunately, organizational deficiencies had the effect of inflating crises within the Community out of proportion.

As had been pointed out by an International participant and by the author of the American working paper, the major differences today were not transatlantic but intra-European. The US would be watching European developments, not with hostility, but in a mood of disenchantment and withdrawal, according to an American speaker. Europeans who had worried about American hegemony and dominance should be more concerned with the opposite. (Two other Americans observed that the "special relationship" with Britain was a thing of the past, and that a reiteration of that fact should serve to strengthen Britain's ties with the EC.)

An Italian participant addressed this problem from a European perspective. The European movement had been started in order to establish some sort of balance with the US, but one could say that Western Europe today was essentially no stronger than it had been 30 years ago. It was still completely dependent on America for its defense, and the recent crisis in oil and other raw materials underlined its lack of economic independence. "We thought we had crossed the river, but nothing has really changed," he said.

He agreed with the author of the American working paper that there was no cause for undue concern about the broad framework within which economic and monetary questions were being dealt with, but he was fearful of two eventualities if Europe remained divided:

1. that the US would finally cease to hope for a federated Europe, and would turn to some sort of imperialistic policy; and
2. that this change in US policy would generate anti-American tensions in Western Europe which would encourage "those who still hope to extend their influence over Europe as a whole."

The speaker predicted that, if Europe did not become an *interlocuteur valable*, "someone else will deal with the Europeans, but against their will."

A Danish speaker suggested that the present "open situation" in Europe could lead in more than one direction. The first generation of "Europeans" had been Atlanticists, but it was not clear that the next generation would be. Conversely, an Italian wondered whether Americans still considered European integration as conducive to a peaceful world, or were they coming to prefer bilateral relationships?

On that point, a Greek and a Dutch participant referred to recent signs that Americans realized that successful European integration was still very much in the interests of the US. A French speaker added his conviction that the construction of Europe required America's active and continued support, not just its benevolent interest. The alternative to an independent European Community strongly linked to the US was a "Finlandized" Europe within the Soviet orbit, helpless and incapable of acting or reacting.

While not disagreeing with the foregoing reasoning, an American participant was pessimistic about the prospects for European integration. He thought that the scarcest commodity in international relations was the kind of constructive imagination that inspired collective efforts. And the most fruitful source of such efforts was the clear perceptions of short-term dangers, especially of a military nature.

The Europeans did not seem to perceive any immediate threats that could be countered with current institutional arrangements, and were thus not motivated to try to perfect those arrangements. One could evoke the dangers of international political impotence and of economic and monetary disorder, but it was unlikely that present European leadership could succeed in transforming these problems into rallying points for European unity.

That left the military threat from the "boa constrictor of the East", as another American participant referred to the Soviet Union. But the presence of US troops on the continent made it difficult for Europeans to perceive that danger. Furthermore, progress in integration was not seen by most Europeans as being a critical prerequisite for the continued presence of American troops, whom they regarded as sufficient insurance against the military threat.

This analysis led the meeting to a discussion of the process of East-West détente.

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II. The character of East-West détente ; assessment of Soviet intentions ; prospects for a European foreign policy.

One problem in analyzing the character of détente was the use of the word itself, in the judgment of an American participant. It might suggest a static condition, whereas we were in fact concerned with a *process*, a highly fluid, dynamic set of relationships. Elements of cooperation would be mixed with elements of hostility, rivalry and competition.

The Soviet Union, still relatively young as a nation on the international

scene, was just emerging as an imperial power, and as her contacts spread beyond her own continent, friction was bound to be generated. At the same time, a maturing process was at work in Russia, bringing a realization of limits beyond which the USSR could not push. The need for technological and commercial exchanges, combined with pressures from China and East Europe, favored a period of calm.

While Europe and America would not always view the détente process from the same vantage point – because of differences in geographical position, military strength and international commitments – their interests were not incompatible, and the essential process ought to be viewed as indivisible.

Although the two superpowers did have certain things to talk to each other about, it was not true that a special US-USSR relationship was developing which threatened to override the Atlantic alliance, with the US paternalistically seeking to define Europe's interests vis-à-vis the Soviet Union. (Two French participants had expressed their concern about this.) The speaker also denied the charge that détente was too much a creature of personalized US diplomacy. Although top level contacts had received the most publicity, the process was in fact proliferating into many levels and departments of government, on both sides. The American government was consciously fostering this development, feeling that it would create vested interests in the success of the process, and would inhibit its more negative and dangerous aspects.

As for the liberalization of conditions within the Soviet Union, the US view was that it should be an implicit, but not explicit, condition of progress in détente.

A Norwegian intervention emphasized the distinction between the US-Soviet détente and the East-West détente in Europe. In the latter area, the Russians had achieved a legitimization of their sphere of influence in East Europe, while maintaining domestically the need to pursue the ideological conflict. At the same time, they continued to build up their military forces, which confirmed the speaker's skepticism about any generalized détente.

To a Turkish participant, "détente" was essentially a new phase of the cold war, in which the Soviets were turning to simple but remarkably effective psychological methods. An example was the often-repeated slogan that the Russians' defense expenditures were justified by their fear of an attack from the West. If such propaganda went unchallenged, our own defenses would be endangered by public pressures for disarmament, which our already weakened governments would find hard to resist. Our citizens should be made to realize that détente was not a positive achievement, but merely a stage in the struggle for true peace.

This assessment of détente as a continuation of the cold war in another form was shared by a Danish speaker. Western Europe was being subjected to a massive Soviet offensive in the fields of culture, information, politics, trade unionism – everything short of military confrontation. This offensive was probably most intense in the trade union field, where strenuous efforts were being made by the Russians to de-emphasize the political content of the international union movement.

We were returning to the situation of 1948, with the important difference that this time we were naively unaware of the threat. Those who were concerned were reluctant to speak out and be labelled "cold warriors". The speaker was not opposed to more contacts with the East, so long as Western public opinion would not be led blindly to believe that this was the way to greater safety and security.

The author of the German working paper thought that the evolution described by the Danish speaker could be interpreted quite differently. None of the Western architects of détente policy had ever thought that it would not result in more contacts and communications, more meetings of organizations, and increased movement across borders. That was indeed the whole point of détente. But it was a two-way street, in which each system challenged the other, and we would be mistaken to look only at the negative implications.

Another German speaker argued that the preceding Danish intervention was in fact a demonstration of the existence of détente. One no longer worried about a blockade of Berlin or a closing of access routes, but about the stupidity of trade union leaders! This marked a notable improvement.

Still another compatriot thought that it was unrealistic to expect that détente would remove the causes of tension between Russia and the West. A more modest objective was simply to lessen those tensions. The treaty of Moscow, renouncing the use of force, had been a step in that direction. But détente would be more superficial than real so long as the Russians thought in absolute terms, as opposed to the Western notion of a *modus vivendi*.

An International participant pointed out that one's assessment of the process of détente was bound to be influenced by his subjective views and individual hopes. Nevertheless, there were certain objective facts that could not be ignored: the massive Russian rearmament; the unrelenting Soviet opposition to US policies, in the Middle East and elsewhere, despite professions of peaceful cooperation; and the unwavering commitment of the powerful Communist party leaders to revolutionary action. Russian methods had become more subtle, and their propaganda had made substantial inroads in Western intellectual, academic and religious circles. In view of the realities mentioned above,

however, we had to be on guard against pressures that would lower our defenses.

An American speaker referred to the dangerous tendency in Europe and the US to take *détente* for granted. Soviet observers of the current American scene, for instance, might find a number of reasons to be skeptical themselves about *détente*. Legislation for liberalized Soviet trade and credits was in deep trouble. In the Middle East, the Soviet Union's place was being eroded by active US diplomacy. The new American entente with China gave cause for concern. And the US was building up its own military strength.

An International speaker, who was supported by German and Norwegian participants, made the point that a nation's intentions and the pattern of its relationships could be altered much more easily and quickly than its defense capabilities. Therefore, we had to negotiate *détente* from a position of strength, and it was essential that the military balance of power be maintained. *Détente* without defense was a delusion. The Soviet Union had managed so far to combine these two aspects more successfully than had the West, but the Harmel Report had concluded that adequate defense arrangements had to go hand in hand with *détente*.

As the International speaker pointed out, *détente* was one of the legitimate objectives of NATO, along with defense, deterrence, and the preservation of solidarity within the alliance. The phenomenon of *détente* covered a wide range of possibilities, from scientific, cultural and professional exchanges to negotiations such as SALT, MBFR and CSCE. We might hope that all this would bring about, not only a reduction of the *feeling* of tension, but a reduction as well of the *causes* of tension in varying degrees. We had to be careful, though, not to alter the substance on our side in exchange for a mere alteration of appearances on the other side.

An American participant addressed himself to the problem posed by the fact that intentions could be changed more readily than capabilities. The policy of the West had to be to try to shape the intentions of the Soviets, and to affect the calculations that they would have to enter into if they contemplated a change in their policies.

Because of their own internal constraints and procedures, it would not be all that easy anyway for the Soviets to change course from one day to the next. They would be additionally hindered by any impediments and deterrents which we could skillfully contrive to put in their way.

The speaker went on to say that it was unfortunate that the USSR had at times - in the Middle East, for instance - pursued its own interests and had behaved in a way inconsistent with *détente*. But this was a process which was bound to have its ups and downs, and it should not be viewed in just one dimension.

The US saw clearly the varied nature of the détente process and the dangers inherent in it, and was prepared to respond as the occasion required. When the Americans had perceived in October 1973 a potential Russian violation of the ground rules of détente, they had reckoned that they had only five hours in which to take resolute action, which precluded consultation with their allies. However, eight days before that occasion, the US had made two deliberate efforts to raise within NATO the question of Soviet conduct in the Middle East and what the West might be able to do about it. The response then by America's allies had "not been overwhelming", and it did not lie well with them to claim that the issues raised by the US military alert were new to them, or were violative of the spirit of Atlantic unity.

An Austrian participant saw a continuing danger of military confrontation with the Soviet Union in the Middle East, especially if the relative stability of that region were to be upset by changes in local leadership. This risk made it more imperative than ever that we seek to normalize East-West relations – but not in a way that would undermine Western political unity.

A Danish participant referred to the recent speculation in Vienna about the Soviet Union's plans to make a military testing ground of Yugoslavia after the passing of Tito. At any rate, the Yom Kippur war had shown that conventional wars could be unleashed, fought and stopped without deteriorating into nuclear conflict, depending on the good offices of the US and the USSR.

An Italian speaker thought that the Russians might feel freer to undertake military adventures if China were to assume a more passive stance while concentrating on its internal development.

According to two German participants, the most serious threat was no longer military aggression, but the transfer of military power into political influence. There was some dispute about whether "Finlandization" was the appropriate word. A French speaker alluded to Russian intimidation of Finnish publishers, while a Swede argued that Finland's experience was actually proof of its remarkable independence. In any case, what was meant was the use of external interference to restrict domestic choices in other countries.

The author of the German working paper said it was essential that this threat be made clear to Western public opinion, especially the youth, if we were to maintain adequate defense budgets. The public would no longer respond to appeals based on the assumption of all-out military attacks, which now seemed fairly unlikely.

The need for our governments to maintain their credibility among the young was also emphasized by a Canadian participant. They would insist, she said, that a part of the national budgets previously reserved for defense purposes be devoted to what they considered more worthy aims, such as social

justice and the protection of the environment. It seemed logical that détente should result in a certain reduction of military capability. Since it was not prudent to undertake this unilaterally, could one not hope to find among the Russian youth an echo of the anti-militarist feeling being expressed by our own young people, and somehow to transform this sentiment into pressure on the Soviet regime?

One German participant feared that the process of détente might enable the Soviet Union to impose on the West certain forms of so-called "good conduct" in their internal affairs, which would pose a particularly serious problem for a country like Germany, on the border between East and West. The speaker said that the result of the "Third Basket" talks in Geneva concerning the free movement of persons had been disappointing for the West. The Russians should not be allowed to pretend that a satisfactory understanding on this subject had been achieved.

A representative of Greece, another border nation exposed to direct pressure from the East, felt that the great majority of his people, despite their harsh experiences since 1967, still understood the significance of the overall power relationships and would stand in support of the Western alliance. But it was false and dangerous to believe that the suspension of democratic procedures, in Greece or elsewhere, was necessary for military security. The protection of human freedom and dignity was essential to the cohesion of Western society, and a departure from basic democratic rules in any country was of concern to all. The obligations under Article II of the NATO treaty were thus as important as the military provisions. This thesis received strong support from a Norwegian intervention.

With respect to the economic aspects of détente, an American speaker warned that the West might be taken advantage of in the transfer of valuable technology to the Russians against long-term credits. He questioned whether this was a safe and productive way to proceed. Another American agreed that this would be foolish if it were the only aspect of our economic dealings with the Soviet Union, but that was not the case. He believed that we should conduct our economic policies with a view to giving the Russians an incentive to behave in a way that would maintain a political climate in which those economic policies made sense. This came back to the notion of "linkage".

A German participant referred to the fact that one of the recent large Russian orders for capital equipment had been for cash, not credit. If necessary, the Soviet Union was prepared to pay in gold for our technology.

A Swiss speaker counselled firmness in business dealing with the Russians, who usually asked for terms reserved for less-developed countries, and who had not yet demonstrated a proper regard for intellectual property rights. At

the same time, he thought we should seek avenues of cooperation with the Soviet Union on grounds other than the military and political: viz., ecology, public health, population control and urban problems.

An American participant suggested, however, that we should guard against the Russians' subverting such cooperative efforts to their own ends. They might propose, for instance, that the risks of environmental pollution would be reduced if supertankers were supplanted by pipeline systems - under the Japanese Sea, say, or across East Europe. This would threaten the principle of freedom of the seas which we had always taken for granted. While the risk of open war was probably receding, we might have to contend with a reduction of choices, a slow squeezing down of many freedoms to which we had been accustomed.

Détente was not unrelated to the process of European integration. To an Italian and an International participant, it seemed that the Russians would try to use the ESC and MBFR to impede European unity, and that the Western European countries had to take care not to make concessions which would tie their hands politically.

On the other hand, a Belgian speaker observed that the forecast that the enlargement of the EC would provoke increased Soviet hostility had apparently proved wrong. Moreover, the Russians had raised no objection at the Geneva conference when the nations of the EC had spoken with one voice. In the field of political cooperation, the Soviet Union had grown used to the practice of waiting for the outcome of the deliberations of the Community's political committee. This official change was a function of the emergence of a unified European position. Conversely, any retreat on the road to European unity held obvious dangers, as had been suggested by those who had spoken of "Finlandization".

The notion of a European foreign policy was supported in principle, and an Italian participant pointed to the near-perfect unity that had been achieved in the conferences of Helsinki and Geneva. While a French speaker thought that the room for maneuver in developing such a common policy was fairly small, a German urged that the search be continued, without any illusions about finding perfection. Perhaps the most promising ground for cooperation would be in regional agreements, such as for the Middle East, where each country would agree to look after one particular aspect of a joint undertaking.

On this subject, a British participant wondered, incidentally, whether it would be desirable to bring the USSR into a peace-keeping role in the Middle East.

An International speaker observed that it was awkward for the EC to try to carry on a diplomatic dialogue with outsiders because of the difficulty of subsequently modifying a previously agreed position.

Another International participant wondered whether it was realistic to expect détente to advance much so long as the EC remained in uncooperative disarray.

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III. The essence of present NATO strategy; prospects for a European defense capability. A detailed resumé of the NATO strategy was offered by an International participant. He began by noting that the NATO "forward style" of defense was marked by a flexibility of response, capable of being adapted to the particular threat in question. As a purely defensive alliance, though, NATO always had to accord the initiative to the other side.

There were three principal military elements: conventional forces, a tactical nuclear force, and a strategic nuclear capability. The move towards parity, which was most important in the latter field, was one of the main causes behind the strategy of flexible response, which put more emphasis on conventional elements. NATO had an intermediate, "stalwart" conventional capability – less than a full capability, able to respond to any kind of attack, but far more than a mere "trip wire" capability.

Our balance with the East was dynamic, not static, the speaker continued. It required a continuous monitoring of the other side's capabilities to enable us to hold them in some sort of credible check. NATO's strategy was based on the belief that the Russians did not have a "master plan", but a determination to exploit their force wherever they could with acceptable political effect. As long as NATO stayed militarily strong, there was little chance of the kind of massive Russian attack for which we were prepared.

The current re-thinking of nuclear strategy in the US involved an increased emphasis on the capability of acting against targets which were essentially military. That capability had existed all along, but it was now being substantially refined.

According to the speaker, the recent Middle East hostilities had revealed no innovations in doctrine, planning or the composition of military forces. They had, however, produced valuable confirmations of estimates that had been theoretically derived in such fields as electronic warfare and anti-tank means. The war had also shown the value of training and of vigorous, quick-acting military leadership.

In the MBFR negotiations, he said, the West was seeking an unbalanced reduction in order to achieve balance, while the Soviets favored balanced reductions to perpetuate imbalance.

A Belgian and an Italian participant expressed regret that France, which had championed the principle of military independence, was not participating in the MBFR discussions. The author of the French working paper agreed that it was senseless for the French not to take part in the Vienna talks. Another French speaker predicted that his country would in fact participate as soon as those negotiations could be placed in a suitable political framework. For the present, though, the discussions were "asymmetric" and were not sure to lead to any positive conclusion. This speaker went on to claim that France was cooperating actively with its NATO allies in many fields, including the military.

The prospects for a greater integration of European defense efforts were discussed from various angles. An International speaker thought that the useful work of the Euro-group might well lead eventually to a real European defense capability. The development of such a European force could give an impetus to the safe and deliberate reduction of US troop levels in Europe. The need would remain, though, for a central American role in the formulation of doctrine and planning within the NATO context.

For a Danish participant, it was difficult to foresee an end to Europe's double dependence on the US: for the nuclear umbrella as well as for the advanced electronic equipment needed to cope with anti-tank and ground-to-air missiles. A Swedish observer reflected on the reasons behind Europe's inability to insure its own defense. To him, the ineffectiveness of international cooperation in this and other fields was due to "disintegration within our own societies and the lack of strong governments".

A British participant pointed out that Sweden spent more per capita on defense than any country except the US. He went on to argue that no grouping larger than the nation state could maintain a degree of "social morale" adequate to support the necessary defense expenditures. In his view, both NATO and the EC were too "large and vague" for this purpose.

Assuming the morale required to justify greater defense spending, the problem was then to define the risk to be defended against. The speaker said that such an objective evaluation was difficult within NATO, whose strategy had been frozen by the vested interests of the military establishments in member countries. Assessments of the Soviet threat were always much graver in the semi-public NATO Council meetings than in private national cabinet discussions. The institution of NATO had become "fossilized" around a perception of a threat which had in fact changed since the institution had been set up. In the same manner, the vested interests of the Soviet military establish-

ment in Eastern Europe presented a major obstacle to a Soviet re-evaluation of the threat to them. A comprehensive NATO defense review was long overdue, in the speaker's opinion.

To this suggestion, a Turkish participant replied that an adequate review had been contained in the Harmel Report. The Soviet threat was still very real, although it might have changed somewhat in form. If the Russians had become "conservative", it was only to hold on better to what they had seized; and they would continue to seek to expand their influence.

This speaker and a number of others gave strong support to NATO in its present form. A Dane said that there was no credible alternative to NATO, precisely because of its Atlantic character, as exemplified by the presence of American troops in Europe. An Icelandic participant judged NATO to be the best natural forum for European-North American cooperation, but he advocated greater efforts within the alliance to keep the public informed about the extent of the Soviet military build-up. Publicity about SALT, MBFR and the CSCE might lull our people into a false sense of confidence, which would threaten the maintenance of adequate defenses.

Interventions by a British and a Norwegian participant laid particular emphasis on the work which had to be done to make the role of NATO better understood among young people, whose strong support would be needed if the institution were to survive. The youth of today were probably less nationalistic and materialistic than earlier generations had been, and appeals would have to be directed to their more idealistic concerns.

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IV. Economic considerations: the impact of inflation; validity of the neo-classical market concept and the hope/expectation of growth; the welfare state and free trade; organized power and economic liberalism. A British intervention provided a bridge between the discussion of the preceding two topics and this one. The speaker said that the Yom Kippur war had marked a turning point between the period of potential superpower confrontation and that of a battle for raw materials inside the West. This competition was bound to increase dramatically the economic gap between the northern and southern hemispheres. And if we failed to control the scramble inside the West for scarce resources, the East-West conflict might take new and more dangerous forms. Moreover, the increase in raw material prices had greatly aggravated the phenomenon of inflation, which was now the major problem confronting all Western societies. In what direction should solutions be sought?

The analysis of this participant was based on his conviction that national and international institutions and bureaucratic structures had far less influence than was commonly imagined on either the direction of the unity of economic policy. The US, which already enjoyed the type of institutional unity that Europeans were seeking, still had a hard time achieving unity of economic policy. Many nongovernmental bodies, including multinational companies, had a major role there in shaping policy.

In looking for the causes of inflation, one could not avoid placing some responsibility on the welfare state. But it was not solely to blame. Some countries with the worst inflation had little democracy and no redistribution of wealth; others, such as Brazil, had managed to reduce inflation while effecting a redistribution.

It seemed to the speaker that one of the main roots of inflation was connected, not to democracy, but to the private enterprise system. That system depended critically, he said, on the artificial stimulation of maximum consumer demand, "by persuading ordinary people that they're entitled to a steadily rising middle-class standard of life - whether they're working class or middle class, American or Egyptian". Restraint was advocated only at the time of wage negotiations with workers.

Out of this system, the speaker foresaw the emergence of intense competition for raw materials between nations and multinational companies, in their struggle to hold a maximum share of shrinking markets. If it were not to produce divisive friction in Western society, this competition would need to be mitigated by our governments' increasing their control over the private sector.

The analysis of a Canadian participant had a different point of departure, in that he was fundamentally inclined to place greater trust in the efficacy of market forces. But he saw that the economic reforms of the past half century had substituted human judgment for the automatic corrective devices of the market, emasculating the power of the system to control inflationary pressures. Inflation had been sustainable only through continual growth, which in turn had been achieved only through the plunder of natural resources.

But now "the ball game is over", he said. The oil crisis was just the first phase of a larger crisis, to be marked by increasing shortages, bitter struggles for the control of resources, and greatly moderated growth. This might be followed by a destructive hyperinflation which would be one of the great moral failures of the West, as history had shown that no country was likely to survive as a democracy when its annual inflation rate reached 20 per cent. The problem was social as much as economic, and could be surmounted only by superior political leadership.

Similar conclusions were reached by a German participant, who feared that the fabric of our societies would be torn apart within a decade unless some means were found to overcome galloping inflation. Anything less than the joint management of the changing world economy was doomed to failure, and the speaker was optimistic about the effectiveness of the transnational forces described in the American working paper. Half a dozen knowledgeable people had managed, in effect, to set the world's monetary system working again, and it was important to try to knit together our networks of personal contacts. We had to resist institutionalism, bureaucratic red tape, and the creation of new procedures and committees. Official bodies should be put in the position of ratifying what had been jointly prepared in advance.

Above all, the speaker said, an agreement ought to be shaped which would oblige the governments of the major economic powers to support each other in resisting domestic pressures for inflationary policies: bigger budgets, lower taxes, cheaper money. Governments should feel bound, as part of the worldwide fight against inflation, to slow down the volume of money and credit and to follow sound rules of financing their central budgets. The voters had to be taxed in the aggregate as much as they were benefited by the spending of public monies.

It was not enough to adopt international resolutions defining these ground rules. Procedural arrangements had to be devised under which national governments could help one another to resist inflationary pressures.

This speaker offered his opinion, incidentally, that the floating of exchange rates had exacerbated inflation by removing the disciplinary effect of having to defend fixed parities against market forces.

Beyond the urgent task of combating inflation, there was a broad agenda of economic goals on which Western international cooperation was needed: establishing a coherent monetary system; facilitating the flow of short-term capital; rationalizing the division of labor and production; coordinating our economic and technical cooperation with the USSR; and elaborating our programs for investment and aid in the developing countries. We should not lose sight of the fundamental aim of making the world economy work as a whole.

An Italian participant thought that the German government was well placed to give a lead, together with the US, in initiating proposals to combat inflation, which was now the most dangerous crisis. The immediate task was to find a way of covering the balance of payments deficits of the Western countries - notably France, Italy and the UK - which had been most affected by the increased prices of oil and other raw materials.

The full brunt of this problem had not yet been felt, and it was not likely

that it would be solved through the operation of the private banking system or other transnational forces. Government-sponsored schemes would probably be more effective and less inflationary. It used to be said, the speaker remembered, that crises promoted international unity. But the present economic crisis might well foster more nationalistic policies, and threaten the progress of European integration.

An American participant was not inclined to look to government in the first instance to furnish a cure for inflation and related economic ills. It seemed to him that inflation and national autarky had arisen from the same central circumstances: the modern combination of the welfare state and widening demands for economic participation, under the democratic notion of equality. Promises and expectations of "heaven on earth for everyone" had put unbearable pressures on the whole economic system.

At the same time, the restraints which had kept these pressures under control had been greatly reduced as people around the world lost faith in their belief that economic rewards were being justly distributed, and demanded a reallocation. This was true not only within nations, but from country to country and region to region. One of the aspects of the oil crisis, for instance, was the belief of the OPEC countries that they had to make up for 200 years of injustice at the hands of the West. The restraints had been further weakened by the current bankruptcy of Western political leadership.

The welfare state, with its centralist origin and style, had itself been held in bounds in the past by the larger notions of the European and Atlantic communities, both of which were now in disrepair.

Societies produced their governments, and not vice versa. The restraints we now had to look for were outside government, in the hands of individuals and transnational groups. The task would become less difficult as social pressures eased. Therefore it was essential that we continue the advances in social progress made over the past 20 years, while recognizing that the era of limitless growth was ended.

The author of the American working paper was not optimistic about inflation being brought under control in the very near future. It was probably an even more critical problem than we had recognized, but the causes of its recent virulent form were not all that evident to analysts. We knew that it was probably more than economic in origin, but we could not be sure what means would be effective in fighting it. It was to be hoped that the diagnosis and treatment would be clearer after completion of the comprehensive study recently undertaken by the Brookings Institution, in collaboration with other research institutes.

One key question had to do with the effect of floating exchange rates. The

move to flexible rates had eliminated the big balance of payments disequilibria of the past, but had it also served to fuel inflation? The speaker recalled Herr Emminger's statement two years ago that the fixed exchange rate system was one of the major engines of world inflation. One was led to wonder if the flexible rate system was not in fact less inflationary.

For one thing, in a flexible rate system there was a countervailing currency appreciation for every depreciation, which had an anti-inflationary result. For another, the inflationary effect of a depreciation produced a genuine concern for the balance of payments position. In the US, there had never been much concern about the payments deficit under the system of fixed rates based on the dollar. Today, on the contrary, the monetary policy of the Federal Reserve took much greater account of the balance of payments.

The speaker said that the US and Germany were the key countries in the fight against inflation, serving as relatively stable anchors of price stability. If the new system of flexible exchange rates encouraged both countries to hold down rates of inflation relative to where they would otherwise be, there was perhaps reason to be hopeful.

An International speaker said he could not share the conclusions of the American working paper that the monetary record was impressive and the outlook fairly sanguine. The annual rate of inflation in the OECD area as a whole had been 12 per cent in the preceding 12 months, and 16 per cent in the last three months. This was sure to encourage undemocratic forces, and strong action had to be taken nationally and internationally to stop it.

The progress of inflation was inevitably linked to the disintegration of the monetary system, and Europe and the US had to cooperate closely in monitoring the effects of the system of floating exchange rates.

A British participant agreed with the preceding German intervention about the inflationary results of budgetary deficits and excess money supply. But if we looked in turn behind those effects, we found a social cause: the widening spread of a revolt by the underprivileged against those hitherto regarded as privileged. Wages were being made to rise too fast, producing a cost-push inflation. Since social structures varied from country to country, though, concerted international action was impossible. An anti-inflation policy written for the UK could unfortunately not be applied to Nigeria.

International cooperation could be effective, however, on another front: in combatting imported inflation in the Third World. Rising expectations in the less-developed countries meant that new investment there tended to flow to industry, not agriculture. The training of farmers and the proper application of collective techniques were being neglected, with the result that food-exporting countries were becoming increasingly net importers. A multiplicity of

organizations were dealing with investment projects in the LDCs, but their efforts appeared fragmented. There was an enormous field to be cultivated in coordinating these projects to assure that they were better placed within the whole economic framework of the host country.

This subject led the speaker to observe that the West's interaction with the Third World would present problems for years to come. The differences between socialism and private enterprise could be said to be essentially differences in stages of historical evolution. Industrialization had been started in the West by private individuals. In the Third World, the lead had come from governments, not only because they commanded the financial resources, but also because they saw in industrialization the fulfillment of a national purpose.

It was only natural, then, that the Third World should feel a greater ideological kinship with countries which were public-sector oriented, such as the Soviet Union, than with the private-sector oriented nations of the West. We had to keep this in mind, and to try all the same to display understanding and sympathy to the people of the Third World.

An American participant found the preceding speaker too ready to dismiss the possibility of international cooperation on domestic inflation caused by social pressures. While it would admittedly be difficult for some international organization to tell member states how to handle their social budgets, could one not envisage an undertaking of true international statesmanship, having as its aim a sense of common burden-sharing, even of "austerity"?

An International speaker agreed that excessive demand was a primary cause of inflation, but referred to the difficulty of managing national budgets with increased social transfers. While we should not move away from the market economy and the fundamental concept of growth, we needed to develop a multiplicity of objectives of economic policy. Our citizens were becoming as much interested in the qualitative aspects of growth as the quantitative measures, and governments had to adapt themselves to these new demands. To manage our market economy in a more sophisticated way, new governmental structures would be required.

An American participant felt that it would be a great mistake to put too much stock in traditional remedies, such as monetary and budgetary restraints, as a cure for inflation. A principal cause of this "most reactionary force in the world", as the speaker described inflation, had been the cost-push effect of the increased price of raw materials - led by oil, but including food, fertilizers, minerals and timber. OPEC had demonstrated the potential for economic and political extortion that existed in dealing with these commodities.

The developed world had no set of rules to deal with problems of short supply, the attention of such organizations as GATT having been directed

toward freer access to markets. All industrialized nations now had an important stake in developing multilaterally a code governing access to scarce raw materials. Rules should be spelled out covering the rights of exporting and importing countries; the range of acceptable export controls; strategies for developing international reserves and for expanding supplies; and sanctions for countries which imposed export controls unilaterally and for blatant political reasons.

It would not be easy to develop such rules, and account would have to be taken of the economic and moral claims of the developing nations for a proper return on their products. But if we failed to establish some program along these lines and to cooperate in implementing it, then we could expect to face many more "OPECs" and increasing disarray among the democracies.

Another American intervention dealt with the particular crisis in food and feed grains. This was related to the uncontrolled growth in the world's population, which could not be significantly restrained before the year 2000, by which time there would be six billion people. After that, we would perhaps have a few generations with the population under more reasonable control.

It was not likely that the Americans would again be a source of big grain surpluses. They would produce only their share of rather small buffer stocks. The less-developed countries which could do so would have to grow their own food. As there were finite limits to the amount of available farmland in those countries, they would need to adopt more efficient agricultural policies, with the help of research stations and investments from the agri-business community in the developed world.

As the nations of the West worked to attain some mastery over these various economic problems, there were bound to be reverses and disappointments. Several participants expressed apprehension about resulting social and political reactions. The author of the German working paper warned of the particular dangers of relapsing into autarky and economic nationalism in this era of growing interdependence and scarcity of raw materials.

A Dutch speaker feared a chain of currency devaluations, import controls, reduced trade and rising unemployment, all leading to an "unravelling" of the fabric of the national states, reminiscent of the 1930's.

An Austrian participant spoke of the special plight of the smaller nations, who were usually the hardest hit when economic and monetary disintegration led to "beggar-thy-neighbor" policies. The phenomenon of the multinational companies had produced a new disparity between the goal of maintaining high prosperity and employment and the means of assuring this at the national level. Governments were finding it increasingly difficult to regulate their economic instruments.

A Frenchman was heard to plead that, in the troubled times ahead, scapegoats should not be made of special entities, be they multinational companies, politicians and diplomats, or individual countries. It was mistaken, for example, to lay the blame for the disarray in the foreign exchange markets at the door of the multinationals. Their treasurers had simply been acting as prudent corporate managers. A reproach might properly be addressed to the governments of parent company countries - notably the US - for a laxity in supervising the activities of its MNCs, but nothing was to be gained by making life impossible for international industry.

Politicians and diplomats, in turn, had comparatively little room for maneuver. Currency fluctuations usually reflected the results of fundamental national policies, and were thus not easily controlled.

The leaders of all Western countries, including France, recognized the fact of our interdependence. It was pointless to divide ourselves into camps of optimists and pessimists. What was needed were the qualities of directness, frankness, and a certain toughness in approaching our common problems.

This intervention found an echo in the statement of a Swiss participant, which dealt with the advantages of a free international flow of capital and labor. Multinational companies would not function at their optimum effectiveness until their workers were served by truly multinational trade unions. Progress in this field was slow because of the reluctance of national unions to give up their role.

The speaker hoped for a reversal of the trend to place direct and indirect obstacles in the way of transnational investment. International political integration might be far away, but the diversity of worldwide economic relations would build up a valuable solidarity of its own which would not easily be destroyed.

Perhaps the ideal to be emulated was the international scientific community, for whose members national frontiers scarcely existed. A French speaker described, for example, the cooperative effort of European physicists in establishing CERN. Behind this project was a broad vision, supported by a generous financial endowment but unhindered by governmental pressures, which had brought into being a complex of laboratories on a level equal to the US facilities and superior to those in the Soviet Union.

An American participant spoke of the long shadow cast by another generation of physicists and engineers, at the turn of the century. It was not until very recently that we had perceived the enormous impact of the discoveries they had made during the decade 1895-1905. Their work had liberated man from this planet, both literally and figuratively. But it had also served to confront us

and future generations with decisions for which mankind had no useful experience or precedents.

Intellectual and material forces had been unleashed which were strong enough to rend the world apart, or at least to warp national purposes and policies. True independence was no longer possible for any nation.

It was essential, the speaker said, that we seek to pool the knowledge and wisdom of the Western world. The burden was now especially heavy on the leaders of the Atlantic community to educate their peoples as to these facts; to avoid temptations to submit to domestic pressures for short-term relief; and to cooperate with one another on the development and conservation of our natural resources.

Another American speaker, alluding to the weakening of European and Atlantic solidarity in the face of changed perceptions of the Soviet threat, suggested that the current economic crisis – inflation, payments deficits, the rising cost of energy, food and raw materials – could serve as a new unifying force, a rallying point for the Atlantic community and Japan. Such a notion had underlain Secretary Kissinger's initiative in organizing the Washington conference on the energy crisis. It was disappointing that no real impetus toward cooperation had yet emerged, but hopefully there would be a useful follow-up.

An economic dialogue of that sort should perhaps eventually be expanded to include oil-producing nations and the less-developed countries. But the industrial powers of the non-Communist world had special interests among themselves, and until they came to some agreement they could not have a very effective dialogue with the rest of the world.

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V. Energy developments: political and monetary implications. Petroleum industry developments during the past year were summarized by an American participant. International oil operations had become completely politicized in the producing countries, he said, and were becoming so in many importing countries. Producing countries were instructing the oil companies how much to produce and where to ship, and demanding support for their political stance. Increased prices had given them the option of cutting production without losing revenues, and they now felt free to break agreements whenever it suited them. Kuwait had proposed to expropriate concessions for a price equivalent to only six days' production.

No oil company or importing country had any assurance that supplies would

continue to be available. No one could prudently invest in the future of oil refining or transportation; present investments were being made mainly on the momentum of past decisions, and did not take into account future supply availability or terms.

The oil companies would no longer be able to act as intermediaries, as their producing affiliates had become merely the instruments of the policy of the producing countries. The next step would be for OPEC to make further inroads on oil company profits.

As oil importers engaged in the race for supplies, prostrating themselves before the producers, respect for the sanctity of agreements was disappearing. Producers could be expected to take full advantage of broadly-phrased *force majeure* and price escalation clauses in oil contracts.

The attendant financial problems could not be easily solved. Even assuming a drop in the rate of growth of energy consumption from 5.6 per cent (1968-72) to 3.3. per cent (1972-80), the OPEC countries would still receive roughly \$800 billion in payments between now and 1980 (at \$8-9 a barrel), and would accumulate at least \$300 billion of this for investment. The Western banking system would thus acquire an unsound dependence on a handful of national depositors. Inflation would not relieve the financial impact, as crude oil prices were indexed. Aiming to cover the increased oil import bill by boosting exports would simply transfer the problem to other countries.

The potential impact of this situation on the industrialized world was enormous, and the speaker recommended the urgent formation of a non-political group from various oil importing countries to get a view of the overall picture: what price level was bearable; what payment arrangements were desirable; what were proper guidelines for bilateral oil deals and barter; and what program of coordinated support might be established for the economic development of the producing countries.

These experts should try to agree on a report which could then be submitted to the political authorities, with the aim of agreeing on an approach to the producing countries in the spirit that "we're all in this together". (In the end, only the West could assure the regimes of those countries of protection against internal upheavals and external threats from the USSR.)

The speaker was not optimistic that the political will would be mustered to take this united approach. But he was convinced of the futility of a purely economic response to a situation that was essentially political.

A Norwegian participant lent strong support to the conclusions of the preceding intervention. Organized cooperation among the consuming countries was essential before the resumption of bargaining with OPEC. This speaker also endorsed the concept of "Project Independence", which had the

two-fold aim of conserving energy and developing new sources of it. That project had been proposed for the US, but it could be adopted as well by other countries.

A Dutch participant spoke of the dangers of consuming countries' "going bilateral" in their efforts to secure adequate oil supplies. France's agreement to pay far above the market price had been a major cause of her forced withdrawal from the European currency "snake".

The importance of conservation programs was emphasized by a Canadian as well as an International participant, who reckoned that it was far cheaper to save energy than to increase production of it. Public opinion had to be educated about this, he said. An American estimated that the US might have the *capacity* to be self-sufficient by 1980, but it was probable that even at the end of the century his country would be only 85 per cent independent.

A British participant spoke optimistically about the contribution which North Sea oil would make to the UK's energy self-sufficiency, with the attendant benefit for her balance of payments position. It would not solve all of Britain's problems by any means, but it would make some of them very much easier by 1980.

An Italian speaker thought this sounded like the talk of a sick man who thought he had found "the elixir of long life". Might not the economic promise of North Sea oil prove as illusory as Khrushchev's "virgin lands" of Russia?

An American participant agreed that conservation was essential, but he said it was not the answer to the problems of this decade. The US would be dependent on oil imports - which would increase absolutely, although not relatively - until well into the 1980's. Assuming massive investments and a long enough time frame, private industry could develop a more reliable and diversified pattern of energy sources.

The speaker referred to the disillusionment in the oil industry at the unwillingness of the US Federal government to act or to provide any guidance. Politicization had made it impossible for government to do even the easiest job: emergency allocation of supplies. The private oil companies to whom this task had fallen had received only brickbats for their efforts. While those companies hoped to be able to make up in some way for the persistent failure of the government to act, the range of their possible cooperation was fairly well limited by the antitrust laws.

A big issue avoided by all governments was the one having to do with the prices and volumes to be agreed with the OPEC nations. The oil industry was now making payment to four OPEC countries at the rate of \$100 billion a year, or roughly four times last year's payments. (This was *before* adjustment for the participation and buy-back prices, which would be applied retroactively.)

At least two-thirds of the \$100 billion would be accumulated in reserves not spent currently. The Euromarket could recycle this money for the short run, but an indefinite transfer of sums of that magnitude was hard to contemplate.

Other interventions dealt with the possible repercussions in world financial markets of this huge accumulation of "petrodollars". A British speaker observed that the Euromarket had so far absorbed these increased funds with relative efficiency, but as the volume grew there would be a risk of declining credit standards and an unhealthy reliance on a few dominant depositors. This might in turn threaten the continued availability of funds and the system of funding long-term credits with six-month roll-overs. Even if the market mechanism managed to work, which was not at all certain, the massive transfer of purchasing power to the Arab countries would constitute a genuine revolution, likely to touch the living standards of all of us.

This view was shared by a Swiss participant, who alluded particularly to the social impact of a reduced standard of living in the industrialized countries after 20 years of steady, un interrupted economic growth. Our finance ministers had to take care to share out the sacrifices so that the least fortunate among us would not be victimized.

An American speaker drew less alarming conclusions about the monetary outlook. He believed that it was totally within the capacity of the market, backed by the central banks, to recycle the increased flow of funds through their swap networks.

As to the magnitude of those funds, there had been projections in the \$20-30 billion-a-year range, which was very far from the \$100 billion figure mentioned in a previous intervention, and would result in quite a different picture if true.

Creditworthiness might be a problem for a few less-developed countries, but there were strong positive elements in the balance sheets of Japan and Atlantic community borrowers.

As for the transfer of real resources to oil-producing countries, this would only occur if demand were to grow there, in which case goods and services would be purchased from the industrialized, oil-importing countries, resulting in a tendency toward equilibrium.

Another American participant could not help feeling pessimistic about the broader social and political implications of the oil price crisis. It could well have such a destabilizing effect on our economies that some of our weak governments – and even the EC structure itself – would find it hard to withstand the resulting dislocations.

VI. *European-American relations.* An American participant observed that it had always been accepted that progress in European integration would pose some problems for the US. Although the existence of the EC would by and large greatly benefit the US economy, there would be short-term economic disadvantages. Moreover, dealing with a coalition trying to behave like a government would prove awkward. Finally, a Europe with its own identity was bound occasionally to disagree with the US. These problems were now being compounded by the excessively personal style of current American diplomacy, which was apt to lead to bilateralism in spirit, not just in appearance.

But the US behavior did not explain or justify the nationalistic reflexes of Europe, as seen for example during the recent oil embargo crisis. The speaker found little evidence of statesmanship in the current conduct of European affairs. Anti-Americanism would tend to fragment Europe, not unify it; America did not constitute a very persuasive common enemy. Neither were "special relationships" with the US any substitute for European unity, though, as we could not re-create the working partnership of World War II. (Another American and a British participant lent support to that point.)

To help mend relations, the speaker suggested that the US move away from personalized to institutionalized diplomacy, and show that it was not so preoccupied with China and Russia that it would neglect the Atlantic alliance. He hoped in turn that Europe, including Britain, would take heart from what it had already achieved in the way of integration, and would revive the spirit of partnership with America.

Another American speaker pointed out that the Nixon administration had had to cope with many major problem areas that had not been dealt with by the two previous administrations. In several cases, it had pursued initiatives which had been previously suggested by Europeans, and had succeeded in disengaging the US from positions in which it had been "frozen" for many years, (e.g., Vietnam, Russia, the Middle East). Secretary Kissinger, a long-standing friend of European integration, had in truth consulted with Europe more effectively on these matters than had his predecessors. If his diplomacy had appeared personalized at times, this had been "*faute de mieux*".

Some participants nonetheless still felt uneasy about the current style of US diplomacy. Without wishing to detract in any way from Secretary Kissinger's achievements, a German speaker wondered whether the apparent US trend toward bilateralism was really "*faute de mieux*", or whether it was designed to divide Europe on certain issues. After years of "benign neglect" by America,

were the Europeans becoming the object of "malign attention"? As there was no real alternative to the European-US relationship, though, we had to learn to live with different perceptions, to restore traditional diplomatic practices in place of "gimmickry and gadgetry", and to avoid "paralysis by analysis".

Another German participant concurred with the judgment that there was a risk in too great a personalization of the conduct of foreign relations, particularly today when there was no policy consensus, either in Europe or in the US establishment. Relations were further complicated by the lack of American understanding of the so-called "European identity" question, and by Europe's ignorance about the complex US decision-making process. There were nevertheless many subjects in which the two continents had an enormous common interest.

In the view of a French speaker, transatlantic cooperation had to be based on long-term goals and benefits, and not short-term convenience. It would help us get out of our present impasse if we would drop excessive formalism in our relations.

An International participant went a step further, claiming that what was needed more than organized, formal cooperation between Europe and America was an improved multilateral framework.

A British speaker could not understand the anxiety some felt about the US "selling the Europeans down the river, or doing a deal over their heads". He thought that Europe should be grateful for Secretary Kissinger's diplomacy ("riding two horses at once"), and should try to show greater trust toward American attitudes in general. A compatriot seconded this suggestion.

Nevertheless, the speaker added, there had been occasions recently when the Americans' impatience and bad temper with their European allies had been both distasteful and unwise. One had witnessed, figuratively, a sort of grabbing of coat lapels, and it would be a pity if the Atlantic dialogue were to continue in that spirit.

A Turkish participant was sorry to see among some Europeans a strain of hostility to everything "American", and an obsession with being purely "European". This was not a constructive or realistic attitude. It made more sense to approach every question dispassionately, on its merits, in the practical light of one's best interests.

An American speaker thought that the formulation of US Atlantic policy might profit from greater introspection. Were the Americans acting in such a way as to inhibit European unity, either by intemperate language or by insisting on being in on the ground floor of the EC's decision-making process, which might in itself encourage fragmentation? If the US wished to foster a truly separate European entity, it ought to take the positive step of warning

the UK that there was no future for the old "special relationship" and that, in the US view, British withdrawal would be bound to wreck the EC.

On the military side, it was important that the drawing down of US troop levels not be done in the form of a confrontation, but only after serious negotiations with Europe, so that it could be done in a sensible fashion. It might indeed be claimed that a continued large US military presence was serving to inhibit European unity, as it suggested to some the perpetuation of a form of American hegemony.

An Italian, on the other hand, said that to many people the American military presence was equated principally with 30 years of peace in Europe.

In the opinion of a Dane, most Europeans did not want to be forced to make a choice between the US and the EC (or, more accurately, France). It would be most distressing to see the EC used as a means of confrontation with the US. At the same time, the Americans had to realize that the Nine were still a very new group, who needed to be able to discuss things "within the family".

Granted the importance of the transatlantic relationship, was the "two pillar" concept still realistic? Many felt that it was not, principally because it implied an equality of two political entities. An American participant thought that for the US to try to act as if a united Europe existed gave it the worst of both worlds: rivalry and opposition without unity or support.

A Frenchman said that, as the prospect of Europe speaking with one voice seemed as distant as ever, it was a waste of time to wait for the day when one could have a symmetrical two-party dialogue. It was more sensible for the nations concerned with a given problem (e.g., trade relations or the reduction of US troop levels in Europe) to meet in whatever numbers were suitable for the occasion.

An American speaker felt that the "two pillar" notion had never been consonant with the global network of multilateral relationships that we required. The density of that network among the industrialized countries put a special responsibility on their governments to manage their relationships well. This would call for consultation at a more profound level, and of rather different kinds, than we had had traditionally. That fact in turn had implications for the way governments were organized.

As this participant saw it, European-American relations were now bedeviled by two difficulties in particular. The first was the breakdown of the framework within which we had earlier assumed we were establishing the transatlantic relationship. The second was the changing character of the problems facing us. It was increasingly difficult to draw a clear distinction between domestic and foreign policy, and few problems could be defined simply as Atlantic ones, except in the security field. Other countries were becoming more involved.

Had enlargement of the EC taken place while the broader international framework (including Bretton Woods) had been in place, and also before the more fluid relationship between the superpowers had developed, then European consolidation would have been easier to accomplish. As it had turned out, many of the earlier rules and assumptions were being challenged, and many of the most urgent questions, especially in the economic field, were not ones that could be solved simply on an Atlantic basis - much less on a European basis.

The "two pillar" concept was particularly inappropriate when it came to dealing with such topics as defense, natural resources and the monetary system, according to a British intervention.

An American participant thought that his compatriots tended to conceive of their interests in idealistic terms and to look always for a sense of purpose in their undertakings. Secretary Kissinger's call for a new Atlantic Charter had been concerned with purpose and direction, and with the overarching values of the European-American relationship. Unfortunately, this spirit had been lost, as the European response, formulated by civil servants, had focused on procedural and juridical issues. For the US, all debates about consultative mechanisms were secondary.

The alleged "personalization" of American diplomatic effort did not in any case imply an emphasis on bilateralism. The US had been willing to deal with Europe multilaterally through the Davignon committee, but the Europeans had shown their reluctance to accept this.

US support for European integration was undiminished, but Americans now asked "To what purpose?" Public opinion would no longer endorse simply the *abstract* notion of European unity, "mindless or non-idealistic". Americans looked for a form of European unity that would serve the purpose of structuring international relations in a way that provided for efficient means of dealing with our numerous problems. The US could not be expected to support a concept of European unity that would be counterposed to Atlantic purposes and the Atlantic association.

Other participants counseled against building roofs without houses, so to speak. One American speaker observed that, in all of our countries, there was a subtle temptation to hope that we could somehow escape into international solutions for problems we had failed to solve at home.

Another American suggested that, instead of concentrating so much of our attention on international relationships, we should try "to see what could be done to strengthen the social and economic insides of our various countries". To be sure, we should try to save the EC, but this was hardly the moment to attempt to relaunch it. Cooperation should be sought in those areas most likely

to be immediately rewarding, such as defense and energy. Otherwise, we should be modest and practical, "sticking to the construction of tools, not cathedrals".

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Thinking back over the discussion, a British participant could not avoid a certain sense of unreality about parts of it. Had the meeting not sometimes neglected to put the really important questions in their proper perspective?

A laborious examination, for instance, of the implications of one or two empty chairs at the European table seemed oddly inappropriate at a time when we were on the brink of a total revolution in the economic and financial relations of the world.

Similarly, a debate between Capetians and Carolignians, or Tories and Labour, did not seem terribly relevant to the question of what Abu Dhabi was going to do with its accumulation of \$15 billion in two years – or Saudi Arabia with its \$80 billion.

The speaker wondered what a Martian visitor to Megève might have made of all this.

An American participant was struck by the way in which the discussion had often tended toward a detailed description of developments rather than a purposeful analysis of possible solutions.

Many speakers, for example, had deplored the absence of political support for accelerated European integration, but had found no cause to hope for a change. Perhaps a projection of what the world might be like in 1985 if present trends continued would add some impetus to the drive for European unity. The speaker suggested that the Bilderberg group could play a useful role in sponsoring such a study during the year ahead.

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Before closing the meeting, H.R.H. The Prince of the Netherlands conveyed his appreciation on behalf of all the participants for the generous and thoughtful hospitality of the French hosts and their associates who had planned the meeting. The hotel staff deserved a special word of praise for their excellent service. His Royal Highness also thanked the authors of the working papers, the interpreters and the secretariat for their collaboration.

A French participant expressed the gratitude of all in attendance for the brilliant guidance provided by The Prince as chairman of the conference.

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