

CONFIDENTIAL

NOT FOR PUBLICATION
EITHER IN WHOLE OR IN PART

BILDERBERG MEETINGS

VILLA D'ESTE
CONFERENCE

2-4 April 1965

BILDERBERG MEETINGS

VILLA D'ESTE
CONFERENCE

2-4 April 1965

11/10/11 4 11/11

LIST OF PARTICIPANTS

CHAIRMAN:

H.R.H. THE PRINCE OF THE NETHERLANDS

HONORARY SECRETARY GENERAL FOR EUROPE:

ERNST H. VAN DER BEUGEL

HONORARY SECRETARY GENERAL FOR THE UNITED STATES:

JOSEPH E. JOHNSON

HONORARY TREASURER:

J. MEYEN

DEPUTY SECRETARY GENERAL FOR EUROPE:

ARNOLD T. LAMPING

* * *

AGNELLI, GIOVANNI	ITALY
ANSIAUX, HUBERT	BELGIUM
ARLIOTIS, CHARLES C.	GREECE
ATHANASSIADÈS, BODOSSAKI	GREECE
BALL, GEORGE W.	UNITED STATES
BARZEL, RAINER	GERMANY
BAUMEL, JACQUES	FRANCE
BAUMGARTNER, WILFRID S.	FRANCE
BENEDIKTSSON, BJARNI	ICELAND
BENNETT, SIR FREDERIC	UNITED KINGDOM
BERG, FRITZ	GERMANY
BIRGI, M. NURI	TURKEY
BLAISSE, PIETER A.	NETHERLANDS
BRADEMAS, JOHN	UNITED STATES
BREWSTER, KINGMAN	UNITED STATES
BROGGINI, GERARDO	SWITZERLAND
BROSIO, MANLIO	INTERNATIONAL

BRUCE, DAVID K. E.
 CARLI, GUIDO
 CEFIS, EUGENIO
 COLLADO, EMILIO G.
 COOK, DONALD C.
 DEAN, ARTHUR H.
 DEUTSCH, JOHN J.
 DONOVAN, HEDLEY
 ECZACIBASI, NEJAT F.
 EDINBURGH, H.R.H. the Prince Philip, Duke of
 EMMINGER, OTMAR
 ERLER, FRITZ
 GEDDES, REAY
 GRIFFIN, ANTHONY G. S.
 HEALEY, DENIS
 HEINZ II, HENRY J.
 HØEGH, LEIF
 HUVÉLIN, PAUL
 KNUDTZON, HARALD
 KOSTER, HENRI J. DE
 KRISTENSEN, THORKIL
 LA MALFA, UGO
 LECANUET, JEAN
 LENNEP, JONKHEER EMILE VAN
 LINDSAY, JOHN V.
 LOUDON, JONKHEER JOHN H.
 LUNS, JOSEPH M. A. H.
 MALAGODI, GIOVANNI F.
 MARJOLIN, ROBERT E.
 MAUDLING, REGINALD
 McCLOY, JOHN J.
 MCGHEE, GEORGE C.
 MCKINNON, NEIL
 MELANDER, JOHAN A.
 MOUNTBATTEN OF BURMA, LORD
 NØRGAARD, IVAR
 NYKOPP, JOHAN
 PALME, S. OLOF J.
 PEDINI, MARIO
 PERKINS, JAMES A.

UNITED STATES
 ITALY
 ITALY
 UNITED STATES
 UNITED STATES
 UNITED STATES
 CANADA
 UNITED STATES
 TURKEY
 UNITED KINGDOM
 GERMANY
 GERMANY
 UNITED KINGDOM
 CANADA
 UNITED KINGDOM
 UNITED STATES
 NORWAY
 FRANCE
 DENMARK
 NETHERLANDS
 INTERNATIONAL
 ITALY
 FRANCE
 INTERNATIONAL
 UNITED STATES
 NETHERLANDS
 NETHERLANDS
 ITALY
 INTERNATIONAL
 UNITED KINGDOM
 UNITED STATES
 UNITED STATES
 CANADA
 NORWAY
 UNITED KINGDOM
 DENMARK
 FINLAND
 SWEDEN
 ITALY
 UNITED STATES

PETERSEN, HOWARD
 PETRILLI, GIUSEPPE
 PIPINÉLIS, PANAYOTIS
 PIRELLI, LEOPOLDO
 PORTISCH, HUGO
 REINHARDT, EBERHARD
 RESTON, JAMES
 REUSS, HENRY
 ROCKEFELLER, DAVID
 ROOSA, ROBERT V.
 RUMOR, MARIANO
 SAMKALDEN, IVO
 SAMUELSON, PAUL A.
 SAUVÉ, MAURICE
 SCHILLER, KARL
 SCHMIDT, ADOLPH W.
 SCHWEITZER, PIERRE-PAUL
 SNOY ET D'OPPUERS, BARON
 STONE, SHEPARD
 TAVERNE, DICK
 TERKELSEN, TERKEL M.
 VITTORELLI, PAOLO
 WALLEMBERG, MARCUS
 WARBURG, SIEGMUND
 WOLFF VON AMERONGEN, OTTO

IN ATTENDANCE:

H.R.H. PRINCESS BEATRIX
 BRAAM HOUCKGEEST, A. EGBERT VAN
 CESI, MARCHESE JEAN GASPARE CITTADINI
 CHIUSANO, VITTORINO
 ROY, BERTIE LE
 VERNÈDE, EDWIN

UNITED STATES
 ITALY
 GREECE
 ITALY
 AUSTRIA
 SWITZERLAND
 UNITED STATES
 UNITED STATES
 UNITED STATES
 UNITED STATES
 ITALY
 NETHERLANDS
 UNITED STATES
 CANADA
 GERMANY
 UNITED STATES
 INTERNATIONAL
 BELGIUM
 UNITED STATES
 UNITED KINGDOM
 DENMARK
 ITALY
 SWEDEN
 UNITED KINGDOM
 GERMANY

NETHERLANDS
 NETHERLANDS
 ITALY
 ITALY
 NETHERLANDS
 NETHERLANDS

INTRODUCTION

The fourteenth Bilderberg Meeting was held at the Villa d'Este, near Como (Italy) on 2, 3 and 4 April 1965 under the chairmanship of H.R.H. the Prince of the Netherlands.

There were 87 participants representing the United States, Canada, fifteen Western European countries as well as various international organisations, and drawn from leaders in the field of politics (governments and parliaments), business, journalism, public service (national and international), the liberal professions, trade unions and employers' organisations.

In accordance with the rules adopted at each meeting, all participants spoke in a purely personal capacity without in any way committing whatever government or organisation they might belong to. In order to enable participants to speak with the greatest possible frankness, the discussions were confidential with no representatives of the press being admitted. A short communiqué, enumerating the items included in the Agenda, was issued to the Press at the close of the conference.

The Agenda was as follows:

- I. Monetary Co-operation in the Western World
- II. The State of the Atlantic Alliance.

MONETARY COOPERATION IN THE WESTERN WORLD

The groundwork for the discussion of this item consisted of:

- a memorandum drawn up by a European participant, which was distributed prior to the meeting;
- an oral statement made by an American participant.

* * *

The European rapporteur began his memorandum by re-stating the two main objectives of international monetary policy since the second world war: convertibility of national currencies and liberalisation and non-discrimination in international trade and payments, the attainment of which by about 1958 had in turn given rise to two major problems:

1. the problem of maintaining equilibrium in the international payments of the major countries;
2. the functioning of the international monetary system.

1. THE PROBLEM OF EQUILIBRIUM IN INTERNATIONAL PAYMENTS

The rapporteur pointed out that the problem was not a new one but the views on how to maintain payments equilibrium had changed with the passage of time. Under the gold standard the maintenance of payments equilibrium had priority over other policy objectives, such as high business activity and price stability, and no view was held as to inflation or deflation. It was the severe depression of the thirties which changed these objectives. Governments strove to reduce internal unemployment and at the same time to soften the external effects of their internal policies by means of stringent regimentation such as exchange controls, import restrictions, etc...

The post-war system as mapped out in 1944 at Bretton Woods, when the International Monetary Fund was set up, had attempted to achieve a compromise between these two extremes, the idea being to recreate an international division of labour, characterised by increased international trade, while at the same time ensuring the attainment of the major objective of full employment. International balance was to be assisted by control over capital

movements, which was to be supplemented if necessary by the non-discriminatory re-imposition of quantitative import restrictions, if approved by GATT, in case of serious payments disequilibria, and devaluation in cases of "fundamental disequilibrium".

An essential feature of the system was the assumption that it would work in a world where the United States would remain the dominant economy that country being the only one with large monetary reserves and a tendency towards balance of payments surpluses. In order to enable other countries in case of payments deficit not to resort to the extreme measures mentioned above, financial means were to be provided by the I.M.F., the latter in turn being mainly financed by the United States.

It was also assumed that there would be a short transitional period covering the change-over from wartime to peacetime economy, but in fact this period lasted much longer than had been foreseen and only came to an end in 1958 with the restoration of currency convertibility. It then became clear that the conditions under which the system had to function were far different from what had been supposed in 1944. The main differences were:

- a) The United States no longer constituted the only major economic centre, and Western Europe had become a second one.
- b) As a result of this recovery, and of the 1949 devaluations which had been equivalent to a revaluation of the dollar, it was Western Europe and not the United States which showed a persistent tendency towards balance of payments surpluses.
- c) The United States, with a payments deficit, was unwilling to resort to the instruments foreseen in the Bretton Woods System (capital controls, restrictions and devaluation), both because of traditional economic philosophy and so as not to compromise its position as centre of the international monetary system and leader of the Western Alliance.
- d) A small group of prosperous nations had emerged, which had liberalised not only trade but also, to a large extent, movements of capital, and were unwilling to go back on such liberalisation.
- e) These countries were less disposed than had been assumed to change exchange rates, partly because of the disruption that such changes cause in trade and finance and partly because of the speculative movements liable to accompany such changes.

The resulting situation could be summarised as follows: a small group of major countries had largely forsworn the instruments for maintaining balance of payments foreseen at Bretton Woods. They wanted to reap the benefits of intensive international trade and payments relations, and therefore aimed at

maintaining strong currencies, large monetary reserves, a large degree of freedom for international trade and capital movements, and stable exchange rates. At the same time, they wanted to attain full employment, a high rate of economic growth and price stability, without allowing any of the impulses received from the outside world to have an effect on the national economy, as had happened at the time of the gold standard.

Hence, a major problem of economic policy for the countries of the Atlantic World was how to reconcile freedom for international transactions with important objectives of domestic policy, and still ensure international payments equilibrium. They sought to do this by attempting to coordinate their economic and financial policies.

Continuing, the rapporteur pointed out that, in the Atlantic World, this task of coordination had been entrusted to Working Party 3 of the O.E.C.D., which included representatives of the United States, the United Kingdom, the Common Market countries, Canada, Switzerland, Sweden and, since 1964, Japan. Experience had shown the advantages of keeping the size of this group within reasonable limits; these were the countries upon which mainly depended the stability and proper functioning of the world economy and monetary system, and it was between these countries that the major imbalances occurred. An adjustment of the exchange rate of any one of them might threaten the stability of the world monetary system.

The problems encountered in the coordination of policies were as follows:

- a) When should a deficit be eliminated through adjustment policies and when was it sufficient to finance such deficit?
- b) What measures should be adopted in the case of adjustment?
- c) How should the burden of adjustment be divided among surplus and deficit countries?

The rapporteur mentioned the classification often made in economic theory between various types of balance of payments deficits:

- a) "Temporary" or "reversible" deficits not necessitating drastic measures and sometimes due to political developments.
- b) "Persistent" deficits necessitating measures of adjustment.
- c) "Fundamental" deficits calling for a modification of the exchange rate in addition to measures of adjustment.

This distinction provided the basis for a judgement on the remedies appropriate in each case. Deficits of category (a) were the type for which short-term central bank credits could be appropriate, but such credits would become dangerous if they fostered the maintenance of the deficit, to say nothing of an increase in it. This was the reason why the countries of Working Party 3

had decided on a multilateral surveillance of the ways and means of financing deficits.

It was for this reason that "easy" financing was not appropriate for category (b) deficits, in respect of which multilateral financing by the I.M.F., subject to the adoption by the country concerned of a strict programme of adjustment, was more suitable.

For category (c) deficits monetary financing was not acceptable at all, since unrealistic exchange rates should not be financed by monetary credit.

The rapporteur pointed out that category (b) was the commonest type of deficit and that the question arose as to how the burden of adjustment should be shared among surplus and deficit countries. The answer depended partly on the cause of the deficit needing correction. If the cause was excessive demand in the deficit country or insufficient demand in the surplus country, the remedy was easy in principle. However, policy makers were sometimes prevented from using the appropriate policy instruments by such considerations as the pressure of public opinion, ill informed concerning what was at stake.

But the major imbalances of the last few years had not been of such a relatively simple nature and had been due to both disparate movements of costs and unbalancing capital movements. As long as such a situation persisted, international equilibrium could only be ensured by:

- a certain degree of unemployment in deficit countries and some price inflation in the surplus countries;
- some direct influence on capital movements (e.g. through selective tax measures or moral suasion);
- restriction of imports (e.g. surcharges);
- as a last resort, a change in parity.

The use of each of these measures was painful. They involved a political choice which, moreover, could hardly be based on strictly national considerations, both on account of their influence abroad and because of the question of sharing the burden of adjustment.

Working Party 3 was adding a new dimension to monetary cooperation, by discussing this question of burden sharing.

One of the problems of disequilibrium arising in the Western world was that of movements of capital from the United States to other countries owing to the recent phase of rapid economic growth in Western Europe. The result had been a deficit in the United States balance of payments which, in the late fifties, had been of the same order of magnitude as the increase of the net private capital outflow. This had given rise to the problem whether the equilibrium should be restored by a reduction of the current account surplus

or by an adjustment of the capital movements. In recent years there had been a tendency to look somewhat more to the latter solution on both sides of the Atlantic, since:

- adjustment of the current account would probably be impossible except at the cost of substantially increasing U.S. unemployment or further inflation in Europe;
- a painful adjustment of the current account might have to take place in a reverse direction if the capital flow to Europe were to stop;
- an excessive and persistent inflow of foreign capital might arouse political resistance, as it had done in Canada and France;
- it might be considered preferable for surplus savings to be directed to the developing countries.

The rapporteur pointed out that, since 1960, the tendency of the U.S. balance of payments had been to increase both its surplus on current account and its net capital outflow. He hoped that the measures recently adopted by the United States authorities would be effective and furthermore that European governments would encourage increased capital outflow from Europe.

So far as the United Kingdom was concerned, he thought that the current account position needed strengthening in order to avoid the renewal of recurrent balance of payments crises.

It was a matter of urgency to eliminate the deficits of the U.S.A. and the U.K. for a number of reasons:

- a) in the interests of the Atlantic Group's cohesion, it was desirable to avoid a continued development of two groups in the monetary field—the "EEC-surplus countries" and the "Anglo-Saxon deficit countries";
- b) excessive deficits by the reserve currency countries undermined confidence in the existing international monetary system;
- c) objective leadership by the United States in the international monetary field would only be forthcoming if that country were freed from direct balance of payment worries.

Closely related to the problem of adjustment of the U.S. deficit was its financing. This problem had two aspects liable to give rise to conflicting views:

- a) since the U.S. dollar was a reserve currency, prudence was required in judging the extent of gold loss which could be sustained without causing speculative capital movements;
- b) this did not absolve the U.S. authorities from taking adequate measures to ensure equilibrium, such as were incumbent on all countries.

In order to deal with the threat of large-scale conversions of reserve currencies into gold, "General Arrangements to Borrow" had been concluded in

December 1961 between the "Group of Ten Countries" and the I.M.F.; by the terms of which the Ten, in the event of such threat, agreed to make available to the I.M.F. up to a total of 6 billion dollars of their currencies.

These agreements:

- 1) made it possible for the United States to draw on the I.M.F.;
- 2) provided a reasonable safeguard against speculative attacks against reserve currencies;
- 3) underlined the special collective responsibility of the Group of Ten countries for the maintenance of the monetary system;
- 4) provided for a procedure of consultation and approval which increased the influence of the European countries in the I.M.F. and thus adapted to the current situation the balance of power in the Fund as it had been established at Bretton Woods;
- 5) led to meetings of the Ministers of the countries of the Group of Ten, thus allowing for the discussion of major monetary problems on a political level.

The rapporteur thought that these General arrangements constituted a well-balanced compromise between justified demands by the European countries for greater influence in the affairs of the I.M.F. and the difficulties and dangers of overhauling the structure of the Fund and of giving too preponderant a role in its functioning to the major members.

2. THE PROBLEM OF THE INTERNATIONAL MONETARY SYSTEM

Given the special responsibilities of the Group of Ten, these countries had decided to embark on a common study of the international monetary system, the results of which were published on August 10, 1964.

Gold remained the basis of the system, but reserve currency holdings played an increasingly important part. While, during the decade 1954 to 1963, nearly \$ 6 billion of gold had found its way into the official reserves, this was accompanied by an increase of nearly \$ 8 billion in foreign exchange holdings, to say nothing of a wide range of bilateral and multilateral credit facilities which had come into being.

The accumulation of reserves in the form of foreign exchange came naturally to the countries belonging to the so-called "currency areas" (Sterling and Dollar), whose international trade and financial operations were preponderantly centred on the United Kingdom and United States, to the mutual advantages of the countries belonging to such areas and their respective centres. But most of the members of the Group of Ten traditionally held the bulk of their reserves in the form of gold, and while they had accumulated large dollar

balances in recent years, they were becoming increasingly aware that such accumulation contained an element of credit granted to the reserve centre.

The gold exchange standard that had thus grown up had served remarkably well over the past 20 years and, amongst other things, had made it possible to achieve the main economic goals, i.e. a high level of employment and free international exchange of goods and services, which had been set at the end of the Second World War; moreover, many countries achieved a rapid economic growth. The main problem remaining unsolved was the persistence of inflation.

The objections against the existing system were not that it was unable to create sufficient liquidity, but rather that such liquidity was created too haphazardly and was too closely geared to the balance of payments position of the reserve currency countries, particularly the United States. There was a certain amount of contradiction between the fact that a United States deficit provided the world with liquidity in the form of dollars and the fact that this same deficit caused a lack of confidence in the dollar. Inversely, a restoration of the U.S. balance restored confidence in the dollar but dried up the source of liquidity.

So, the necessity of reforming the system was generally realised, particularly in view of the fact that the dollar appeared to be approaching the natural limits to the amount of short-term debts that reserve currency countries could accumulate. But it seemed unlikely that the currency of any Common Market country could play the same role, for a number of reasons. Nor indeed was such a development desirable, since it would again make the creation of international liquidity dependent on the balance of payments position of the major countries instead of being managed consciously in accordance with predetermined objectives.

Further objection against the existing system was that, by accepting dollars as monetary reserves, the monetary authorities of other countries became too dependent on American monetary policy. This was primarily due to the tendency to regard the parity of the reserve currencies as unchangeable so that, in case of disequilibrium, the other countries were faced with a choice between deflation or inflation on the one hand, or a change of their parity on the other. It was also feared that, by accumulating short term debts, the reserve countries would be in a position to finance large exports of long-term capital with all the political and economic power attached thereto.

A reform of the international monetary system based on existing institutions was now generally advocated. There was a general rejection of any proposals to change the price of gold or adopt fluctuating exchange rates. This was the starting point of the survey recently carried out by the countries of the Group of Ten. It was agreed that there was no overall shortage of liquidity, although

this did not imply that all countries had sufficient reserves. It was also recognised that a moderate increase (25 %) of the quotas of the International Monetary Fund would be appropriate. Furthermore, it was agreed that some reform of the monetary system was necessary for the following reasons:

- 1) The future supply of gold could not prudently be expected to meet the growing liquidity needs of an expanding world economy.
- 2) The United States could not safely continue to supplement gold production by running a balance of payments deficit indefinitely, thus accumulating short term debts which constituted reserves for the countries holding them.
- 3) It was unlikely and undesirable that any other national currency would assume the function of an international reserve currency in the near future.

Some form of additional reserve assets would therefore have to be created. Discussions regarding the form these future assets should take were highly technical and no agreement had yet been reached but the basic political problem could be described as: "to whom and by whom should the new reserve assets be issued?". This gave rise to another question: what "needs" were legitimate? There were various possible answers:

- 1) Those of the countries with a balance of payments deficit and low reserves. This, however, led to the danger that the financing of balance of payments might be made too easy, while giving too little incentive to combat inflationary tendencies.
- 2) The new reserves could be distributed on a prorata basis in accordance with existing reserves or I.M.F. quotas. The first possibility would make it possible to take into account the wishes of the various countries to accumulate reserves, while the second would make it possible to take into account certain political facts.
- 3) The new reserves could go to countries in process of development, which had the greatest "need" of them. Although this method had political appeal, it gave rise to the most serious objections of a practical nature, owing to the almost unlimited demand for development capital. Pressure by the countries concerned for the creation of ever more international money might give rise to inflationary tendencies similar to those which might arise at national level when the issue of money by a central bank was unduly subject to political influence.

The second question was: "who will decide on the amount of the new assets to be issued?" Since there was no formula to measure the adequacy of international liquidity, it would be necessary to make institutional arrange-

ments for ad hoc decisions, and it was important that such decisions should be kept free, as far as possible, from short-term interests of individual countries or groups of countries, and that the only relevant criterion should be avoidance of world-wide inflation and deflation. There were two points of view on this subject:

- 1) Monetary stability being in the interest of the world as a whole, it was imperative that all countries should have a voice in the matter, and decisions should be taken by the Board of Governors or the Board of Executive Directors of the International Monetary Fund. A decision taken by a small group such as that of the Group of Ten would be politically unacceptable to the less developed countries and would not adequately safeguard the interests of the other countries.
- 2) The other view was that creation of a new reserve asset resulted in establishing claims against certain countries. But in terms of real resources, the only countries capable of honouring these claims were the advanced industrialized countries already working together in the Group of Ten. In view of the considerable risks of inflation involved in the creation of new reserve assets, it was important that there should be an institutional arrangement enabling the major economic powers of the world to keep the operation under very close watch.

Closely connected with this question was that of who should issue the new reserve asset. Those who argued in favour of decisions by a limited group would have difficulty in accepting the idea that the I.M.F. should issue them. The rapporteur considered, however, that this did not exclude the possibility of a special responsibility being entrusted to the Group of Ten, under the auspices of the I.F.M., as a result of a compromise agreement recognising the special position of the Ten, rather in the same way as the General Agreements to Borrow had done in respect of the credit operations of the Fund.

Another question was to what extent a reform of the international system was an urgent matter. There were some who denied this urgency. In their opinion there was sufficient liquidity and they feared that reform might weaken the importance of the dollar. They hoped the monetary system would right itself by its own means. Others considered that something ought to be done because the existing instability was aggravated by uncertainty concerning the future, which gave rise to undesirable practices and proposals, such as proposals to increase the price of gold or to create a European reserve currency, bilateral financing of balance of payments deficits etc.

In conclusion, the rapporteur stated that it was not clear what solutions

would finally emerge. He considered it was fortunate that there seemed to be no disagreement as to the necessity for investigating new ideas, providing they were constructive and could be put into practice without interfering with what had already been achieved. He suggested that, in this connection, the same courage might be needed as that which had inspired the founders of the I.M.F..

* * *

The rapporteur appended to his memorandum a number of questions for discussion:

1. Has the burden of the balance of payments adjustments been shared fairly between the United States and continental Europe? Are changes in the relative burdens desirable? What is the urgency of achieving equilibrium?
2. Does the present organisational set-up of monetary cooperation seem adequate for dealing with the special economic relations and responsibilities among the members of the Atlantic Group? Does Working Party 3 suffice? What changes are necessary? Are more meetings of Ministers desirable?
3. What are the advantages and disadvantages of the increasing American direct investments in Europe, irrespective of the balance of payments problem?
4. What urgency must be attached to a reform of the international monetary system?
5. To whom should newly created international reserve assets be issued? Initially:
 - to the industrialised nations;
 - to less-developed countries;
 - to all countries in relation to their Fund quotas?
6. How should the creation of new assets be managed?
 - by the International Monetary Fund;
 - by the IMF on proposal of the Group of Ten;
 - by the Group of Ten?

* * *

An American participant opened the discussion by putting forward a number of observations and ideas.

He stated that for the past twenty five years the dollar had been considered so strong that its generalised use as a reserve currency could be taken for

granted. This was why the U.S.A.'s current balance of payment difficulties gave rise throughout the world to a, be it perhaps exaggerated concern. These difficulties could be attributed, not to any weakness in the United States economy, but to the very rapid growth of the economies of other Western countries. It was therefore neither necessary nor desirable that the former pre-eminence of the dollar in the monetary field should be maintained. But this change of relative position had not been accompanied by the assumption of fresh responsibilities in connection with the need for reserves by the other currencies. However, the speaker pointed out, the monetary system should not be considered as the prime mover in this process: money was merely a mirror which reflected the achievements of the economy. He thought that extreme prudence should be exercised in proposing radical changes, which alone would not suffice to remedy the situation. The role of the dollar alone should not be exaggerated in the future, and the currencies of the other major advanced countries should be entrusted with responsibilities appropriate to their situation. And so far as the problem of adjustments between advanced countries was concerned, the remedy should be sought in the economies as such and not merely in the monetary system.

The speaker emphasised the importance of realising that the existing monetary system still had vast potentialities, as had been revealed by the recent credit facilities, the creation of which had been mentioned by the rapporteur; these could have far greater long-term significance than speculative manipulation of one or another currency. Apart from the part played by the I.M.F. in this respect, mention might be made of the development of the various arrangements between countries enabling them to finance practically any sort of deficit. These were being increasingly used, in combination with reserve assets, the former simultaneously acting as a disciplinary factor to enforce the adoption of the necessary measures of economic recovery. Temporary expedients, therefore, were of far less importance than a method of long-term adjustments to be used between economies of widely differing characters, and a reform of the international monetary system alone could not bring about such adjustments.

The speaker thought it was essential to be somewhat more introspective in examining the system which was available, which could be really meaningful if it resulted not only in a "multilateral surveillance" but also in a joint effort of mutual assistance in making our payments balances really complementary. In view of the fact that the economies of the various countries concerned did not always advance at the same rate, the monetary arrangements between the various countries and the International Monetary Fund for all countries in the world could facilitate smooth advance free from the disturbances

which accompanied the gold standard, which the speaker described as an over-simplified and outdated system. He concluded by expressing the hope that the monetary system would be directed and controlled by the leading nations, fully conscious of their responsibility. The United States for their part were quite willing to assume an increasing share in this respect. In particular, it was essential to ensure increasing "multilateralisation" of the expedients available for strengthening existing reserves and creating new ones, and to make a better use of the former. He agreed with the rapporteur that the I.M.F. constituted the most appropriate framework for the development of such a process.

* * *

In the discussion which followed, most speakers dealt jointly with the problem of international payments balances (paying particular attention to the situation in the United States and Great Britain) and that of the functioning of the international monetary system. For the purpose of clarity, these two problems are dealt with separately in the present Summary, which follows the lay-out of the Introductory Paper. It was not always possible, however, to make a clear distinction between these two subjects, owing to the fact that they are interwoven, as many speeches had shown.

* * *

BALANCE OF INTERNATIONAL PAYMENTS

An American participant referred to the analysis of balance of payments disequilibria of his country and gave a description of the measures adopted to remedy them. He pointed out that the cause of disequilibrium was not the trade balance, which showed a surplus, and said that for the past four or five years his Government had been striving to reduce the repercussions of its economic and military assistance measures on its balance, be it without eliminating or even reducing this assistance to any great extent. Disequilibrium had become acute eighteen months previously with a disproportionate increase of foreign dollar loans on the United States market at more attractive rates of interest than those prevailing abroad; this induced the United States Government to institute an interest equalization tax, which was expected to be rather efficacious. However, some nine weeks previously, the capital outflow, both on short and long term, had increased to such an extent that the Government, anxious to avoid authoritarian currency control, had asked all those concerned, both lenders and investors, to exercise voluntary restraint, under the auspices of the Federal Reserve Board so far as the banks were concerned, and under the supervision of the Department of Commerce in the

case of industry. In particular, the former were asked not to allow their engagements abroad to exceed 105 % of the engagements of the previous year. This was by no means an easy matter, since the demand from abroad continued to be strong. But the banks and industrial enterprises were fully prepared to assist the Government, and the system had shown itself to be efficacious: an improvement in the United States balance of payments situation had already been noted.

A European participant asked whether such measures, if they proved effective—which he expected they would be—and successful in re-establishing equilibrium by the end of the year, were not liable to have undesirable effects in the long run. He wondered whether it might not be better to supplement them with other measures aimed at reducing the abundance of liquidity on the American national market.

In the ensuing discussion, other European participants, while recognizing the cogency of measures adopted by American Government and business circles, expressed the hope that they would not be continued for too long. If they were not completely successful, they should not be considered as the only possible means and perpetuated for that reason. A Swedish, a Norwegian and a Dutch participant all pointed out in similar terms that, if these measures would be successful, they might well have a restrictive effect on the expansion of European industry, owing to the resulting shortage of capital; a British participant added that this would also encourage deflationary trends, in which view he was supported by a Norwegian and several other participants. A German participant also stated that on the long run this would bring the problem of creating international liquidities to the fore again.

An American speaker expressed the firm hope that current measures would be effective shortly, and therefore be suspended or at least gradually reduced; he based his optimism on the healthy situation of the United States economy already mentioned by another American participant, and on the competitive position of its industry. Subsequently, other American speakers supported this view. He pointed out that, after all, the income from capital previously invested abroad had made a by no means negligible contribution to the present improvement, and if current measures rendered investment in Europe less attractive, it might be possible to restore the balance rapidly.

He admitted that, so far as the complementary part that might be played by measures aimed at a moderate tightening of the capital market was concerned, this was a problem which was currently the subject of discussions in the United States.

Another American speaker considered that circumstances allowed a slight increase in the interest rates, without involving any danger of compromising

the economic growth which had been proceeding for 50 months or of causing unemployment. Two other American speakers, however, expressed the contrary opinion. One of them said that measures of this sort might compromise the conditions of price stability and full employment in which this growth took place, while the other said it should not be forgotten that, at national level, the American Government had launched a vast programme of full employment, assistance to certain regions and expansion of educational facilities, while at the same striving to lighten taxation. Such a programme was possible only under conditions of a steady economic expansion, and any restriction of credit would constitute a threat to such expansion - a threat to be avoided at all costs. As against this, an international participant pointed to the example of Europe which showed that high interest rates were not incompatible with economic growth.

On the subject of the American balance of payments deficit, many speakers devoted part of their speeches to the problem of American investments in Europe, some of the European participants taking the opportunity to express their views as to the advantage of such investments for the receiving country. A German participant said that the main reason for the American deficit was to be found in the extent of the responsibilities taken and undertakings given by the United States since the end of the last world war (Marshall Plan, assistance to underdeveloped countries and military undertakings for the defence of the free world); he did not think that investments played a decisive part and considered it would be a bad thing for Europeans to discourage them.

A Dutch participant also recalled that, combined with American aid, U.S. investments in Europe had made a vast contribution to the post-war recovery of the European economy, but the proportional importance to the national economies of the countries concerned should not be exaggerated; according to the EEC Commission, these investments accounted for about 2 % of overall investment in the six countries; in the case of Germany, the proportion was not more than 3 or 4%, and in the case of France it was only 1.4%. Out of a total of 40 billion dollars invested by America at the end of 1963, 10 billions had gone to Europe, while out of 8 billion dollars foreign investments in the United States, 5.5 billion had come from Europe. Any European measures inspired by hostility to American investments might well give rise to counter-measures in the United States.

An international speaker, whose point of view was also expressed by a Canadian participant, pointed out that foreign investments should not be assessed according to their cash value alone since they were frequently accompanied by the introduction of new techniques and "know-how", which in themselves had helped to equalize the level of industrial progress on the two

sides of the Atlantic, at a time when Europe was still lagging behind in this respect.

A French participant, supported by a compatriot, said that, while recognising the advantages of American investments in Europe, the possibility might be considered of restricting them, or at least accepting them on a selective basis, and limiting them to fields where new techniques and means of production were necessary, while avoiding those where fresh investments in markets already saturated were likely to disrupt the economy unduly. The second French participant thought, however, that the necessary limitations should emanate from the American industrialists themselves, with the advice of their own government, rather than from European governments.

The Dutch participant who had already spoken intervened at this point to state that many foreign investments were inspired not only by the mere desire to make profits but also by the wish of countering high customs tariffs. This applied both to American investments in Europe and European investments in the United States. The speaker therefore considered that a general reduction of customs tariffs would make an important contribution to the long-term solution of the existing disequilibrium problem.

A Belgian participant and a number of other speakers, including a Norwegian and an international member, agreed with the rapporteur in emphasising the importance of setting up a real European capital market. Narrow regulations and national jealousies had the effect of freezing a considerable proportion of European savings, which were looking for investment opportunities. In this connection, it was striking to note that the two deficit countries—the United States and the United Kingdom—were precisely those which had the most highly developed capital markets. European countries had made less progress in this direction than in that of liberalising trade. And yet, Europe was certainly in a position to finance her own development from her own savings, and even to export capital, jointly with the United States, to the under-developed regions of the world. The rapporteur added, however, that what mattered was to reduce the net movements of capital in either direction across the Atlantic, rather than to reduce the gross capital flows themselves.

An Italian and a Dutch participant supported the argument of the Belgian speaker, already mentioned, and developed it even further. While many European industrialists might see cause for anxiety in certain American investments, the answer to the challenge should be found by Europe in her own energy and potentialities by means of positive measures. The pre-requisite for this was the creation, by way of mergers and agreements, of major European production units on a scale comparable to those in America, and

the development and intensification of European cooperation in the field of scientific and technical research. The Italian speaker added that such steps ought to be facilitated and encouraged by the Commission of the European Economic Community.

A number of speakers echoed the remarks of the German participant who had already spoken, by expressing a desire that, in considering the United States deficit, Western countries should not confine their attentions to investments alone, but should cooperate in other fields. A Norwegian and a British speaker even spoke of a "Marshall Plan in reverse" in this connection. After all, they said, by eliminating a few items from their assistance programme, the United States could wipe out their deficit; here, they were alluding to a remark made by an American participant, who had pointed out that his country's trading surplus (6 billion dollars) did not suffice to cover the cost of the various foreign aid programmes undertaken by the United States on behalf of the free world. The British speaker again intervened to state that he considered a more equitable distribution of world burdens among Western countries desirable. The rapporteur concluded by saying that in any case a step forward would have been taken if European countries with considerable surpluses were to effect advance reimbursement of their Marshall Plan debts to the United States.

* * *

While the majority of speakers who dealt with this subject mainly concerned themselves with the United States balance of payments, some also mentioned the balance of payments deficit of the second provider of "reserve currency"—the United Kingdom.

A British speaker pointed out that, while the dollar played a unique role in providing access to gold owing to its convertibility, Sterling played a secondary role in providing access to the dollar to the countries of the Sterling Area, and to some extent to all countries which held Sterling. A sort of equilibrium was established in the Sterling Area, the members of which had free access to the central reserves of the Bank of England, owing to the fact that the United Kingdom was an exporter of finished goods, while the other members were exporters of raw materials, with the effect, in case of a rise in raw materials price, of increasing the resources of the Area, while the British balance proper suffered from the situation. But the demand for dollars by members of the Area resulted in a constant pressure on Sterling. Equally the monetary measures recently adopted by the United States had not failed to influence the position of the Pound Sterling, for as distinct from the pre-war period, the ratio between the United Kingdom's short-term engagements and liquid

assets had greatly deteriorated. In other words, the United Kingdom's reserves were extremely limited as compared with the extent of the country's foreign trade and international engagements. Any fluctuation in the balance of payments, therefore, had to be corrected very rapidly, especially as, owing to this same weakness, any movement affecting the demand for dollars had even more rapid repercussions on Sterling.

In the longer run, there were two persistent burdens encumbering the British balance of payments situation: a high level of foreign aid and defence on the one hand, and the increase of imports as a result of the growth of the domestic economy on the other; in addition, the latter had caused a rise in costs (particularly wages), which was greater than the rate of growth of productivity. Moreover, in 1964, the British balance of payments situation had been even further aggravated by a very extensive capital outflow, mainly due to investments in the petroleum industry. There were, however, better prospects for 1965, owing to a reduction in investments abroad and an increase in revenue by the Sterling Area.

An international participant drew attention to the handicap which the lack of a rural reserve of manpower constituted for the United Kingdom and deplored the fact that it appeared impossible for that country to achieve a rapid rate of economic growth without running into balance of payment problems. He thought that the necessary processes of adjustment would take longer than in the case of other countries, which made it necessary for the United Kingdom's balance of payments deficit to be partially financed by means of a loan on a longer term than the temporary monetary assistance to which it currently resorted. Another international participant, however, pointed out that there was no "magic wand" for financing unlimited deficits over an unlimited period, and when the time came for the I.M.F. to renew the temporary credits which were being currently granted, the United Kingdom would have to submit a detailed plan for eliminating its deficit.

* * *

THE PROBLEM OF THE INTERNATIONAL MONETARY SYSTEM

During the discussion various opinions were expressed both on the defects of the existing system and the remedies and improvements to be made to it, but it would appear to have emerged that participants agreed on two points:

- the idea of returning to the old system of the gold standard and that of a modification in the price of gold were out of the question;
- the necessary reforms should be based on the existing system and not upset it.

A German speaker referred to the disorders created by the International Monetary System after the first world war, and particularly in his own country during the period 1922 to 1929. On the other hand, in spite of their weaknesses, the instruments devised at Bretton Woods had worked very well, and it was during the period when they were being fully applied that western economies had recovered most rapidly. No doubt, the transition from a shortage of dollars to the existing situation had not been foreseen, but that did not imply the necessity of a return to the gold standard or of setting up a new international reserve currency system. He thought that what was required was to lighten the burden on the dollar and Sterling by entrusting other currencies with more responsibilities, and to abandon certain "automatisms" in favour of joint agreements.

A number of these points were taken up by other speakers, who pointed to the benefits of the system in force which, as an international participant stated, had been to some extent distorted by the persistence of the American deficit—a fact which revealed that a certain limit had been reached. This speaker and another international participant pointed out that this limit was the amount which creditor countries were prepared to keep in dollars. A British speaker added that this limit was also determined by the deficits which the two reserve currency countries could allow themselves, since such deficits were, in the last resort, indebtments.

A number of participants thought it was essential to adjust the deficits of these two countries before considering a reform of the international monetary system. A Belgian participant pointed out that, if for no other reason, this was because speculative measures which might be encouraged by the persistence of deficits could constitute a threat to the very foundation of the system. A German participant pointed out that these deficits could not be eliminated by reforming the system. Other speakers contended that the elimination of such deficits, or even their reduction, could give rise to other problems, not the least of which would be a slowing down of the European rate of growth and the resurgence of certain deflationary trends.

An international participant said that, when considering the disequilibrium caused to the international monetary system by the United States balance of payments deficit, attention should also be paid to the responsibility for the situation borne by the surplus countries. The latter, in resisting inflation, had sometimes placed excessive restrictions on credit, thus creating distortions in the movement of capital by attracting availabilities from the deficit countries. It followed that, when it came to restoring the current situation, the surplus countries must also play their part, or in other words share the burden of adjustment. A German participant, however, thought that, in doing so,

they should try to resist "imported inflation", the danger of which ought not to be under-estimated. On this particular point, an international participant had already expressed his confidence in the instruments which should be available to the governments of the various countries in this respect.

However, a French, a Canadian and a Belgian participant believed that the main task fell to the deficit countries in correcting their balance of payments situation.

A Belgian participant, referring to the Memorandum and enlarging on it somewhat, emphasised the variety of categories of deficits and thought there might be more than the three listed in the Memorandum. Thus, the American deficit, which was accompanied by stable prices, could not be compared with the conditions obtaining in certain European countries, where a deficit was accompanied by rising prices. The diversity of situations called for a diversity of remedies.

An international participant, referring to the problem of investments abroad in this connection, wanted to dissociate it from the problem of the international monetary system; in this he was supported by an American speaker. Another international participant brought out its relatively limited nature.

Some participants analysed the respective parts played by the dollar and gold in the existing monetary system and improvements which might be made to it. A Swedish participant, expressed a certain concern prevailing in business circles; he emphasised the importance of a stable exchange system to ensure future progress, and thought that, with a world economy progressing at a rate which the extraction of precious metal could not follow, the importance of gold was bound to diminish. A French speaker, on the other hand, maintained that gold remained the basis of international trade, although he did not consider that its parity with the dollar should be modified. This was not a reason for thinking that gold was the only means of settling international debts, and even the partisans of gold considered that other instruments such as credits were desirable, as had appeared from a recent speech by the President of the French Republic.

A Danish participant, while declaring himself opposed to a devaluation of the dollar, wondered why gold should be the only basic product whose price could not change. He coupled this with two other questions. If, after all, the price of gold were increased in relation to the dollar, would all the other currencies be devalued? And would world prices automatically rise in the same proportion? He wondered whether the Soviet Union might not one day declare at least the partial convertibility of the rouble, thus wielding an influence over the Western monetary system. An American participant who had already spoken answered that a stable price for gold in dollars was an

essential because the world economic community needed a system of reference based partly on the parity of the currency which played the preponderant role, and, while countries whose currencies played a lesser part could modify their exchanging rates to some extent, it might be considered that the United States had lost its liberty of action in this field, on account of the country's importance. As for the risk of the rouble being made convertible, he thought the Russians had too great a need of their gold as a tactical and strategical instrument; in addition, they would not be inclined to comply with the discipline imposed by convertibility.

Another American participant intervened again to point out the dilemma in which the United States was placed by its role of reserve currency centre, when confronted with the necessity of restoring its balance of payments. He thought the problem could be solved, but he wondered whether there was not a specific idea underlying the emphasis currently placed on the part played by gold in connection with these difficulties. Although the policy of the United States was not to devalue, since it was felt that the dollar should be considered "as good as gold", this did not mean that the United States would always be prepared to buy all the gold offered. He concluded by saying that the dilemma was becoming so serious that the time was approaching when changes would have to be made in the system of payments.

Towards the end of the discussion, the rapporteur said he would like to clear up one or two misunderstandings. The fact that a number of European countries held reserves of gold was based on long-standing tradition, and by converting dollar surpluses acquired over the past few years into gold these countries were not attacking the monetary system or indulging in an anti-American policy. On the other hand, countries which held gold in this way should understand that other countries had always held their reserves in other forms (Sterling or dollars) and should above all refrain from arousing suspicions likely to encourage such countries to change their habits, which would give rise to real dangers; fortunately, the danger signals announcing such a trend had not yet been observed. It was natural that countries which had reserves of gold should think, when there was talk of reforming the monetary system, that this might have repercussions on their gold holdings.

The American participant who had made the introductory oral statement expressed similar views and pointed out that, while there was room in the present-day world for all sorts of procedure, it would be as well if gold-holding countries were prepared not to refrain from using also gold for settling their deficits, but he thought it was even more important that means should be found of supplementing gold, Sterling and the dollar by common agreement.

At the special request of the Chairman, a European participant expressed

the point of view of the European Economic Community towards two questions:

- Could the Six be considered as a monetary unit?
- If so, how could they contribute to a solution of international monetary problems?

He said that, to a large extent, the Six already constituted a monetary unit, since the development of trade within the Community had been such that any modification of exchange rates by one member country would have disruptive effects; and the fact that agricultural prices had recently been fixed in units of account made such modifications even more difficult. In addition, the six countries were all in a similar situation, with positive balances of payments and, considerable reserves without short-term debts, while the recent recovery in the Italian situation without resorting to import restrictions provided an excellent example of joint action within the Community.

Answering the second question, the speaker said that the Six had already made a considerable contribution to world monetary equilibrium, as was shown by their share in the I.M.F. credits, (which came to 80%, not counting the part financed by sales of gold). What more could they do? The speaker agreed with the rapporteur in rejecting the idea of setting up a European reserve currency, which would only be possible as a result of a long period of deficits. He considered such a course highly improbable and every other procedure artificial. In his opinion the Six would tend increasingly to act as a unit, and this was desirable, for example in adopting a common attitude towards the composition of their reserves, in acting jointly in the financing of medium-term monetary credits, as in the case of the British deficit, or in deciding on a common policy in connection with long-term investments. The speaker considered that in all such cases a joint attitude had better chances of being reasonable than individual policies, since the extremes canceled each other out. But all this was possible only if the sound monetary position of the Six were maintained and present risks of inflation were kept in check. The Community must be in a position to assist other countries without getting into difficulties itself.

A Canadian participant, while agreeing with the two participants who had opened the debate, emphasised the imperfections of the system. The monetary system might well be a "mirror" of our economy, but the fact remained that its functioning had repercussions on the solutions which might be found to basic problems. The existing system was erratic and unreliable from many points of view, particularly because it rendered us dependent on phenomena which could not always be controlled, such as the process of formation of reserves, movements of capital, and fluctuations in the balances of

payments of one or two countries, particularly the United States, not to mention questions such as Russian sales of gold. It was therefore necessary to have a system of international reserves giving confidence and allowing of a smoothly growing economy on the basis free international payments, although without a reversion to the gold standard or the creation of a new reserve unit. Confidence was absolutely essential, particularly for preventing deflation crises.

The same Canadian and other participants dealt with the question as to what reforms should be introduced in connection with the problem of the creation of fresh liquidities and of the institutional framework within which such operations should be carried out.

Various opinions were expressed as to the advisability or urgency of creating fresh international liquidities. An American participant expressed the hope that first of all the concept itself would be clearly defined by means of an analysis of concrete problems. In this connection, an international participant drew a distinction between "conditional" liquidities which were in his opinion provided in sufficient quantities by the I.M.F. and various bilateral arrangements, and "unconditional" liquidities which could reasonably be provided by the I.M.F., but not by a small group of countries for their exclusive use. Here, the General Arrangements to Borrow provided a fairly good precedent.

A British participant mentioned two obstacles to an agreement regarding the creation of fresh liquidities. Firstly, debtor countries were hardly in a very good position to dictate the solutions which they needed, and secondly, for historical reasons, the United States and Great Britain had adopted an attitude very different from the policy of the Common Market countries towards this problem, the former fearing deflation as much as the latter feared inflation. He himself hoped that, in the event of a threat to international trade, the risk of inflation would not be the main preoccupation. An Italian and a German participant put forward the opposite point of view. The former thought that the term "expansion" which was very fashionable in European countries, was a euphemism for inflation, but governments, trade-unionists and even, to a certain extent, employers were much too prone to think that "everything could be done very quickly" and embark on expenditure without keeping in mind the amount of revenue required to pay for it; any increase in liquidity, by eliminating the salutary fear of a balance of payments crisis, might well do away with one of the last remaining brakes on this tendency (in this connection, a British speaker thought that the competition resulting from increased liberty in trade would constitute an equally effective brake). The German speaker added that even if the expansion of international trade were to become slower than over the last few years as a result of measures now

being adopted by the United States and Great Britain to reduce their balance of payments deficit, the prevailing trends were undoubtedly inflationary. That being so, it was not advisable to create fresh liquidities. On the other hand, once the United States and Great Britain had restored their balances and the surplus countries had succeeded in resisting "imported inflation", the problem would be a long-term one and would have to be solved by appropriate international cooperation.

A British speaker intervened again to state that the countries which had the most extensive reserves were those which had the least need of them; he thought the problem was to distribute such reserves rather than increase them. On the other hand, in view of the fact that currency reserves were merely the reflection of former deficits and that those of the United States and Great Britain had attained their reasonable limits, Western countries, including Japan, would have to discover jointly the various forms that could be assumed by a new international reserve fund, supplementing gold, the dollar and Sterling, although not supplanting them.

A Belgian participant thought that gold reserves would have to be supplemented by some other similar means, if only because gold production was increasing by only $\frac{1}{2}$ to 1 %, whereas countries were adopting policies to increase national products by from 3 to 4 %, but he trusted that no new, and untried system would be devised. He thought that the foundation should be a sound one, and of all instruments available, the I.M.F. could be used more systematically and constantly, e.g. for such purposes as the periodical settlement of balances, rather than being considered as a last resort in difficult situations. Such a procedure would enable the Fund to act more rapidly and efficaciously in a deteriorating situation.

A number of participants mentioned the role of the I.M.F. in correcting disequilibria and the creation of fresh liquidities as well as the part which the Group of Ten should play in this matter; the majority agreed with the proposal put forward by an international participant that action should be undertaken by the Group of Ten through the I.M.F., with which, incidentally, the rapporteur agreed. A French and Belgian participant expressed the hope that the increasingly large share in supplying the I.M.F. (and the I.B.R.D. and international transactions generally) assumed by European countries would be taken into account by giving them a larger say in the affairs of this organisation. The Belgian participant added that countries with supplementary claims on the fund ought to be given special guarantees (super gold tranches), which would also provide an extremely simple and practical way of increasing liquidities and reserves.

An international participant reminded him that the system of weighted

votes in force at the I.M.F. already gave the Group of Ten a majority; he deplored the fact that all European countries had not taken advantage of the opportunity of increasing their influence when the quotas had been raised recently.

A European participant, who appeared to have the backing of most other speakers in this connection, hoped that, so far as the extent and distribution of new liquidities were concerned, these would be created in a flexible manner as requirements made themselves felt, and that fresh liquidities would be distributed to the various countries on the basis of their quotas or reserves at the I.M.F. He also hoped that another method could be found in connection with existing dollar balances so as to reassure the Americans about the risk of large scale conversions into gold. The rapporteur mentioned, in this connection, that the creation of fresh liquidities might occur, not only in the form of credits but also in the form of an increase in owned reserves, such as those held within the I.M.F.

It was pointed out on several occasions during the debate that modifications to the monetary system should not be devised purely and simply by experts but that businessmen, and above all responsible political authorities should take a leading part in devising a better state of affairs. A number of speakers, who appeared to be expressing the view of the majority of participants, considered it a matter of urgency—particularly in order to avoid unilateral actions and half-measures which, as a Greek participant pointed out, are showing an alarming tendency to increase,—that responsible politicians at the highest level should meet to consider these problems calmly, free from the glare of publicity and doctrinaire considerations. An international participant added that, once the United States and United Kingdom deficits had been eliminated, it might be possible, with the assistance of existing institutions (I.M.F. and O.E.C.D., Group of Ten and Working Party 3) to reach a more general agreement to organise a monetary system based on realistic and stable rates of exchange, the convertibility of the major currencies and an unchanged price of gold.

THE STATE OF THE ATLANTIC ALLIANCE

Discussion of this item on the agenda was prepared by:

- a Note drawn up by a Netherlands participant and distributed to participants prior to the Meeting;
- an oral statement by an American participant.

* * *

The author of the Note began by pointing out that the grave difficulties and differences of opinion in the Western world existed not only in respect of methods whereby the Alliance functioned but also in regard to fundamental principles.

When NATO was conceived and in the first 8 to 10 years of its existence a few assumptions were generally accepted:

1. The United States was the recognised leader of the Alliance and was considered as the dominant source of economic strength, the practically exclusive source of military strength and as incarnating the ultimate and decisive voice in matters of foreign policy.
2. European unification was promoted both on the continent of Europe and by the United States and constituted a key element in U.S. foreign policy while it was likewise regarded as a contribution to Atlantic strength and cohesion. It was astonishing that practically nobody during those years raised the question whether this state of affairs would always be beneficial to the Alliance and in the interests of the United States.
3. It was accepted that the military efforts of the Alliance were indivisible and that military policy was an Atlantic function.
4. There was a general consensus of opinion that the solution of the German problem lay in the inclusion of Western Germany in a process of European integration. Germany could thus be tied to the West not only by an orthodox alliance but through a federating Europe.
5. It was equally deplored in the United States and on the continent of Europe that the United Kingdom was not prepared to join the efforts for European integration in the sense of the Schuman-Monnet concept.

6. It was generally assumed that economic integration on the continent was only a first phase of the federated structure which would later exercise political functions and ultimately lead to the United States of Europe. It was even considered that economic integration could not survive without a rather quick political follow-up.

Over recent years, these six assumptions, once regarded as self-evident, had all been challenged in one way or another.

The author of the Note then proceeded to analyse the three main existing schools of thought concerning the structure of the Atlantic Alliance, emphasising that a certain over-simplification of the approaches was involved and that the various sections of opinion and the different policies did not necessarily adhere to any one of them.

I. The *first* school, he said, wanted to increase the power and influence of Europe to such an extent that it would eventually have an independent policy in a world hitherto mainly dominated by the United States and the Soviet Union. Without denying the necessity for co-operation with the United States, it desired the option for independent European action in the possible event of conflicting interests.

It considered that practically every assumption underlying NATO when it was conceived had ceased to be valid.

From the economic point of view, the Common Market was in the process of becoming an economic unit ranking among the great powers. From the military point of view, this school aimed at a military posture capable of producing a viable and independent force even if not one which could rival that of the United States.

Basically, it did not believe in the permanency of the U.S. commitment to Europe and, more particularly, did not believe that the former was ready to meet every threat to the integrity of the European continent. Because of the nuclear development, it could not envisage a situation in which the United States would risk its own destruction for the sake of its European allies and this underlay its desire to see Europe with its own nuclear force. The American nuclear monopoly was felt to condemn Europe to a state of permanent inferiority and there was particular resentment of the idea that the United States and the Soviet Union might come to an arrangement in which the European voice would not be heard.

It believed in a natural affinity between the members of the Common Market and considered inclusion of the United Kingdom as undesirable, more especially fearing that the latter would be a Trojan Horse for American hegemony.

Its aim was to "Europeanize" Germany in the sense that the latter should give priority to its European vocation.

It was against any increase in Atlantic co-operation in the economic, political and military fields which it saw as a continuation of the United States dominance it particularly resented.

Whether one agreed with the concept or not, it was clear and consistent although clarification was needed on one basic point: it combined the search for European solutions to certain basic problems with the idea of the supremacy of the nation state as opposed to European integration on the Schuman-Monnet line. The question was how to reconcile the two concepts.

II. The *second* school of thought undoubtedly comprised the great majority of political opinion on both sides of the Atlantic which made many shades of opinion within that school inevitable.

The school not only believed in the compatibility of European unity and Atlantic cohesion but even considered the former as a pre-requisite of Atlantic strength, in which respect it shared the views of the late President Kennedy on equal partnership. Without European unity, the Alliance would consist of the United States leading a collection of individual states with national aspirations detrimental to the Alliance.

It strongly felt that Germany should be closely tied to the West through a supranational structure.

It assumed that present economic integration would be paralysed or would even break up if there was no political follow-up. A majority attaches great importance to the closest possible relations with the United States but it cannot conceive them without a strong unity of Europe. A majority hoped that the United Kingdom and other non-Common-Market countries would join the European structure but was inclined to pursue further development without them, strongly believing that certain *faits-accomplis* would ultimately impel the United Kingdom to join. Other members of the group, however, attached less importance to such inclusion since they feared a watering-down of their concept of Europe, in which respect they came close to the first school of thought already mentioned.

There were many who believed that Europe should not aim at military independence and supported the MLF or other integration concepts. Others again hoped that "*l'Europe une fois faite exercera la totalité de ses pouvoirs*" which implied its own foreign and military policy.

All of them fundamentally differed from the first approach in that they firmly believed in a supranational Europe and held that "*l'Europe des Patries*" could never achieve the goals they adhered to. Such aims, together with

further democratization of the European institutions, justified every further step forward even if this only took place among the Continental European countries.

Members of this school were generally activists who considered any slowing down of European unification as being by definition detrimental to the cause of the West.

III. In many respects, the small group which adhered to the *third* approach was rather close to the second school but there was a difference in emphasis and, more especially, greater scepticism concerning the value *per se* of European unity. This group gave absolute priority to Atlantic strength and rejected every form or structure which might endanger co-operation between members of the Alliance. It strongly believed that foreign policy on the main issues and military policy in general were Atlantic and not European functions and hence believed that the concept of *equal* partnership was wrong since it implied a possibility of independence in the fields of foreign and military policy which it regarded as an inherent danger to the Alliance.

It believed, at least for an appropriate period, in strong leadership of the Alliance by the United States and wished to see the ultimate control of nuclear power in the hands of the President of the United States, both to ensure an effective military policy and to preserve the peace.

It had grave doubts as to the thesis that a partnership was only possible between equals.

It rejected the idea of political unification between the members of the Common Market because of the fundamental differences apparent between them in this sphere and considered that such unification would lead to erosion of the "Atlantic" point of view of certain Common Market countries. It admitted that economic integration led in the long run to unification in other fields but rejected the idea that the Common Market would be endangered *at present* if there were no pursuance of political integration at the moment.

It supported every form of military co-operation and integration in the Atlantic framework as the only valid solutions and realised that the integrity of the West could only be maintained through the American military potential.

It recognised the importance of the German problem but considered that an Atlantic rather than a European framework offered the necessary safeguards against a resurgence of German nationalism, if indeed such a danger existed.

It unreservedly wished for the inclusion of the United Kingdom and other European countries in the European structure for exactly the same reasons which impelled the first school to reject such a concept.

It preferred a supranational Europe to "*l'Europe des Patries*" and a demo-

cratic Europe to a technocratic one. Contrary to the views of the second school in this regard, it did not, however, believe that supranationality and democratization as such guaranteed an "Atlantic" policy.

In general, it did not wish for the moment to take important and spectacular steps in the field of political co-operation between continental European countries out of a fear that this might lead to a further weakening of Atlantic cohesion.

For the present it would prefer to limit efforts in Europe to the economic field, to continue the struggle for the inclusion of the United Kingdom and other countries in the continental group and to deepen and develop military, economic and political integration, co-operation and consultation in the Alliance.

* * *

In an annex to the Note, the author expressed the hope that discussion would be concentrated on the consequences arising from these three schools of thought in respect of future policy rather than on the validity of the respective approaches.

* * *

Prior to the discussion and without wishing to opt for any one of the three schools, an American participant put forward a certain number of considerations in respect of European and Atlantic questions from the United States angle.

He recalled that the progress made by the Atlantic world was based on a profound inculcation of the lessons of history and was inspired by the desire to avoid the main causes of the two previous European tragedies. For this purpose, post-war policy both in Europe and the United States was largely guided by two principles:

– the creation of a United Europe to put an end to destructive rivalry between Nation States and to enable the peoples of Europe to conduct their affairs through institutional arrangements which, by their extensive nature, met the needs of the mid-20th century and hence be in a position to contribute the full measure of their capacities and resources to the world;

– the creation of a close tie between Western Europe and the United States through a partnership which would enable the peoples of that area to combine their resources so as to promote their own prosperity in an interdependent world, cope with their joint defence and accomplish the great tasks which confronted the Atlantic nations as a whole since these represented 90% of the industrial capacity of the Free World.

Those great tasks were:

- the defence of those values to which we were attached wherever they might be threatened in the world—and that danger, because of the aggressive ideological and imperialist power of communism, was a permanent one;
- to provide our political protection and our economic and defence aid to developing countries.

The Atlantic partnership as we understood it, said the speaker, implied the total commitment of American resources for joint defence, a defence system comprising a joint command and the existence of forces which would eliminate one of the major causes of the past tragedy, namely the refusal of America to mix itself in European affairs until the two world wars had already exacted an inconceivable toll. There was, he went on, a tendency to forget the extent of the change which had taken place in American policy.

The North Atlantic Treaty and subsequent arrangements represented a vast decision on the part of the United States whereby that country turned away from isolationism for ever and irrevocably linked its own destiny with that of Europe.

During a long time, said the speaker, the Atlantic world had made swift and spectacular progress along these lines:

- the economic integration of Europe through the Rome and Paris Treaties had proceeded at a rate exceeding the most optimistic hopes and it seemed as though Europe would ultimately extend its own boundaries by reason of the United Kingdom's adherence to the Rome Treaty;
- NATO developed and the defence of the whole Atlantic area was guaranteed not only by a definite and complete commitment of the U.S. strategic deterrent but by the institution of a joint independent command and the inclusion of existing forces in a forward strategy;
- the Atlantic nations were in the process of creating a basis for consistent prosperity by co-operating on the economic level through the O.E.C.D. and other bodies and by undertaking joint tasks through the D.A.C., etc.

The twelve years between 1950 and 1962 were the Golden Age of progress towards European unity and the Atlantic partnership, continued the speaker. But, at the beginning of 1963, one of the leading European nations had started to reverse the trend by a statement which had since been regarded as the first salvo in a nationalistic counter-revolution.

What was the nature of this counter-revolution? In the eyes of Americans, it seemed to be devoted to recovery of freedom of action and decision on behalf of Nation States—a freedom of action which both Europe and the United States had abandoned in their own commitments.

In the place of a united Europe, this counter-revolution aimed at a return to a "fragmented" Western Europe. While it oddly employed the language of

unity, the counter-revolution seemed to aim at restoring that national rivalry between European states which had caused so many tragedies in the past. We were told that the alliances were perfect but it was implied that the integrated forces and commands should be dismantled to some extent. The British should remain on their island and the Americans return to their continent so that Europeans might be free to settle their own affairs in their own way—in other words, apparently, return to a situation very like that of the past. In fact, not only should the "Yankees go home" but so should American dollars, as had been noted the previous day.

The speaker went on to say that what was even more disturbing in this process was not only the fact that a Europe firmly based on the supremacy of the Nation State was to be re-established but that the principle of equality between European states—implicit in the drive towards unity—had been replaced by the notion that some of them—or at least one of them—were "more equal than others", especially in the nuclear sphere, and that any attempt to re-establish the balance through collective action should be firmly resisted.

This was how Europe appeared to America at present and while the picture had been painted somewhat darkly so as to bring out our viewpoint, it was not in fact unduly exaggerated, said the speaker, who emphasised the deep anxiety which this trend aroused in him. He recognised that there were also a certain number of positive elements: progress towards economic integration seemed latterly to have recaptured some of its vitality and the logic which made European unity essential contributed to an impetus which might be temporarily slowed down or paralysed but which could not be permanently halted.

For there were very few of us, said the speaker in conclusion, who consciously desired to return to the bad old days when the fate of mankind depended on rivalry, jealousy and the whims of Nation States which were not channelled through joint plans, co-operation agreements and solemnly contracted obligations. He said that we all knew that such a system was ineffective and would never function again. It was as well to recall that history could repeat itself and that, if it repeated itself in the nuclear age, we would all vanish in a mushroom-cloud.

* * *

The discussion provided many participants with an opportunity to clarify their views on the subject matter of the introductory Note, more especially in respect of European unity and the Atlantic Alliance. It was noteworthy that many speakers kept strictly to the pattern of the Note by treating the two problems in conjunction—a procedure which was logical enough given that

the subjects could hardly be separated since they related not to separate problems but, as the author of the Note had explained, to different "schools of thought". In the same sense, a similar procedure has been adopted in the following summary.

Most of the speakers expressed their preference for the second school: while asserting that they favoured unification of the Six Power Europe—or even an expanded Europe—they stressed the need for close solidarity between Europe and the United States, frequently alluding to the concept of partnership. While certain speakers emphasised the military aspect (the functioning of NATO) in dealing with this question, it was mostly the political aspect which was underlined.

Especially at the beginning of the discussion, many speakers voiced their uneasiness over the present general situation and while most of them specifically referred to the attitude of the French Government—which was energetically defended by a speaker from that country—others sought to analyse the evolution of the international situation. A number of factors such as the persistent problem of German reunification, Europe's economic progress, the China-USSR dispute, the specific position of certain Western countries, the action of young nations of the unaligned group, etc., were thus highlighted. Certain speakers alluded to the United States action in Vietnam which was the subject of a statement by an American participant outside the framework of the meeting (see annex). (Because of the unofficial nature of this statement, the various comments which followed it have not been included in this summary).

Most speakers apparently considered it necessary to improve the existing situation and, for this purpose, to make further advances towards European unity and the reinforcement of Atlantic solidarity. Various concrete suggestions were put forward by some participants.

* * *

Speaking at the outset of the discussion, a German participant postulated the problem in the following terms: "What Europe and what sort of Community do we want?" He went on to say that, while there could be no Europe without close Franco-German friendship, it was also impossible to envisage European security without close co-operation between the Continent and the United States and Canada. For this reason, great importance should be attached to the preamble voted by the Bundestag at the same time as the Franco-German Treaty which situated that Treaty within the framework of the European Community and Atlantic solidarity. The Treaty could not be allowed to lead to the joint isolation of France and Germany in respect of their

other partners. The Atlantic Alliance should be a bridge and European integration one of its pillars. In the military sphere, added the speaker, integration should encompass a larger geographical area than just Europe, if only for financial and technical reasons. Europeans needed the United States but the latter also needed Europe; every member of the Alliance should feel it was protected.

A British participant said that there were those who deliberately created doubts as to the United States determination to intervene with their nuclear power on behalf of Europe (although without believing that such incertitude would become sufficient to encourage the USSR to attack Western Europe). But if any such doubts existed as to the determination of a nuclear power to defend a non-nuclear power, this applied equally to any European power claiming to guarantee its neighbours! And those who defended a "European solution" in this regard were the same people who proclaimed that nuclear strength could never be shared or delegated. Even supposing this problem to be solved, Europe would never be in a position to develop as strong a deterrent as that which the United States had already. But, said the speaker, if the Alliance existed because of that support, material co-operation between its members was essential and it was for that reason that the British Government had decided to abandon national control over its own atomic power in favour of Europe as such.

A Netherlands participant pointed out that there was a close relationship between the two major long-term processes which would determine the future role of the West throughout the world, namely the creation of a healthy and prosperous European union and the formation of a strong, coherent and lasting Atlantic Alliance. These processes should develop gradually through political decisions as and when results were achieved. Since no changes could take place overnight, many uncertainties remained (and there was no guarantee against such occurrences as the French veto against the United Kingdom's admission to the Community of the Six). If there were a close relationship between European unity and Atlantic partnership, the speaker felt that this would be one way of avoiding the drawbacks inherent in the gradual character of these two processes: we should be able to expect from the Alliance whatever Europe was unable to achieve, more especially in regard to nuclear defence. For this purpose, all should be ready to accept the necessary disciplines and this applied equally to the United Kingdom in economic matters and to France in the military sphere.

A Greek speaker highlighted the communist danger in Europe; the conflict within communist parties between the "Russian" and "Chinese" approaches was far from settled and it even seemed as if the Chinese party was making

progress and might influence the positions taken up by the Soviet Union in Europe. In the face of this threat, the only course was to maintain the broad lines of Atlantic policy so far followed by relying on NATO's force.

Similarly, the speaker went on, while we all wanted a dialogue with the Eastern countries so that peace might be established on solid and profitable foundations by gradually solving thorny problems, any such dialogue should be instituted on as equal a basis as possible and such equality only existed in the eyes of the USSR in as far as Europe showed itself to be at one with the United States. In any such dialogue, the Kremlin leaders would choose the party they considered most powerful and respected and isolated or uncoordinated initiatives in this field could only weaken the main spokesman.

A similar theme was advanced in the subsequent discussion by an Italian participant who said that the Atlantic partnership did not imply that all the partners had the same concrete potential in all fields since the goal to be aimed at was rather a distribution of the considerable common tasks which confronted us—not only defence but also aid to underdeveloped countries through a positive joint policy of presence, investment, technical assistance and equitable co-operation with those peoples which alone would enable us to make world peace a stable reality.

The follow-up and the end of the discussion provided other participants with an opportunity to clarify their concepts of Atlantic partnership. Their comments on this point are given at a later stage along with the other details of their statements.

The uneasiness occasioned by the French position was mentioned by the German participant quoted above at the beginning of the discussion and dealt with in greater detail shortly after by a French participant. The former said that we were disturbed when told that we should draw closer to the East while drawing further away from the West. And why was a conference on the Vietnam issue considered so urgent when, on the contrary, everything had to be clear before European problems could be discussed? The Common Market was not solely a technical structure but also a political achievement designed to bring about joint European views in respect of foreign policy and defence within the framework of Atlantic solidarity and not to eliminate American influence in Europe, especially if the intention was to replace it with Soviet influence!

The French speaker raised a certain number of points which he considered disturbing:

- NATO's internal cohesion was weakened by such steps as the recent withdrawal of a part of French naval forces;
- the Common Market had had some success but the political follow-up

had not yet taken place and everything was happening as though its sole purpose was to add to the international weight of a single country, i.e. France;

- France's diplomatic recognition of communist China, even if thought to be necessary, had been unilaterally given with no preliminary co-ordination;
- France had adopted a firm stand in favour of neutralization of Vietnam although one of its allies was militarily committed there.

The speaker thought that what was still more serious was France's new approach to German re-unification which had hitherto been regarded as a basic objective of the Western world as such, an approach which led Germany to think that if it subscribed to the idea of a "European Europe", freed as far as possible from the presence of American forces on the Continent, then new horizons would be opened up through discussion with Russia. It was as if the Germans were being offered a deal: "Break away from the United States, make an independent Europe and you will acquire reunification through discussion with the USSR".

All these facts combined, the speaker concluded, represented a decline in Atlantic solidarity and a threat to its unity. The idea of the "Free World" was less keen than a few years ago. The restoration of the notion of nationalism had come into conflict with the notion of communities.

Along similar lines, an Italian speaker emphasised the danger of confusion arising from the determination to obtain a joint European policy and the ever-increasing reliance on national policies.

A Norwegian participant stressed the unanimous agreement in his country between Government and Opposition in favour of the third school of thought outlined in the introductory Note.

Defending his Government's policy, a French speaker called on the meeting to guard against three temptations:

- to say, "Nothing can be done with France, it's a bad spell to be got through, perhaps other political teams later on will enable us to achieve what we can't achieve just now";
- to say something even more dangerous, namely, "Since we can't do something with France, let's do it without France or even against France". France was of such consequence, said the speaker, that any structure of the kind would be artificial, doomed to failure and harmful to future relationships. Moreover France could find alternative solutions;
- the third temptation was to say, "Everything's finished, no Europe is possible, one can't reach agreement with France and so we'll do nothing at all".

European progress and the maintenance of Atlantic cohesion were possible so long as allowance was made for the existing situation. For his own part, the speaker suggested various bases for practical progress:

On the European level, the Common Market had made giant strides and, without pausing for theoretical discussions, further progress could be made in co-ordinating fiscal systems, social burdens, foreign investments, etc., apart from the merging of executive bodies to which France had already agreed. Many things could still be done, said the speaker, by moving gradually ahead without an agreement on any supranational institution. France was not opposed to the building of Europe but to a certain concept of political Europe. That was why it had asked that the next Venice Conference be postponed and not cancelled because it had to be carefully prepared, there must be no improvisation which would lead to disagreement harmful to Europe—such as that already displayed towards the “Fouchet Plan”.

In regard to Europe's position vis-à-vis the United States, the speaker stressed that there was no thought of throwing the Americans out of Europe but that, conversely, it should not be assumed that Europe could not exist without the United States.

In the course of the subsequent discussion, an Italian speaker said that he did not understand the French position very well. If the French Government's insistence on “European Europe” meant that Europe should recognise its own responsibilities, all well and good; perhaps that position was equally acceptable if it was France's intention to emphasise that America should recognise Europe's importance to a greater extent and agree to a broader discussion of the international situation. But the rejection of NATO as a permanent organization of the Alliance and such activities as the creation of an independent strike force were no longer understandable. The present danger lay not in an encirclement of France, an inconceivable event, but rather in an encirclement of the Western world by the rest of the world which could only be met by a joint policy of presence, unity, aid and trade (and “credibility”, the current term for atomic prestige). None of the real advances already made should lead us to forget that, unless there was agreement on this basic point, no progress in respect of Europe could be made in either the immediate or distant future. Otherwise, the danger of a double game would be created, the danger of division between European countries linked with the United States and one country wishing to act alone with the East. This was an exceedingly dangerous situation, concluded the speaker who wondered how such a political approach could be in France's interests.

Another Italian participant expressed the hope that some clarification might be forthcoming taking the French position as an established fact. The hopes placed in a resumption of the construction of Europe seemed to be postponed to some future date which was apparently related to a new phase in the evolution of European and Atlantic relations. He considered it would be

desirable to re-open the dialogue on a broader basis, including the EFTA countries. The E.E.C. should not constitute a frontier between the Six and the other states of the Atlantic community, more especially as far as defence and policy was concerned.

In this regard, the speaker concurred with a British participant who had just pointed out that the countries of the European Free Trade Association (EFTA), not excluding the United Kingdom, were just as much a part of Europe as the six Common Market countries and who had voiced the hope that the two would grow steadily closer together. The question which then arose was, “What sort of political Europe can be created?”. The British speaker considered that much time had been lost in discussion of supranational institutions which he argued were not appropriate and were even harmful unless an adequate agreement on the political problems already existed. At this point there were many disagreements in Europe and even within the E.E.C., such as the relations with the U.S.S.R. Another problem was that of certain responsibilities outside Europe which were borne by the United States and Great Britain not shared by other European countries and which involved the security and prosperity of Europe, whether in the Persian Gulf, Malaysia or Vietnam. The time had come, said the speaker, to take account of this in NATO, more particularly in regard to the sharing of defence costs. In the political and economic spheres, he concluded, Europe might develop a separate identity but it was undeniable that this was no alternative to our joint security.

Referring to the introductory Note, an international participant took the view that any form of European union was compatible with the Atlantic Alliance and NATO so long as it was conceived in a political spirit of solidarity and close cooperation with the other allies and especially the United States. There was no objection, he said to a united Europe having its own foreign or defence policy so long as it remained in NATO as was already the case for several potential regional groupings. Such regroupment would rather help to strengthen the Alliance. But it was naturally essential that political determination should remain and that the ultimate organization of joint defence should be left to NATO.

Current discussion of the different European models, of Europe's independence, seemed somewhat premature, he added, to the point that one sometimes wondered “what all the fuss was about”. But such discussion was a political reality in itself. The main danger lay in the discontent which would result from a failure of attempts to achieve union and which might have repercussions on the Alliance. It was therefore desirable from the NATO viewpoint that “Europe should be built without further ado” rather than that there should be a return to nationalism. The speaker concluded by voicing his per-

sonal preference for a federal democratic Europe, as far-reaching as possible, linked to the United States by the Atlantic Alliance.

An American participant stressed the act of faith implicit in his country's support for a united Europe from the outset. Such faith had been justified by the Europeans themselves, especially in their refusal to accept General de Gaulle's leadership which was erected on purely national bases. The Common Market, this speaker said, demonstrated the possibilities of union and of co-operation with the United States and the final act would be the outcome rather than the cause of growing unity in the political and military spheres. Nonetheless, too much time should not be lost since the forces of disruption were also at work, principally through the internal action of communist parties and the external action of the U.S.S.R. In this connection, the speaker recognised that the United States itself could exercise a certain degree of centrifugal force (particularly through their special relationships with the United Kingdom and Germany). Europe must unite, he said, particularly in order to present a strong front to a united Russia and thereby exercise a power of attraction in respect of the East bloc countries as well as to be able to concentrate its efforts on the peaceful tasks of assisting underdeveloped countries. Finally, such union could in several ways facilitate the reunification of Germany: those who were apprehensive of the addition of 18 million Germans to 50 million other Germans would be less disturbed by the addition of those 18 million to 200 million Europeans or by the absorption of the German army in a European army. And if Germany, having become ready to be part of Europe, were discouraged from participating it would be one of the greatest disasters of our time.

The speaker likewise reminded his audience that the United States had already indicated its willingness to review its position in regard to the nuclear question if Europe succeeded in uniting and that the Secretary of State, Mr. Rusk, had only recently said that his country desired to see Europe deal as an entity with NATO.

Speaking for the second time, a French participant who had spoken at the beginning of the meeting, recommended various concrete orientations. Like the above-mentioned international participant, he pointed out that Europe felt a need to exercise a political influence commensurate with its economic development and that most Europeans wished neither to be satellites of the Americans nor to constitute an independent entity of the "third force" kind. This had given rise to the concept of Europe as an equal partner of the United States: even if equality of resources was not achieved, it would run counter to Europe's impulse towards unity to refuse it equality of rights.

Allowing for the realities referred to by another French participant, what,

asked the speaker, could we do to move forward and put an end to the present disintegration of Europe? First of all, he replied, it was necessary to safeguard the key elements of the European community institutions which had proved their effectiveness over recent years. But, at a given point, it would also be necessary to undertake political action as a follow-up to economic action. And while one might hope that the postponed Venice Conference would lead to conclusions, it was as well to remember that the basic problem was that of relations between Europe and the United States and it was impossible to be too firm concerning the maintenance of such solidarity.

On its side, either Europe would become a community or it would be no more than an alliance like so many others, i.e. precarious, revocable and capable of self-destruction.

A Netherlands participant who said he favoured the second of the schools described in the introductory Note emphasised that his country was strongly desirous of seeing an open Europe with no protectionist barriers and with new ties of co-operation with the Atlantic world. At the same time, he said, it was erroneous to say that it was necessary to develop economic integration first and wait and see whether it was possible gradually to integrate our foreign policies. The speaker summed up his views by means of five postulates:

- European integration was continuing and increasingly implied joint decisions;
- political discussions between the Six were fruitful and even essential, allowing for existing divergencies, but, while it might not be possible for the United Kingdom to participate in such discussions in the near future, it was to be hoped that such participation would take place at a later stage;
- the goals were a federal structure for Europe in partnership with the United States;
- the European community should be open and based on a liberal economic approach;
- the Europe of the Six was not the Europe of the future. We should extend its bases and, in particular, the EFTA countries should be welcomed if they accepted the principles of existing treaties. In this connection, the speaker expressed the hope that the Labour Party or the Conservative Party in Great Britain—or, better still, both together—would publish a statement of intention proclaiming that, notwithstanding the French rejection, Great Britain continued to believe that its future would be as an integral part of Europe, both politically and economically.

Replying forthwith to this latter point, a British speaker considered that any such commitment should not imply a weakening of Atlantic ties. Additionally, the moment should be carefully chosen and should call for a positive reaction

since public opinion in the United Kingdom could not accept another rebuff in this field.

(The same point was taken up towards the end of the discussion by a French participant and another British participant and their comments are summarised at a later point).

Continuing his statement, the above-mentioned British speaker analysed the past and present situation of NATO in the face of the international situation. He observed that it was not enough to criticise a single country in seeking solutions to the problems confronting the organization. He recalled that when NATO came into being there was a military threat within Europe itself but, over the last decade, it was not within Europe that the most serious or immediate danger lay. At the present time it was to be found in South East Asia but it might likewise arise in Africa or elsewhere before long. Moreover, there was perhaps a tendency in the West to over-simplify current problems by dividing the world between that part dominated by communism and the remainder. There were, in fact, however, other hostile forces which some of us had to confront. It was high time, therefore, that the Western powers coordinated their policies in the various parts of the globe and the speaker ended by citing various examples in support of his argument.

An Italian participant already quoted said that he, too, was in favour of a united and democratic Europe closely linked to the United States and including Great Britain. It should further be capable in due course of rallying Spain and even the East bloc countries themselves. The speaker raised a series of questions:

Did any communist danger still exist? There was a tendency in certain sectors to think that the dispute between China and the USSR had relegated any such danger to the past but this view was not shared by the speaker who, on the contrary, believed that that conflict involved increased risks of outbidding.

Did any danger of war still exist? Here again, the speaker felt that the balance of terror had not automatically excluded the danger of total war and that, in addition, the situation was propitious to the outbreak of limited conflicts at various points of the globe, more especially in view of the increased number of centres of power and ambition represented by the new countries.

In the face of this increasingly complicated over-all situation, the speaker said, a united Europe was necessary along with a "united United States". It was possible that, in this field, America did not adequately recognise the implications of certain situations (e.g. Suez) as far as its European allies were concerned. It should guard against a certain feeling of self-sufficiency created by its own power and associate its allies more closely with its own decisions.

Speaking a second time, the American participant who had initiated the

discussion emphasised his country's anxiety in the face of various developments—or, in a certain sense, the lack of development—which had taken place in Europe over recent years and speculated as to whether the French position as outlined by a participant from that country might not be summarized as: "Don't behave towards France as France behaves towards you". The speaker stressed that his country had never apprehended that a united Europe would separate itself from America. What the United States was afraid of, he said, was a fragmented Europe, reverting to the bad habits of the past with the principle of equality replaced by rivalry and competition between the nations for individual advantages, which would make any Atlantic partnership very difficult. This return to the pursuance of national and temporary advantages represented a very alarming trend which highlighted the need for mutual consultation. True enough, one and all could be criticised in this respect and the United States itself had perhaps failed to set up the necessary machinery for consultation; but it had made a consistent effort along such lines as witness not only certain bilateral discussions (e.g. with the British Government on the subject of Africa) but also exchanges of views which had only recently taken place within NATO. It should further be pointed out, said the speaker, that the experience of the United States in regard to consultations had not always proved either highly encouraging or highly productive. Even if we did not always do what was required for our European friends, he concluded, we were nonetheless determined to do so.

* * *

At this point in the discussion, the Chairman suggested that comments be concentrated on the negotiations between the six countries for political union and the organization of nuclear defence so as not merely to take note of an agreement on basic concepts but also to highlight possible divergences concerning the methods required to reach our objectives.

The first statements during this session reverted to the problem of joint defence from the viewpoint of the distribution of the burdens between the allies which had already been raised by a British participant supported by an American participant who stressed his country's determination to resist communism throughout the world.

The international participant (the author of the introductory Note for the first part of the agenda) emphasised the degree to which it was normal that the question of distribution of burdens should be raised by the United States and the United Kingdom since these countries had difficulties with their balance of payments. He also recalled that in 1961 NATO had set up a group of ex-

perts to examine the problems of balance of payments resulting from the joint military effort. That group's work could usefully be taken up by Working Party No. 3.

In this connection, a German participant pointed out that an improved distribution of responsibilities could only be achieved by joint deliberations in which one and all took part. Two complementary sides of the same coin were involved: no country could take a decision by itself and expect its partners to support the consequences but, conversely, no country could demand to participate in drawing up a joint policy if it intended to dodge the financial burdens such a policy implied. Indicating his agreement with the two previous speakers, the British participant already cited stressed this interdependence and said that it was exceedingly difficult to persuade public opinion in his country to accept an increase in its burdens in Germany—and hence an increase in its deficit—unless the latter country concurrently made an increased effort—all the more so, he repeated, since his country's efforts in Malaysia and the Persian Gulf were being made on behalf of the free world as a whole.

Reverting to the position of the French government, the same speaker suggested two important spheres of NATO strategy in which France could cooperate without thereby forfeiting any of its particular doctrines, namely examination of allied forces deployed in Europe, on the one hand, and, on the other, in consultation with the "non-nuclear" allies and in the framework of NATO, examination of the best use which could be made of atomic power for joint defence.

A Turkish participant put forward the suggestion that certain problems relating to nuclear weapons might become less acute in the course of time because the increasingly prohibitive cost of nuclear equipment might set a limit to the ambitions of all concerned. Expressing his concurrence with the two previous speakers as to the necessity of preserving existing institutions without sterile discussion, this participant likewise urged that NATO should not become hypnotised by current difficulties but should revive the conclusions embodied earlier in the "report of the three wise men" which contained a whole series of excellent suggestions designed to inject fresh vigour into the organization.

At this point in the discussion, various American participants reverted to their country's position in the Atlantic Alliance. One of them asked whether sufficient recognition had been given to the extraordinary innovation represented by America's commitment to NATO and the extent of his country's subsequent strategic effort. In the circumstances, he said, it was difficult to want the Americans to defend Europe and to get out of it. In this context, it was worthwhile recalling that the United States itself was the object of ap-

proaches by the Russians who held out as a lure the considerable advantages which America would obtain by suppressing their military bases, withdrawing from NATO and agreeing to the denuclearization of Europe. It might be asked, added this speaker, how the free world would gain from seeing each nation go its own way with its own nuclear weapons! And, together with another American, he asked, "What does France expect from the United States?"

Going beyond the limits of this discussion, another American participant stressed the part played by ordinary people (and the scientists) in the evolution of the modern world. Two notions, he said, were unrealistic: the idea existing in Europe that the deployment of American strength in the world was eternal and the idea existing in America that Europe would not ultimately demand absolute equality with America in the nuclear field. The time had perhaps come for the United States, therefore, to offer once again to Europe, on condition that it united, the equal partnership outlined by President Kennedy. A great idea had perhaps more chances of succeeding at the present time than the innumerable small speculations arising from the situation in a given country.

Apart from the above ideas concerning the Atlantic Alliance, current prospects in Europe were discussed at this stage by several speakers. While stating that he adhered to the second school, an Italian participant (supported by several other speakers) expressed his doubts as to the notion that the adjournment of the Venice Conference was designed to ensure its complete success at a later stage thanks to more thorough preparation. He believed that such a conference could not succeed with conclusions reached in advance and preliminaries already defined. What was needed was confidence in the partner and this did not seem to exist nor would it be promoted by ultimatums. Moreover, the Europe to be created should be democratic with full parliamentary control, failing which there would be no purpose in creating it.

Recalling his country's consistent line towards both the United States and Canada and a democratic federal Europe, a Netherlands participant stressed the essential part which should be played by both England and France in creating European unity. Any nationalism was dangerous and that was why the Netherlands was pleased with the ties of friendship established between France and Germany; but he strongly emphasised that the current danger lay in stopping the building of Europe. Existing achievements could not be allowed to suffer from the current political deterioration. If the desire for or the possibility of political integration was lacking, progress could still be maintained, e.g. in a common agricultural policy, customs dues, etc. On the other hand, progress towards political union required a certain identity between

national policies which did not at present exist. We should therefore move cautiously in this sphere. But inactivity was hard to endure, especially for the young and hence, the speaker concluded, the Netherlands was always prepared to move forward in concert with its five partners but on condition that this did not threaten Atlantic solidarity and allowed for the fact that the Europe of the Six did not constitute "Europe".

The same participant likewise emphasised the consistent support which the United States had given since the war to its allies in Europe—an attitude which was in contrast with that post 1918—and he regretted that America was subject to so much criticism, sometimes to the extent, or so it seemed, of wishing to see it quit the Continent.

An American participant put forward some suggestions which he considered might inject some drive into the Alliance without thereby coming into conflict with the national feelings expressed by the French Government. He said that it was essential to evolve towards a sort of free world community without thereby shifting away from the principle of sovereignties. There was already one institution which had proved itself and which met these requirements—the O.E.C.D. It could serve as a rallying point for all innovating ideas connected with aid to development, full employment, expansion of trade, foreign investments, East-West trade, etc. Heads of State could meet within its framework and a "Committee of Wise Men" without supranational powers might be appointed. The O.E.C.D. might likewise be supplemented by an advisory parliamentary body.

Additionally, the West could act jointly, first for the reconciliation of Germany with Poland and then of the West as a whole with part of Eastern Europe which might even have a favourable effect on the USSR, given that country's difficulties with China, and thereby open the way to German reunification. This required that specific actions be undertaken, e.g. an increase in trade (by the United States as well as the others) and cultural relations, which would represent modest but real stages towards greater liberalization.

A British participant who said he belonged to the third school of thought expressed the hope that the Atlantic Alliance would move forward towards nuclear integration in a form to be discussed and, if need be, doing without French participation. The speaker did not wish to underestimate the importance of the geographical position of France in any ground war using conventional weapons but he excluded any such possibility in the nuclear era and this also applied to the possibility of a conventional war after an initial exchange of nuclear hostilities. The speaker did not believe in these possibilities. If, therefore, nuclear integration came about, France would have no alternative but to join in or remain the only power which foresaw an egotisti-

cal national solution. In this way, two birds would be killed with one stone in that the Alliance would acquire structural unity and Great Britain would also perhaps be assisted to enter the Common Market. In the speaker's opinion, the 1963 French veto was motivated by the unduly close links between Great Britain and the United States in the field of defence (the famous Trojan Horse). If this reason were to be eliminated, France would hence forward be in a minority and could not impose a veto and, moreover, the British Government would be encouraged to agree to abandon its sovereignty in other fields as well. This, however, implied:

- as far as Great Britain was concerned, the surrender of a particular nuclear status in Europe for the sake of a status of equality (which the present Government seemed inclined to accept);
- as far as Germany was concerned, an option after the forthcoming elections between this solution and the French solution in the field of defence since failure to choose would amount to choosing France;
- as far as the United States was concerned, a firm leadership which had been somewhat lacking in Europe over the last six months since their preoccupations seemed to lie more in Asia.

A Swedish participant stressed that his country had no wish to be isolated but wanted to be treated as an associate in European policy and that it was ready to accept the burdens this implied. Since 1962, he observed, much progress had been made, especially in regard to economic growth and increased trade, both as far as the EEC was concerned and in respect of EFTA. True, paths had been blocked but there were still fields in which advances were possible and, for his part, the speaker saw three such fields:

- the Kennedy Round should be able to demonstrate the possibility of a "practical partnership";
- the EEC and EFTA could continue to progress on present lines;
- even outside the Kennedy Round, it should be possible to bring the EEC and EFTA closer together especially if, as a Netherlands participant had stated, the latter adopted a liberal outside approach.

A French participant already quoted spoke again in defence of his Government's position and replied to the observations made on this subject by various speakers. He began by stressing that there was no question of throwing the Americans out of Europe. The Americans should play their part but without exceeding it. He went on to say that it would be desirable to put an end to the over-easy trial of French "nationalism", the "policy of grandeur" and the "dissembling" of French diplomacy and admit that reservations could be expressed in the free world or opinions differing from those of the majority. Positive criticisms were useful to everybody. What was especially needed was to

bear in mind the change which had taken place in Europe over the last 20 years and which made it a major partner. This problem was psychological. Today, Europe, like the whole world, needed consideration and dignity and this was especially true of France. This change had led France to practice a different policy, a new policy, but, the speaker pointed out, Great Britain itself had already adopted positions in the past which could be regarded as midway between those of the Alliance and those of the U.S.S.R. (e.g. in regard to the Rapacki Plan and even Berlin).

The essential thing was to try and reduce the margin of disagreement by going beyond doctrinal and dogmatic discussions, said the speaker, who, for his own part, considered that four points might be borne in mind:

- what united us was stronger than what divided us;
- relations between Europe and the United States should be considered not only in terms of the Alliance's interests in Europe but also on a worldwide level (e.g. the Congo, South-East Asia, Latin America) and purely regional strategies should be avoided;
- the French did not wish to destroy the Atlantic Alliance so long as any threat existed; what we wanted was to improve, transform and modernise whatever could be;

- an economic Europe existed which consisted of six countries because, at a certain stage, a seventh had not wished to participate. It should be strengthened and France had done its part by putting forward concrete proposals.

But the speaker also cited various other points which should not be overlooked:

- in regard to the building of political Europe, he said, the only constructive proposal for political union had come from France (the "Fouchet Plan") and nobody had proposed anything else concrete. This plan was undoubtedly insufficient and imperfect but it represented an improvement over the earlier situation;

- the building of Europe was based not only on political institutions but also on a concept of Europe's relations with the United States which were the subject of pronounced disagreement.

In regard to institutions, the speaker, answering an Netherlands participant quoted above, said he considered that there was a contradiction involved in simultaneously demanding a supranational organization and Great Britain's entry into such an organization since that country would not soon accept it. Additionally—and here the speaker was answering an Italian participant—there was not only the Rome Treaty; consideration should also be given to the Franco-German Treaty which contained the seeds of a possible Europe. In regard to the European Parliament, said the speaker, France was not oppos-

ed to an extension of its powers; the problem lay in how it would be elected because there was a danger of finding that it comprised 25 to 30% of communists.

The speaker went on to say that he was optimistic concerning the ultimate creation of an institutionalized Europe because of the possibility of proceeding by stages and making compromises. On the other hand, he emphasised that the most serious disagreement concerned its position in relation to the United States, especially in respect of defence. It would be a heavy responsibility to give up all hope of European defence guaranteed by Europeans themselves. A new balance should be sought in the Alliance by ensuring that those who shared the supreme risk should also participate in the supreme responsibilities since it was inconceivable that a single great ally should decide on everything and carry the others in its train without asking their advice. Why cling to an outmoded atomic monopoly? It was in this regard, said the speaker, that we expected something from the Americans. How could there be an equal partnership while one member retained atomic leadership? On the other hand, if the Americans were to change their relationship with the Europeans, it would be possible to do a great many things, with the French among others, since the latter had no systematic desire to reject or sabotage. But it was important to draw back from such dubious and ineffective combinations as the M.L.F.

In regard to the "Nation State" concept, the speaker argued that Europe would only exist when a transfer took place on the basis of the old national feeling towards a national European feeling.

The foregoing statement impelled a number of participants either to clarify certain passages in their own earlier declarations or to contest certain of the views just put forward. An American participant again recalled that his country had stated its readiness to review its position on the nuclear question once Europe was united. An Italian participant considered that a European parliament of the Six elected by universal suffrage would not contain more than 15% of communists (10% if Great Britain and Scandinavia joined). A Netherlands participant pointed out that while he favoured a supranational Europe over the long run, this also applied to Great Britain, without whom co-operation would have to continue between the Six. Another Netherlands participant already quoted recalled that on 23 April 1963 during the last Conference of the Six which had almost led to a political treaty, the only opposition came from France which refused, even in the future, to consider that it might one day be possible to achieve supranational unity, notwithstanding the fact that Great Britain, which had been kept informed, was ready to accept such a prospect. A German participant, in turn, put forward various observations:

- the Rome Treaty expressly provided for a liberal external policy on the part of the Community;
- what were the changes in behaviour (and in the "nuclear structure") which the French Government expected from its American allies? A three-power "Troika"?
- the Franco-German Treaty contained no innovation which might form the "seed" of a broader Europe; the only thing specified therein was that regular consultations should take place and these already existed in the Europe of Six and in W.E.U.;
- General de Gaulle had expressly stated that any solution of the German problem should include a solution of the problem of German rearmament. The speaker said that he preferred the statements by the British Prime Minister who considered that a special solution for a single country was inconceivable and that any solution should also cover nuclear weapons deployed in a given region—all of which was more reassuring from the viewpoint of German security than the French declarations.

Concerning the changes referred to by the above-mentioned French speaker, an American participant took the view that, apart from the recovery of Europe, the problems were still the same while fresh problems had simultaneously arisen (the Middle East, the Far East, Africa). What was to be apprehended, he said, was that the present atmosphere of defiance and suspicion might lead the Western world to drift, even though the U.S.S.R. had not yet chosen between a policy of co-existence and its far left tendencies.

The French speaker took the floor again to reply to certain comments and clarify his thought and enlarged on several points. Neither the spirit nor the foundations of the Alliance were being called into question, he repeated. And France did not consider there was any present possibility of its overturning alliances as an Italian participant had suggested. What France hoped to see was the reorganization of certain structures so as to allow for progress made, a reorganization which should cover not merely the nuclear sector but also the conventional sector. Additionally, he repeated, the present fault of the NATO pact was that it was essentially regional and its field of application should be extended. As to the Franco-German Treaty, it could provide a useful basis if applied somewhat more thoroughly in regard to co-ordination. The problem of German reunification was doubtless the most difficult to solve and it would be well to consider it with the maximum degree of realism and to recognise that the key lay somewhere rather than somewhere else.

The speaker concluded by arguing that Great Britain's and the United States' place naturally lay in the Atlantic entity. For the present, he said, the essential thing was to build a continental Europe which might one day perhaps

be open to the United Kingdom. Moreover, such a continental Europe, with its own concerns and responsibilities should be a pillar of the Alliance. The United States' place was that of a partner separated by an ocean from its allies which should take account of Europe just as Europe, naturally, should take account of the United States.

* * *

At the beginning of the Sunday morning session, the author of the introductory Note put forward various observations on the earlier discussions. He observed that, while the discussions of the first item on the agenda had covered both concepts and lines of practical action, discussion of the second item had been mainly concentrated on principles and insufficient attention had been paid—even if there was a danger of serious disagreements emerging—to the practical steps required in the years immediately ahead.

Methods were important, said the speaker, since if the methods were bad the ultimate objectives of the Alliance might be endangered. For instance, if it were contended that a certain type of European union was a pre-condition of Atlantic partnership, as we saw it, and if such union was not forthwith achieved, then a void would have to be recognised. The speaker alluded to the concept of the M.L.F. which, while it allowed for the unequal balance of power existing between the United States and Europe, nonetheless took account of the changes which had taken place in relations between Western countries. Rejection of the M.L.F., because it was not based on the unrealistic concept of perfect equality, was equivalent to creating that void which the speaker apprehended. Similarly, while it might be readily admitted that there could be no perfect economic integration of Europe without political unity, it was dangerous to assert that the Common Market would be jeopardised unless such union were immediately attained in a specific form since this would lead to denying any value to the successes obtained over recent years by the Common Market, even though the Governments of its member countries disagreed strongly over certain questions of defence and foreign policy. Another example: it was said that Great Britain should belong to the European Economic Community, but, without waiting for that country's entry, that it was important to develop political conversations within the Brussels institutions. Such reasoning might lead to the conclusion that no country could participate in such discussions unless it were a member of the Common Market. This, however, meant discounting the situation as it really was, particularly the fact that political union had to be discussed solely at governmental level. This amounted to overlooking the only reason for the British Government's absence, namely the veto of a single country. The speaker

concluded by saying that it would be better to concentrate on concrete problems arising in 1965 and 1966, and to avoid the confusion which would be inevitable if attention were paid solely to the question of concepts.

In the discussion following on this statement, most of the speakers sought to highlight the practical aspects of current problems, even when their statements were limited to analysing situations and stressing the objectives to be aimed at. After various statements of this kind, an international participant put forward a certain number of suggestions which gave rise to numerous questions and comments, sometimes accompanied by counter-proposals. An American participant advanced the idea that the basic objective of the arrangements to be instituted during the years ahead should be to induce those who possessed the power to recognise their responsibilities so as to use that power constructively. This applied to the USSR justifying all the pressure that we had to maintain on that country. But it also applied, in a different way, to the United States. The most prevalent fear was that the latter would retire into isolation, but he thought that a much greater danger was that they might give proof of excessive nationalism and pursue an audacious policy inspired by its own exasperation. The speaker concluded, however, by saying that it was remarkable how the younger generation of Americans were aspiring to undertake constructive tasks and that they ought to be given the opportunity of putting their ideals into practice, while at the same time defending Western civilisation, instead of being provided with purely economic horizons.

A British speaker sought to dissipate certain illusions which, he considered, were becoming evident.

The first consisted of thinking that, because of the change in the economic equilibrium between the United States and its allies which had occurred over the last ten years, the NATO concept was necessarily outdated. A joint strategy, or an integrated command, was still needed, inside but also outside the area covered by the Treaty (especially in the Indian Ocean and the Far East).

The second mistake consisted of thinking that Europe could defend itself in the foreseeable future without United States assistance. This was not true on a world-wide level, nor even at European level.

The third mistake consisted of considering American investments strictly from the financial angle without allowing for the implicit introduction of techniques and "know-how".

The fourth point concerned relations between Great Britain and the European Economic Community. It should be clear that the United Kingdom wanted to join along with the EFTA countries, but that it could not confront a third check. The important thing, therefore, was to look ahead and not to

revive old quarrels, and for this purpose, it was less vital to consider the Rome Treaty as such than the important structures erected on the basis of that treaty. Did we all have the same ideas in regard to economic policy? If, as could be hoped, the Community wished to pursue a liberal policy, then a greater degree of affinity than was implicit in the Treaty as such would become apparent, and the difficulties would be reduced.

The speaker raised one final point: in the years ahead, we would have to solve a number of political and military problems together. If we succeeded in agreeing on these, signing of the Rome Treaty by the United Kingdom would become of secondary importance and the difficulties would vanish. On the other hand, if no such agreement could be reached, any formal arrangement would be meaningless, and Europe's position would indeed be very serious.

Incidentally emphasising the benefit which his country derived from its proximity to the United States and the investments which that country made there, along with the advantages of European immigration in Canada, a Canadian participant contended that if the United Kingdom participated in or was closely associated with the Common Market, Canada would also profit, but only if the Community was as liberal as possible.

An American participant, who said he favoured the third school of thought described in the introductory Note, expressed the hope that, in face of the difficulties highlighted during the previous day's discussions, the Alliance would adopt a global attitude towards major problems rather than concern itself primarily with uniting Europe and then drawing up arrangements between a united Europe and the United States. In this connection, the speaker bitterly regretted that the proposals put forward in Paris in January 1962 for an executive, an advisory assembly and a high court of justice for the Alliance had not been taken up by any government, including his own. There was an undue trend to think of partnership as being like a pair of equal weights, he said, whereas it would be better to rely on the federal principle, on the American legal concept of senior and junior partners which included methods for settling differences between both parties.

Addressing the meeting again, a "European" participant voiced a number of criticisms of the third concept outlined in the introductory Note, particularly in regard to the "Atlantic" nature of foreign and military policies and its rejection of the concept of equal partnership. The speaker explained that the "Europeans" considered their continent should arrive at a single concept in the political and military spheres and that some degree of unity in those spheres should be achieved forthwith or in the very near future if economic integration was to make progress. Such unification would have to be uncondi-

tional: Europe's continued membership in the Atlantic Alliance should not be raised in advance, said the speaker, who, however, expressed his profound conviction that Europe would remain within the Alliance in view of the many ties linking the two continents. Political unity might begin on a very modest scale and on the basis of various projects, even limited ones, which had been put forward, but it should very rapidly lead to a Federal structure. Referring to views previously advanced by a French participant, the speaker said that there could be no question of waiting ten or twenty years since this would mean that we were not equipped to establish political unity representing a counter-balance to the power of the United States and leading to a genuine partnership. He added that England was an integral part of Europe and that sooner or later it would necessarily join the Six and the sooner the better. Nonetheless, while this might be confronted with a "French obstacle" there was also a "British obstacle", as demonstrated by a recent declaration by that country's Prime Minister treating such adherence as a long-term objective. The speaker expressed the hope that Great Britain would indicate its readiness to accept all the implications of European unity, not only economic but also political, so as to be able to enter the Common Market.

This statement led to a question from a Turkish participant, who asked the previous speaker whether by rejecting any pre-condition to European unity, he implied that there was a possible contradiction between achievement of European unity and preservation of the Atlantic Alliance, a contradiction which he personally did not believe in.

A British participant, referring both to the foregoing statement and the earlier comments by another British speaker, made several observations: political union, he said, was inseparable from unity of policies, unless certain countries were ready to have a policy decided in their name by others, which did not seem to be the case. Considerable differences existed, for example, even between the Six, concerning as important a problem as German reunification. Similarly, what should Great Britain do in such circumstances as far as its influence and responsibilities outside Europe were concerned? Was Europe ready to share these, or did it expect Great Britain to begin by giving them up? The speaker concluded by saying that, if we wished to achieve European political unity, we would have to concentrate our efforts on obtaining a real unity of political views, both immediately and for the future, in respect of all major problems. To ignore these in our discussions would present grave dangers, not only for the unity of the West as a whole but even for the future of the European Economic Community.

At this point in the discussion, a Greek participant intervened to say that, although he did not defend every aspect of the third school of thought, it did

not involve any question of subordinating a European policy to an Atlantic policy but was concerned rather with the problem of priority, allowing for the fact that no international policy could be other than Atlantic without ignoring the realities.

An Italian participant supported the above-mentioned European speaker and questioned whether the economic union of Europe could be carried through in the absence of some sort of political agreement. He also said that partnership should be regarded as a sharing of tasks between the United States and Europe.

A German participant considered that Europe's adherence to the Atlantic Alliance should be regarded not so much as a condition but as an existing fact and a future goal. At the same time, however, he said that it was ill-advised to set such pre-conditions for the creation of European unity as complete unity of political views. Citing the experience of the EEC, he observed that what was needed was to create a framework in which such a policy could be drawn up through the activities of Community bodies. This framework should make it possible to concert Community interest and national interests.

A French participant pointed out that those who favoured the second school of thought mentioned in the introductory Note considered that Europe's future was linked to that of America and that there could be no overthrowing of alliances. At the same time, however, it was impossible to accept the idea that such European unity could be dissolved in or absorbed by a vague "Atlanticism" which would not provide it with any solidity. It was therefore essential to achieve partnership of the kind proposed by President Kennedy.

Faced with the real risk of nationalism and disintegration, a revival was needed, and this should not come solely from France, said the speaker, who, for his own part, saw three possibilities:

- the other five partners in the Community should tactfully insist that the Community be provided with the strongest political content that France could accept;
- the British Government should make a declaration of intent going beyond the comments so far proffered by Mr. Wilson;
- the United States should realise that Europe sought firmer guarantees in the nuclear sphere. It should therefore offer Europeans the means required for their nuclear development, linking any such offer to a strengthening of the European structure.

A Netherlands participant made three observations on the statement of the above-mentioned European speaker:

- if one accepted the argument that the Common Market should unite politically in the near future so as to advance economically, there was a

danger that things would come to a halt because of the serious political divergencies existing among the Six;

- if one were convinced that United Europe would always be linked with the United States, criticism of the third thesis lost much of its force;

- if it were accepted that the concept of an integrated democratic and federal Europe was rejected by one of its members, then there was no reason to reject admission of Great Britain to the Common Market.

According to an Italian participant, what was lacking was any possibility of frank discussion whereby Europeans could communicate to America their views on certain major problems of common interest—such as that of Vietnam—in which America had the primary responsibility. The United States should recognise that the respective situations of Europe and America had changed over the last fifteen years. It was this feeling and not merely the development of French internal policy which could bring about an aggravation of the malady known as “Gaullist nationalism”, and this in other countries besides France.

A Canadian participant expressed agreement with the other Canadian speaker already quoted and asked that those concerned should cease to think of NATO in the same terms as in 1955, when the Alliance consisted of weak states with one strong state. The same speaker appealed for tolerance on both sides of the Atlantic so as to facilitate the search for a common field of action.

Addressing himself to the above-mentioned French speaker, a British participant asked him what reaction he would anticipate if his Government made the gesture which he had recommended. In reply, this participant expressed the view that, if Great Britain was ready to state that it accepted the rules of the Common Market (with its time limits and stages), it could, so to speak, put France “on the spot” by demanding that France make a declaration of Atlantic solidarity. In other words, the situation would be reversed, since it would be impossible to reject a country which was ready to accept the Community rules on the grounds that the said country would insist on maintaining a unity of Atlantic views.

The author of the introductory Note then took the floor again and put two questions to the above-mentioned European participant:

- Why did he think that there would be a greater affinity between the Six regarding basic problems than there was between those Six countries individually and their other NATO partners?

- What did he anticipate would be the content of a foreign policy of the Six?

The same speaker expressed disagreement with the view previously voiced by a German participant and contended that the relation which the latter

saw between the early stages of the Rome Treaty and a possible political union was not valid. The Rome Treaty provided something more than a framework, while leaving policy to be filled in later, since there was already agreement on basic principles between the contracting parties. No similar agreement at present existed regarding foreign and defence policy; and it could reasonably be apprehended that ultimately the only way in which the Six could achieve clear identity in this field lay in adopting an attitude different to that of the United States.

A Belgian participant put forward certain considerations on the political follow-up which he considered would be made necessary by further integration of the Six in the economic, financial and currency spheres: the advances made in these fields, he said, would always be uncertain if, despite the rules laid down in the Treaty, they were forever being called into question by the participating countries, for more or less genuine reasons.

Additionally, only political union would make it possible to solve certain problems such as that of the necessary monetary unity necessary for the creation of a common currency or at any rate a common monetary system. In connection with the problem of British membership, the same speaker said he thought it desirable that this should come about before political integration was achieved so as to avoid additional difficulties. Political integration would be the subsequent stage, designed to enable the Common Market, in its new and larger form, to achieve its true aims and to consolidate them once and for all. This would facilitate achievement of a genuine partnership with the United States.

In reply to various comments relating to his earlier statement, the European speaker already mentioned said he agreed with most of them, and, more especially, with several of the views expressed by the German participant already quoted on a number of occasions. In connection with the possibility of a contradiction between a United Europe and the Atlantic Alliance, he emphasised that there was now a complete identity between the two but added that we did not know what the situation would be in five or ten years, which made it impossible for him in this respect to go along with the third school of thought. Similarly, recognition of specific affinities between some EEC countries and Great Britain should not mean giving up the EEC in favour of some new political structure. As to the content of a United Europe's foreign policy, the speaker thought it would be premature to try and define this beyond saying that in the foreseeable future it would be incorporated in the Atlantic Alliance.

In connection with observations made on the position of Great Britain, a participant from that country emphasised that his Government was aware of

the fact that its entry into the Common Market would be of major economic interest and that the links between Great Britain and its European neighbours were as important as those it had with its other "neighbours" across the Atlantic. But the British Government would never agree to be placed in a position where it would have to choose between the two, and the same applied to its ties with the Commonwealth. In regard to acceptance of the rules of the Paris Treaty, the whole problem lay in the content of the transitional measures to be taken, and, the speaker pointed out, there was a difference here in the psychological attitude of the English and that of their neighbours on the Continent. In our view, he said, total commitment was a starting point to be accepted with the idea of carrying it through with all its implications; on the other hand, continental Europeans would rather take the view that it was a point of arrival, without always being concerned as to how such a commitment could be achieved. It was to be hoped, the speaker went on, that this obstacle could be overcome. There was, however, another point of very great importance: in discussing Great Britain's entry into the European Community, there was an excessive tendency to look inwards, in other words, to consider only the relationship between Great Britain and the Six, whereas it was necessary to be genuinely aware of the extent and the paramountcy of British commitments on a world-wide level—in Africa, East Asia and Latin America—in order to enable the United Kingdom Government to link itself once and for all with the Community.

A Finnish participant put forward several observations on the dispute between Russia and China, and its implications for the West. He said that China did not accept Russian nuclear protection and simultaneously Russia refused to let China have "a finger on the trigger". At the same time, there was a conflict between the two countries for leadership of the Communist World. China accused Russia of weakness and was committed to a very aggressive and dangerous policy of support to "wars of liberation". In order not to lose its influence, Russia likewise supported such wars, while simultaneously talking of "peaceful coexistence", a policy violently attacked by China as a "double game". In fact, the Chinese threat was increasingly great as far as Russia itself was concerned. It would therefore be very dangerous for one and all if there were to be any slackening of American firmness towards China, especially in Vietnam. On the other hand, the speaker considered that the West should see what Russia might be prepared to do in order to play its historic stabilising part in Asia.

* * *

At the end of the meeting, several participants voiced general opinions

deriving from the discussions which had taken place. An American participant, for instance, considered that the position of the Alliance was not all that bad and that some speakers had been perhaps excessively pessimistic. The United States' objectives after the second world war had largely been achieved, and what had been accomplished in Europe was encouraging. The most dangerous problems remaining were those connected with the West's relations with the unaligned nations. Another American speaker emphasised the extent to which the United States was anxious to exercise its influence as a factor of unity and not of discord. The partnership should be the result of a voluntary adherence he said. A third American participant emphasised that the period of vitality through which the West had passed was due to the number of great ideals which had inspired it: United Europe, Atlantic ties, peaceful coexistence with the USSR, availability of new instruments in the political and economic spheres, etc.. It was the emergence of lesser and possibly contagious ideals which constituted the greatest danger and which might lead all concerned towards isolationism and internal regression. In order to combat this threat, the West would have to recognise the growing community of interests existing in more and more varied fields: trade, agriculture, communications, education, science and even religion. A Belgian participant further expressed the hope that, while taking a realistic view of things, those involved would display imagination and not seek to be logical at all costs. This participant cited several examples in support of his contention that there were, after all, a number of encouraging signs which were "illogical" and contended that we should be able to go ahead in several sectors.

Referring to the views expressed by other speakers, an American participant suggested that the discussions had perhaps been unduly concentrated on problems within the Alliance, and he hoped that the next conference would pay greater attention to examining joint activity by members of the Alliance in regard to the outside world, together with such subjects as the development of technological and scientific exchanges between NATO countries, which had been mentioned by a previous speaker.

The last speaker was an American participant who said that the Sunday morning discussions had been much more encouraging than those which had taken place previously, not only because the various speakers had followed the suggestion made by the Author of the Note and concentrated on the next two or three years rather than on a distant future, but also because attention had been unduly concentrated on a single individual during the Saturday discussions. He said that there was perhaps an excessive tendency to think of General de Gaulle as a solid wall rather than as a tree which could be by-passed if, as was the case, a dialogue with him seemed too difficult. For his own part, the

speaker could see no possibility whatever of worthwhile discussions with the General, such as a French speaker had suggested.

The speaker also considered that supporters of the second school described in the introductory Note over-emphasised the differences between themselves and adherents of the third school. In actual fact, he said, the two schools were looking towards the future and were not encouraging those "small ideals" to which the first school could not but lead. Some sort of dialogue was possible between members of the second and third schools, but the speaker saw no value in any exchange of ideas with the first.

In conclusion, the speaker expressed the view that the Government of his own country had not yet found ways, in the circumstances prevailing since January 1963, of asserting such a leadership as it had been able to exercise in cooperation with its Allies prior to that time. He added that he sometimes had the impression that there was not much eagerness on the European side to assume such leadership either, unless on the part of the French Head of Government. It was to be hoped that by seriously applying ourselves to the problem we would soon once again achieve a leadership acceptable to all.

* * *

Before declaring the meeting closed, His Royal Highness expressed the gratitude of the meeting to all those who had contributed to its complete success, more especially, to the Italian hosts who were to be congratulated on the admirable arrangements which had been made, the linguistic service, and the various members of the Secretariat.

ANNEX

Independently of the meeting, an American participant submitted a statement on his Government's policy in Vietnam. The speaker began by recalling that, in 1961, when President Kennedy came into responsibility, there was a very troubled situation in South East Asia; at that time, under the direction of the new President, after a very serious examination of the situation, two decisions had been taken.

For some time past, in LAOS, there had been an increase in desultory fighting, interrupted by temporary truces. The Pathet-Lao troops were supported by Hanoi with men and equipment. Even though the hostilities were still relatively "civilized", it was clear that the difficulties were due to Communist elements and that this represented a problem which might become very serious for the peace of the region. An end had to be put to this situation. When President Kennedy met Mr. Krushchev in Vienna in 1961, they both agreed that the Laotians should be left to settle their own problems and that the military elements and advisors which both sides had sent to the country should be withdrawn. This was followed by the long Geneva Conference which led in 1962 to an arrangement whereby the United States proceeded to withdraw 600 military advisers from the country. Peking and Hanoi were signatories to this agreement along with the USSR, but it was violated from the outset by North Vietnam whose effectives in Laos never fell below 6,000 men, and this violation had been maintained and even aggravated since that time.

Since 1954, following on a specific request from President Diem, the United States had provided assistance to SOUTH VIETNAM in the form of advice, equipment, substantial economic aid, teachers, etc.. At the end of 1959, following on a Communist Party Congress in North Vietnam, Hanoi decided to launch an intensive campaign in the South, with the aim of overthrowing President Diem and setting up a Communist regime. Systematic infiltration of equipment and men was carried out (beginning at this time and up to 1963, those concerned were primarily young people born in South Vietnam who had received special instruction in the North) and eventually this had led to an intensification of the guerilla war in the South. In the autumn of 1961 it was

clear that the struggle had acquired a new dimension and that if the Diem regime was to be maintained in power, American aid on a much greater scale would be needed; after extensive discussion and reflection, a decision was taken on these lines.

It was equally clear that the United States, by introducing larger units of advisors and by increasing its aid, was assuming a responsibility which it could not subsequently abandon and that the road it had taken would be a long one and full of hazards. But, within the framework of the SEATO Treaty, the United States had undertaken to protect South Vietnam and this decision led to a special protocol of assistance at the express request of that country.

Since that time, Communist infiltration into South Vietnam had steadily increased and reached a figure of 40,000, which, as from January 1963, included many men who had always lived in North Vietnam and had never seen the South before, but who had been trained for the carrying out of special tasks and who formed a very close-knit network of leadership. It was clear that the whole command structure thereby established was controlled and directed from the North. Today, its domination was widespread, more especially in certain areas with a lower population density. At the present time, it was safe to say that 25% of South Vietnam's population and an even larger proportion of its area were dominated by the Vietcong. This did not mean that governmental forces could not enter those regions if properly protected but, on the other hand, it did mean that the people living there were permanently subject to terrorist tactics by the Vietcong.

The speaker emphasised that there should be no doubt about this: the Communists were doing their best to portray the fighting as a revolt of the indigenous population of the country, and this idea was gaining a certain amount of credence in the West. Of course, the North Vietnamese were just as much Vietnamese as those of the South, but so were the North Koreans inhabitants of Korea. And if the Federal Republic of Germany were to take military action against East Germany, the Communist bloc would not pretend that that was a purely indigenous affair! It was necessary to emphasise this point because it involved a systematic tactic on the part of the Communists who, since the beginning of the cold war, had been everywhere frustrated in their efforts to extend domination through direct military action. They had always been thrown back by the free world, and it was this frustration which had led them towards what they now called "wars of liberation". What was happening in Vietnam was a "test case" for their world action. The United States, however, considered that aggression was aggression whatever name might be given it and no matter what form it might take, and America

would endeavour to fight such wars wherever it was obliged to, including on the moral level.

Another cliché which was widespread in the West—and even in the United States itself—was that the struggle in Vietnam was not a war to be fought by military means and that the United States had made a mistake in handling it in such a way. The speaker could not see very clearly what was meant by that. He said that it could certainly not be won solely by such methods and this the United States had fully understood. America must also conduct it by political, economic and social methods, by raising the population's standard of living and increasing its will to resist. He asked, however, whether such an assertion meant that only the Communists were entitled to win wars by military methods. It was clear that there was no substantial body of opinion in South Vietnam, apart from the Vietcong itself, which looked towards Hanoi for a solution of its problems. And the methods employed by the Vietcong to control the population (since persuasion had not succeeded) consisted of terror and intimidation (attacks on isolated villages, the murder of local officials and of people refusing to help the Vietcong, the forced enlistment of young people, and so on).

It was certain that this was not an easy situation for the United States but, said the speaker, experience prior to 1939—in Manchuria, Ethiopia, Austria, etc., not to mention the Hitlerian victories—demonstrated that the appetite of aggressors was never satisfied. The situation, moreover, had several implications. The most immediate concerned the whole of South-East Asia, and it was unnecessary to emphasise the strategic importance of that area. If the United States were to withdraw, the psychological and political effects of such a decision would be immeasurable. The Philippines and Australia would be directly threatened via Indonesia. And what would become of the credibility of American determination in other regions, e.g. in India or Berlin, to mention only two places? After all, what was at stake in Vietnam was the possibility for small countries to live in peace and preserve their independence.

The speaker went on to say that the United States did not accept another idea which was advanced in Europe and certain American circles, namely that this part of the world would sooner or later be wholly dominated by China because of historic inevitability. This was very dangerous nonsense, which amounted to saying that no small country could live in freedom on the edge of the Communist world. What would European countries which were in the same situation think then? There was, moreover, the precedent of Greece, which had been able in the past to win a "war of national liberation" through the support of the United Kingdom and the United States.

Another cliché was that white men had no place in Asia and therefore should not be fighting there. In this connection, the speaker emphasised that the United States had no direct interest, economic or political, in that area other than to preserve the free world. Its aim was not to establish a base to threaten Communist China or to destroy the Hanoi regime; its acts had no colonialist tinge. It was not a question of white men against Asians but of an attempt by white men to help free Asians to remain free.

Again, it was claimed that this was a hopeless war because of the political instability in Saigon. But instability was not unknown in situations where men were fighting for their lives while simultaneously introducing social changes. Naturally, the United States did not deny that this was a subject of concern. Here again, mention might be made of the example of Greece, a country which was more and more vigorous and politically important now, but which had nonetheless changed its government on several occasions while fighting against rebellion.

The question of a "political solution" was frequently raised, but this involved a misunderstanding, since the United States had always sought one. It might consist, for example, of a return to the 1954 situation, which was disrupted by the Communists. But whatever the solution, it should safeguard the security and independence of South Vietnam as long as that country wanted it. It was fair, then, to ask those who were urging the United States to negotiate: "What sort of solution do you want?", "What do you seek to achieve?". If it was a question of obtaining a "graceful exit" by the American forces, this was not an aim. The United States could withdraw at any moment, and would undoubtedly do so in a more dignified way without negotiations than with them. But its only interest was to maintain and carry out the promises it had given. It was ready to negotiate if its minimum objective, the independence of the South Vietnam people, could thereby be achieved. But it could not participate in negotiations doomed to failure, since a still more dangerous situation would then arise.

Post-war experience demonstrated that those negotiations which had succeeded were those which had a chance of succeeding from the outset (e.g. the raising of the Berlin blockade in 1948, the end of the Korean War, the agreement on nuclear tests and the 1962 agreement on Laos). In the absence of any indication that Hanoi was ready to change its attitude on this point, however, the United States had no other option but to go ahead. Hanoi must be persuaded that it, too, would benefit from halting its aggression. One way of achieving this consisted of proving to North Vietnam that it could not continue its aggression without paying a heavy price—hence the present bombing, which would continue until there was some indication that Hanoi was ready

to stop its aggression. A real political solution could only emerge from a decision already taken on those lines by North Vietnam.

In conclusion, the speaker said that the United States was well aware of the risks involved, but it also knew that these would be even greater if it withdrew and abandoned its responsibilities and the agreements it had reached. In the final analysis, it was a question of deciding whether the Communists should be allowed to achieve their goals through guerilla warfare, sabotage and terror. Should this be the path of the future? A halt must be called to this sort of war, said the speaker, who also referred to the example of the Congo. Since the end of the second world war, the United States had sacrificed 160,000 of its soldiers to this purpose, not to mention the tremendous financial effort involved: the military budget of the United States, estimated at \$ 10 billion in 1947, had now reached a figure of \$ 650 billion!

The Americans had enormous unfinished business at home, and every country, however rich it might be, could claim to be under-developed in this sense. There had, however, to be an order of priority governing the actions of free-world countries, and the first priority was to avoid being faced with another world war, which would be inevitable if aggression were not stopped when it first began.