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Address by Henry A. Kissinger
Chicago, Illinois
November 14, 1974

Energy Crisis:
Strategy for Cooperative Action

The Problem

A generation ago the Western world faced an historic crisis—the breakdown of international order in the wake of world war. Threatened by economic chaos and political upheaval, the nations of the West built a system of security relations and cooperative institutions that have nourished our safety, our prosperity, and our freedom ever since. A moment of grave crisis was transformed into an act of lasting creativity.

We face another such moment today. The stakes are as high as they were 25 years ago. The challenge to our courage, our vision, and our will is as profound. And our opportunity is as great.

What will be our response?

I speak, of course, of the energy crisis. Tonight I want to discuss how the administration views this problem, what we have been doing about it, and where we must now go. I will stress two themes that this government has emphasized for a year and a half:

First, the problem is grave but it is soluble.

Second, international collaboration, particularly among the industrial nations of North America, Western Europe, and Japan is an inescapable necessity.

The economic facts are stark. By 1973, worldwide industrial expansion was outstripping energy supply; the threat of shortages was already real. Then, without warning, we were faced first with a political embargo, followed quickly by massive increases in the price of oil. In the course of a single year the price of the world's most strategic commodity was raised 400 percent. The impact has been drastic and global:

—The industrial nations now face a collective payments deficit of $40 billion, the largest in history, and beyond the experience or capacity of our financial institutions. We suffer simultaneously a slowdown of production and a speedup of an inflation that was already straining the ability of governments to control.

—The nations of the developing world face a collective yearly deficit of $20 billion, over half of which is due to increases in oil prices. The rise in energy costs in fact roughly equals the total flow of external aid. In other words, the new oil bill threatens hopes for progress and advancement and renders problematical the ability to finance even basic human needs such as food.

—The oil producers now enjoy a surplus of $60 billion, far beyond their payments or development needs and manifestly more than they can invest. Enormous unabsorbed surplus revenues now jeopardize the very functioning of the international monetary system.

Yet this is only the first year of inflated oil prices. The full brunt of the petrodollar flood is yet to come. If current economic trends continue, we face further and mounting worldwide shortages, unemployment, poverty, and hunger. No nation, East or West, North or South, consumer or producer, will be spared the consequences.

An economic crisis of such magnitude would inevitably produce dangerous political consequences. Mounting inflation and recession—brought on by remote decisions over which consumers have no influence—will fuel the frustration of all whose hopes for economic progress are suddenly and cruelly rebuffed. This is fertile ground for social conflict and political turmoil. Moderate governments and moderate solutions will be under severe attack. Democratic societies could become vulnerable to extremist pressures from right or left to a degree not experienced since the twenties and thirties. The great achievements of this generation in preserving our institutions and constructing an international order will be imperiled.

The destinies of consumers and producers are joined in the same global economic system, on which the progress of both depends. If either attempts to wield economic power aggressively, both run grave risks. Political cooperation, the prerequisite of a thriving international economy, is shattered. New tensions will engulf the world just when the antagonisms of two decades of the cold war have begun to diminish.

The potentially most serious international consequences could occur in relations between North America, Europe, and Japan. If the energy crisis is permitted to continue unchecked, some countries will be tempted to secure unilateral benefit through separate arrangements with producers at the expense of the collaboration that offers the only hope for survival over the long term. Such unilateral arrangements are guaranteed to enshrine inflated prices, dilute the bargaining power of the consumers, and perpetuate the economic burden for all. The political consequences of disarray would be pervasive. Traditional patterns of policy may be abandoned because of dependence on a strategic commodity. Even the hopeful process of easing tensions with our adversaries could suffer because it has always presupposed the political unity of the Atlantic nations and Japan.

The Need for Consumer Cooperation

This need not be our fate. On the contrary, the energy crisis should summon once again the cooperative effort which sustained the policies of North America, Western Europe, and Japan for a quarter century. The Atlantic nations and Japan have the ability, if we have the will, not only to master the energy crisis but to shape from it a new era of creativity and common progress.

In fact we have no other alternative.

The energy crisis is not a problem of transitional adjustment. Our financial institutions and mechanisms of cooperation were never designed to handle so abrupt and artificially sustained a price rise of so essential a commodity with such massive economic and political ramifications. We face a long-term drain which challenges us to common action or dooms us to perpetual crisis.

The problem will not go away by permitting inflation to proceed to redress the balance between oil producers and producers of other goods. Inflation is the most grotesque kind of adjustment, in which all elements in the domestic structure are upset in an attempt to balance one—the oil bill. In any event, the producers could and would respond by raising prices, thereby accelerating all the political and social dangers I have described.

Nor can consumers finance their oil bill by going into debt to the producers without making their domestic structure hostage to the decisions of others. Already, producers have the power to cause major financial upheavals simply by shifting investment funds from one country to another or even from one institution to another. The political implications are ominous and unpredictable. Those who wield financial power would sooner or later seek to dictate the political terms of the new relationships.

Finally, price reductions will not be brought about by consumer/producer dialogue alone. The price of oil will come down only when objective conditions for a reduction are created and not before. Today the producers are able to manipulate prices at will and with apparent impunity. They are not persuaded by our protestations of damage to our societies and economies, because we have taken scant action to defend them ourselves. They are not moved by our alarms about the health of the Western world which never included and sometimes exploited them. And, even if the producers learn eventually that their long-term interest requires a cooperative adjustment of the price structure, it would be foolhardy to count on it or passively wait for it.

We agree that a consumer/producer dialogue is essential. But it must be accompanied by the elaboration of greater consumer solidarity. The heart of our approach must be collaboration among the consuming nations. No one else will do the job for us.

A Strategy for Consumer Cooperation

Consumer cooperation has been the central element of U.S. policy for the past year and a half.

In April 1973 the United States warned that energy was becoming a problem of unprecedented proportions and that collaboration among the nations of the West and Japan was essential. In December of the same year, we proposed a program of collective action. This led to the

Washington Energy Conference in February 1974, at which the major consumers established new machinery for consultation, with a mandate to create, as soon as possible, institutions for the pooling of effort, risk, and technology.

In April 1974 and then again this fall before the U.N. General Assembly, President Ford and I reiterated the American philosophy that global cooperation offered the only long-term solution and that our efforts with fellow consumers were designed to pave the way for constructive dialogue with the producers. In September 1974 we convened a meeting of the Foreign and Finance Ministers of the United Kingdom, Japan, the Federal Republic of Germany, France, and the United States to consider further measures of consumer cooperation. And last month President Ford announced a long-term national policy of conservation and development to reinforce our international efforts to meet the energy challenge.

In our view, a concerted consumer strategy has two basic elements:

First, we must create the objective conditions necessary to bring about lower oil prices. Since the industrialized nations are the principal consumers, their actions can have a decisive impact. Determined national action, reinforced by collective efforts, can transform the market by reducing our consumption of oil and accelerating development of new sources of energy. Over time this will create a powerful pressure on prices.

Second, in the interim we must protect the vitality of our economies. Effective action on conservation will require months; development of alternative sources will take years. In the meantime, we will face two great dangers. One is the threat of a new embargo. The other is that our financial system may be unable to manage chronic deficits and to recycle the huge flows of oil dollars that producers will invest each year in our economies. A financial collapse—or the threat of it—somewhere in the system could result in restrictive monetary, fiscal, and trade measures and a downward spiral of income and jobs.

The consumers have taken two major steps to safeguard themselves against these dangers by collaborative action.

One of the results of the Washington Energy Conference was a new permanent institution for consumer energy cooperation—the International Energy Agency[IEA]. This agency will oversee a comprehensive common effort—in conservation, cooperative research and development, broad new action in nuclear enrichment, investment in new energy supplies, and the elaboration of consumer positions for the consumer/producer dialogue.

Equally significant is the unprecedented agreement to share oil supplies among principal consumers in the event of another crisis. The International Energy Program that grew out of the Washington Energy Conference and that we shall formally adopt next week is an historic step toward consumer solidarity. It provides a detailed blueprint for common action should either a general or selective embargo occur. It is a defensive arrangement, not a challenge to producers. But producing countries must know that it expresses the determination of the consumers to shape their own future and not to remain vulnerable to outside pressures.

The International Energy Agency and the International Energy Program are the first fruits of our efforts. But they are only foundations. We must now bring our blueprint to life.

The Five Action Areas

To carry through the overall design, the consuming countries must act in five interrelated areas.

First, we must accelerate our national programs of energy conservation, and we must coordinate them to insure their effectiveness.

Second, we must press on with the development of new supplies of oil and alternative sources of energy.

Third, we must strengthen economic security—to protect against oil emergencies and to safeguard the international financial system.

Fourth, we must assist the poor nations whose hopes and efforts for progress have been cruelly blunted by the oil price rises of the past year.

Fifth, on the basis of consumer solidarity we should enter a dialogue with the producers to establish a fair and durable long-term relationship.

Let me deal with each of these points in turn.

Conservation

Conservation and the development of new sources of energy are basic to the solution: The industrialized countries as a whole now import nearly two-thirds of their oil and over one-third of their total energy. Over the next decade we must conserve enough oil and develop sufficient alternative supplies to reduce these imports to no more than one-fifth of the total energy consumption. This requires that the industrialized countries manage the growth of their economies without increasing the volume of their oil imports.

The effect of this reduced dependence will be crucial. If it succeeds, the demand of the industrialized countries for imported oil will remain static, while new sources of energy will become available both inside and outside of OPEC [Organization of Petroleum Exporting Countries]. OPEC may attempt to offset efforts to strengthen conservation and develop alternative sources by deeper and deeper cuts in production, reducing the income of producers who seek greater revenues for their development. The majority of producers will then see their interest in expanding supply and seeking a new equilibrium between supply and demand at a fair price.

Limiting oil imports into industrial countries to a roughly constant figure is an extremely demanding goal requiring discipline for conservation and investment for the development of new energy sources. The United States, which now imports a third of its oil and a sixth of its total energy, will have to become largely self-sufficient. Specifically we shall set as a target that we reduce our imports over the next decade from 7 million barrels a day to no more than 1 million barrels or less than 2 percent of our total energy consumption.

Conservation is, of course, the most immediate road to relief. President Ford has stated that the United States will reduce oil imports by 1 million barrels per day by the end of 1975—a 15 percent reduction.

But one country's reduction in consumption can be negated if other major consumers do not follow suit. Fortunately, other nations have begun conservation programs of their own. What is needed now is to relate these programs to common goals and an overall design. Therefore, the United States proposes an international agreement to set consumption goals. The United States is prepared to join an international conservation agreement that would lead to systematic and long-term savings on an equitable basis.

As part of such a program, we propose that by the end of 1975 the industrialized countries reduce their consumption of oil by 3 million barrels a day over what it would be otherwise—a reduction of approximately 10 percent of the total imports of the group. This reduction can be carried out without prejudice to economic growth and jobs by cutting back on wasteful and inefficient uses of energy both in personal consumption and in industry. The United States is prepared to assume a fair share of the total reduction.

The principal consumer nations should meet each year to determine appropriate annual targets.

Alternative Energy Sources

Conservation measures will be effective to the extent that they are part of a dynamic program for the development of alternative energy sources. All countries must make a major shift toward nuclear power, coal, gas, and other sources. If we are to assure substantial amounts of new energy in the 1980's we must start now. If the industrialized nations take the steps which are within their power, they will be able to transform energy shortages into energy surpluses by the 1980's.

Project Independence is the American contribution to this effort. It represents the investment of hundreds of billions of dollars, public and private—dwarfing our moon-landing program and the Manhattan Project, two previous examples of American technology mobilized for a great goal. Project Independence demonstrates that the United States will never permit itself to be held hostage to a strategic commodity.

Project Independence will be complemented by an active policy of supporting cooperative projects with other consumers. The International Energy Agency to be established next week is well designed to launch and coordinate such programs. Plans are already drawn up for joint projects in coal technology and solar energy. The United States is prepared to expand these collective activities substantially to include such fields as uranium enrichment.

The area of controlled thermonuclear fusion is particularly promising for joint ventures for it would make available abundant energy from virtually inexhaustible resources. The United States is prepared to join with other IEA members in a broad program of joint planning, exchange of scientific personnel, shared use of national facilities, and the development of joint facilities to accelerate the advent of fusion power.

Finally, we shall recommend to the IEA that it create a common fund to finance or guarantee investment in promising energy projects, in participating countries and in those ready to cooperate with the IEA on a long-term basis.

Financial Solidarity

The most serious immediate problem facing the consuming countries is the economic and financial strain resulting from high oil prices. Producer revenues will inevitably be reinvested in the industrialized world; there is no other outlet. But they will not necessarily flow back to the countries whose balance-of-payments problems are most acute. Thus many countries will remain unable to finance their deficits and all will be vulnerable to massive sudden withdrawals.

The industrialized nations, acting together, can correct this imbalance and reduce their vulnerability. Just as producers are free to choose where they place their funds, so the consumers must be free to redistribute these funds to meet their own needs and those of the developing countries.

Private financial institutions are already deeply involved in this process. To buttress their efforts, central banks are assuring that necessary support is available to the private institutions—particularly since so much of the oil money has been invested in relatively short-term obligations. Private institutions should not bear all the risks indefinitely, however. We cannot afford to test the limits of their capacity.

Therefore, the governments of Western Europe, North America, and Japan should move now to put in place a system of mutual support that will augment and buttress private channels whenever necessary. The United States proposes that a common loan and guarantee facility be created to provide for redistributing up to $25 billion in 1975, and as much again the next year if necessary. The facility will not be a new aid institution to be funded by additional taxes. It will be a mechanism for recycling, at commercial interest rates, funds flowing back to the industrial world from the oil producers. Support from the facility would not be automatic, but contingent on full resort to private financing and on reasonable self-help measures. No country should expect financial assistance that is not moving effectively to lessen its dependence on imported oil.

Such a facility will help assure the stability of the entire financial system and the creditworthiness of participating governments; in the long run it would reduce the need for official financing. If implemented rapidly it would:

- —Protect financial institutions from the excessive risks posed by an enormous volume of funds beyond their control or capacity;
- —Insure that no nation is forced to pursue disruptive and restrictive policies for lack of adequate financing;
- —Assure that no consuming country will be compelled to accept financing on intolerable political or economic terms; and
- —Enable each participating country to demonstrate to people that efforts and sacrifices are being shared equitably—that the national survival is buttressed by consumer solidarity.

We have already begun discussion of this proposal: it was a principal focus of the meeting of the Finance and Foreign Ministers of the Federal Republic of Germany, the United States, Japan, the United Kingdom, and France in September in Washington.

The Developing World

The strategy I have outlined here is also essential to ease the serious plight of many developing countries. All consuming nations are in need of relief from excessive oil prices, but the developing world cannot wait for the process to unfold. For them, the oil crisis has already produced an emergency. The oil bill has wiped out the external assistance of the poorer developing countries, halted agricultural and industrial development, and inflated the prices for their most fundamental needs, including food. Unlike the industrial nations, developing countries do not have many options of self-help; their margin for reducing energy consumption is limited; they have little capacity to develop alternative sources.

For both moral and practical reasons, we cannot permit hopes for development to die, or cut ourselves off from the political and economic needs of so great a part of mankind. At the very least, the industrial nations must maintain the present level of their aid to the developing world and take special account of its needs in the multilateral trade negotiations.

We must also look for ways to help in the critical area of food. At the World Food Conference I outlined a strategy for meeting the food and agricultural needs of the least developed countries. The United States is uniquely equipped to make a contribution in this field and will make a contribution worthy of its special strength.

A major responsibility must rest with those oil producers whose actions aggravated the problems of the developing countries and who because of their new-found wealth now have greatly increased resources for assistance.

But even after all presently available resources have been drawn upon, an unfinanced payment of deficit of between $1 and $2 billion will remain for the 25 or 30 countries most seriously affected by high oil prices. It could grow in 1976.

We need new international mechanisms to meet this deficit. One possibility would be to supplement regular International Monetary Fund (IMF) facilities by the creation of a separate trust fund managed by the IMF to lend at interest rates recipient countries could afford. Funds would be provided by national contributions from interested countries, including especially oil producers. The IMF itself could contribute the profits from IMF gold sales undertaken for this purpose. We urge the Interim Committee of the IMF and the joint IMF/IBRD Development Committee to examine this proposal on an urgent basis.

Relations With Producers

When the consumers have taken some collective steps toward a durable solution — that is, measures to further conservation and the development of new supplies — and for our interim protection through emergency planning and financial solidarity, the conditions for a constructive dialogue with producers will have been created.

We do not see consumer cooperation as antagonistic to consumer/producer cooperation. Rather, we view it as a necessary prerequisite to a constructive dialogue as do many of the producers themselves who have urged the consumers to curb inflation, conserve energy, and preserve international financial stability.

A dialogue that is not carefully prepared will compound the problems which it is supposed to solve. Until the consumers develop a coherent approach to their own problems, discussions with the producers will only repeat in a multilateral forum the many bilateral exchanges which are already taking place. When consumer solidarity has been developed and there are realistic prospects for significant progress, the United States is prepared to participate in a consumer/producer meeting.

The main subject of such a dialogue must inevitably be price. Clearly the stability of the system on which the economic health of even the producers depends requires a price reduction. But an equitable solution must also take account of the producers' need for long-term income security and economic growth. This we are prepared to discuss sympathetically.

In the meantime the producers must recognize that further increases in the prices while this dialogue is being prepared, and when the system has not even absorbed the previous price rises, would be disruptive and dangerous.

On this basis — consumer solidarity in conservation, the development of alternative supplies and financial security, producer policies of restraint and responsibility, and a mutual recognition of interdependence and a long-term common interest — there can be justifiable hope that a consumer/producer dialogue will bring an end to the crisis that has shaken the world to its economic foundations.

The Next Step

It is now a year and a month since the oil crisis began. We have made a good beginning, but the major test is still ahead.

The United States in the immediate future intends to make further proposals to implement the program I have outlined.

Next week, we will propose to the new IEA a specific program for cooperative action in conservation, the development of new supplies, nuclear enrichment, and the preparation of consumer positions for the eventual producer/consumer dialogue.

Simultaneously, Secretary Simon will spell out our ideas for financial solidarity in detail, and our representative at the Group of Ten will present them to his colleagues.

We will, as well, ask the Chairman of the Interim Committee of the IMF as well as the new joint IMF/IBRD Development Committee to consider an urgent program for concessional assistance to the poorest countries.

Yesterday, Secretary Morton announced an accelerated program for domestic oil exploration and exploitation.

President Ford will submit a detailed and comprehensive energy program to the new Congress.

Conclusion

Let there be no doubt, the energy problem <u>is</u> soluble. It will overwhelm us only if we retreat from its reality. But there can be no solution without the collective efforts of the nations of North America, Western Europe, and Japan – the very nations whose cooperation over the course of more than two decades has brought prosperity and peace to the postwar world. Nor in the last analysis can there be a solution without a dialogue with the producers carried on in a spirit of reconciliation and compromise.

A great responsibility rests upon America, for without our dedication and leadership no progress is possible. This Nation, for many years, has carried the major responsibility for maintaining the peace, feeding the hungry, sustaining international economic growth, and inspiring those who would be free. We did not seek this heavy burden, and we have often been tempted to put it down. But we have never done so, and we cannot afford to do so now – or the generations that follow us will pay the price for our self-indulgence.

For more than a decade America has been torn by war, social and generational turbulence, and constitutional crisis. Yet the most striking lesson from these events is our fundamental stability and strength. During our upheavals, we still managed to ease tensions around the globe. Our people and our institutions have come through our domestic travails with an extraordinary resiliency. And now, once again, our leadership in technology, agriculture, industry, and communications has become vital to the world's recovery.

Woodrow Wilson once remarked that "wrapped up with the liberty of the world is the continuous perfection of that liberty by the concerted powers of all civilized peoples." That, in the last analysis, is what the energy crisis is all about. For it is our liberty that in the end is at stake and it is only through the concerted action of the industrial democracies that it will be maintained.

The dangers that Woodrow Wilson and his generation faced were, by today's standards, relatively simple and straightforward. The dangers we face now are more subtle and more profound. The context in which we act is more complex than even the period following the Second World War. Then we drew inspiration from stewardship, now we must find it in partnership. Then we and our allies were brought together by an external threat, now we must find it in our devotion to the political and economic institutions of free peoples working together for a common goal. Our challenge is to maintain the cooperative spirit among like-minded nations that has served us so well for a generation and to prove, as Woodrow Wilson said in another time and place, that "the highest and best form of efficiency is the spontaneous cooperation of a free people."

LE FIGARO
Voice of Ethiopia
RUDE PRAVO
Le Monde
Ceylon Daily News
The Japan Times
The Manila Times
Frankfurter Allgemeine
TANJUG
The Times of India
AFRIQUE nouvelle
R(I)F
LA PRENSA
NEW CHINA NEWS
DAILY EXPRESS
The Daily Mirror
EXCELSIOR
EL PERIODICO DE LA VIDA NACIONAL
The Ethiopian Herald
DIE WELT
THE YOMIURI
CORRIERE DELLA SERA

WORLDWIDE TREATMENT
OF CURRENT ISSUES

--President's Far East Trip - I
--Kissinger Energy/Finance Plan

No. 136 November 18, 1974

ИЗВЕСТИЯ
HSINHUA DAILY BULLETIN
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РАБОТНИЧЕСКО ДЕЛО
БОРБА
L'ESSOR
EL TIEMPO
THE STATESMAN
JORNAL DO BRASIL
THE WORKING PEOPLE'S DAILY
The Straits Times

KISSINGER ENERGY/FINANCE PROPOSAL

Summary

Foreign media reaction to Secretary Kissinger's proposal of a new coordinated effort by oil-consuming nations to lower their foreign-source energy requirements and to cope with the financial disruption caused by petrodollar concentration continued through the weekend and in today's press.

Some comment hailed the proposal as a bold stroke of American leadership, but the praise was salted with reservations about the plan's feasibility in the light of Western disunity and about U.S. motives in advancing it.

--The Times of London said the Secretary's speech was "in the best traditions of American leadership and vision and...should be given a quick and generous response without tactical political reservations." The Manchester Guardian, though, said "his recipe for saving the Western world will be persuasive only if President Ford takes a much more visible lead" and shows "the Administration's readiness to take its share of the burden and hardships involved."

--Munich's Sueddeutsche Zeitung viewed realization of the proposal as "dubious" because it "assumes a solidarity that is neither at hand nor visible on the horizon."

--French media saw in the Kissinger speech opposition to the French approach to energy and financial crisis, and Le Monde argued that in his attitude toward the producers it was "really a strategy of confrontation that Mr. Kissinger has defined. In his view, the OPEC has declared economic war on the rest of the world, so he is warning the turncoats."

--Japan's Nihon Keizai declared that "as long as the U.S. ignores the problem of excess profits, its call on oil-consuming nations to cooperate in promoting the U.S.-proposed international energy project cannot fully convince other countries."

--The Straits Times of Kuala Lumpur predicted: "There will be confrontation before cooperation."

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London: "Britain Should Support Kissinger Plan"

Several weekend British papers endorsed Secretary Kissinger's proposal for dealing with petrodollar imbalance, but some reported strong reservations in political and financial circles.

The independent Sunday Times urged: "Britain should give an immediate warm response to the Kissinger plan, just as it has wisely supported the 16-nation agreement on a new international energy agency for sharing supplies in emergency.

> "Those who react with automatic anti-American suspicions, as the French still do, might reflect that the lead for this, too, came from the United States, yet the U.S. will by this plan easily sacrifice the most if the supply war erupts again.
>
> "A capacity to recognize one's friends is not merely magnanimous; it is a necessary condition of survival."

"Ranks With Marshall Plan"

The editorially separate Times of London said on Saturday that Mr. Kissinger's speech was "in the best traditions of American leadership and vision and deserves to rank with other examples such as the Marshall Plan. It should be given a quick and generous response without tactical political reservations of the type that greeted her well-intended but ill-considered call for a new Atlantic Charter.

> "It is a bigger challenge and a bigger crisis that now faces the Alliance. Failure to meet it could bring disasters as great as war, or even war itself. Success could, as Dr. Kissinger suggests, transform a moment of grave crisis into an act of lasting creativity."

The paper's U.S. economics correspondent, Frank Vogl, observed that "the basic assumption--unlikely to be widely contested--in Dr. Kissinger's scheme is that the oil-producing countries have no alternative but to place their surplus funds in some form in the developed industrial countries... The statement by Dr. Kissinger is so important because it implies a willingness by the Americans to be big contributors to such a central fund."

"Some Concerned by Hawkish Tone"

The liberal Guardian of Manchester and London on Saturday carried a front-page story by business editor John Palmer reporting a "mixed reception" for the Kissinger proposal. He said that a number of governments supported the Secretary's appeal for "energy saving and for the recycling of oil state money," but that they "were not disguising concern at the hawkish tone of his remarks about the pricing policies of the oil states."

The paper also carried a report by Washington correspondent Hella Pick of "skepticism here over Dr. Kissinger's offer to lead the industrialized world out of the energy crisis." She said "the reason is that nobody is sure to what extent the Ford Administration, together with Congress, is willing to act on the blueprint for energy conservation, development of new sources of energy, and the recycling of oil money which Dr. Kissinger outlined in his Chicago speech...

> "His recipe for saving the Western world will be persuasive only if President Ford takes a much more visible lead to impress America's allies with the Administration's readiness to take its share of the burden and hardships involved."

In a similar tone, the paper's Saturday editorial on the financial aspect of the plan declared, "If Dr. Kissinger's speech means the U.S. will now take the lead in removing the worst uncertainties, then we can all look forward more hopefully to 1975."

The conservative London Daily Telegraph on Saturday held that Mr. Kissinger "was right to make again his plea for common action on oil among the nations of the West and Japan...for without effective cooperation among these nations, a worldwide economic disaster is more than possible...

> "It is a pity (he) has had so little support from America's European allies."

The paper's diplomatic correspondent reported that "the British Government... publicly welcomed the broad outline of Dr. Kissinger's plan" but "privately it heaved a sigh at the monumental task of trying to coordinate the West's various, and perhaps contradictory paper schemes."

"Signals Shift in Ford Policy"

Washington correspondent Stephen Barber saw the Secretary's speech as signalling "a major shift in Ford Administration policy. The scheme means that America has officially given up hope that it can persuade Saudi Arabia's King Feisal and the Shah of Persia to take realistic action to reduce oil prices."

The sister Sunday Telegraph carried the observation of columnist Peregrine Worsthorne that "at the moment, the Arab oil monopoly, if applied would be truly disastrous for the Western world, leading to impoverishment and, in all probability, social convulsions and revolution...

"Deterring the Arabs today has to involve an absolute determination to strike the oil weapon out of their hands, which means envisaging, and planning for, the use of force not only in defense of Israel but also against the Arabs."

"Coolness in Financial Circles"

The independent London Financial Times reported on Saturday that the Kissinger proposal "has initially met with a rather cool reception in official financial circles in London...

"There are two reasons...One is that the British, in common with some other European governments, have never been sympathetic to Dr. Kissinger's idea of a consumer cartel to break the (OPEC) cartel...

"The second reason is that the U.K. Government has been heavily backing the so-called 'Witteveen' IMF plan for a multilateral facility...for rechannelling Arab and other oil funds."

Munich: "Proposal Seems Dubious"

Independent-left Sueddeutsche Zeitung of Munich declared today:

"Only despair must have led Henry Kissinger to invest his already diminished prestige where energy matters are concerned in a project the realization of which must seem dubious. Restriction of current oil consumption in all industrial countries by 10 per cent as well as the formation of a 'consumer cartel' assumes a solidarity that is neither at hand nor visible on the horizon. If Kissinger is building on such hopes, then he must have been treated much worse by the Shah of Iran and by King Feisal than has yet been made public..."

A correspondent for pro-Christian Democratic Rheinische Post of Duesseldorf reported from Chicago, "It is doubtful whether Kissinger's appeal to the Europeans and Japanese for cooperation and solidarity will fall on fruitful soil..."

"Less Risky for U.S. Than for FRG"

A byliner for the independent Westdeutsche Allgemeine of Essen wrote today that not all the industrial countries "are sitting in the same boat," since there are the energy-rich countries and the "have-nots like the FRG.

"The U.S. is definitely among the winners in the oil crisis. It has its own oil sources, unaffected by OPEC's price rises...

"For the U.S. it is, therefore, less risky than it is for the FRG, as one example, to steer a collision course with the oil countries...Expensive oil is better than no oil. If Kissinger preaches teamwork, then the U.S. must be prepared to share its wealth..."

"Carries a Lot of Weight"

Pro-Social Democratic Neue Rhein Zeitung of Duesseldorf today carried this comment by a byliner:

"No one who has read the signs of the past year can contradict Kissinger's words about a challenge to the industrial countries greater than any since 1945. It is high time to accept that challenge. What the U.S. Secretary of State said carries a lot of weight. A prerequisite though for any success is a modicum of teamwork..."

The writer concluded, however, that the experience of the past year among Europeans "gives little reason to hope for future solidarity..."

Heinz Barth, Washington correspondent for right-center Die Welt of Hamburg, wrote today that the Secretary's global plan for "a joint energy-crisis management is one that Europe and Japan "cannot reject without study..."

"FRG Wishes to Avoid U.S.-French Confrontation"

The paper remarked Saturday that "Bonn quarters attach great significance to Kissinger's proposals" but "Government reaction has been marked by restraint" because the FRG wishes to "avoid 'confrontation' between the French and American views on this matter..."

Paris: "Kissinger vs. Giscard Approach"

French media interpreted the Kissinger speech as a rejection--more or less direct and more or less aggressive--of the plan put forth by President Giscard d'Estaing for a three-way conference of oil producers, industrialized nations and developing countries.

Government-influenced first-network television saw "many points of agreement" between the Giscard approach and Mr. Kissinger's proposal, despite "differences in strategy." It concluded that "there are no real contradictions but only different views of the best means to arrive at a dialogue with the oil-producing countries."

The second network said the U.S. did not "bluntly reject Giscard's proposal, but it intends to head the negotiations." A commentator declared, "The Kissinger counterproposal is upsetting the French plan. He does not exactly slam the door, but he poses a precondition, that of a consumer bloc animated by the U.S."

"Stunning Blow to French Plan"

Right-center pro-Government Aurore of Paris called Mr. Kissinger's speech "a decisive, stunning blow to the French plan for an international conference on energy." It said "authorized circles in Paris have tried hard to minimize the disagreement between the two approaches.

> "But this commentary emanating from circles close to the Government has not convinced international opinion, nor even Paris political circles, where it is pointed out that the

concerted action among consumers advocated by Mr. Kissinger is very likely to be a fatal blow to the preferential relations established by France with some oil-producing nations. They also point to the imperative, even threatening tone employed by the Secretary of State."

Pro-Gaullist France-Soir today carried the observation of Washington correspondent Adalbert de Segonzac that "it would be excessive to state that Mr. Kissinger's aim was to block the French initiative, but that initiative certainly had something to do with Mr. Kissinger's move last Thursday."

"Enough to Make Dollar-Hungry Countries Pause"

Independent-left Le Monde of Paris headed its editorial on the Kissinger speech, "The Counterattack," and asserted that he "has spoken, and once again has spoken as though he were the master." It continued:

"To save face, Paris can of course claim that there is only a difference of time tables between Mr. Kissinger's strategy and that of Mr. Giscard d'Estaing, with both aimed at the same result, a dialogue with the producer countries.

"That would be actually minimizing the disagreement. What Mr. Kissinger is proposing is really a council of consumer countries. To make his proposal more attractive, he matches it with a 25-billion-dollar plan for recycling petrodollars. Never had such a huge figure been cited--enough to make dollar-hungry countries pause to ponder, even when they are tempted to rebel against Washington's will for power. Thus it is to be feared that France may lose a good many of her allies of the moment."

The paper said President Giscard had hoped with his three-way conference proposal to "extricate himself from an impasse into which he had been propelled by 'Jobertism'--refusing to join Mr. Kissinger's international energy agency--which, deep in his heart, he had never really approved.

"But now, by his public opposition, Kissinger is driving Giscard into a corner and compelling him to take sides in a more definite manner. In the final analysis, it is really a strategy of confrontation that Mr. Kissinger has defined. In his view, the OPEC has declared economic war on the rest of the world, so he is warning the turncoats.

> "At this point, can France afford to keep a foot in both camps? And what will be the weight of the friendships she has won in the third world, in the face of such an exercise of American power?"

Turin: "A Domestic Political Move?"

The economics editor of center-left La Stampa of Turin remarked yesterday that "it remains to be seen whether Kissinger's initiative is a domestic political move or one based on the firm principles of trade and economics. This does not rule, obviously, that his initiative may meet the aims of both."

"Probably in Earnest"

A New York correspondent for center-left Il Giorno of Milan observed Saturday that "it is too early to say to what extent Kissinger's speech...provides a basis for further action from the industrial bloc and to what extent it is a bluff to threaten the Arabs. Probably Kissinger is in earnest."

Pro-Communist Paper: "Objective--Hegemony"

The foreign affairs editor of pro-Communist Paese Sera of Rome observed on Saturday:

> "Just a few days before the Vladivostok summit, with an even more complicated and delicate situation in the Middle East and with a U.S. domestic situation still marked by low White House prestige, Henry Kissinger is back again on the old road of his energy strategy. His Chicago address seeks once more to give the U.S. a role in a situation where there are ideological and pragmatic rifts in the EEC. The hegemonic objective of the Kissinger plan is clear as are the dangers that threaten any solution to the Israeli-Arab conflict. Israeli hawks can continue to hope..."

Copenhagen: "Brass Knuckles in the Glove"

The independent conservative Berlingske Tidende of Copenhagen today warned that "despite the gentleness of Kissinger's presentation...there were brass knuckles hidden in the glove. The oil-producing countries are earnestly cautioned not to increase oil prices further while efforts are being made to carry out this great program of conciliation. If they should, they would themselves be looking for danger."

The paper pointed out that "the U.S. initiative follows closely along lines of thought also advanced in Common Market circles.

> "But the Common Market has acted too late and done too little. It should now with all its might--and without misdirected concern for prestige--support this U.S. attempt to save the world from the oil crisis.
>
> "It is still too early to judge whether Kissinger's grand design will succeed...but he is right in all the main lines he has drawn on the energy question."

Tokyo TV: "Expect U.S. Demands"

Japan's commercial NTV said yesterday that Mr. Kissinger was expected to seek Japan's cooperation at the Ford-Tanaka talks on the U.S. oil strategy as outlined by the Secretary in Chicago. On Saturday publicly financed NHK television stated that "there is a tense atmosphere in the Foreign Ministry as a result of the Kissinger speech because the U.S. is expected to make demands on Japan in regard to the energy problem." It contended that the U.S. would ask Japan during the summit talks to reduce oil consumption.

"What About Oil Company Profits?"

Business-oriented Nihon Keizai asserted yesterday that Mr. Kissinger was silent about major international oil companies' excess profits. It added, "As long as the U.S. ignores the problem of excess profits, its call on oil-consuming nations to cooperate in promoting the U.S.-proposed international energy project cannot fully convince other countries."

The paper also expressed its concern over the Kissinger plan in that he called on the advanced nations to organize an international petrodollar redistribution system but did not ask the OPEC nations to cooperate in this system. The paper stressed that the problem of recycling petrodollars should be solved on the basis of full cooperation by all countries concerned, including the OPEC countries.

"French Conference Plan Seems More Adequate"

Moderately conservative Sankei held yesterday that concerted action by oil-consuming nations to reduce their oil imports by approximately 10 per cent by the end of 1975 would offend the oil-producing nations.

It recommended instead that the advanced nations "seek a dialogue with the oil producers with a view to bringing down oil prices," adding, "The French-proposed international petroleum conference... seems more adequate than the U.S. policy of strength to 'drag' the oil-producing nations into a dialogue with oil-consuming nations. The paper also wondered about the effectiveness of the U.S.-proposed 10 per cent cut in imports, saying, "Since the supply sources are limited, and petroleum itself is virtually an oligopoly, less oil in marketing channels might touch off price increases."

Kuala Lumpur: "Producers Will React Sharply"

The Straits Times of Kualà Lumpur said today of the Kissinger speech, "The oil-producers will react sharply to this program. It will not frighten them or coerce them into price reductions. But they will resent American-led consumer cooperation, and their money passing into international institutions which they do not control. There will be confrontation before cooperation."

Tehran: "Indifference Here"

Yesterday's independent Ettelaat of Tehran, in an editorial headed "Kissinger's New Plan Creates Indifference," asserted that "contrary to Mr. Kissinger's previous plans (it) did not create strong reaction in Tehran."

The paper continued, "Following his talks with the Shah, Kissinger was convinced that there was no hope for a reduction in oil prices. The experience of the past year proved that even a war of nerves cannot change the situation."

It added, "Kissinger's new plan puts the bulk of pressure on consuming countries and demands only one thing from the OPEC countries, namely, recycling their surplus revenues in the Western industrialized countries. Tehran supports any proposition for cutting back oil consumption, but the experience of the past has proved that it will be difficult for West Germany, Japan and even Great Britain to implement Kissinger's proposal. So Tehran believes that Kissinger also failed this time in his efforts."

Jerusalem: "A Good Plan"

Semi-official Davar of Tel Aviv declared today that although "all five clauses of Kissinger's oil plan are economic...it should not be concluded that the U.S. would rule out, in principle, the possibility of military action...if it sees no other way to save the Western world from a deadly economic crisis."

The independent pro-government Jerusalem Post remarked today, "Dr. Kissinger's oil plan is good. Only a plan of this kind can restore the political independence of Europe, some of whose nations have been more easily intimidated by Arab blackmail than others..."

Dakar: "No Allowance for a Dialogue"

Government-directed Le Soleil of Dakar on Saturday carried a byliner's assertion that "the new remedy for the energy crisis proposed by Mr. Kissinger to friendly non-cartel countries can produce enthusiasm only among the Americans. Even if it is true that the ultimate objective of his proposition is to reduce the consumption of crude oil in the industrial countries in mitigation of their economic disorder, the proposal makes no allowance in the final analysis for a dialogue between consumers and producers. This is the bone of contention between France and her partners who still will not dare to say no to the Western superpower."

In the writer's opinion, "The new cartel would certainly do well to cooperate with OPEC in its own interest and the world's....Instead of forming a club closed to the oil producers, wouldn't it be better in this case to make one in which all the interested parties could sit together around the same table to find a more equitable strategy, better suited to benefit the entire world? In this business everyone has something to say."

Moscow: "U.S. Pretext of Joint Action"

The English service of Moscow TASS yesterday said Pravda had described the OECD agreement to establish an international energy agency as "an attempt to come out in a united front against the national interests of petroleum exporting countries" and added: "Recalling that the initiative of setting up a new headquarters for struggle against the petroleum-producing countries was put forward by the United States, Pravda writes: Washington's line on the oil issue remains the same--to try to overcome the energy problems of the United States at the expense of petroleum-producing countries, to bring pressure to bear on them with the aim of winning a cut in the prices of this fuel, try to present the increases in the prices of oil as almost the sole cause of the present economic ills of capitalist system. "The newspaper also notes the purely political aspect--the striving of the United States to preserve for itself a leading role in the capitalist world under the pretext of joint actions."

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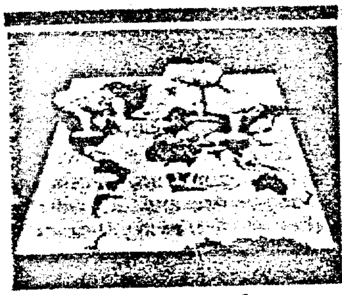

Flat-earth mushrooms

The only way of stopping lots more countries going nuclear is to reject simplistic ideas and get down to the practical slog of controlling "peaceful" plutonium, page 14.

Big guns shot at

Chrysler's troubles multiply and ... AT & T joins Xerox and IBM under fire, page 98.

On from Greece

Why the Greeks celebrated being able to vote again, page 41. But will Europe's other countries with communists at the gates of power see the issues as clearly? page 18.

Birmingham's legacy

The Birmingham outrage is one more step to civil war. Ulster is under a second rank minister and Mr Wilson does not care, page 13.

Government party

The British Labour party has its chance to put its own government in the dock next week, page 16. The shift in the party's executive, page 33.

Vade mecum

How to deal with the next stage in the miners' dispute, page 81, the problem of a compulsory incomes policy which will be disobeyed, page 84, the exchange rate crisis and petrodollar recycling, page 93, Britain's soaring government expenditure, page 78, Britain's inflateconomy turning still so slowly towards slumpeconomy, page 87, and even how to tame Mr Benn's dear octopus, page 16, which wants to be ever so participatory, page 91.

Flop

France's general strike was not a grand success, but the government's problems are far from over, page 83.

UNfair

The UN assembly's attempt to stop Israel from arguing back violates its own principles, page 42. Isolation makes Israelis desperate, page 43, and Syria may yet give their desperation an excuse for action, page 46.

Soviet opposition

It is alive and dead, page 50.

Contents

Volume 253 Number 6848

Recycling where?

Even if exchange rates were floating sensibly, America's Secretary of State, Mr Henry Kissinger, and Secretary of the Treasury, Mr William Simon, would be abundantly right to call for urgent action to recycle petrodollars in 1975. There should be three targets for any plan, but unfortunately the Kissinger-Simon proposals aim at only one of them:

(1) Anti-oil-prices. A co-ordinated effort by rich countries to cut oil consumption by 10 per cent in 1975.

(2) Anti-recession. A statement by each country of the amount by which it intends its domestic demand to rise next year. Countries with weak balances of payments should expand it by least, and those with strong balances of payments should expand it by most, but the total needs to be big enough to avert world recession.

(3) An international financial mechanism, established with speed to ensure that countries which are following reasonable policies in these first respects will be able to borrow what they need.

The Kissinger-Simon proposals call on all countries to aim at the first target. This is important, because such co-ordination to cut oil consumption should help to bring oil prices down. They miss the opportunity to aim in any way at a co-ordinated effort to avoid world recession, and indeed lean over backward to reassure those who fear inflation by saying that loans from their proposed $25 billion fund for 1975 should be subject to conditions, and made at market interest rates. If the full $25 billion really is needed and disbursed, this last provision is a nonsense, which is why it perhaps does not matter; as with world war I international debts, there would in practice have to be subsequent arrangement of negotiated defaults.

The danger is that the money will not be ready to be disbursed. Mr Kissinger talked of a "common loan and guarantee facility to provide for redistributing up to $25 billion in 1975, and as much again the next year if necessary", but without being at all clear who will hold that $25 billion. Mr Simon seemed to envisage a scheme which would require legislation by the American Congress, and bring every sort of international financial institution and talking shop somewhere into the act, so they may all be intent on arguing about their roles.

It would be much better to co-ordinate plans to hit the first two targets, and to say that central bank swaps will save from balance of payments crisis any developed country which is working within this framework. Fortunately, internal domestic policies are now trying to pull the world away from slump. By monetary or fiscal policy, the United States, Germany, Japan and Britain are all mildly reflating. If any country, because of respectable reflation, ran into a current deficit above its normal capacity to borrow (Italy?), then abnormal borrowing capacity would now probably be made available to it. But one danger is that the artificialities introduced into exchange rates have, at just the wrong moment, made fashionable again those sudden runs from currencies which a properly floating system would have stopped. Another is that in a new war with Israel the Arabs might move money about with deliberately disruptive effect. A third is that the beginning of the recession is causing a wave of strikes to spread from country to country (Scotland yesterday, France today, all Britain tomorrow?). That could be the worst of the worries as this cold northern winter begins.

FOREIGN AFFAIRS

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BEYOND DETENTE: TOWARD INTERNATIONAL ECONOMIC SECURITY

By Walter F. Mondale

ECONOMIC issues are now front and center for the world's political leaders, topping the agenda of both domestic and foreign policy concerns. While the major international security issues of the last quarter-century are still with us—the competition in strategic nuclear arms, the struggle of differing political systems, the confrontation of massively armed alliances in Europe, the menace of great-power involvement in local conflict—these are now being overshadowed by the risk that the operation of the international economy may spin out of control. For if this happens there will be no graver threat to international stability, to the survival of Western democratic forms of government, and to national security itself.

Last June West German Chancellor Helmut Schmidt spoke plainly at the NATO summit meeting. As he saw it, the most serious risks facing NATO were not military. The growing economic difficulties of its members, he said, "include dangers that cannot be exaggerated. Inflation and the necessarily following recession pose the greatest threat to the foundations of Western society."

Throughout the crisis of the Presidency, it was difficult for the American public to focus on international issues. What serious discussion there was dealt almost exclusively with the problems of détente with the Soviet Union. It is on this issue that Secretary Kissinger has called for a great debate, and Senator Fulbright is responding by holding extensive hearings to air the views of both critics and supporters of the Nixon Administration's dealings with the Soviet Union.

Certainly détente is important. The gains in East-West relations must be consolidated on a realistic basis; negotiations on strategic arms, the European Security Conference and the question of force levels in Europe must be pursued, and the attempt to progress toward a peace settlement in the Middle East (itself in part a test of the scope of détente) must command special and unremitting attention.

But just as inflation has now emerged as by far the most pressing domestic concern, so international economic policy is now our top external challenge. In terms of the scale of the problems and the imagination required for their solutions—and especially in light of the inadequate attention economic questions have received in recent years—this is the area which calls for our greatest efforts. The priority we have accorded for years to traditional political and security concerns must now be given to international economic issues. If we do not resolve them, the security problems that may ensue could dwarf those that now remain.

II

That economic problems have become critical in their own right should now be evident to us all. The first serious talk of major depression since World War II is gaining currency. Editors and economic analysts, from *The Journal of Commerce* to *The New Republic,* are pointing to the danger signs of economic collapse. By midyear, even though the shock of the Arab oil embargo and price rises had been largely absorbed in the United States, inflation was running above ten percent, real GNP was declining by 0.8 percent, while unemployment stayed high at 5.2 percent and was expected to rise.

In Europe and Japan the situation is, if anything, worse. By August the rate of inflation was roughly 18 percent in Great Britain, more than 20 percent in Italy, 15–16 percent in France, and about 25 percent in Japan. Real GNP was dropping in Britain and Italy, while even West Germany, with the healthiest economy in Europe, and Japan, with almost miraculous growth rates in the past, were both down to only two percent growth. High interest rates have choked off investment everywhere while unemployment has grown ominously in almost all major European countries. To these grim statistics must be added the oil bill, which this year will contribute to a European balance-of-payments deficit estimated at $20 billion, and growing concern, fed by the collapse of the Herstatt Bank in Cologne and the near collapse of the Franklin National Bank in New York, that the world's major financial institutions may be in jeopardy. Bankers in Europe and the United States are deeply worried that more banks may go under.

The outlook for the bulk of the poor nations is even more bleak. The additional aid required this year to meet the increased cost of food and energy is not materializing. This shortfall, and the lower North American harvest now projected for this fall, may be laying the groundwork for widespread famine and food shortages.

So far, however, the main dangers lie in the future, at least for the industrialized countries. At this writing, competitive devaluations have not taken place. Arab oil receipts are being recycled. The IMF has acted to help Italy and other countries meet their massive balance-of-payments problems stemming from the oil price rise. In early July, central bankers meeting in Basel agreed to try to help banks in financial trouble. The OECD is now predicting a lower inflation rate in the major industrialized countries for the last half of 1974.

Yet industrialized countries will remain under economic pressure. Even if oil prices soften somewhat, the energy bill will remain staggering. In the United States serious proposals have recently been advanced for at least two more years of stagnant growth to tame inflation, and the prospect of more than six percent unemployment has been greeted with equanimity by Administration officials.

Austerity measures in Italy, France and West Germany now appear to be slowing inflation, but before these countries can breathe a sigh of relief they are already gritting their teeth over the possibility of recession. Europeans and others must confront growing internal pressure to resort to unilateral beggar-thy-neighbor actions—export and import controls, exchange controls, devaluations and dumping. Arab oil revenues may grow into a massive and mercurial threat to international financial stability. Informal cooperation among economic authorities in the major countries, which has been instrumental in containing the crisis thus far, may not be able to stand up under persistent stress.

Ultimately, the intensity and duration of the current economic crisis will depend upon what governments do about it. While it is imperative to avoid self-fulfilling prophecies of economic doom, there is no automatic guarantee that things will come out all right. Therefore, responsible leaders of all political persuasions throughout the industrialized world must, as a matter of prudence, give serious consideration to the grimmer assessments.

As they look upon the international economic scene, moreover, apprehension is fueled by frustration, because the problems are beyond the span of control of individual nations. With the growth in economic interdependence, the problems are inextricably linked, and only a comprehensive and systematic international effort can deal with them.

III

There is nothing new in the idea of a comprehensive approach to dealing with the world's economic problems, nor in giving such concerns high priority in our foreign policy. Even as World War II raged, and with the consequences of the Great Depression still vivid, major efforts were made to build new economic institutions on a worldwide basis. The Soviet Union was represented at the Bretton Woods Conference in 1944, which established the International Monetary Fund and paved the way for the World Bank, and the Soviets also were invited to participate in the Marshall Plan.

Both Bretton Woods and the Marshall Plan stemmed from the recognition of interdependence—that the economic health of the major countries of the world affected the security and well-being of the others. It was clear that some kind of international economic system would rise from the ashes of World War II and the real task was to assure that it promoted recovery and did not go haywire as it had after World War I.

During this same period, the late 1940s, there was a parallel effort to build a comprehensive system of collective military security via the United Nations. This, too, was based on the conviction that security was interdependent, or as it was fashionable to say at the time, indivisible.

These first tentative structures for a reasonably universal economic and security system cracked apart in the intensity of the cold war. The industrialized market-economy countries ended up organizing the international economic system on their own while the Communist countries withdrew into autarky and set up their own more rudimentary arrangements. The Third World was so dependent on the industrialized world as to be only an appendage of it.

Over the next two decades, the 1950s and 1960s, the colonial nations of the Third World became independent, but wielded little economic or political power. Competition between East and West, along with traditional ties to the West, assured the Third World a certain amount of development assistance. Over time the Communist countries grew stronger and came to trade more with both the West and the Third World, while the latter began to participate to some degree in the management of the international economic system through the World Bank and IMF—in particular the Committee of 20 dealing with monetary affairs.

But at the beginning of this decade, we in the United States and the rest of the Western industrialized world, including Japan, clearly controlled our own economic security. Interdependence seemed only limited. For practical purposes the international economy *was* the economy of the Western world. We did not depend on the economic behavior of the Communist world in any significant way, and we were largely in control of what we needed from the Third World, despite the clamor of its representatives for greater equity.

The situation has changed markedly in the last four years. The West's international economic system is no longer insulated. Both the Third World and the Communist countries have dramatically demonstrated a capacity to disrupt it through cartel pricing of oil and massive grain purchases respectively.

In addition, just this year a "Fourth World" has precipitated out from the Third. Its members are those who lack major resources or economic power. The nations in this group are more dependent, more deprived and more aware of it than any large segment of the world's population in history. That some of the desperate nations of this Fourth World now may have access to nuclear weapons only adds to the prospects for tragedy.

There is a new distribution of economic power in the world and we must learn to deal with it. However, the sudden emergence of this changed economic equation is not just the result of Soviet grain purchases and the oil crisis. The impact of those developments has been directly proportional to the long-range changes already underway inside the Western international economic system.

By the early 1970s this system faced a visible breakdown in the way it managed its monetary affairs, and was already in the throes of an acute crisis of inflation—which spread from country to country in accordance with a sort of Gresham's Law toward the highest national rate. Inflation accompanied by stagnation was a new and bewildering phenomenon, undermining confidence in our ability to manage our industrial economies. Aid to developing countries had declined, generating increased desperation and resentment. In the last year, all these developments combined to form the essence of what may now be termed a total crisis: one that is both economic and political and involves the entire international system.

Fortunately this crisis coincides with a period in which political and military security issues are muted, and some of the major divisions in the world are being bridged and even healed. But we must seize the opportunities presented by détente and other improvements in the international picture to deal effectively with our economic problems, or the progress we have made toward a more secure world may be undone.

In the late 1920s there was also a version of détente, symbolized by the Treaty of Locarno, and at the same time an emerging depression. When the nations of the world failed to cooperate to deal with the depression, its consequences rapidly unraveled the elements of that détente, and in the end economic collapse contributed mightily both to the emergence of grave threats from Germany and Japan and to the paralysis of other nations, including the United States, in the face of those threats.

It is not alarmist to suggest that something of the same sort could happen today. If the economic crisis continues to deepen, détente, now stalled at several key points, could well go into reverse. Already the economic pressures on the members of NATO are undermining their defense postures and reducing Soviet incentives to negotiate. A more grave economic crisis in the West could generate dangerous temptations for the relatively less-affected Communist countries, possibly reviving their hope for the "demise of capitalism" and encouraging a more aggressive and interventionist foreign policy.

However, the dangers are not solely from the Communist world. New or dormant ambitions may be kindled in countries internally divided by economic disruption. Economic differences could precipitate a breakdown in our security relationships with Japan and Europe, leading perhaps to go-it-alone defense policies with profound consequences for regional stability. Other countries may become so self-absorbed as to completely withdraw from their responsibilities for international security: Great Britain may be nearing this point already, and some believe that Italy is past it.

The time has come to face the fact that the fundamental security objectives underlying the process of détente are now linked to the world economic situation. The economic cooperation that is required will involve us most deeply with our traditional postwar allies, Western Europe and Japan, but it must also embrace a new measure of comity with the developing countries, and include the Soviet Union and other Communist nations in significant areas of international economic life. Only thus can the present precarious period of détente lead beyond uncertain balance-of-power arrangements to the worldwide sense of common economic interest that is an essential underpinning of a relatively peaceful world.

IV

The economic and financial dislocations created by last year's fourfold increase in oil prices pose the most urgent set of issues with which we must deal. The size of the price increase and the abrupt manner in which it was imposed (not to mention the use of oil as a political weapon) smacked of economic aggression. The first task of a foreign policy aimed at enhancing economic security should be to try to get an oil price rollback. Because of overproduction and decreased consumption there is some prospect for lower oil prices. We should do all we can to encourage the trend (and ensure its being "passed through" to the consumer), but as a realistic matter we must also plan our economic strategy on the assumption that high oil prices will continue.

The oil price hike is like a huge tax levied on most of the world's economies. However, it is a form of taxation without representation, for the size and expenditure of this tax is beyond the control of those who pay it or of their governments. Most of the payments made to the oil producers are remaining in Geneva, London and New York, where they are recycled back into the world economy. Nonetheless important problems remain:

—the burden of recycling the oil receipts is threatening to undermine the stability of the international banking system;

—the recycling of oil "tax" receipts is not putting funds into the hands of those who need it most.

To these pressing issues must be added the longer-term problem of how to handle the continued acquisition of foreign exchange reserves by the oil-producing countries—an accumulation which could reach over a trillion dollars by 1980.

Today oil revenues are taking the form of short-term demand deposits in European, and increasingly American, banks, while the banks themselves must make longer-term loans for normal purposes such as capital investment, and now also to help governments meet the balance-of-payments cost of the oil price increases. The possibility of being caught in the squeeze (borrowing short and lending long) is real, particularly since no one knows how volatile the oil funds will prove to be.

Banks are also being pressed to hedge against potential exchange rate fluctuations stemming at least in part from the balance-of-payments drain of higher oil prices. This can involve extensive foreign exchange dealings of the kind that drove Franklin National and Herstatt to the wall.

The private international banking system must not be asked to take on alone this task of recycling oil receipts. Not only is it too great a burden on the system, but it also means that the recycling, the loans that are made, will be on the basis of commercial criteria when larger political and security objectives often should be controlling. Thus we find bankers understandably concerned about the credit-worthiness of countries such as Italy, when unfortunately the overriding issue is whether democracy will survive or be replaced with a far Left or rightist revolutionary regime—with profound effects on NATO and stability in the Mediterranean.

To ensure that such political and strategic requirements are met, and to calm the anxieties of the international banking community, governments must now take on the task of reapportioning credit and financial resources. Acting together with the central banks and the IMF, governments must in some fashion assume the responsibility of lender of last resort. Clearly, certain safeguards must be built-in so that private banks do not have a blank check that they can cash to save themselves from the consequences of imprudence and mismanagement. But this risk is far less significant than the risk of collapse of major financial institutions and even of governments.

Such support for the international banking system, hopefully, will be sufficient to meet the reallocation problems of the industrialized countries without the need to resort to large-scale direct government aid, although such a possibility has been the object of lively debate among policy planners in Washington throughout the summer. For the have-not nations of the Fourth World, however, a substantial governmental aid effort is required.

The poorest countries—primarily on the Indian subcontinent, in Africa, and in parts of Latin America—are suffering severely from the oil price hike. It has been estimated that the increase in the oil bill for the developing countries this year more than cancels out the aid they are receiving. The skyrocketing costs of food and fertilizer are equally large. As a result, the developing countries face a total increase in import costs this year of $15 billion, which is twice the amount of all the aid they receive.

While some of the developing countries will get by, for others —notably India, Pakistan and Bangladesh—it is not an exaggeration to characterize the situation as desperate. Just to get through this year will require an estimated $3 to $4 billion in additional aid, if the lives of nearly one billion people are not to be threatened by economic collapse and ultimately starvation. The special $3 billion oil loan facility set up last June by the IMF will be of some help, but because of the IMF's formula for lending to its 126 members, the poorest countries cannot get sufficient assistance from this source.

Additional help is needed; it can take many forms, from financial assistance to concessional sales of food, fertilizer and energy. The U.N. Secretary-General's effort to develop a special emergency fund or the IMF's Committee of 20 proposal for an IMF-World Bank joint Ministerial Committee on aid to the less-developed countries could become means to work out a package of emergency help. Moreover, the joint Ministerial Committee in particular, to be set up in October with its membership from both the developed and developing countries and strong representation by finance ministers, holds out the possibility of becoming a much needed vehicle for more long-term planning and greater support for international economic development.

Whatever the means of international cooperative action, the main need now is for the United States, the other industrialized countries, and the oil-producing countries to make a firm commitment. We have to stop waiting for the other fellow to act, and as a practical matter this means the United States must take the lead in proposing a specific commitment for itself. Once that decision is made, the logjam should break on other countries' contributions, and we can turn to the resolution of technical issues such as whether assistance will be in the form of debt rescheduling, food assistance, etc.

Even though American leadership is essential, the United States cannot, and should not, become the primary source of increased development assistance—which by 1980 should amount to an estimated $12 to $13 billion annually according to a World Bank study. Along with Western Europe and Japan, the oil-producing countries and the Soviet Union need to pick up their share of this responsibility. The oil-producing Arab countries in particular will soon have massive reserves and liquidity. By the end of this decade it is estimated that Saudi Arabia, Kuwait, Qatar, the United Arab Emirates and Libya may accumulate up to $966 billion in reserves. A significant part of this should somehow be brought to bear on the plight of the Fourth World.

The vast geometric increase in Arab financial resources underscores the fact that the oil price crisis is not a one-shot affair. Even if oil prices soften, the balance-of-payments drain will go on and on. Loans and interest will pile up. The burden will be great not only in the developing countries but also on the industrialized countries which are the oil producers' largest customers. There will be a continuing challenge to handle the stresses of recycling on the banking system and the industrialized economies.

Over time there is hope that the oil producers will put their excess funds into longer-term securities and equity investments. We should welcome such investment. However, there may be real limits, political and economic, to the amount of Arab equity investment that can be absorbed in the Western industrialized countries, including the United States.

The problem is not just economic nationalism, although there is already popular concern in the United States about Arab and Japanese purchases of American industry and real estate—and it is not hard to imagine the reactions to a Saudi Arabian purchase of 25 percent of U.S. Steel along the lines of the recent Iranian investment in Krupp. There are serious policy questions, too. For example, we regard equity investment as an essentially long-term proposition, but it is not clear the Arabs view it the same way. If Arab countries bought large holdings and then pulled out from companies like General Motors or General Electric, this could have a major impact not only on the companies, but on the stock market and the U.S. economy. We and others will want some measure of control to provide safeguards against these and other possible actions inimical to our overall national interest.

On the other hand, Arab governments will be concerned about the hospitality their investments are to receive. Although they are now in the process of taking over the holdings of the international oil companies in the Middle East, they clearly do not want the same thing to happen to their foreign investments. Given the benefits and potential risks for both sides, there appears to be a reasonable incentive to work out reciprocal assurances on how Arab equity investments will be handled in the industrialized world.

Thus the outline of a new pattern of cooperative effort can be envisioned. The oil-producing countries should be granted a larger role in the IMF and the World Bank, where today they have almost no executive positions. The developed countries could make commitments to protect the equity investments of the oil-producing states in their countries in return for appropriate assurances about the stability of such investments. In addition, the oil producers should put some of their reserves into the international lending institutions and engage in long-term aid to the less-developed countries (and possibly provide some short-term balance-of-payments assistance to troubled developed countries). Such a broader distribution of oil producers' revenues would also serve to reduce somewhat the volume of short-term bank deposits, ease the pressure on the banking system, and limit the size of equity investments in the developed countries.

The difficulty in arriving at such a new pattern of relationships and responsibilities cannot be overstated. There is an impressive lack of enthusiasm on the part of the oil producers toward helping their former brethren of the Third World, apart from Arab nations and a few others with whom they seek special ties. But there are a few encouraging signs, too. The World Bank is apparently finding it possible to borrow from Saudi Arabia, Kuwait and even Venezuela, and if the rate is not exactly concessional (reportedly eight percent), it is a step in the right direction.

If some such pattern of greater cooperation is to come about, American leadership is again essential. The United States has the largest single voice in the World Bank and the IMF. It is our overall support that reduces the risks to the oil producers who are channeling funds to the less-developed countries through loans to the World Bank. The United States is the greatest potential market for Arab equity investment, and the response of the American government in providing assurances and establishing rules for such investment is likely to set the standard for the rest of the world.

V

We must also give priority attention to the international dimensions of inflation and the threat of recession. Inflation is the most politically regressive force at work in the world today. It has been said that no country has ever had an inflation rate of more than 20 percent and continued with a democratic government. There may be no magic in this figure, just as there is little precedent for our current situation. But it is sobering to recognize that the United States is about halfway to this rate of inflation, Britain and France are approaching it, and Italy and Japan have been beyond it. Elsewhere, among semi-industrialized and developing countries, rates are usually far higher. No other phenomenon provides as firm a common denominator for all the weak and minority governments now prevalent in the non-Communist world.

Even factoring out the impact of the oil price hike, the present economic situation is essentially unprecedented. The international economy, characterized for decades, if not centuries, by boom-and-bust cycles, was brought under reasonable control after World War II. The objective of full employment was for a time achieved in most developed countries through Keynesian management. However, "stagflation"—high inflation and low growth—began to appear in the 1960s in Great Britain and elsewhere. Now we have what *The Economist* has called "slumpflation," in which there is recession or zero growth while inflation is soaring.

Unfortunately, our comprehension of the problems involved in this phenomenon has not kept up with our vocabulary in describing it. There is grave concern that no one really understands the present economic conundrum, nor knows how to deal with it.

This concern is exaggerated. The monetary and fiscal tools of economic management *can* be adequate to deal effectively with the present situation. What is needed are new, more selective measures for the domestic application of these tools and a new appreciation of the need to take into account the international aspects of our economic difficulties.

It is an obvious but important fact that we are in the grip of two quite contradictory pressures. On the one hand, even the most economically powerful nations, the United States included, are now highly vulnerable to international economic developments. On the other hand, national governments are expected to deal effectively with all aspects of domestic economic conditions from unemployment to the supply of beef. The choice for governments is between trying to reduce problems to proportions they alone can manage, by seeking to insulate the domestic economy through a return to trade and monetary controls, or going on to a new and deeper level of international coordination of domestic economic policies.

One of the hopes in adopting a more flexible exchange rate system has been that it would make it possible for countries to pursue different national policies in their struggle with inflation and recession. While the system has worked well in many areas, it appears that the increased flexibility of countries to follow their own monetary and fiscal policies under the floating rate system may be seriously overrated. For example, if the policies of individual countries stray from the international norm, they may import too much inflation or suffer too much competition. Hence countries are likely to coordinate their monetary policy at least as closely with their major trading partners as they did under the fixed rate system—witness Giscard d'Estaing's recent and unprecedented pledge to conform France's policies and inflation targets to those of West Germany. This sense of interdependence significantly constrains most countries' abilities to fight inflation unilaterally, since monetary policy has become a central if not the exclusive weapon in this struggle.

Thus, although controlling inflation is preeminently a national responsibility, there is now a requirement for closer international coordination to ensure that the major countries are not working at cross purposes with one another. Several cooperative efforts can be envisioned. Adequate international funding for oil-generated balance-of-payments deficits will help avoid devaluations and the consequent boost to inflation. The balance-of-payments objectives of the major trading countries should be brought into line. Efforts to coordinate monetary policy, an elusive objective in the past, deserve renewed emphasis. Each country should try to assure that its domestic policies are not really exporting inflation or unemployment; all must avoid beggar-thy-neighbor reactions.

In effect, industrialized countries must coordinate their overall economic programs concerning growth, inflation and employment. The United States cannot, for example, consider unilaterally embarking on a policy of controlling inflation by two or more years of stagnant growth, oblivious to the fact that this could lead to a major recession in Europe (not to mention its impact on the American people).

We are fortunate that the American economy of all the market economies is least sensitive to international economic pressures. But we are not invulnerable, and ill-considered policies which good in the short run can have an important adverse impact on our economy through the effects they have on others.

The United States therefore has an important stake in better international economic coordination, whether through existing institutions or through the creation of some new, more efficient international mechanisms. But even the existing institutions such as the OECD can be much more effective if we are prepared to exercise leadership, use our influence on behalf of increased international coordination, and, of course, accept the constraints that may well go with it.

VI

The handling of trade policy will have a major impact on whether we are effective in fighting inflation and holding the line against recession. In the short run, the most urgent task is to head off increasing pressures for trade restrictions. In the long run, we need to find ways to assure fair access to commodities and raw materials at prices which are stable and reasonable.

The liberal international trading system that exists today, and which has been one of the key elements in the growth of the international economy over the last two decades, is now under serious political and economic pressure. Increasing unemployment and sluggish growth in sectors of national economies are tempting governments to control imports and to subsidize exports in selected cases. At the same time, inflation or shortages in still other economic sectors encourage export controls.

With interest rates as high as they are, the utility of monetary policy alone as a tool to manage economies is approaching its limit, and the use of fiscal policy is constrained in many countries by the dictates of internal social and political cohesion. There is therefore a real prospect of increasing reliance by governments on a patchwork of import and export controls to manage their national economies. The likelihood of turning to trade restrictions is, of course, increased in many countries by the balance-of-payments drain resulting from high oil prices.

An encouraging sign came from the OECD in July when the members pledged not to resort to such controls. However, without more concrete action on the underlying economic issues, the pledge may count for little. Italy slapped on import restrictions in the teeth of major Common Market obligations. While she faced a clear emergency and the import control measures are supposedly temporary, other countries may face similar emergencies. Moreover, there is doubt about how temporary these controls are, since the consequences of the oil price rise will continue indefinitely.

To contain such pressures, it is imperative to start up the long-immobilized trade negotiations. The Europeans and Japanese, once reluctant participants, are now eager to move ahead before protectionist pressures in their countries intensify to the point that negotiations become impossible. The Europeans want to begin serious bargaining this fall and fear that further delay, even to December, could entail serious risks.

This requires prompt action on the trade bill which is before the Senate. The reasons for the delay on the trade bill illustrate the pull between the issues of the past and those of the future on our response to the international economic crisis.

From the outset, the Nixon Administration pursued the strategy of linking most-favored-nation treatment for the Soviet Union, a matter more political than economic, to the broader economic purposes of the trade bill. Confronted with the issue of the right of Jews in the Soviet Union to emigrate free of harassment, President Nixon stalled, apparently hoping the problem would either go away or that the need for the other parts of the bill, combined with the threat of a veto if an emigration amendment were included, would be sufficient to get the bill he wanted. In other words, his Administration viewed the trade bill primarily as a vehicle to advance its détente objectives rather than as an essential means for dealing with the grave international economic issues that confront us. Understandably, a vast majority of U.S. Senators also found it appropriate to pursue what they considered valid political objectives vis-à-vis the Soviet Union by tying MFN to freer emigration.

At this writing there are encouraging signs of progress on the emigration issue, as the Executive has come to realize that the only approach is to work out a firm agreement on this subject with the Soviet Union. Such a solution would pave the way for prompt passage and an early start to the next round of trade negotiations.

A major long-term issue, which should be given priority attention at the trade negotiations, is the issue of access to commodities and raw materials. The rules of the General Agreement on Tariffs and Trade (GATT) focus on the problem of access to markets. What is also needed are rules and other arrangements providing for fair access to sources of supply at reasonable and stable prices.

The impulse to assure access to supplies is not a new form of colonialism. First, while the oil price increases are one obvious example of the kind of irresponsible price-fixing that should be brought under control, it is important to recognize that this is not solely, or even primarily, an issue between the less-developed and industrialized countries. The U.S. embargo on soybeans, the Japanese embargo on fertilizer, and widespread controls on scrap iron are all examples of steps by industrialized countries inimical to international economic stability.

Second, complicated equities are involved. Supplier countries which are also underdeveloped have an economic and moral case for an increased return on their products. Cartel pricing of oil and the efforts to build producer cartels in bauxite and copper are in part aimed at redressing what developing countries have always considered unfair terms of trade. Rightly or wrongly, they have felt that the industrialized countries set the price of their commodity exports as well as the price of their imports, and did so to the developing countries' disadvantage.

The problems the copper- and bauxite-producing countries have encountered in developing a cartel arrangement lend weight to the view that commodity cartels are difficult to achieve. However, efforts to construct such cartels have a destructive impact even if they fail; and continued inflation in the price of imported industrial goods will further stimulate efforts to raise commodity prices—if not by cartels then possibly by unilateral tax increases such as those imposed on bauxite by Jamaica.

The desire on the part of producers of raw materials to revalue their output is also based on concern over the exhaustibility of their resources. The developing countries now have a clearer appreciation of the enormity of the development task as well as little reason to believe that they can depend on anyone but themselves for the resources required. Those with finite resources are therefore particularly anxious to squeeze all they can out of them and are not likely to be very responsive to lectures on economic morality by the developed world.

Third, there may be justifiable reasons for individual countries to impose export controls in legitimate short-supply situations. However, the objective of such controls should be to allocate the short supplies equitably between the domestic economy and foreign purchasers and not solely to export inflation. Otherwise export controls can lead to retaliation, disruption in trade, and further disorder in the international economic system.

Stability in the price and supply of commodities is important if we are to deal with inflation over the long term. In comparison with other goods, most commodities were, until recently, low priced and there was thus a low rate of investment in producing them. With the surge in demand in 1972–73, production could not respond, causing shortages and large price increases. New investment in commodity production will bring the cycle down again, but this wide up-and-down swing in commodity supplies and prices is both wasteful and inflationary. It operates to the disadvantage of suppliers and consumers of commodities alike. To deal with this issue, as well as head off pressures for further cartels, means must be found for stabilizing individual commodity prices and supplies to the extent possible.

The United States bears a special responsibility and burden in this regard. We are now the major source of foodstuffs traded in world markets. Since 1971 U.S. farm exports have more than doubled and in 1973 amounted to $18 billion. The United States and Canada control a larger share of grain exports than the Middle East does of oil. The world has literally come to depend on U.S. agriculture for its well-being. At the same time, the surge in world food demand has also directly affected inflation in the United States. The temptation to resort to export controls, as we did briefly for soybeans last year, could well recur.

On the other hand, the United States also has a big stake in unfettered access to raw materials. For example, we import 100 percent of our chromium and tin and more than 90 percent of such important commodities as platinum and nickel. The United States thus has a particular interest in developing reasonable rules governing export controls, along with arrangements for assuring access to supplies at reasonable and stable prices. These rules must protect the domestic economy of countries from world inflation, and yet provide a responsible source of supply.

In addition to the clear need for new GATT rules on access to resources, and the urgent need to explore stabilization arrangements for specific commodities, there is the question of commodity reserves. At present the United States has large strategic reserves of several key raw materials, which might be used to help stabilize world prices more than has been the case to this point. However, if we move in this direction it should be in concert with others, and under arrangements through which other countries would share in the cost.

The creation of a world food reserve is urgent. This is a complex problem, made more difficult and pressing because American and Canadian reserves have been drawn down to perilously low levels in recent years. They should now be reconstituted, but if they are to form the bulk of a world food reserve (designed both for price stability and to meet famine situations) then others must act in parallel and the direct and indirect costs must be fairly apportioned.

Moreover, it is inconceivable that the United States could take on the task of world food supplier through a reserve system, while markets for American food exports are restricted and denied by trade barriers. The forthcoming World Food Conference can be a major forum for addressing proposals for world food reserves. At the same time the trade negotiations should give priority attention to reducing trade barriers to American foodstuffs.

VII

The task of working out suitable forms of economic cooperation on the foregoing issues will fall mainly to the industrialized market-economy countries and to a lesser extent, the developing countries. However, the actions of the Communist world can either help or hinder these efforts.

Today the Soviet Union and the other Communist countries, including China, are at least superficially insulated from the economic tides sweeping the rest of the world. But, as we saw in the 1972 Soviet grain purchases, their erratic actions in world markets can have profound effects on international economic stability and, in particular, inflation.

The problem is how to integrate the growing volume of economic transactions with the Communist countries into the world economy. Its solution will take patience and a long-term effort. We need to find ways to deal with the issue of unfair pricing and dumping on the one hand, and massive unpredictable interventions in short-supply situations on the other. The former will be difficult because the Communists' concept of price, and of its function in their economies, is totally different from our own. The latter also will be hard, not least because the Soviet Union and other Communist countries do not perceive a problem. But a start can be made by pressing the Soviet Union to play a constructive role in alleviating the world food situation—at least to the extent of agreeing to provide the U.N. Food and Agricultural Organization (FAO) with all relevant agricultural information and not to jump into the market for large quantities of food without warning. And the Soviet Union should participate directly in whatever can be worked out for fertilizer supply and for a world food reserve.

[illegible] economic development assistance than it is today. Total economic aid by the Soviet Union last year was only $622 million, while its military assistance was estimated at $1.7 billion. With the less-developed nations in such desperate condition, the Soviet Union should be persuaded to reorder its aid priorities.

Finally, the Soviet Union must be brought to realize that the need to exercise restraint in East-West political competition has an economic dimension as well. Soviet efforts to get the Arabs to maintain their oil cutback and embargo were just as menacing to Western security interests as Soviet military support (and apparent encouragement) for the October War. Certainly progress toward a reasonable and viable Arab-Israeli settlement is fundamental to a lasting arrangement on oil supplies and prices, and this in turn is a major economic security interest of the United States and its allies. This is an additional reason why, if the Soviet Union imposes obstacles to peace in the Middle East, it will be running grave risks of jeopardizing improved East-West relations.

We must, of course, have no illusions about the difficulty of moving the Soviet Union to recognize the long-run interest it has in cooperating in these areas. Soviet officials often regard the raising of legitimate trade problems as being "anti-détente." Economic aid to the less-developed world has always been regarded as a political weapon. The notion of exercising restraint is novel and controversial to Soviet leaders in regard to political issues, let alone economic interests.

Yet, the Soviet Union's hopes for basic internal improvement—hopes central to the power position of the Soviet leadership—hinge on the development of much greater economic ties with, and in effect economic assistance from, the industrialized world. Moreover, it was the Soviet Union that became in World War II the greatest victim of the chain of political and security consequences stemming from the Great Depression. If there is another worldwide depression, the Soviet Union too will suffer.[1]

Hence it should be in the Soviet interest to involve itself more responsibly in world economic cooperation. Indeed, the West is now justified in making such cooperation a central test and touchstone of détente. Western credits and peaceful non-strategic trade should be related to commitments on the part of the Communist countries to work out a reasonable code of economic behavior with the Western market-economy countries, and to participate in the new aid effort required for the developing countries.

Today, the fact that major aspects of détente—SALT, MBFR and the European Security Conference—are bogged down is raising serious questions about ultimate Soviet intentions and the

[1] In a recent column, Victor Zorza comments on the Soviet attitude: "While some Soviet leaders appear to welcome the opportunity for gain with which the instability of the West may present them, others are not so sure. 'We are well aware,' says Georgi Arbatov, head of the Soviet Institute of U.S. Studies, 'that the crisis of bourgeois society may have various political results, that the crisis of the 1930s produced Roosevelt and the New Deal in the United States, and Hitler, Fascism and war in Germany.'" *The Washington Post*, July 30, 1974.

durability of détente. However, we need not, indeed cannot, remain fixated on issues that divide East and West. By taking advantage of the measure of détente we now have, and by moving forward to systematically engage the Soviet Union in some of the economic problems besetting us, we can test the strength of détente and the broad intentions of the East. This also may be the only way to establish the kind of relationship that will enable us to resolve the East-West issues we still face.

VIII

From this examination of the specific immediate and long-term actions now required, it is possible to envision the general outlines of a system of international economic security:

—A deeper measure of coordination of national and international economic policies among the industrialized nations in Europe, North America, and Japan.

—A new role for the oil-producing countries in the management of the international economy and new responsibilities for aiding stability, growth, and in the poorest countries, economic development.

—A new relationship between the industrialized and raw material producing countries assuring more stable prices and supplies.

—A more constructive involvement of the Communist countries, particularly the Soviet Union, in world trade and the task of economic development.

Not all of these broad objectives should be pursued at the same time or with equal vigor. Some of the specific issues in the present crisis are clearly more urgent than others, and for a few problems there may not be ready answers. But the important thing is that U.S. policies be informed by a comprehensive vision of the kind of world economic system we hope to achieve.

And we must begin at once. With each passing week the economic problems we face become less susceptible to wise solutions. Progress on the urgent issues will facilitate tackling the longer range questions.

Initiatives and cooperation must come from many quarters if such a vision of worldwide economic relationships is to be realized. In particular, American leadership is indispensable. We are still the largest single economy and have the greatest impact on international trade and finance. Only if the United States plays its full part can the current trend toward economic fragmentation and disorder be turned around in the direction of a comprehensive and global effort of economic cooperation.

At present our government is poorly equipped in terms of talent and organization to handle such a role. Compared to the credentials of the Secretary of State and Secretary of Defense in the field of international security, those charged with international economic affairs are by no means the kind of strong group the United States put together in 1947 on a bipartisan basis and could surely assemble again.

Organizational reform is no substitute for commitment and capable people. But one clear need is to coordinate the diverse governmental organizations that affect international economic policy: State, Treasury, Commerce, Agriculture, the Council of Economic Advisers, the Federal Reserve, etc. The present Council on International Economic Policy has never been able to perform the task of developing coherent policies and strategies. Perhaps what is needed is something more akin to the National Security Council, with a statutory base and a strong substantive staff that can cut through the welter of conflicting interests and views to develop clear policy alternatives.

But there should be at least one major difference from the NSC system: the director of such a staff on international economic policy must be accessible to the Congress and to the public. The issues involved are too closely related to domestic policy to be shrouded from public view by the trappings of diplomatic or even presidential confidentiality. And the Congress must, as it did in 1947 and 1948, play a crucial affirmative role. For this it will need to exert greater efforts to coordinate the work of the many committees and subcommittees that have an impact on our economy. The new Budget Committee and the congressional Office of the Budget can make an important contribution in this regard by exerting more responsive and responsible control over fiscal policy.

IX

Finally, an effective international economic policy must be grounded on a sound and equitable domestic economic program. Help for the international banking system or emergency aid for the have-not nations cannot possibly command the necessary support if the new Administration turns a blind eye to six percent unemployment. President Ford has an opportunity now to explain the facts of our current economic crisis to the American people and to take and propose decisive action. There may be strong differences over the right combination of policies and how the cost of meeting our present difficulties should be apportioned, but there is also a tremendous desire in Congress and the public for firm and bold leadership.

Because international economic issues bear so directly on our domestic concerns, moving toward a new system of international economic security and making it our first priority in world affairs could provide a basis for rebuilding the consensus among the American people in support of our foreign policy. The source of increasing isolationist sentiment in the United States is not some atavistic streak in the American character, but rather the fact that the ordinary American no longer sees his primary interests as being served by the current definition of American foreign policy.

If we can redefine our foreign policy and our national security to include not only the concern over strategic position and political influence but also the basic issues of inflation, economic stability, jobs and growth, and in fact make these a key concern, we will find that once again a broad consensus on our world role is possible. If such domestic needs gain a prominent place in our diplomacy, the American people will not only support efforts of international leadership, but will be willing as they have been in the past to accept short-term sacrifices in order to achieve long-range success. To meet the threat we now face to our economic security, foreign policy must truly become the extension of domestic policy by other means.

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