BILDERBERG MEETINGS

ÇEŞME CONFERENCE

25-27 April 1975

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LIST OF PARTICIPANTS

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Pitti-Ferrandi, Robert	France
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INTRODUCTION

The twenty-fourth Bilderberg Meeting was held at the Golden Dolphin Hotel, Cesme, Turkey, on 25, 26 and 27 April, 1975, under the Chairmanship of H.R.H. The Prince of the Netherlands.

There were 99 participants, who came from 14 European countries, the United States, Canada and several international organizations. A wide variety of fields was represented: government and politics, banking, education, the law, journalism, industrial management and trade unions, transport, foundation administration, and the diplomatic service.

In accordance with the rules adopted at each Meeting, all participants spoke in a purely personal capacity without in any way committing the organization or government to which they belonged. To enable participants to speak frankly, the discussions were confidential, with no press reporters admitted.

The Agenda was as follows:

I. Inflation: Its Economic, Social and Political Implications.

II. Recent International Political Developments:
A. The present status and prospects of efforts to resolve the Arab-Israeli conflict, and the effect on relations among NATO members.
B. Other recent developments affecting the relations among NATO countries.

In opening the meeting, H.R.H. The Prince of the Netherlands read the text of a telegram which he had sent to the President of Turkey, expressing gratitude for that country's hospitable welcome. (A message of good wishes from President Korutürk was read to the participants at a subsequent session.) The Prince also read a telegram of greetings received from the Turkish Prime Minister, Mr. Demirel.

After recalling the rules of procedure, the Prince turned to the first item on the Agenda.

ITEM I

INFLATION: ITS ECONOMIC, SOCIAL AND POLITICAL IMPLICATIONS

WORKING PAPERS

The background for the discussion of this subject was provided by three working papers – prepared by a Canadian, a German and a Dutch participant – which had been distributed to the participants prior to the conference.

A. The *Canadian paper* was entitled "Inflation, 1950-75: A Social and Political Perspective". According to the author, the present hyperinflation and severe recession are inextricably linked. Our current predicament marks a pronounced break in the surge of economic growth experienced in the advanced Western industrial countries over the last 25 years. How have the goals and policies of the past quarter century brought us to this pass? Clearly there has been a persistent inflationary bias; the dangers of inflation have been downgraded in relation to the priorities of previous history, and the consequences of inflation subordinated to other social and political purposes.

Mindful of the Great Depression, and inspired by wartime sacrifices, governments after World War II took a quantum jump in explicitly accepting unprecedented responsibilities for full employment, the general welfare and greater equality. The resolution of governments to assume these far-reaching social goals was fortified by the new orthodoxy of the "Keynesian Revolution", which swept aside critical perspective and balanced foresight.

The new doctrines sought to show that the capitalist market system in advanced industrialized countries tended inherently toward chronic stagnation, and could not ensure the full use of resources (including labor). The Keynesian solution was for government to manage total aggregate demand so as to bring into use all productive resources and thus guarantee full employment. This demand management was to be accomplished by timely changes in governmental revenues and spending, facilitated by discretionary management of the money and credit system to maintain low interest rates and ample supplies of credit. These policies were aimed at encouraging both aggregate consumption and private investment, which were held to be closely linked through a multiplier relationship.

Although this Keynesian approach had proved useful under the special conditions of war, it had a strong inflationary bias from the outset. After 25 years, the consequences of this bias are submerging the very objectives for which the strategy was adopted. The single-minded pursuit of full employment is failing, and the aims of social justice and welfare are being undermined by the inequities of capricious redistributions of income and wealth through rising inflation. Is this present malaise simply an interruption of an essentially viable course, or are we faced with more serious problems of social and political orientation?

Experience has now shown that governments and their Keynesian advisers have been proceeding on a number of simplistic and erroneous beliefs, one of the most serious being that "money doesn't matter all that much." It was thought that the main role of money was to keep interest rates low, and that its supply could be regulated for this purpose without much regard for effects on the price level. Prices were viewed as based on costs, which in turn were determined mainly by wages (which tended to be sticky and responsive primarily to factors affecting traditional relationships). The close connection between the quantity of money and the behavior of the general price level – which had long been understood – was somehow overlooked in the postwar period.

The shortcomings of this philosophy of monetary management became apparent in the persistence of inflationary pressures. Resort was then taken in another simplistic solution: Keynesian demand management through fiscal policy designed to achieve appropriate budget surpluses. Raising taxes came to be a standard anti-inflationary procedure, often without regard to what was happening to the supply of money and credit.

As the limitations of simple demand management and fiscal policy became clear, the authorities turned to more direct intervention in the private economy through enforced or voluntary controls. These "incomes policies" were based on the simple belief that governments could establish by fiat what the Keynesian doctrine had assumed was the natural state of affairs. (Of course, a thorough system of authoritarian controls could restrain and fix prices and wages, but it would not be a market economy or a liberal society.) There is no evidence that this interventionist approach has done anything more than disturb the timing of the inflationary process.

The Keynesian prescriptions assumed a strong isolationist and protectionist posture, so that external influences would not frustrate domestic management policies. As it turned out, though, the re-establishment of convertibility and a relatively rigid regime of fixed exchange rates provided a mechanism for the international transmission of liquidity and inflationary pressures (conditioned largely by the monetary and exchange policies of the US). Without the protective shield implied by Keynesian doctrine, which might have been provided by greater flexibility in exchange rates, individual countries were left helpless.

The new orthodoxy also assumed reasonable accuracy of medium-term economic forecasting. In fact, official forecasts used for fiscal purposes have very often been wide of the mark, so that government action or inaction has been wrong or untimely. In the face of these difficulties, better results were sought through "fine tuning" based on short-range information. Unfortunately, there are long and variable lags between fiscal and monetary decisions and their effects on the economy. Furthermore, tactics aimed at quick results and the attainment of short-run inflation/unemployment trade-offs tend to be frustrated by the public's inflationary expectations.

In short, the problems of achieving full employment and general welfare and security on a sustained basis have turned out to be far more complex than the new postwar economic doctrines had envisaged. The hopes that government could effectively manage aggregate demand and money have been proven simplistic and exaggerated.

Perhaps the most significant outcome of the Keynesian Revolution has been the unprecendented growth of government in the West over the past quarter century. Total government spending as a percentage of GNP has approximately doubled, and continues to rise in many countries toward the 50 per cent level. More and more economic and social decisions are being made in the political and bureaucratic arena, with automatic market processes playing a diminishing role. Governments everywhere are confronted with pressure groups whose demands cannot be reconciled with the means at hand. To cope with this predicament, governments tend to avoid the hard decisions and to resort to the inflation of the money system – social and political peace being given precedence over equity and efficiency.

Throughout the postwar period, the monetary authorities have generally accommodated the political realities by making available supplies of money and credit. The inflationary process eased the government's problems of deficit financing while enabling it to increase its revenues without having to legislate unpopular taxes.

The political importance of the short run is a most troublesome feature of a doctrine which involves the politicization of money and the governmental management of the level of economic activity. Once the inflationary bias has fastened a strong grip on expectations, no simple or painless solutions can be found. There is no assurance that "indexing" or other adjustments can be applied equitably over the whole of society, or sustained amidst constantly rising inflation. But it may be possible to remove the attraction of the inflationary process as a device for easy government financing and conflict resolution by suitable changes in the tax laws and by indexing government obligations.

Is rising inflation inevitable in our societies? Not if we can understand that, over any considerable period, it is a monetary phenomenon; not if we can surmount short-term political preoccupations in our conduct of monetary and fiscal policies; not if we can develop an international regime to restrain the transmission of inflation; and not if we can use the market system to constrain the pressures of special interest groups.

As Thomas Mann reminded us: "It was during the inflation that the Germans forgot how to rely on themselves as individuals and learned to expect everything from 'politics', from the 'state', from 'destiny'."

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In his introductory remarks, the author emphasized the pernicious psychological effect of generalized inflationary expectations. For nearly two centuries, price levels had been relatively stable, apart from aberrations caused by wars and revolutions. But since the Second World War, persistently rising prices had come to be considered "normal", as we had resorted to discretionary monetary and fiscal policies in an attempt to achieve ambitious social and political goals. The resulting inflationary pressures had been intensified recently by the vastly increased cost of food and raw materials (especially energy), a phenomenon which had been accommodated by a general price rise instead of by the traditional relative price changes.

After each period of economic expansion, we had moved onto a new and higher platform of inflation, since the exercise of discretionary policies would work only within the context of constantly rising prices. As it became more and more difficult to maintain order in our economies, the risk was that we would be tempted into interventionist measures which would compromise the fundamental character of our liberal democratic system. The author therefore called for a re-examination of the validity of discretionary controls. Might it not be better, as the monetarists argued, to return to some kind of externally-imposed criteria to assure the orderly development of our money supply?

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B. The *German author*, addressing himself to the "International Aspects of Inflation", offered a set of fundamental facts, hypotheses and questions:

(1) Open inflation has been a persistent phenomenon in the free world economy ever since World War II, in contrast to the interwar period, when recessions brought about price reductions. Is this open (or suppressed) inflation a means of preventing serious recessions, and thus over the long run of raising the average rate of employment, capacity utilization and potential growth? If so, why should this be, and are there not alternate ways of attaining prosperity?

(2) While industrialized nations have only gradually moved from creeping to trotting inflation, the phenomenon of trotting or galloping inflation has long been known in the less-developed countries. Is the fundamental cause nevertheless the same in both places, namely the political impossibility of raising enough money in taxes and the consequent resort to the printing press, or the "inflation tax"?

(3) Historical events suggest a positive answer to the above question: the demand pressure in the US resulting from the Vietnam war; consequent reduction in American unemployment; worsening of the US balance on current account, reflecting overvaluation of the dollar; large capital outflows; increased holdings of dollars and other foreign exchange reserves by foreign central banks; and, at the same time, acceleration of inflation in all industrialized countries (except France) in the second half of the 1960's.

(4) The subsequent devaluation of the dollar reflected (a) the unwillingness of America's partners to continue paying this "inflation tax", and (b) the unwillingness of American producers to suffer the competitive disadvantages of an overvalued currency.

(5) America's trading partners were willing to pay the "inflation tax" for as long as they did precisely because their exporters enjoyed competing against an overvalued dollar. Their consumers, small savers, and many economists, of course, were on the other side of the fence.

(6) The worsening of the US trade balance was related to other developments: the implantation of US subsidiaries in Europe, where labor was then relatively cheaper; the transfer of American know-how and technology to Europe, depriving the US of part of its monopoly position; and American preoccupation with producing for the Vietman war and the space program.

(7) World inflation was probably also fueled by the creation of Special Drawing Rights just at the time when the supply of dollars was increasing sharply as a result of the US payments deficits.

(8) The doubling of world monetary reserves between 1969 and 1973 was

due partly to the growth of the Eurodollar market, and the participation of the central banks.

(9) This growth in international liquidity and money stocks is a sufficient – but not necessarily the ultimate – reason for world inflation. The sort of inflation we have had in recent years has most likely been supported by political parties and governments, who have discovered that unanticipated inflation raises the level of employment and capacity utilization (if only temporarily), and moreover that inflation can only be unanticipated if it is allowed to accelerate.

(10) Natural unemployment is higher and natural capacity utilization lower than what the public tolerates under the influence of Keynesian doctrines, since labor and product markets contain elements of monopoly, friction and uncertainty and hence are less perfect than classical textbook markets.

(11) The answer to market imperfections is not excess demand and inflation, but adjustment assistance and public subsidies to private firms to enable them to get better information about structural changes in their markets, so that they can adapt.

(12) To cope with monopoly elements, we should rely not on inflation but on an incomes policy, of which the author distinguishes two kinds: a *Conventional incomes policy*, in the form of moral suasion, gentlemen's agreements, and price and wage controls; it is directed at the symptoms, and may in fact reinforce the causes, of the dilemma. (b) *Radical incomes policy*, striking at the roots: monopoly power, insufficient competition, and market imperfections. This policy, which the author advocates, can take various forms: dissolution or control of monopoly power; adjustment of exchange rates in favor of foreign producers; subsidization of innovation, of patent licensing in non-monopolistic forms, and of adjustments to structural change. The aim is to make business and labor feel that competition is about as severe as in periods of recession, but with a higher capacity utilization and a lower level of unemployment.

(13) The removal of import barriers produces a competition effect similar to that produced by revaluation. Therefore advanced countries should turn their attention to the potential supply from less-developed countries, by welcoming low-wage imports – even if they are disruptive – and by encouraging investments in LDCs so as to develop an export-oriented industrialization of those countries. Unfortunately, the prospects are not bright for such a courageous policy within the EC, partly because of the limited influence of neoliberal economists there and partly because a larger area is bound to be more protectionist.

(14) Paradoxically, European countries which impede the free import of labor in the form of labor-intensive products allow the free immigration of

workers from low wage countries, for these reasons: (a) such workers are usually channelled into complementary jobs in the lower strata, and are not really considered competitors of domestic workers; (b) foreign workers complement domestic capital equipment, and their presence helps to defend traditional profit margins and to put a brake on the rise of labor costs and prices; and (c) many European trade unions are less interested than their American counterparts in maximizing real wages, and may be more concerned with maximizing union membership for its own sake or for political reasons. In short, this looks like a well-designed mercantilist policy, designed to serve the interests of producers and sellers – in contrast to consumers – and of politicians.

(15) Immigration is often an inferior alternative to imports of labor-intensive products from low-wage countries. World economic development would benefit from increased transfers of capital, technology, know-how and management skill to low-wage countries. (If it seems paradoxical that this would tend to produce higher employment and more price level stability at home, it should be remembered that the intermediate target is more sellers' competition, that is, an improvement in that odd system of social control which compels participants to serve ends which they do not, and need not, accept as their objectives.)

(16) Inflation is sometimes related to the struggle over income distribution, and it is possible that the relative scarcity of labor in advanced countries has become a factor contributing to world inflation. If so, everything possible should be done to keep business firms informed of structural changes and to facilitate their quick adjustment.

Based on the foregoing analysis, the author makes these policy proposals:

(1) Let monetary policy be concentrated on the single goal of supplying just as much money as is needed for the public to absorb the goods and services at prices consistent with a constant consumer price level. (Whether this is achieved by a price level rule or a quantity of money rule is of secondary importance.)

(2) Let business and labor understand that the government and the central bank have no other full employment commitment than that implied by the money supply rule. Once the central bank has complied with its single commitment, wage and price setters have to compete for total demand and be careful not to price themselves out of the market. Wage and price guidelines might be used as a "teaching instrument" during a transitional period, and adjustment subsidies might be insured for a limited time.

(3) Encourage competition by making individual markets and the economy as a whole open to newcomers and to imports from low-wage countries.

(4) Reconsider the question of the 'real' rates of exchange between the group of advanced countries and the group of developing countries, in the interest of more competition in the advanced countries and more balanced growth of the world economy.

(5) Improve the market mechanism by a better exchange of information; by removing artificial barriers to transactions; subsidizing transaction costs if they inhibit arbitrage, strengthening forward markets in commodities as well as foreign exchange; and liberating public authorities from tasks that can be carried out more effectively by private organizations under competitive conditions.

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In introducing his paper, the author underlined certain controversial points about inflationary causes, remedies and prospects. Any diagnosis of inflation had to take account of historical or episodic causes, but there was another factor that should not be overlooked. In the postwar period, a veritable competition had developed in democratic societies in prescribing the new Keynesian "medicine" of *unexpected* inflation. But it was only in the initial period, when the "money illusion" had not yet been fully exploited, that inflation could raise levels of employment above normal rates. So a continuing acceleration of inflation was needed, which was what had led us from the "creeping" to the "galloping" stage.

As to remedies, the author was opposed on ideological as well as practical grounds to direct controls, which had proved less effective than non-authoritarian measures. He favored instead a program aimed at correcting structural defects in three ways: (a) facilitating the process of economic adjustment by improving the flow of information to the market; (b) increasing competition by stepping up productive investment in low-wage countries; and (c) assigning to central banks the sole role of defending price level stability.

The immediate prospect was that the worldwide slump was producing a flattening of inflation during 1975, but that the expected upswing of 1976-77 could provoke a new wave of inflation in 1978, unless counter-measures were undertaken in time. So long as there was uncertainty about the future course of inflation, capital markets would remain oriented toward the short term. This was bound to have a depressive effect on international trade and investment, as had been the case in the inter-war years.

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C. The *Dutch paper* dealt with "Inflation and its Impact on Society". The author defines inflation as "a persistent and more or less substantial decline in the value of money," as measured by changes in price levels. Money serves as a unit of account and as a means of payment. In an extremely inflationary environment, the unit of account function is eroded first; in a subsequent stage even the means-of-payment function may waste away. Although in theory money is a neutral and efficient lubricant, in practice it may become an independent source of disturbances, of which inflation is the most important.

In a neutral situation, the flow of money is not unlike the blood circulation in the human body – an uninterrupted process of distribution and collection. Nowhere is additional money pumped in or siphoned off, the amount in circulation being just sufficient to maintain production and consumption at the prevailing price level. New money is injected only in response to increases in productivity or in the size of the labor force.

If more money than that is injected, inflationary disturbances will occur. This phenomenon usually has its source in one or more of these circumstances: (a) the business community, wanting to invest more than available savings' turns to money-creating banks; (b) governments, unable to cover their budgets by taxation and long-term borrowing, resort to money creation by the commercial or central banks; (c) a rise in wage levels exceeds productivity increases (cost-push inflation).

Whatever the cause of these sets of circumstances, they cannot arise or be maintained without a growing flow of money. In this sense, inflation in all its variations is a monetary phenomenon, and therefore could always be prevented by a restrictive monetary policy. Whether such a policy is always politically feasible is another question.

To the above three situations – which assume for simplicity of analysis a closed economy – a fourth may be added when taking into account international relationships: price increases of imported raw materials. It is not clear, though, that this is really an independent factor. The sharp rise in commodity prices in 1973 coincided with expansionary policies pursued to combat the recession of 1970-71 (a textbook example of demand-pull inflation). The subsequent rise in crude oil prices was a clear case of price-setting by a monopolist confronted with an inelastic demand for his product. While this causes a change in the terms of trade between oil products and all other products, it need not necessarily lead to a further overall rise in prices.

Three stages in the inflationary process can be distinguished: (1) "creeping" inflation, which is expected to pass (less than, say, 5 per cent a year); (2) "marching" (5-10 per cent); and (3) "galloping" (above 10 per cent, with confidence in money as a unit of account ultimately impaired).

Present-day inflationary processes are dynamic and cumulative. If in a demand-pull environment cost-push inflation sets in, it tends to accelerate even after the demand-pull inflation has been stopped by restrictive monetary and fiscal policies. Thus when wage-earners' expectations are raised and disappointed in endless succession, the inflationary process does not stabilize in Stage One but moves inexorably through Stage Two towards Stage Three. Higher rates of taxation and social insurance serve to stoke the fires by restricting disposable income and thus fostering wage demands in excess of productivity increases.

An intensive and cumulative inflationary process has severe economic, social and political repercussions. For the business sector, it means declining profits, to which industry responds with "capital-deepening" investments, aimed at substituting machines for relatively expensive labor. At the same time, however, the propensity to invest for purposes of additional productive capacity diminishes, producing a pernicious kind of unemployment which cannot be cured by simply stimulating demand. As funds for internal financing are eroded by rising wage costs, and capital suppliers become less inclined to make longer-term commitments, industry faces growing problems of finance and liquidity (aggravated by taxation systems).

But this squeeze on profits and liquidity is not felt evenly throughout the business community. In normal times, these differences would be cushioned and absorbed smoothly, but under galloping inflation the relationships among various economic sectors disintegrate, and people begin to lose faith in the market system itself.

The social consequences emerge when pensioners and holders of fixed-income securities – and even of common stocks – get the uneasy feeling that they are falling behind and being defrauded by invisible forces.

The political effects are easy to imagine: business firms in difficulty, the unemployed, individuals whose economic expectations have been disappointed – all turn for help to the government, which is then faced with serious dilemmas. Should it control the firms which it helps? Should it become a substitute for a failing capital market and a loaned-up banking system? How is all this to be financed without the adverse effect of higher taxes? There is the risk that the economic system will move into a twilight zone, a half-way house between a social order based on private enterprise and a collectivistic economic system. As the political system is undermined, the very roots of democracy are threatened.

Since every inflationary process is conditioned by a swelling flow of money (through money creation or the activation of accumulated liquidity), it follows that any cure has to be based on a restrictive monetary policy. But as the application of such a policy tends to depress production and employment ("stagflation"), it must be accompanied by policies deliberately designed to deprive wage and price increases of their cumulative effects. The general guideline should be that the nominal wage increase deflated by the price increase should be in line with productivity growth (adjusted if necessary for changes in the terms of trade).

This aim should preferably be achieved by a program of voluntary, non-statutory restraint, but where inflation has progressed deep into Stage Three, only a rigorous wage and price freeze can provide the necessary breathing space.

In many of our countries today, inflation is accompanied by widespread structural unemployment as well as a classical downturn in the trade cycle. A very careful mix of monetary and fiscal policies is thus needed to stimulate the economy while braking inflation. Fiscal stimulation will increase budgetary deficits, but the government's increased requirements must be met by capital market borrowing and not by money creation. This is particularly important in the US, as an excess of money creation there would be bad not only for the American economy but, because of the strategic importance of the dollar, for the rest of the world as well.

Admittedly, the timely and effective use of these economic and financial policies depends on political practicalities. What is relatively easy in the first stage of inflation requires a nearly superhuman effort in Zone Three. So we need political leadership that is able and prepared to convince the population that, however high the cost of combating inflation, the cost of not doing so will be even higher. The ultimate cost of failure will be the death of the principles of private enterprise and democratic government.

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After summarizing his paper, the author suggested three key questions for discussion:

(1) Do we agree that we need a monetary policy aimed at regulating the flow of money in such a way that a substantial inflation has no chance of taking off?

(2) If inflation is well under way, as is the case today, do we agree that we need an incomes policy – either statutory or voluntary, depending on the severity of the problem?

(3) How can we organize the political consensus required to implement points (1) and (2)? In other words, how can we persuade the voters that stopping inflation must be given the highest priority, regardless of the pro-

grams of their respective political parties? How can we convince people that, however high the cost of stopping inflation, it falls far short of the cost of not stopping it – unless, of course, we are prepared to sacrifice democracy?

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DISCUSSION

I. *Building the case against inflation.*

A. *Inadequacy of current empirical analysis.* A Dutch participant reminded the meeting that, not so long ago, "creeping" inflation had been generally welcomed by employers and employees alike, with few exceptions. It was only with the recent advent of the "galloping" phase that the opponents of inflation had moved into the majority.

Although there was now widespread concern about inflation, economists and publicists had so far not done a very thorough job of analyzing its damaging and disorganizing effects. An American speaker found the research effort to assemble the empirical facts "astonishingly thin". A compatriot thought that the recent double-digit experience should serve to underline the destructive impact of inflation, which had heretofore been inadequately demonstrated. A few thoughtful people had been apprehensive years ago, he said, about the prospective effect over two generations of an annual inflation rate of two to three per cent. Today everyone could appreciate how a 20 per cent rate would virtually wipe out values in the space of a few years.

An International participant agreed that the appearance of double-digit inflation should make economists realize that a comprehensive new analysis of the phenomenon was needeed. For too long, many of them had agreed that we should "learn to live with inflation", while indulging in fractious academic disputes with their fellows about causes and remedies. It now seemed clear that sharply accelerating inflation rates were not due simply to a coincidence of forces, but were the result of an international synchronization effect.

Until very recently, though, the political and social implications of inflation had been considered rather diffused, and it had not been clear that any one group was being particularly hurt. The business community felt reasonably well protected, as did the trade unions, who feared that their goal of full employment might be endangered by a serious anti-inflation policy. These attitudes had changed substantially with the arrival of "galloping" inflation.

B. *Effects on industry, trade and investment.* A British participant described the impact of inflation as seen across an industrial operation. This had nothing to do, he said, with speculation in the foreign exchange markets by multinational companies or with nefarious policies of financial directors – aspects which were often emphasized by politicians. Rather, it was a matter of simple arithmetic.

Inflation meant that more money had to be put into inventories and work in progress, which absorbed funds that otherwise could have been invested in long-term product research and development. And as the cost of new equipment and processes mounted, firms were constrained to cut back their trading level to keep business within the bounds of available financial resources.

The inflationary environment was forcing increasingly difficult choices on business managers, as they strove just to keep their firms in place and not lose ground. Yet their decisions were often greeted with abusive political attacks which ignored the simple facts they had to face. This was leading to a spirit of anxiety and rebelliousness among middle and upper level managers, which was an unhealthy development, as industry was after all our major creator of wealth.

A Canadian speaker referred to the constantly escalating costs (in real, not nominal terms) of new plant construction. At these inflated cost levels, there was no motivation for industry to bring in new capacity to produce primary commodities: energy, minerals, chemicals, metals, forest products. And without new capacity in these areas – on which the rest of our economy was built – he saw no physical basis for a lasting upturn from the present worldwide recession.

An American participant pointed out that efforts to ameliorate the social costs of orthodox anti-inflation policies had caused a shift in the source of aggregate demand away from savings and business investment towards consumption and government spending. Capital creation was further penalized because, under existing accounting procedures and tax laws, the underdepreciation of business assets and inventory profits produced by inflation were taxed as if they were ordinary income from operations. As a result of inflation, income taxes had thus become a vehicle for taxing capital.

In combination with more consumption and government spending, the prolongation of inflation's corrosive effects on business profits and capital investment had, in his opinion, produced many of the market scarcities of the past few years. There was a growing recognition that these scarcities were not simply random accidents, but were the predictable consequence of policies that supported aggregate demand while neglecting supply.

Inflation was seen by a Canadian participant as an aspect of the process of dismantling the old economic system, which had involved automatic corrections and had been oriented towards the efficient production of goods and services and the elimination of waste. Businessmen today were caught in a "no man's land" between the market system and management by government oriented towards social improvement.

C. *Impact on workers, consumers and savers.* A British speaker claimed that members of large trade unions had been net beneficiaries of inflation year after year, and would wish it to continue. They had profited at the expense of the majority, since politicians - abdicating their responsibilities - had often found it easier to give in to the pressures of those who stood to gain than to stand up for those who were bound to lose.

Several other participants took issue with this view. A Belgian speaker said that trade union people were as worried as anyone about inflation, and were fearful of its effect on their jobs and their purchasing power. According to a Canadian labor leader, blue collar workers suffered the most from dislocations in the economy; they were usually the first casualties when employment and trade declined. His country was experiencing an annual inflation rate of 12 per cent and an unemployment rate above seven per cent. Neither of these trends appeared to be cooling down, and the problem was aggravated by the fact that Canada had the highest rate of any industrialized country of new entrants into the labor force. At the same time, exports were declining sharply because of the US recession.

The variables introduced by inflation made it difficult for unions to measure accurately the needs of their members and the ability of industry to pay. Because of these uncertainties, unions felt impelled to shorten the contract period, which added a destabilizing factor to industrial relations. "Inflation is no good for us, and no good for society," the speaker concluded. "The sooner it's ended, the better we'll like it."

A British participant pointed out that the role of inflation in causing unemployment was often obscured in countries where large segments of industry were under government control. Under free market conditions, a relatively high rate of inflation tended to make exports uncompetitive. As order books became empty, employment declined and corrective forces were set in motion. In nationalized industries, on the other hand, the state stood ready to pump in public money to maintain full employment, and the natural relation of unemployment to inflation was masked. Workers in those industries were thus sometimes slow to appreciate the dangers which inflation inevitably held for the economy in the longer run.

The system of unemployment benefits had also served to cushion workers against a realization of the effects of inflation. As a Canadian speaker put it, a "ripple of discomfort running through the economic body" had been felt at the onset of inflation a generation ago. Now the workers felt virtually nothing until the explosion burst around them, and they were psychologically unprepared for the necessarily painful remedies. Although Canada's unemployment rate had passed seven per cent, there were currently more than 100,000 unfilled jobs in that country.

The inequities wrought by inflation in eroding the value of savings were alluded to in several interventions. A Belgian speaker referred to inflation as a "*fiscalité sauvage*" which weighed most heavily on the weak and helpless. Thus no civilized society could tolerate it for long.

D. *Political and social repercussions.* A French participant said that inflation was synonymous with injustice. No political program aimed at a systematic bettering of social justice could have any hope of succeeding until inflation was brought under control. There would consequently be a threat to democracy so long as certain trade unions and political parties supported inflation as a means of achieving their ends.

It seemed to a Belgian speaker as if authoritarian regimes of both left and right must be pleased by the prospect of seeing the democratic system fall into serious trouble because of inflation.

The implications of inflation for the security of the West were dealt with in other interventions. In the judgment of a British participant, any significant pull-back in our investment in long-term research and development would contribute to the process of decomposition in the West and give comfort to those seeking to reduce the area of human freedom.

A German spoke of the growing importance of economic issues in the formulation of foreign policy. He alluded to Secretary Kissinger's recent statement to the effect that an alliance without close cooperation and readiness for harmonization in the fields of the economy, foreign trade and currency policy would be impaired in its effectiveness as a defense community. Military defense was a vital aspect of security but not the only one, and the disruptive effects of inflation could only be prejudicial to the strength of the NATO alliance.

II. *Unearthing the roots of inflation.*

A. *The contemporary social climate.* Many participants expressed the view that inflation had to be seen as more than simply a monetary phenomenon. An International speaker said that it involved the intertwining of such a variety of factors – financial, social, political, cultural, historical – that a competent analysis of its causes called for the skillful exercise of the old-fashioned discipline of political economy. For example, the very different reactions of Germans and Britons to inflation and unemployment could best be understood in relation to their historical experience.

A Dutch participant, who was supported by a Briton, thought that any useful analysis of inflation had to begin with its social origins. He would emphasize society's impact on inflation, not the converse. We all knew what the appropriate mechanisms were for fighting inflation. The essential question was whether the powerful social groups – in government, trade unions and even industry – who had acquired some sort of vested interest in inflation would be willing to yield.

A Canadian speaker contended that our present social dislocations could be traced in turn to a moral crisis. He cited the feverish pursuit of material values, the decline of organized religion, the denigration of discipline in any form, and the spiritual bleakness of technological preoccupations. All this had contributed to a remarkable failure of nerve in Western society. If, as the speaker suspected, the debasement of our currencies was the effect rather than the cause of this moral crisis, formidable impediments would lie in the path of any stabilization program.

An American participant saw the roots of inflation as being more social and political in nature than economic. The inflation of the past decade had been caused primarily by governments trying to solve their political difficulties with more money instead of better ideas. The author of the Canadian working paper agreed that inflation had been brought on by the attempt to use monetary policy to resolve conflicts within society. Once we had got away from a system of exogenous controls, our politicians had become accustomed to using their discretionary power over the money system for social political purposes. Until we found a way of placing constraints on our political leaders, our societies would have to contend with this chronic inflationary bias.

A Dutch speaker saw an even simpler way of sizing up the problem: over the past decade, productivity in the industrial world had grown by about four per cent a year, and in the less-developed world by under two per cent, giving a rough annual average of, say, three to three and a half per cent. The high inflation rate we were experiencing was the price for having said "Yes" to expenditures that exceeded that growth in productivity. We would now have to do more than fashion monetary constraints. We needed to set some upper limit of expenses for our social system, above which it was agreed that we should firmly say "No". Otherwise, there would one day be no universities for economists to teach at nor parliaments in which politicians could debate freely.

In the judgment of a French speaker, the *élite* of our societies had to bear a large share of responsibility for the recent "demobilization" in the combat against inflation, having given in on the grounds that inflation was a "tolerable substitute for revolution". The expression of this attitude on the part of intellectual leaders had done much to undermine the public resolve to resist inflation, which was particularly needed in view of the weakness of governments and central banks.

A Belgian participant countered that it was too easy for various social groups to criticize one another. We all had to share the blame for inflation. Industrialists and financiers felt that they were getting even in a way for the policy of full employment, high wages and a more humane standard of living. Trade unions and their workers had been "brainwashed" into accepting the myth of productivity and consumption leading to a material paradise on earth; when they experienced reverses, they were apt to blame the economic system. Governments, for their part, were called on increasingly to intervene in economic life, and their approach to the resolution of problems had been too feeble or too facile.

The speaker even suggested that the industrial nations as a whole merited their current economic predicament, having enriched themselves for years with the raw materials of the underdeveloped regions. (A Turkish participant disputed this. The developed countries had grown rich by exploiting their own people, he said. The less-developed world would not have even known that it had riches to be exploited had it not been for the prospecting of the others.)

Having listened to a number of interventions dealing with the social and political background of inflation, a Swedish participant confessed to a feeling of frustration. It was no doubt true that the present inflationary process depended on the working of fundamental factors in our societies, and reflected some basic weaknesses. It was important to have those fundamentals in mind when debating economic policies. But if our fight against inflation had to wait for the solution of basic social problems, we should all be dead. As the author of the Dutch working paper remarked, overcoming inflation was a condition of social reform, not vice versa.

B. *The full employment commitment.* As the Canadian working paper pointed out, most Western governments had since the end of the Second World War undertaken to guarantee full employment as a matter of overriding national policy. As seen by an American participant, this full employment commitment had become increasingly incompatible with conventional monetary and fiscal restraints to curb excesses of demand. Governments had understandably become reluctant to incur the political and social costs of deliberately crippling their economies in order to stem rising prices. Their dilemma was compounded of economic and political elements.

On the side of economics, inflation was known to abate with recession, but only with a time lag which was growing progressively longer with each successive economic cycle. Faced with market and institutional rigidities, business often found it more economic – at least initially – to take the brunt of declining aggregate demand in the form of reduced output and employment rather than in lower prices. With wage rates institutionally fixed, a manufacturer could cut prices only so far before he was selling below his out-of-pocket costs. Hence, he would reduce output and lay off workers in order to avoid cash losses.

At the same time, social welfare institutions rendered unemployment less and less deflationary. While the output of the unemployed fell to zero, their incomes and their effective demands were increasingly supported by government transfer payments. Under these circumstances, the basic inflationary condition of too much money chasing too few goods was not quickly corrected by higher unemployment.

As for the political side of the dilemma, the schedule of elections was not permitted to lag. Thus the economic cycle might have become longer than the political cycle. Unemployment might reach politically unacceptable levels before a decisive victory against inflation could be achieved. Expansion then rekindled the flames of inflation and the wage-price spiral resumed its upward course. In recent years, real growth and investment spending in all modern economies had suffered from the stop-and-go policies of alternately stepping on the accelerator and the brake, as the priority target shifted back and forth between inflation and unemployment.

It was these effects of the full employment policy that were the taproots of contemporary inflation, the speaker concluded.

A French intervention related inflation to the growing cost of financing the full employment commitment in the advanced industrial countries. The management of aggregate demand was the chosen instrument to achieve full employment. But as costs rose throughout the economy, because of wage increases and the need for more sophisticated machinery and equipment, ever higher levels of investment were required to maintain a given level of employment. Put another way, the productivity of capital was seen to be continually declining in terms of the growth it procured.

The mounting cost of full employment was hard to reconcile, though, with the increased level of consumption that we had come to take for granted. There were simply too many claims on the amount of funds available. In the speaker's view, inflation had been deliberately settled on in our "societies of connivance" as the means of resolving this dilemma, producing an amount of "savings" that would otherwise not have been available. It thus served to camouflage disequilibria by successively readjusting structural imbalances rather than correcting them – a job which nobody wanted to tackle. The classic readjustment mechanisms of monetary policy, direct controls, and Keynesian demand management had proved inadequate, in that they transferred inflationary effects from simple price rises to more pernicious forms such as wholesale waste and premature obsolescence.

In short, weak societies without much in the way of a consensus or common objectives – except their costly commitment to full employment – had seized upon inflation as a way of partitioning wealth among conflicting social groups, without any criteria, through a devaluation of the medium of exchange.

Another French participant argued that it was unfair to hold Keynesian full employment policy responsible for inflation, and inflation in turn responsible for unemployment. We had in fact experienced many periods in which high employment had coincided with perfect price stability. Blaming unemployment on inflation would require the acceptance of rather far-fetched hypotheses. The causal relationships were in truth not as simple as that.

There were a number of strains of inflation, and the ultimate effect of restrictive policies could vary greatly from case to case. Cost-push inflation, for instance, was caused by "exterior forces", not by excess demand. It was true that combatting it with restrictive policies would, by slowing down economic activity generally, tend to reduce raw material prices, but the final impact of this on total value-added prices was rather attenuated. Because of these subtle and complex cause-effect relationships, the speaker thought it was a mistake to focus on full employment policy as a primary cause of inflation.

A Belgian participant suggested that full employment as a policy goal ought to be replaced by the concept of a guaranteed minimum standard of living. Problems of structural unemployment, especially in the Western industrialized countries, could then receive the special attention that they required.

C. *Inflation as a monetary phenomenon.* A British participant, noting that all three working papers had laid great stress on the neo-liberal conception of inflation as a monetary phenomenon, wondered whether this emphasis was helpful in understanding the problem, except in a purely mechanical sense. It led inevitably to the conclusion that a solution had to be found in the monetary sphere, and in the speaker's experience no central banker believed that inflation could be controlled without action in other spheres as well.

For one thing, a monetary emphasis seemed to presume that there was an absolute size of the pyramid of credit or money that was correct, and one could not be sure about that. Keynes had been shocked to see the international money and capital market reach $2 billion some forty years ago, and 19th-century observers would certainly be horrified at the size of the present Eurocurrency "house of cards" as Professor Carli had described it some time ago).

Moreover, concentration on the monetary aspect caused one to overlook other important factors, such as demographic changes; recent technological advances with their enormous capital requirements; and the revolution in relationships between the industrialized countries and their former colonies. Were we not in fact faced with an entirely new kind of inflation compounded of all these factors, an inflation totally different from the classic debasement of the coin and the Central European experience of the 1920's?

While not denying the presence of an important monetary ingredient, an American participant thought that it was dangerous to think of inflation as solely a monetary phenomenon. We had to be careful to distinguish between general advances in prices occurring in a cyclical phase and those related to structural developments.

A Belgian speaker thought that the monetarists were right about the essential nature of monetary supply policy, but whether politicians and the public would take their "medicine" was another question. A Frenchman was likewise convinced of the validity of the neo-liberal monetarist view. It was wrong to say that the price mechanism no longer worked. The rise in raw material prices of 1972-74, attributable to a number of circumstances, had been amplified by speculation, which was normal during inflationary periods. But with the economic slowdown in 1974, prices of raw materials had dropped dramatically, while wage increases had slowed down noticeably. The price we were having to pay, in the form of unemployment, to obtain a certain disinflation of wages, was growing steadily higher, but there was perhaps nothing ineluctable about this.

To a Belgian participant, categorizing inflation as a monetary phenomenon was another way of expressing the truism that society wanted to use more resources than it had. This was a fundamental issue that could not be got around by any short cuts.

A British participant, although conceding that inflation was *a priori* a monetary problem, suggested that it was a matter of barren semantics to dwell on that while ignoring the level of supply or output in which the inflationary process was taking place in the real world. There was no inflation in a cemetery, he said. In fighting inflation, we had to try to maintain levels of output, trade and employment which were compatible with political stability in our various countries.

Referring to some of the points raised in the foregoing interventions, the author of the Dutch working paper reiterated his conviction that it was not only helpful but indeed indispensable to recognize inflation as a monetary phenomenon, and that this did not necessarily lead to one-sided monetarism. The very possibility of inflation depended on the existence of money. Money translated relative prices into a price level. A general increase in the money supply was therefore of necessity the cause – or at least a condition – of inflation. It followed that one could prevent or stop inflation by the implementation of an appropriate monetary policy. (Whether this was always wise remained to be seen.)

It was hard to say exactly what was the right size of the credit pyramid (or the money supply), but some sizes were surely wrong. Technically speaking, the supply of money ought to be an independent variable, that is an instrument of policy. If it were ever regarded as a 100 per cent dependent variable, the inflation problem would be by definition insoluble. Failure to recognize inflation as a monetary phenomenon made it impossible to grasp the essentials of the problem.

D. *The supply side of the equation.* As an American observed, if one cause of inflation was too much money chasing too few goods, then more attention ought to be paid to the supply side of the equation. The excessive emphasis on maintaining aggregate demand had become positively non-Keynesian in its failure to recognize the critical importance of capital accumulation to support that demand. Insufficient inducements – and indeed barriers – to the expansion of industrial capacity and productivity were responsible for aggravating inflation.

A Swedish participant agreed that the supply side should be emphasized much more in our overall policies. This would prove more difficult, though, than manipulating the demand side.

Another American foresaw a tendency towards steadily rising real costs as we continued to press upon our resources, even assuming that cyclical pressures could be moderated.

An International participant feared that supply shortages would be intensified by the international synchronization of cyclical expansion, with mutual economic influences acting to build up tremendous momentum. Supply constraints had clearly played a part in the recent explosion of commodity prices, which was not explainable solely on the basis of increased demand. (Commodity prices had gone twice as high as during the Korean conflict.) Supply problems were also suspected to be at the bottom of the scarcities and price performance of semi-finished goods (*e.g.*, steel, aluminum, basic chemicals) during the 1974 recession.

An Italian speaker, who thought that two-digit inflation might well be more than a temporary phenomenon, attributed it to the scarcity of natural resources and the increased power of their producers, combined with decreased real productivity in the industrialized world. The developed nations had traditionally been able to contain inflation by increasing their productivity, but this faculty had been severely limited by the price rises extracted by the oligopolistic producers of natural resources. As a result, we might be in for "a different kind of battle."

Another Italian participant blamed price increases and speculation in raw materials for a large share of the inflation of the past two years. As it was quite possible that another such spiral lay ahead of us, it was important to try to introduce some measure of stability into commodity and raw material prices. It would not be fair, though, simply to ask the less-developed countries to stabilize their export prices while expecting them to pay higher prices for our manufactured goods. A serious effort had to be made to arrive at equitable arrangements.

According to a British intervention, the commodities situation illustrated the impossibility of "de-politicizing" the problem of inflation. The speaker predicted a commodities boom in 1977 that would "put the last one in the shade". This would result from underinvestment in the commodities sector during recent years due to (a) the growing nationalism of most former colonies, and (b) the fear by capitalist multinational companies that their investments in those areas might be nationalized. Planning now for the next commodities boom would have sensitive political overtones, as it should encompass a range of new policies: insurance coverage for companies wishing to invest in raw material producing areas; regional stockpiling plans; and recycling the debts of producer countries in consideration of their commitment to maintain or increase their output of raw materials.

A Swedish participant feared that it might already be too late to take action to avoid new steep rises in commodity prices.

Two other Britons expressed considerably less concern about this subject. One reckoned that short-term commodity scarcities would be taken care of by the price mechanism and that there should be no real long-term scarcities (except of labor). The best argument for keeping commodity prices reasonably high over a period of time was that it tended to insure the production of what was needed, while incidentally helping the underdeveloped world.

The other British speaker thought that the big bulge in world prices had come to an end and would have been fed through to the retail price indices by mid-1975. After that, he saw wage costs as the only really inflationary factor in the picture. (But unfortunately economists had got governments into the habit of describing increases in the retail price index compared with a year ago as a rate of inflation, which it was not. To get the correct rate of inflation, one had to take a three-month moving average, or some similar measure.)

E. *International ramifications*. While inflation could be said to be an international phenomenon in the sense that it was manifesting itself simultaneously in most countries of the world, one had also to look at the dynamics of international developments for causes of the disease itself.

An Italian participant suspected that, when too many "good reasons" were advanced for some phenomenon, a simpler and more specific explanation might be lying in the background. In the midst of all the causes that had been cited, one could not help asking why virulent two-digit inflation had broken out in 1974 and not a decade earlier.

A compatriot responded by pointing out that the quickened pace of world inflation had coincided with the breakdown of the Bretton Woods system. Several other participants agreed that the current international monetary disorder had not helped efforts to contain inflation. A Frenchman remarked that global reserves had doubled in the past four years, a process which could not go on blindly.

Another French participant was encouraged by talk of plans to impose controls on the abusive growth of the Eurodollar market. At the same time, he contended that the adoption of floating exchange rates had in fact helped in the fight against inflation by giving governments a degree of control which they had lacked under the system of fixed rates.

The international transmission of inflation, though, was intensifying, and in defending themselves against it nations were adopting protectionist attitudes. This ran counter to everything we had been saying for the past 15 years about how inflation would gradually disappear as the EC liberalized trade and investment. Paradoxically, though, just the opposite was happening: the intractability of inflation was impeding the process of economic integration. For instance, the implementation of the EC's common agricultural policy, aimed at homogenous prices, was rendered more difficult as member states like Germany naturally resisted price revaluations superior to their own relatively lower inflation rates.

Unhealthy rigidities were also appearing in general commercial practices. Competition within the EC based on prices had tended to hold down inflation, but price competition was being supplanted by share-of-market concepts, as industrial groups became larger and looked more for stability than rapid growth. Cost savings were more and more regarded by them as an opportunity, not to lower prices, but to guard market shares. French automobile manufacturers, for example, had not lowered their foreign currency export prices when the franc had been devalued in 1969, preferring instead to hang onto their market share while strengthening their financial position.

The speaker's conclusion was that our policies should be aimed at checking the international transmission of inflation, and that policies of a purely domestic scope would be inadequate.

This intervention, and one by an American participant, also alluded to the world-wide inflationary effects of a decade of American payments deficits. The dollar was now being used to finance instead the oil-related deficits of other countries, a situation that the US might not accept indefinitely.

A Turkish intervention dealt with the special causes of inflation in the less-developed countries. The German working paper had attributed the persistent and "galloping" inflation in those countries to the political impossibility of raising enough taxes to meet the needs of the state. The resulting budgetary gap was filled by excessive money creation, with a consequent rise in price levels. The speaker conceded that there was something to this, but he thought it was only realistic to recognize that tax reform would have to await significant increases in per capita income.

At the same time, it had to be admitted that other factors had helped to fuel inflation in countries such as Turkey: (a) the business community, mindful of high profit margins on new investment, pressured the government and banks to advance them more funds than those available from normal savings; (b) inflation was imported from the industrialized countries through price increases on imported goods and remittances from workers abroad (coming mainly to low-income groups with a low saving propensity); and (c) strong trade unions usually succeeded with their demands for wage increases outstripping productivity gains. Demand-pull inflation thus tended to be compounded by cost-push effects.

An Irish speaker asked whether the great diversity in rates of inflation from country to country (some were three times as high as others) did not offer a useful clue to causes, particularly those related to structural factors. The answer of an International participant was that this diversity was attributable to a vicious circle of price performance and exchange rate changes, and not in fact to structural differences.

In the opinion of an Austrian speaker, international economic integration had made notable advances during recent years, but it was regrettable that we were still trying to handle problems such as inflation through outmoded instruments of the nation state. It was a rare politician who would appeal to his constituents to make sacrifices on the basis of being a "better European" or a "better member of the Atlantic community."

III. *Prescribing a cure for inflation*

A. ***The importance of monetary policy.*** Despite the wide variety of views expressed about the causes of inflation, virtually no participant was prepared to exclude a dose of monetary policy from his prescription for a cure. An exception was perhaps the Italian speaker who reckoned that monetary policy would be inappropriate for treating a world-wide inflation caused by a scarcity of natural resources, for two reasons: (a) such policy could not operate to channel resources into the development of new sources of supply; and (b) monetary restraint tended to dry up reservoirs of investment capital just when they were most wanted. He saw the inflation problem primarily in terms of ecology and population growth.

Many of the participants, however, who agreed that monetary policy should be an ingredient in any anti-inflation medicine, expressed reservations of one sort or another about its use and its effectiveness. According to a British speaker, control of the money supply could be frustrated by increases in the velocity of the circulation of money, as well as by the time lag between any action and its consequences for demand, prices and employment. For example, the American authorities – not recognizing the seriousness of the recession facing them – had failed to act in time and were now taking measures which could prove excessive and lead to a new wave of inflation in three or four years' time.

Moreover, given the current levels of unemployment benefits, monetary restraint was not likely to bring the rate of inflation down by itself, except at the cost of many years of levels of unemployment much higher than any democratic society would accept.

For an American, the difficulty of over-reliance on pure monetary policy began with the fact that – in the US anyway – there were currently at least eight defined categories of monetary liquidity, not just one or two. In deciding which monetary elements to control, it would therefore be impossible to avoid some measure of discretionary policy. Even then, a focussing on monetary restraint tended to overlook the major problem of underinvestment in both the industrialized and less-developed countries. An important arm against inflation in the future would be a strong productive base.

This view found support in British and Italian interventions. After inflation had reached a certain stage, trying to cope with it by purely monetary means would bite particularly deep into the productive sector. As company liquidity and profits absorbed the impact, new investment programs were imperilled and the effects of the next round of inflation – no matter where that started – were sure to be intensified. The Italian also feared that the effects of a deflationary monetary policy on company finances would be unusually rough when descending from the level of two-digit inflation. This could present an adjustment problem of unprecedented severity.

The further consequences of the impact of monetary restraint on the productive sector were analyzed by another Italian participant. He began by reminding the meeting that monetary policy had been the chosen instrument to combat the three major inflationary outbreaks in his country during the past dozen years. There had been two reasons for this choice: (1) monetary policy was deployed by the most independent power centers; and (2) it promised the quickest effect. On each occasion, the inflation, accompanied by balance of payments deficits, had been due to the convergence of interior and exterior forces. At home, the granting of wage increases in excess of productivity gains had produced a cost-push effect. Abroad, the higher wages already attained in more industrialized countries of the EC had tended to pull Italian wages up to their level, as often happened in imperfectly integrated economic systems.

Two of these outbreaks of inflation had occurred during periods of permissive monetary policy, while the other had happened at a time of monetary restraint, so that the relation between monetary policy and a rise in costs and prices could not be said to have been well documented by recent Italian experience.

Nonetheless, action in the monetary sphere had served to stop the spiral in all three instances. Two perverse effects were to be noted, however, in the case of Italy. First of all, because of the relatively broad zone of rigidity in that country's economy, the effects of monetary measures were concentrated on the productive sector. While exports increased and domestic consumption dropped, the less efficient firms either disappeared or were swallowed up by state enterprises. Thus one effect of monetary restraint in the face of cost-push inflation had been the extension of the public sector.

Another consequence of the application of monetary policy had been the paralysis of capital markets, which forced business to rely more and more on debt financing. With the resulting decline in the relative stake of shareholders' interests, the question of the "legitimacy" of economic power had inevitably come to the fore. In short, the application in Italy of liberal policies, including monetary restraint, while it had succeeded in curbing inflation, had had the paradoxical side-effect of pushing the economy further away from the liberal model.

Another Italian participant observed that monetarists tended to think in terms of flexible exchange rates and an "automatic" money supply increase, *i.e.*, with internal monetary policy operating according to some non-discretionary rule. The speaker's own preference would instead have been for a fixed exchange rate system ("to inject good sense into monetary and fiscal policies"), allied to more flexible discretionary monetary policies, with some attention devoted to the problem of international reserves. (This speaker felt, incidentally, that it was unfair to saddle Keynes with responsibility for the present wave of inflation, his theories having been formulated with a system of fixed, not flexible, exchange rates in mind. A British participant added that it was likewise unjust to attribute an isolationist bias to Keynes.)

Another Briton, while endorsing the value of monetary policy, described as artificial the argument about whether inflation was pushed up by wages and salaries or by the money supply. If it was held to be wages, that meant simply that the money supply was seen as a passive factor moving in response to wage increases. Monetarists, on the other hand, believed that wage increases themselves could not exert an important independent impact, as their aggregate effect could be limited by money supply controls.

Referring to the growing tendency to use control over money in resolving social conflicts, the author of the Canadian working paper asked what kinds of constraints on government could be devised to replace the old automatic constraints such as the gold standard. He was not confident that the sheer political process would do the trick.

One practical answer to such questions was offered by the author of the German working paper, who described the solution being tried in his country this year. On the basis of the recommendations of their economic advisers, the chancellor and the central bank had agreed on the target of an eight per cent increase in the money supply for 1975. The central bank was bound to pursue policies consistent with that objective and to coordinate its actions with those of the government. An escape clause had been provided for exceptional circumstances, and a certain flexibility in application was unavoidable in the beginning. But one had to know in which direction one wanted to head.

To a Dutch participant who wondered whether it was appropriate in democratic societies for central bankers to be undisputed decision makers, free of political control, the German author replied that he was not advocating the use by central bankers of discretionary powers in an undemocratic way. He was thinking in terms of a quasi-constitutional law requiring the central bank to adhere to certain goals in cooperation with the government.

Could not the same principle in fact be applied on an international scale, he asked, with the central banks and governments of several countries mounting a coordinated attack on inflation? This did not mean that every country would have to adhere to the same rate of increase in the money supply. But they could get together, announce goals, and aim to narrow their large differences from year to year. Such "monetary budgeting", on both a national and international basis, ought to lead in time to more stable exchange rates and a better climate for some degree of monetary integration. A gradual approach was essential, however. An abrupt drop in the rate of growth of the money supply was sure to have a negative impact on employment, which might force abandonment of the program.

Looking back over the discussion on monetary policy, the author of the Dutch working paper emphasized that his prescription would be for a "cocktail" of monetary and incomes policies, the proportions being dependent on the nature of the inflationary phase. To *prevent* inflation, monetary (and fiscal) policies should suffice, whereas to *stop* inflation or to *reduce* it in an advanced stage, a strong dose of incomes policies was needed, taking care not to administer too large a dose of monetary policy.

In reply to those who had mentioned supply shortages and scarcities as a cause of inflation, the author said that this was a misapprehension stemming from a failure to see inflation as a monetary phenomenon. An excessive flow of money gave rise to excessive demand for all goods and services, which was experienced as a deficient supply. Without the monetary factor, though, there could be no excessive demand in a general sense and hence no deficiency of supply in a general sense. In other words, scarcity could not explain inflation, and any attempt to do so distracted our attention from the real causes. The same thing could be said about blaming inflation on "too many claims on national income." That too involved only a mirror image of an excessive supply of money.

With reference to the suggestion of the German author that central banks be made solely responsible for the steady increase in the flow of money (the "numbers" being dependent on the rate of growth of real national income), the Dutch author found this to be an interesting idea worth considering once the present inflation had been brought under control. The legal aspects of it might not be so simple, and there was always in the background the question of how much autonomy one wanted to give to central banks.

Various speakers had forecast a new commodity boom, but the Dutch author warned that this could only occur if the money supply was not kept within strict limits. Of all major countries, this was of particular importance for the US, whose money supply could so easily spill over into other countries.

To sum up, a strict monetary policy was required: (a) through the banking system in the field of credit creation for industry; and (b) through appropriate fiscal policy so as to prevent an excessive borrowing requirement. Indeed, "watch your borrowing requirement" should be the rallying cry in the campaign to prevent a new wave of inflation. In other words, the borrowing requirement of the public sector should not – except very temporarily – exceed the amount that could be financed from genuine savings.

It was to be noted that the author's concept of monetary policy was not a narrow technical one. It referred to everything that might influence the supply of money, comprising basically three components: credit creation by the banking system on behalf of the private sector, the financing of borrowing requirements of the public sector not from genuine savings, and the deficit on the balance of payments. Fiscal policy was thus a part of monetary policy in its wider sense, and both central banks and governments were instruments of policy.

B. *Fiscal measures*. An American participant felt that a big step forward had been taken with the conversion to more discretionary management of fiscal policies in the context of our economic expansion. But, having discovered the "magic" of discretionary management, we had found it hard to accept the fact that it required greater self-discipline than automatic systems. Discarding this notion of discipline was like throwing out the baby with the bath water.

The old concept of an always balanced budget, which the new fiscal policy tended to replace, had had the virtue of imposing a certain fiscal discipline by providing a crude cost/benefit calculus. The speaker thought it would be necessary to work something like this back into the picture, and the current German experience deserved sympathetic study, even by those who were generally not enthusiastic about guidelines and monetary rules.

The whole budgetary process – in the US at least – would have to go much further in laying out empirical evidence about the implications of the decisions now being made about total claims on national economic resources.

A Swedish participant also thought that the various recommendations contained in the German working paper deserved careful consideration. He went on to say that the synchronization effect of economic policies had been widely underestimated, so that their total effect (both deflationary and reflationary) was much greater than anticipated. It had been a mistake, in his opinion, to concentrate reflationary efforts on a general stimulation of private consumption through tax cuts and increased transfer payments. This was an expensive way of reducing unemployment, as it created great inflationary risks in its later phases and led to a mis-allocation of resources.

The speaker said that a study of the inflationary phase of 1973-74 would be useful in avoiding a repetition in 1977-78. One thing was certain: that more international coordination was needed to avoid an aggregate overstimulation of our economies. Economic policymakers were often accused of doing "too little too late". The risk now was "too much too late".

A French participant saw the fiscal system as an important instrument in the long-term campaign against inflation. Through tax incentives, individuals could be dissuaded from over-consumption and encouraged to invest in the productive sector. This would admittedly involve a major reorientation of values, with the social emphasis being laid on values other than those connected with the possession of material goods.

A compatriot agreed that fiscal measures could play a key role in discouraging consumption in favor of investment. A system had to be devised which would provide for a tax reduction on revenues at the moment when they were saved/invested, even if that meant taxing capital and its growth. On the other hand, boosting taxes was not a reliable method of reducing demand, as the consumer often chose to dig into his savings to support his spending patterns.

A bridge between the discussion of fiscal measures and a consideration of the place of incomes policies was provided by another French speaker, who described an experiment being conducted this year in his country. This "decentralized incomes policy" (in practice a fiscal measure) was aimed at controlling costs and prices at the decision-making level of the individual enterprise, so as to avoid the market distortions and administrative bureaucracy of a centralized system.

The mechanism worked as follows: every quarter, one calculated the growth in nominal value-added of the business firm and compared it with a national norm (fixed for 1975 at 14 per cent per annum – 10 per cent being the "tolerable" price rise and four per cent the assumed average increase in national productivity). If a firm's nominal value added were below the norm, all was well; if it were above, one-third of the excess was taxed (*prélèvement conjoncturel*. This mechanism was just a first try, and was not necessarily definitive. The speaker's own preference would have been for a monetary rather than a fiscal approach: having banks freeze a specified portion of the liquidities of offending companies.) But the significant thing was that an attempt was being made to involve the individual enterprise as well as the state in the fight against inflation. The third level – the consumers – should eventually be associated in this campaign, through indexing the savings rate and the strengthening of consumer organizations.

The preceding speaker intervened again to comment on this *prélèvement conjoncturel*. He thought that it would be valid only if one could differentiate between the growth of volume and prices within each firm. Basing the levy on global references was unworkable.

C. *The role of incomes policies.* The author of the Dutch working paper said that an incomes policy did not need to imply a complicated system of wage and price controls. Fundamentally, it ought to be an agreement in principle between government, employers and labor unions about the distribution of real national income. It could also be called a social contract.

Real national income was ultimately distributed between the private sector (net wages and net profits) and the collective sector (real government expenditure and social welfare payments). Real wages had to bear a proper relation to productivity, so that profits were sufficient to insure adequate investment levels. That defined what was left for the collective sector. Taxes and social security premiums should not endanger the proper levels of wages and profits.

All this had to be worked out and implemented in guidelines for wage negotiations and price policies. Whether these guidelines were to be voluntary or statutory depended on the severity of the situation as well as the political and psychological make-up of the country concerned.

The author of the German working paper explained that he regarded incomes policies as a necessary complement to the essential monetary policy. In this wider context, his concept of "radical incomes policies" included measures for increasing the supply side, such as by stimulating exports from lower wage countries.

In the short run, incomes policies in terms of wage restraint were required to reduce the rate of inflation. In the medium term, though, they were necessary to maintain a high level of employment. Inflation could be fought without an incomes policy so long as one did not care about unemployment. But to prevent unemployment, trade unions had to restrain their wage demands.

This relationship between incomes policies, productivity and employment had been generally overlooked, and it had to be made clear that when trade unions were negotiating about (real) wages, they were at the same time negotiating about job security and the number of people who would be employed – in individual firms, in regions and in whole countries.

Looking at the European landscape, it appeared that unemployment was spreading from the center to the periphery, which suggested a corresponding decline in productivity. Real wages, however, were not falling as much or as fast as would be necessary to match the decline in productivity, so that real wages at the periphery were too high in relation to productivity. This anomaly could not be resolved by demand management. It was a structural problem which called for regional adjustment policies (in areas such as Northern Ireland, Scotland and the north of England).

Educating the public about this relationship between real wages and productivity was a long-range task. In the shorter run, the kind of incomes policy to be selected for coordination with monetary policy depended on the current cyclical conditions. For example, in Germany at the beginning of 1974 the rate of productivity increase which could be distributed in the form of higher real wage increases was about two per cent. (It would have been between three and four per cent had it not been for the oil price increases.

But the German public had not been properly informed about the lower scope for productivity and wage increases, with the consequence that nominal wage increases turned out to be around 12 per cent. To maintain employment at the prevailing level would thus have required a 10 per cent inflation (12 minus two).

The actual increase in the price level proved to be of the order of seven per cent, so the three per cent difference (10 minus seven) was an unintended increase in real wages in relation to productivity, which was bound to reduce employment. Some workers got more than they could reasonably have expected, but the others became unemployed. This resulted from a collision between monetary policy and wage policy, due to contradictions framed within the capitalist system.

The major problem for 1975 was to fight inflation and unemployment simultaneously, which meant keeping real wage increases below productivity increases. If there were an increase in German wage levels this year of six to seven per cent, it would amount to a guess about the future inflation rate, as everyone agreed that there was no room for an increase in real wages. But employers and workers, not being experts, were incompetent to forecast future inflation rates, and needed guidance from the central bank. A preferable approach to guessing about future inflation rates would be to agree to grant no real wage increases, but to allow for an *ex post facto* compensation for increases in the retail price index occurring during the year.

Alluding to the "radical incomes policies" recommended in the German working paper (which added up to sharpening competition), a British speaker wondered whether those liberal prescriptions were really feasible in modern democratic industrial societies. If it were only possible to adopt some of them, to be mixed with other policies, would the author's objectives be frustrated?

With regard to conventional incomes policies, the attempt to achieve some sort of quid pro quo often seemed to lead to a situation where benefits offered to one side were disproportionate to those offered to another side. A whole series of socio-political structural changes were sometimes concocted in exchange for voluntary wage restraints.

A Dutch participant agreed that there was a disquieting spirit of inequity about the implementation of incomes policies. They tended to produce a nominal reward for everyone regardless of his actual contribution to increased productivity, and they boosted wages for young and inexperienced workers even faster than for older skilled workers. Incomes policies had met with mixed success in the Netherlands during the 1960's. They were still in effect there, however, in the sense that there were percentage ceilings on overall wage increases every year.

A British participant endorsed the use of incomes policies in the face of advanced inflation, but preferably not by statutory means, which were too rigid. If they were statutory, it should at any rate be for only a short period, to allow time for the government to cut public expenditures and re-assess its political objectives.

Another British speaker thought there was a role for incomes policies of some sort (a) for countries facing severe economic difficulties, and (b) as an educative device to make people understand inflation. On the other hand, these policies tended to institutionalize the monopolistic elements in the economy – in both business and trade unions – as we set up national bargaining forums. The risk was that the whole economy would be tugged from side to side as different political parties succeeded each other in office.

A Belgian participant was apprehensive too that involving the monetary authorities in refereeing an incomes policy would immediately politicize them.

In the judgment of a British speaker, an incomes policy would not work for long without the consent of the trade unions, and unless it worked for several years it might leave the situation worse than when it started. One could only in turn get the consent of the unions if there were a degree of social and economic consensus over a very wide range of problems in the country concerned. The substance of the consensus was perhaps not so important.

An International participant thought that for an incomes policy to work there had to be such a consensus around the general problem of income distribution, related to work satisfaction.

An Irish speaker agreed that consensus was required for a successful incomes policy, but he despaired of achieving it in countries such as his own where there was no shared commitment within the working class, much less between workers and employers (a "slightly more anarchic approach to industrial relations", as he put it). It was easier to foster a spirit of wage restraint in countries like Germany, with tightly organized labor unions and memories of runaway inflation.

A description of the debate about incomes policies at the "grass roots" – in local trade union discussions – was offered by a Norwegian participant. The ordinary laboring man visualized himself as selling his work, and he aimed to get as much as possible for it. He found that his strength was augmented by membership in a trade union, which looked after his main concerns: money and safety.

When those two things were assured, though, the worker's interests broadened into other fields, notably political life – a fact which union leaders, as well as employers and political leaders, were well advised to keep in mind. In the free trade union movement, the majority of members had to accept the result of any wage negotiation. Under this democratic system, workers always came back to these fundamental questions about wages: "What am I getting as an increase?" and "What is the other fellow getting?"

In Norway, in recent years – and probably in other Scandinavian countries too – workers had come to accept a form of incomes policy worked out in partnership with employers and the government. In doing so, they had learned to insist, however, on the distinction between nominal and real wage increases (the latter taking account of the tax burden in calculating disposable income).

Scandinavia was also moving towards co-determination in industry, on the theory that it gave workers greater satisfaction and efficiency. It was not at all clear, though, that this would in any way help solve the problem of inflation. The East European experience gave little reason for optimism on that score.

The speaker's conclusion was that trade unions and workers in industrial countries would take a positive approach to incomes policies if they trusted their governments and enjoyed good relations with their employers. But they could not be expected to cooperate if they deemed that the underlying social system was unjust or that it sanctioned an unfair distribution of income. Above all, it had to be understood that unions and workers would vigorously oppose any system using unemployment as a means of fighting inflation.

A Canadian participant agreed that incomes policies would not work without the cooperation of the trade unions, but he said that other sectors of society had to give their assent too. Leaders of both big and small unions recognized that, to meet the needs of their people, they had to work within the bounds of the existing system without upsetting its equilibrium.

Canada was in the process of trying to work out the sort of consensus on which incomes policies could be founded. This effort involved not only unions and employers, but representatives from academic and professional life as well. Based on the Canadian experience, the speaker thought that workers would be likely to insist on certain conditions in exchange for their participation in such a consensus:

(a) *A commitment about the redistribution of income.* The share of national income going to wages and salaries in Canada was now falling rather than rising, a trend that had to be viewed in conjunction with the drop in real purchasing power of the currency. When the unions argued for redistribution, they were not speaking only for their members; organized workers could take care of themselves. They were thinking also of the dispossessed, who had no one to speak for them or to exert pressure on their behalf: the old, the sick, the unemployed, the pensioners. Their needs were greatest, as many of them were barely subsisting. Any redistribution in favor of these groups would mean money moving directly back into the system, which would provide a boost for the economy as well as help these people.

b) *Income protection.* Labor contracts, which usually ran for two or three years, would henceforth have to provide for cost-of-living adjustments it strikes were to be avoided. Canada already had a high level of strikes, nos just by blue collar workers but among white collar and professional groups af well.) Labor had learned a lesson after the negotiation of contracts in 1973. They had thought they were well protected for years ahead, only to see their purchasing power decline by around 2.7 per cent during the first year.

To a British participant, it seemed as if the redistribution of income were already well under way. The remarkable stability of the relative share of the gross national product going to wages was undergoing a radical change. Whether or not one welcomed this development, there was no denying that future capital formation would be more arduous if the share of income going to current private consumption was increased (on top of that already going to public consumption).

This analysis was supported by an Italian intervention. When we said that inflation reflected the struggle over the division of income between wages and profits, were we not suggesting that it was really about the distribution of resources between consumption and investment? Inflation could thus be seen as an incident, not of a different sharing of national income, but of the different use of resources. The speaker shared the worry expressed in the preceding intervention: that through inflation and the means used in fighting it, we would be pushed toward societies whose national incomes were devoted to consumption, with very little left for investment.

A British participant said there was no doubt that a "larger slice of the pie" was now going to labor than previously. It was important for those sitting on the other side of the table – owners and managers – to be honest about their reactions to this development. What did they expect from organized labor? Did they want them to increase their share of the pie? To know more about the detailed operations of their employer firms? To be persuaded – rather than forced – to change their skills and their jobs? Leadership in these matters was not the same thing as co-determination.

One thing was certain: that human labor, in a certain absolute sense, was going to be in increasingly short supply regardless of price. No amount of wage raises in France or Germany, say, would lift the reservoir of labor there by very much. All over Europe, the dependence on labor imported from the periphery was becoming socially less acceptable. The reservoir of agricultural labor that had fed the postwar booms in France and Italy was nearly dried up. Immigration into the US was a thing of the past.

At the same time, we had observed the influence of television on the working classes, their impatience with the old methods of work, their growing militancy, their unwillingness to be "bought off" unless they could foresee that they were due to get a bigger slice of the pie. But that could not be achieved solely through monetary policy. The pricing of a ton of copper could not be equated with pricing the work of human beings. And these were not Ricardo's antiseptic "factors of production". Those of us who believed in capitalist and liberal values had to come to a better understanding of these workers with whom we lived.

Another Briton – identifying himself as a socialist – counselled "treading very carefully" towards equality of income distribution lest we destroy the mechanisms of investment. In his view, it would be better to put the accent rather on the sharing of power. Trade unions should be offered a greater say in running their companies and shaping their environment, in exchange for their restraining their monetary demands.

A Canadian speaker thought that workers in his country would not find such a bargain appealing. It was not that they were not interested in their environment or in what their companies could do for the general welfare. It was simply that they saw their job as one of production, with management being not just the privilege but also the burden of the professional businessman. The danger society faced was that each group would follow its own selfish objectives, only to end up "fighting over the bones".

A Briton, speaking from the point of view of an industrial manager, said that he would have no objection in principle to seeing trade unions assume a share of management responsibility in exchange for some moderation of their inflationary demands. But this would make sense only if the unions proved good at that job. Business management today was a highly complex profession staffed by knowledgeable and able people. Assuming that some rebalancing might be needed in the area of industrial relations, it was essential that it be done in a way that would not dilute the quality of business management.

The deleterious effects of price fixing and of related forms of direct controls were outlined by an American participant. These systems were superficially plausible, he said. Their theory was that one way of stopping too much money from chasing too few goods was to impose controls on the amounts consumers could spend for a given product by fixing its price, ignoring the marketplace.

But that policy was doomed to failure unless governments were prepared to tell the consumer, first, how much he should pay and, second, how much he should buy – otherwise supply would not balance demand. By their very nature, controls served to distort the operation of the marketplace, to blunt incentives, to generate bottlenecks, and generally to breed inefficiencies and inequities as one control led to another.

In the terms used by the author of the German working paper, controls were damaging because they fed misleading information into markets and erected artificial barriers to normal business procedures. In effect, they increased economic transaction costs.

A good example of the disruptive effects of price controls was to be seen in the American petroleum industry. The US had a "two-tier" pricing system for crude oil. The price of oil from old oil fields was held at less than half the world price, while "new" domestic oil and imports sold at the world price. This boon to consumers who got domestic supplies for less than replacement costs was justified by its proponents as anti-inflationary.

The system gave a competitive advantage to integrated refining companies who happened to have found and developed an above-average proportion of "old" oil. That caused other refiners to complain in Washington. One control had bred another, the result being an equalization scheme under which refiners with a stronger position in low-cost oil had to pay cash to their competitors every month.

Such programs were likely to discourage exploration and development. If the government could today deprive a company of the benefit of oil it found yesterday, could it not tomorrow deprive the company of the benefit of the oil it was finding today? As a matter of fact, bills to roll back the price of "new" oil were now being debated in the US Congress.

Moreover, the lower controlled costs of "old" oil flowed through to consumers, who consequently tended to buy more than they would have if all crude moved at the going world price. Thus the US government was stimulating the consumption of petroleum while exhorting people to save energy. The Congress was actually contemplating a five to ten cents a gallon tax on gasoline to depress consumption, while concurrently considering legislation to freeze "old" oil prices at a level five to ten cents a gallon below the world market price.

In short, this compounding of ill-considered price controls and allocation schemes encouraged consumption and discouraged the capital investment that might have reversed the other baneful effects. In many ways, the speaker concluded, the US energy picture was a microcosm of the debility of the overall economy. The upward trend in the size of government and its degree of intervention in market processes had from time to time afflicted nearly all industries.

D. *The effects of indexation.* Indexation of various sorts as a palliative for the effects of inflation was dealt with in several interventions. A Belgian participant remarked that since 1948 his country had developed the most generalized system of indexation in Europe. Roughly 70 per cent of the GNP was tied to the retail price index, and followed it in very close rhythm, with adjustments made every one to three months. Old-age pensions and social benefits were covered, as well as most rental contracts and about 90 per cent of wages and salaries (plus the remuneration of some of the liberal professions .

Nevertheless until 1973-74 Belgium had enjoyed the lowest inflation rate in Europe, with the exception of Germany. During the past two years, though, she had begun to slip anchor, with accelerating price increases. The speaker thought that the indexation system, which had helped insure social harmony in Belgium, deserved study on a European scale. Besides the palliation it provided, it could also have positive dynamic effects in attracting investors to indexed bonds and in forcing businessmen to run their operations as efficiently as possible.

Another Belgian agreed that social tranquillity could be promoted by indexing certain components of economic life. But a general indexation was an avowal of defeat in the battle against inflation. In inflationary periods, it was important that wage increases be based on a true and fair retail price index. The speaker thought that indexation had been relatively successful in Brazil because it was not really generalized. It was known to be juggled around a bit and applied with a certain time lag. Labor there benefited less from indexation than it appeared, but did not have the political power to do much about it.

A French participant pointed out that indexation was not invariably opposed by conservatives. Some of the most audacious proposals in this field had in fact been advanced by Milton Friedman. But the speaker could not visualize a system of general indexation that did not include interest rates.

Another Frenchman pointed out that indexing interest rates in order to attract large quantities of long-term funds on a durable basis would tend to increase borrowing costs substantially. As the cost of funds went up, borrowers could afford to invest less, leading to the contradiction that the quantity of investments would tend to decline. To the speaker, the implication of all this was that we would have to be much more selective in our future investment planning.

A British participant was inclined to agree with the preceding speaker that indexing rates of interest would inflate investment costs enormously. He was skeptical anyway about the benefits of indexation. For one thing, it would serve to destroy the "money illusion". For another, it would not necessarily lead to greater savings by working class people. There seemed to be a long-run correlation between their wages and their savings habits which would not be easily changed whatever was done.

The Belgian participant whose remarks were summarized at the beginning of this section questioned the conclusion that the indexing of interest rates would necessarily lead to higher interest rates. It could easily be envisaged that investors would be offered two separate regimes, one indexed and the other not. The former might entail nominal rates of practically zero. With reference to the working class attitude towards savings, the speaker thought this was a special question that had very little to do with interest rates or indexation.

The author of the German working paper argued forcefully in favor of the notion of bond indexing. To begin with, it would attract into the capital market many small savers who up to now had believed that the only hedges against inflation were in real estate, gold and other tangibles. This tended to produce distortions in a country's overall investment structure. Moreover, the indexing of interest on government bonds would act as a constraint on government spending, by putting the state and its citizens in the same boat, so to speak. The government would soon become as anxious to avoid high future inflation rates as the public was.

Therefore, any government which was serious about embarking on a program to reduce inflation would be well advised to issue indexed bonds bearing a low (even zero, or negative) nominal rate of interest. For, with the present extremely high real interest rates, governments risked a grave financial crisis should "stability break out". It might be equally healthy to have wages indexed in the same two-way manner.

A French speaker thought that the indexation of interest rates was completely out of the question because of the international movement of funds. With indexation, interest rates would have to vary from country to country by as much as inflation rates did, *i.e.*, perhaps from four to six per cent, whereas the free international flow of funds today kept interest differentials much narrower.

A Turkish participant offered the following analysis of the problem. During the inflation of the past decade, Western Europe had experienced very low or zero real rates of interest (actually negative for the last five years in Turkey). This implied that, if some prices were "sticky", real rates of interest were not. Together with the foreign exchange rate, the real rate of interest had carried the burden of economic adjustment. If savings and other interest rates were to be indexed, another factor of inflexibility would be introduced into the economic system.

Translated into social class terms, the decline in real interest rates implied that, if labor insisted on a larger slice of pie but business refused to give it out of their profits, then the holders of fixed income securities and of money balances had to yield part of their share. The inflation of recent years had resulted in a transfer of income (a) from this latter class of savers to the two other organized groups (business and labor), and (*b*) from the less-developed countries by shifting the international terms of trade against them.

The speaker's conclusion was that a comprehensive indexing of savings and other interest rates would not be practically workable. It would result in an intensified profit squeeze, a decline in domestic investment, and hence in income and employment. Both labor and business would have to give up ground to property income receivers, an outcome that seemed politically unlikely.

E. *Encouraging investment.* In spite of the difference of views expressed about supply shortages as a primary cause of inflation, there was broad agreement about the importance of adequate capital investment to the future health of our economies.

According to an American speaker, massive capital investments would be required in the areas of energy, the environment, transportation and food production. In addition, vast infusions of capital would be needed to support the great worldwide influx of young entrants to the labor force. Unless a growing share of world income were diverted to satisfy these mounting requirements, the outlook was bleak for maintaining the rapidly rising standards of living that we had come to enjoy and expect since World War II.

Several interventions underscored the role of tax incentives in stimulating investment. French and American speakers said there was no substitute for appropriate fiscal measures in this regard. We had to organize our tax systems so that they would not compete with an increase in savings but would encourage it.

A Briton, referring to labor's prospects of receiving a larger slice of the income pie, was hopeful that wage earners could be induced through tax incentives to increase their propensity to invest.

An Austrian speaker emphasized the importance of "inflation-fighting" investments. According to one measure, only some 15 to 25 per cent of current investment could be characterized as productive, supply-raising. The balance was made up largely of investments related to social welfare and various kinds of "white elephants". An attempt had to be made to redress this imbalance by encouraging self-financing and invigorating capital markets.

A French participant reverted to his analysis of inflation as a deliberate and necessary means of financing our increasingly costly investments while the productivity of capital was dropping. Inflation constituted a tax on savings and a subsidization of borrowing (so long as neither of them was indexed).

The consequences of this state of affairs were far-reaching, even apart from the inflationary aspects. As the proportion of self-financing in business gave way to growing debt financing, management's control was inevitably weakened and its "legitimacy" challenged.

All the aspects of investment – its nature, its location, its financing – were increasingly inseparable from the problem of inflation. And since investment shaped production and growth, social considerations were intimately involved as well. Devising new and non-inflationary means of financing investments should entail (a) reducing inequalities of revenues through incomes policies, (b) amending tax laws so as to eliminate profits made from inflation and speculation, and (c) screening future investments to eliminate wasteful and unproductive projects. The speaker particularly advocated an orientation towards investments which tended to create rather than suppress employment, and which tended to increase the productivity of capital rather than of human labor. He admitted this ran counter to the accepted "logic of capitalism."

The speaker foresaw intensified competition among European countries and with the US to attract new investment projects. The intensity of this conflict would be aggravated by the fact that key investment decisions were concentrated in the hands of a relatively few managers of giant multinational corporations. Because of the political importance of these decisions, we should be thinking about some kind of international coordination aimed at rationalizing the division of labor and the location of new investment.

The author of the Dutch working paper added a note of caution about any concept which looked ultimately to the state to provide the requisite investment capital. The inflation we were experiencing was eroding profits, because wage increases minus price increases tended to surpass the growth of productivity. The share of real wages as a part of national income was too high.

If the state had to make up the difference, we might well find ourselves in an impossible situation. Finance ministers would have to find the money from somewhere and somehow. If they did this by taxing profits, the problem would only be aggravated. If it was done by taxing wages, labor would seek compensation in the form of still higher pay, and again the problem would not be solved. In short, the remedy for the shortage of investment capital was not financing by the state but stopping inflation.

F. *The international agenda.* Mention having been made in many interventions of the international aspects of inflation, several participants suggested that the cure had likewise to be conceived on an international basis.

Two Belgian speakers regarded improved international trade and monetary relations as essential to the suppression of inflation. Otherwise, we could not expect any automatic adjustment mechanisms to work. A Swedish participant thought that international coordination was particularly necessary to avoid aggregate overstimulation of our economies.

Another Belgian participant said he had found in all the working papers the theme that the West, having got into a sort of economic *cul-de-sac*, ought to turn back onto the road towards total economic liberalism and orthodox monetary policies – in short, that we should try unilaterally to restore order to our economies. The speaker did not believe that approach would work. Just as our problems were international in scope, so would our solutions have to be.

We had all become too self-centered, too narrow in our outlook. Europeans, for example, had sought to take advantage of America's difficulties by laying at her door the blame for the breakdown of the Bretton Woods system. In trade union circles, it was fashionable to criticize the multinational companies (although they had probably been the first to realize that the world economically was "one big parish").

In truth, said the speaker, we all bore some responsibility for our predicament, and we could only hope to solve our problems by working together. As the young people in all our countries were especially concerned with the "quality of life" and a just distribution of incomes, we would do well to start putting moral values in the foreground of our consideration of economic and monetary affairs.

An Austrian participant observed that international collaboration on many of these matters was hard to achieve because our domestic political parties had relatively little room for maneuver.

A Dutch speaker, who was convinced that inflation could not be solved on a national basis, called for the US, Japan and the EC to work out parallel strategies for combatting it. This did not mean, however, that we first had to put in place a new international monetary system. That might in fact take several years.

A Frenchman would have reversed the priorities, believing that inflation should not be allowed to serve as an excuse for postponing reform of the world monetary system. At the same time, every country had to move ahead with its own anti-inflation program without waiting for the perfect international cooperation machinery to be set up (while trying not to make more mistakes than the next fellow).

The author of the German working paper also felt that, although inflation had become an international phenomenon, curative treatments had to be started on the national level. They would need to vary from country to country according to local conditions, including the political set-up.

In the estimate of another German commentator, divergent inflation rates had been a divisive force which had impeded progress on currency union within the EC. Lack of harmony on economic, trade and currency matters still posed a threat to the stability and cohesion of the Atlantic alliance. Although NATO could not get mixed up with an economic community as such, there was a valid security argument for setting up an adequate framework within the alliance for systematic and organized cooperation in the economic and monetary fields.

A French intervention touched on the many changes in the environment of international trade that had occurred in the past decade. Our various economies now had to be defined according to function, not geographical territory. Multinational companies had acquired an importance unthought of a few years ago. The revenue *of* a nation such as the US) was quite different from that *in* a nation. But most of the eminent economic writers and analysts who still influenced us, such as Schumpeter, had done their thinking in terms of another economic world – of colonies, early-industrial systems and relatively perfect market mechanisms. We had to move ahead to a much more dynamic style of analysis. Representatives of the ten, fifteen of twenty leading economic powers ought to proceed as quickly as possible with their reconstruction of the world's monetary and trade rules.

A German participant said that the growth of international trade and of the strength of multinational firms had markedly reduced the power of governments to act, which handicapped them in fighting inflation. Ways should be found to restore that government power, but without recourse to protectionism. The adoption of floating exchange rates was a step in the right direction, as it enhanced a nation's scope of action in the face of currency speculation.

Multinational companies could help by showing more self-restraint and more respect for government policies in the countries where they operated.

For some participants, all the international consultation and coordination in the world was no substitute for the automatic correctives provided by the gold standard. A French speaker thought that the answer to inflation in the short run lay in calling a conference to create a new monetary system marked by relatively strict discipline, with central bankers undertaking to reduce or regularize interior demand. Return to the gold standard at a price of around $150 an ounce would serve to restore to money a relatively fixed value. The lax practices of recent years had led to significant international distortions, which were a strong inflationary factor.

A Canadian participant, also advocating a reconsideration of the gold standard, said that automatic correctives were essential to relieve the political authorities from the excesses which were being inexorably forced upon them. The proposals of Jacques Rueff now made sense to many more people than had been the case a dozen years ago.

IV. *Strengthening the wish to be cured.*

A. *The necessity for public awareness.* As an American participant put it, "it is part of the cure to wish to be cured." If there was a silver lining to the black cloud of inflation, he said, it was that our recent experience ought to help us to be realistic. The enormous costs of inflation were now evident, as were the hazards – indeed the predictable damages – of fighting inflation with increasing government intervention in the economy. As the author of the Dutch working paper had stressed, the costs of failure were infinitely higher than the costs of effective combat.

Another American pointed out that, since measures to curb inflation without abridging human freedoms tended to increase unemployment (at least in the short run), they were politically unpopular, if not unacceptable. We therefore had to put at the top of our priorities a program to teach the public – and public officials – that unchecked inflation operated to discourage investment, retard economic growth, aggravate inequalities in income distribution and, in the long run, increase unemployment. Unless we could make these facts known, we risked losing the fight against inflation, and with it our liberty.

A fellow countryman agreed that a tremendous amount of education was needed to create the base of public awareness on which political reforms could be built. An International speaker, on the other hand, felt that broad public support for anti-inflation measures had already come into being. The recent acceleration of inflation had scared people into a realization that their efforts to keep up were no longer manageable. The exposure of the inequities of the system had caused a less violent adverse reaction than might have been expected, but the public was now prepared to accept sacrifices.

An Austrian participant said that molders of public opinion had a continuing job to do in imbuing people with the concept of overall stability, comprising not just the unit of account but employment and social progress as well. It was the task of political economists to show, for example, that monetary policy was no longer a pure exercise in banking techniques, but an arm of foreign policy.

Another example of a rather subtle economic truth which had to be brought home to the public was cited by a French speaker. He said that all too few politicians had had the courage to tell workers that increases in the price of imports amounted to a real revenue loss for them which could never be compensated for by monetary remunerations.

Lack of political courage was also deplored by a British participant, who claimed that more than an average degree of it was required in his country, where unemployment was the "number one bogeyman". The job of public education was probably easier in a country like Germany, with its memories of inter-war inflation.

An American intervention suggested that much more than a public relations campaign was required. The speaker was convinced that we would not make headway in our struggle to teach the refinements of economics until our citizens had learned the rudiments in school. How, he asked, did you advise a people unequipped by training to follow the intricate arguments of economists that they would not achieve what they desired to achieve by requiring from their political leaders that which not only countenanced but required inflation?

In trying to bring some sense to the management of our public finances, we had to contend with such ingrained axioms of socialistic thought as these: (a) that money collected from the central political unit was money spontaneously generated; and its corollary (b) that money was virtuously deployed insofar as one elongated the distance between where it was collected and where it was spent.

According to the author of the German working paper, the educational job had to extend to proving inflation's bad effects on the allocation of resources and the stability of the social system. There needed to be much more collaboration between economists and politicians in explaining to the public what was needed to defeat inflation. Assuming general agreement that we were right to combat inflation, there ought to be a rational public discussion about how to achieve our objective.

B. *Achieving political consensus*. Whatever his prescription for curing inflation, every speaker seemed to agree that an essential part of the treatment lay in mobilizing public awareness into a political consensus. As a Dutch participant put it, there was no sense in fighting inflation to preserve democracy if we did it by resorting to undemocratic means.

An Austrian speaker reminded the meeting that fighting inflation was merely one element in the execution of economic policy. We had to know where we wanted our democratic societies to go, and to keep in mind the positive goal of conserving a high standard of living, not just in terms of money income, but of job security, medical care, livable cities and a clean environment. The necessary battle against inflation, however, imposed certain borderlines within which we had to strive for those objectives. There was probably no panacea for curing inflation; we would have to employ a mixture of treatments.

Moreover, we had to be realistic and to recognize that policy was executed by politicians in the real world. Elected leaders had to be able to communicate their prescriptions to their constituents while conveying a sense of safety and confidence. When business and labor negotiated over wages and prices, it sometimes happened that an agreement added a fraction of a per cent to the cost of living index more than we would have liked. But this was a price worth paying for the preservation of social stability and the amicable bargaining process.

A participant from the United Kingdom offered a description of how politicians in the Conservative party there worked with economists and people from the business world in formulating policy. Regular discussion groups were aimed at coming to grips with the practical elements of a current problem, and economists were not allowed to sit in a corner mouthing their pet theories. They were asked to speak in language that politicians could understand, as it was believed that the master of a subject should be able to explain it simply. The operating rules further required the group to reach some conclusions and to reassemble in, say, three months' time, prepared to review those conclusions in the light of intervening events. The party leadership had thus learned a great deal about the course of inflation in the last three or four years that had not been clear before.

Although there was not always agreement about causes of economic phenomena, this process generally produced agreement about practical steps to be undertaken. Whatever was done in the end involved a political decision, and economists were used to advise on techniques to effectuate that decision. As long as the rate of inflation was low, politicians would shy away from fighting it, claiming that one could live with inflation in order to preserve full employment and a high level of social services. But when the rate of inflation made a sufficient impact on people's lives, politicians would know that they stood a good chance of organizing a consensus to oppose it. Such a consensus, though, had to be made up of people who shared a common devotion to a free society and a mixed economy. Those who felt no loyalty to these values and who stood to gain from inflation, had to be vigorously fought on political grounds.

In the opinion of a French participant, the absence of political consensus had too often been used as a pretext for doing nothing. Economic history demonstrated that the notably successful campaigns against inflation had been carried out through "shock" measures. In France, this had been true of the

Poincaré stabilization of 1926, as well as the de Gaulle-Pinay stabilization of 1959. In both cases, the resulting under-employment had been of short duration.

Another French speaker criticized the tendency of modern politicians to add continually to economic measures, rather than choose between them. They seemed to have replaced the old maxim "*gouverner, c'est choisir*" with their new motto "*durer, c'est ajouter*" (in itself a kind of inflation).

An International participant was dismayed at the loss of time caused by politicians and economists throwing the ball back and forth to each other. Politicians had the vision and the potential will to lead the fight against inflation, but all too often they had little interest in economic questions. Economists, for their part, handled the issue very gingerly, claiming that their solutions had to await the emergence of a new consensus or show of political will.

What sort of consensus? the speaker wondered. If it was to be only among those who were satisfied with the present social system and distribution of revenue, we were bound to have difficulties. As for political will, one did not want to appear cynical, but for a politician it boiled down to a curious mixture of (a) trying to go with the stream so long as that could be reconciled with one's vision of the common good, and (*b*) trying to build some constraints which would enable one to say "I have to say 'no' because there are constraints I cannot escape."

Having lost the old constraint of the gold standard, we would have to try to find some new constraints in order to economize on that scarce resource called "political will".

A Belgian participant attributed much of the failure of anti-inflation policies in the West to the diminishing authority of governments themselves, based as they frequently were on weak political coalitions.

This analysis was endorsed by an Austrian speaker, who noted that governments throughout Europe held on by slim margins, and rarely represented a clear majority. Such governments were not capable of instituting austere measures which would only bear fruit after a long period of time, as these would surely be attacked by demagogic opponents. Political games, as they were being played, often ended up in bitter social and economic vendettas, which confused public opinion and exacerbated inflation. Our legislatures in turn had insufficient time to see through the solution of economic problems, which now usually required at least four or five years.

This state of affairs was no longer in accord with reality, and gave us reason to doubt the coherence of our political leaders, who were still burdened with the class outlook of an earlier day. As an industrial society moved towards a broader distribution of income, the widening of economic and social claims was no longer a monopoly of left wing parties, and one was led to wonder if a fundamentally different political approach was not needed.

The speaker's hope was that a new *prise de conscience* in the West would lead to the formation in many countries of "governments of national unity", encompassing as broad a spectrum of views as possible. These governments would be advised by widely representative "economic councils" not necessarily publicized or having a juridical status which would be supported by professional economists. The aim of such coalition governments would be, in the speaker's words, "to replace the function formerly held by dictatorships", and to put back in order not only the economic machinery but also the political morality of Western democracy.

A British participant characterized inflation as at bottom a political problem because it concerned the way in which social groups protected themselves in a democracy against the operation of market forces, and also against the operation of economic doctrines, particularly if those doctrines appeared to sentence them to long periods of unemployment.

The speaker wished that politicians could lead the way to new types of relationships between government and both sides of industry, especially in the key areas of wage determination and the allocation of capital. These new relationships would, in his view, be bound to limit, but not to abolish, the role of market forces.

V. *Appraising the soundness of our economic structures.*

Some participants suggested that it would be a mistake to suppose that one could draw any far-reaching conclusions about the problem of inflation without questioning some fundamental assumptions and re-examining the structural framework of our economies.

A Turkish participant offered a comprehensive analysis of structural developments as they related to inflation. In her view, there was an inherent tendency in present-day Western societies towards creeping inflation. This was caused by a downward inflexibility of industrial prices and wages, and by government intervention in agricultural products markets to eliminate any price decline likely to be caused by increased production at home or by competition from abroad.

These general price rigidities did not serve to explain the sudden outburst of two-digit inflation in 1973, although it would help to assert that Western societies would be inflation-prone even after the present inflation had been slowed down. One could invoke an additional factor likely to contribute in the same direction: the likelihood of increased monopolistic arrangements on a worldwide scale. The "third and fourth worlds", inspired by the example of OPEC, would be forming cartels to move the terms of world trade in their favor by increasing prices for their raw materials.

Moreover, within the Western world itself, competition had been "eating its own children". Competition among the few was leading to no competition at all or competition among even the fewer. Even the fact that there was a large area of factor and product prices which were becoming less and less flexible downward - but easily flexible upward - meant that the structural basis for creeping inflation had been laid down. Relative price changes led inevitably to a rise in the general price level, and money supply increases furnished the lubricating oil. The wonder was not that the price stability of the past had become a fond memory, but that the price mechanism could still go on carrying its allocative functions at all.

The speaker referred to the suggestion in the German working paper that more competition should be encouraged through imports from less-developed countries of agricultural products and labor-intensive manufactures. But such products amounted to such a small percentage of the GNP of the industrialized countries that little effect on price stability there could be hoped for by bringing this sort of competition into their markets.

In general, it was the capital-intensive products - whose markets were defined by oligopoly, and which were differentiated - that exhibited downward price rigidities. But no effective competition could be invited from the overseas, less-developed world in these industries, for either they had not been established there at all or, even if they had, costs of production were too high and there was no exportable surplus; or else the subsidiaries of multinational corporations were in the business and carefully abstained from competing with their parent or sister companies.

From this analysis, the speaker proceeded to these conclusions about key issues:

(a) *The gold standard*, if restored, would only operate smoothly if prices were not "sticky" anywhere. That is, domestic price levels should decline readily in any country running an external deficit and rise in countries with export surpluses, so that domestic price level changes would carry the burden of external adjustment. But if this were *not* the case, then some other price in the system would have to change to bring about the required adjustment, *viz.*, the rate of exchange.

(b) *Exchange rates* that varied by a large margin were here to stay, for if one set of magnitudes was rigid, another or others would have to take over the job. If no flexibility were permitted, the system would collapse unless a variation in some other magnitude were introduced.

(c) *Indexation of savings and other interest rates* was not practically workable. (See III, D, above for the speaker's argument on this subject.)

(d) *The multinational company*, by pricing arrangements and market-sharing practices, was eliminating competitive price flexibility on an international scale. By indulging in speculation in foreign exchange and commodity markets, it fostered economic instability. The aggregate power of the MNCs had become far greater than that of many individual nation states. Some means had to be devised on an international scale to control MNCs or to create countervailing forces to balance their "superpower".

(e) *An increase in the supply of money* was too easy an explanation for inflation. Obviously, wherever and whenever inflation appeared it was accompanied by an increase in total money expenditures. But *why* did money expenditures have to be increased? This was the question to which economists had to seek an answer.

An American intervened to respond to the remarks of the preceding speaker concerning multinational corporations. The very term implied trade between countries, and the weight of the evidence was that international trade tended to stimulate competition rather than eliminate it. Policies of economic nationalism, developed for whatever reason, tended to reward the less efficient producer. In the final analysis, this had to be paid for, which hurt productivity and fueled inflation.

The speaker went on to contend that foreign exchange speculation by multinational firms had been negligible. Such speculation detracted from the proper business of industrial management and was well known to be a "hot stove".

A Belgian participant agreed that more flexibility was needed in price structures, to enable cost savings to be passed along to consumers.

A French speaker felt that a reform of the structural basis of the business world would yield greater results in the fight against inflation than monetary or incomes policies. In particular, he would support:

(a) the radical suppression of all possibilities of profiting from inflation (by generalized indexation and by greater clarity in corporate financial statements and earnings reports).

(b) "clearer procedures" leading to the more "selective" financing of new investments; he conceded that the present heavy indebtedness of corporations would facilitate a move toward more government *dirigisme* in this field.

(c) less costly types of growth: the fundamental transformation of the commercial nature of our societies "in order to associate the unity of well-being less with the welfare of capital than with the welfare of working people."

A British participant said that more sensitive planning mechanisms were called for to help deal with structural changes. It was not that we necessarily had to do more planning, but that we had to think more carefully about the planning we did.

A German speaker found that the working papers and the discussion had brought out the complexity of the problem of inflation. Wages were just one element in the picture. Another important one was the fact that we were passing through a period of accelerating technological change. This meant that there was a growing time lag between recognizing social costs and introducing the required technology. Our present environmental problems, which contributed to the cost of production, were just one factor among many. In a sense, Western industrial societies were like companies that had been paying high dividends for the past 25 years without setting up reserves for depreciation. We were now having to settle that bill in one lump sum.

Economic life and political life were parts of one social system. While we expected business decisions to be made within their own frame of reference, we somehow thought that politicians should forget *their* frame of reference – which was not simply to get elected but also to work towards goals involving the implementation of social values.

Historically, our system had been based on a certain interdependence between freedom and risk. As our social values and thinking had evolved, however, we had constantly reduced individual risks (unemployment, bankruptcy) while trying to maintain or even expand the freedom of individuals. In that sense, Keynesian policies could be seen as an economic reaction to the politically unacceptable unemployment of the 1930's. It seemed clear that we would not reduce this trend toward protecting individual security. If that was the case, however, the corollary was that the freedom of those whose security was constantly increased would have to be shrunk, so that they could assume a larger share of social responsibility.

If labor were to participate in the responsibility for business management, we would have to be prepared to move in the direction of co-determination, with all its risks. It could only be hoped that the move would be well engineered.

Another basic change in our set of values had to to with the role of profit and income differentiation. Our system had been built on the rather Calvinistic assumption that there was a justified relationship between achievement and monetary remuneration. Income was always "just". The growing trend towards the redistribution of income suggested that this was no longer an important value. Our ideas about equality had changed – and in all political camps. Yet inflation was bound to continue if we tried to have everything at once, increasing consumption side by side with increasing investments and profits. We needed to make investment attractive but we could not turn back on the road to greater income equality. The way out of this dilemma was to promote the participation of industrial employees in profit-sharing and capital accumulation plans.

In conclusion, the speaker said that we had to adjust the economic part of our social system to enable it to operate with more individual freedom, more equality and more internationalism.

An Irish participant wondered whether the competitive capitalist system had not tended to undermine itself. It seemed to destroy the consensus needed to make society work. Could we expect to have competition as the motivating force of an economic system and exclude it simultaneously from the social system, where we expected cooperation within and among social classes? In the speaker's view, our present inflation reflected excessive claims on limited resources, unrestrained by any adequate communal commitment to society as a whole.

A Dutch participant confessed that he had been surprised and puzzled by the "restorative tendencies" evidenced in the discussion and the working papers. These attitudes would produce beautiful goods and monuments, but was that what we really wanted? Were we not willing to question at least some of the assumptions underlying our analysis?

All the papers, for example, seemed to proceed from the hypothesis that the market mechanism worked best and that everything would be all right if some corrections were made and some groups of people behaved better. The speaker disagreed with that approach. The social and economic order was there to balance interests, not to make them disappear. However, that applied equally to the strong groups which had a vested interest in inflation.

"The free market eats its own children," he went on. The textbook model of the free market system was a technical construction made from attractive raw material, but the real thing did not exist. Why did we insist on basing economic analyses and policy recommendations on an outdated model that was unfit to solve today's national and international problems? Why were Western leaders still striving after a "phantom model of economic order" instead of taking up the challenge of re-thinking their problems?

Containment of inflation and political stabilization were clearly not permanently or effectively possible within the present framework. We might find some temporary short-run solutions, but changes would have to be made in the near future. The decision-making process about production and distribution would need to be reconsidered if the decomposition of democratic societies were to be slowed down.

Participating seriously in this re-thinking of the social and economic order was the only avenue towards unity among the different political groups in our societies. Far too much was at stake for us to suppress the consideration of fundamental changes.

A Canadian speaker acknowledged that there had been many changes in the basic assumptions under which goods and services had been produced in our societies in the past. The old system had operated under laws which had been largely unwritten but which had commanded general allegiance (what Lord Moulton had called "obedience to the unenforceable"). Economic crises were thought of as temporary disturbances, acts of God for which nobody would think of blaming politicians. Today, the belief was widespread that the system had ceased to serve its purpose, and many frankly wished for its destruction.

The speaker was struck by the fact that everyone was now being expected to operate contrary to his own best interests. Labor unions were asked to restrain their wage demands. Politicians were asked to take the long rather than the short view, and to become saints in the bargain. Oil-producing countries were asked to accept payment in debased Western currencies. Businessmen were asked to exhibit restraint in pricing, whereas the old system had not only permitted maximization of prices but had actually depended on it to produce the necessary balance.

Moreover, businessmen were being asked to inject into their decisions considerations of social consciousness. But was it a sound and justifiable notion to move the corporation away from its role as an efficient producer of goods and services into a vague social role?

To the speaker, this all added up to a headlong rush to disaster, which we had to find a way to stop, even if it meant turning to the automatic correctives such as gold. The discussion had left him with the uneasy feeling that no one had wanted to look into the eye of the real issue: the deliberate debasement of our Western currencies.

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A British speaker, having listened to the prescriptions for inflation offered by the economists present, was reminded of the story of the engineer, the chemist and the economist wrecked on a desert island with nothing to eat but a solid tin of ham. The engineer and the chemist each applied his professional discipline to the problem of opening the can, but without any success. Finally, exhausted, they turned to the economist, who smiled and said: "The solution is perfectly simple: let us assume we have a can opener."

Other participants imagined variations on that story, such as the presence of a politician, who would have said "Let us assume we have a bigger can", or "It's no use trying to open the thing before we come to an agreement as to the distribution of its contents." If he had been a clever politician with the power of lateral thinking, he might have said "Let's forget about the tin of ham and eat the economist."

Finally, it was suggested that if the shipwrecked company had included a woman, she would have opened the tin with a hairpin or whatever else was at hand, served up the ham, and gone looking for help, instead of getting stuck with a rather artificial argument.

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ITEM II

RECENT INTERNATIONAL POLITICAL DEVELOPMENTS

I. *The present status and prospects of efforts to resolve the Arab-Israeli conflict, and the effect on relations among NATO members.*

The discussion of this topic was opened by a German participant, who offered the following analysis of the present Middle East situation.

In his view, the most recent round of US mediation had probably been bound to fail because of the very nature of the step-by-step approach. Each step on the road to a settlement had led towards ever higher obstacles, and further progress had finally become impossible without a clear view of what the last step would look like. We now had to try to envisage the shape that a durable peace in the Middle East might take. There were three key elements to the problem:

(1) *The issue of the territories occupied during the 1967 war.* Israel was convinced that she had to retain these places and the Arabs were equally determined to recover them:

(a) The Golan Heights, about which there was basically a military argument, and whose importance had been disputed even among Israeli politicians;

(b) Sharm el Sheik, and overland access to Eilat, Israel's only Red Sea port;

(c) The chain of para-military outposts along the River Jordan; and

(d) East Jerusalem, part of the Jewish historic capital.

(2) *The Palestinian question.* No Middle East compromise was foreseeable without a settlement of the fate of the Palestine refugees. There was a Palestinian nation which was entitled to a national home, and the Arab case was that this should comprise at least the West bank of the Jordan and the Gaza Strip. The arguments advanced against such a state were that it would ineluctably become a Russian satellite; that it would eventually fall to the Jordanians; or that it would serve as a base for fanatical Palestinians bent on the destruction of Israel. The opposite school of thought was that the establishment of a national home, with even a minimum of territory, would have a domesticating rather than a radicalizing influence on the Palestinian movement. Certainly if the Israelis gave up all or most of the occupied territories, the Palestinians would have to abandon their dream of dismantling Israel.

(3) *The world scene.* The US acting alone could not bring about a compromise; Soviet participation was needed for any chance of success. Even then, it was not clear that the superpowers could impose a solution on the Arabs and Israelis. Would an American guarantee of security be thinkable in the present climate in Washington, or credible after Vietnam? Would an Iranian oil guarantee for Israel be believable after the abandonment of the Kurds? Were the Russians genuinely interested in peace in the Middle East? What role was there for Europe and the UN? There was a definite European commitment to the State of Israel (but perhaps not to an Israel which sought to define its own boundaries without regard to the international situation). Just how this commitment would be implemented in any contingency was another question, but there was no doubt that Europe, like the rest of the world, had an enormous stake in Middle Eastern peace.

Another war there would be disastrous on several counts. It was likely to be more destructive than the last war, with a greater risk of widening into a worldwide conflagration. It would almost inevitably involve another oil embargo, longer and more intense than before. With Europe's 80 per cent dependence on Middle East oil, economic chaos and mass unemployment would result. Moreover, another war would again generate friction between Europe and the US about supplying Israel. With the Azores no longer available as a fueling stop, Germany would try to play a substitute role, as she did not want to see the balance of power tilted against the US in the Middle East. But there might prove to be limits to that role. Further dangers would result from depleting NATO arsenals in Western Europe which might be needed in a European contingency arising from a Middle East conflict.

An American participant outlined some of the reasons for the tactical procedures pursued by his government during the last round of negotiations. It had to be noted, first of all, that the US – which claimed no exclusive role in a Middle East settlement – had undertaken to act as intermediary at the instance of the parties themselves, who had been disappointed by the results of face-to-face discussions. The choice of a step-by-step approach had recognized certain realities in the matter:

(1) the fragility of the political situation in Israel;

(2) the need to build confidence on both sides by first resolving the simpler problems before moving to more intractable issues;

(3) the advisability of not grouping various Arab states together, which would have given an advantage to extremist doctrinaire views;

(4) the history of lost opportunities, such as Israel's failure to negotiate more seriously with King Hussein before the Rabat Conference; and

(5) the realization that the comprehensive approach advocated by the

Russians would have amounted to the formulation of an excessively complex and legalistic agreement, known to be acceptable to the Arabs, with the US role limited to producing movement on the Israeli side.

It appeared that this last round of negotiations had broken down because of a lack of political will. Without trying to weigh the blame, the speaker thought that there had been a failure on the Israeli side to appreciate the advantages of developing a relationship with a moderate Arab leader like President Sadat, who had been prepared to negotiate without counter-guarantees and to accept criticism for moving alone.

A French participant said that the basic cause of the failure of the recent talks had been a misunderstanding as to the meaning of the "non-belligerence" guarantee requested by Israel. To the Arabs, this had been seen as a political decision tantamount to a peace settlement, which President Sadat had felt he could not take, whereas the Israelis had viewed it merely as a first military step towards peace. It was important for the superpowers to understand the significance of this nuance, and of Israel's psychological need to be assured of the Arabs' non-belligerence. With such an assurance, the speaker said, there would be no real problem about releasing the occupied territories, which most observers thought would be essential to a settlement.

According to an American participant, David Ben-Gurion had said that Israel's pre-1967 borders were large enough for her future ambitions, and the present Israeli government had assented to that notion in principle.

Another American said that some minor border rectifications might have to be made, and that the substantial demilitarization of the Golan Heights and other areas was recommended. American and Soviet troops, augmented by elements from other countries, could constitute a neutral peace-keeping force.

Jerusalem was a problem of its own, because of its importance to all Arabs. It exemplified the need for psychological as well as physical security, according to an International participant. Israel had already indicated agreement with the idea of a special status for Jerusalem, and several speakers endorsed this concept.

An American participant suggested the establishment of a sort of "Islamic Vatican" at the core of the city, endowed with political as well as religious independence. It could be protected by a small contingent of "Islamic Swiss Guards", recruited from such countries as Pakistan and Turkey.

On the Palestinian question, another American thought that the boundary issue was secondary, and that with the advent of a semblance of peace the problems of the Golan Heights and the Sinai would disappear. But it was essential that the Palestinian people have a hand in working out their future. It should be up to them to decide whether their national home would be separate from Jordan, or a part of an enlarged state of Jordan. (This might best be decided, another US participant had suggested, through a plebiscite of all the Palestinian people, both those on the West bank and those in refugee camps.)

The speaker went on to stress that it was important now to try to get the Israelis and the Palestinians to talk to one another directly. This could conceivably be brought about by the efforts of private citizens – European, American, Japanese – who had such a large stake in Middle Eastern peace and who might be able to take initiatives that were foreclosed to their governments, in order to mobilize a sense of urgency.

In the opinion of a French participant, the importance and difficulty of the Palestinian problem had been over-estimated. It was just one of a series of issues, and should be de-emphasized. At the negotiating level, representatives of the PLO had already been at the first Geneva Conference, and Israel was engaged in conversations with Jordan about a zone along the River Jordan where Palestinians could be resettled. It was admittedly never agreeable to negotiate with people who resorted to terrorism, but in seeking peace one had inevitably to deal with one's enemies.

A Turkish speaker felt that we should be as assiduous in seeking a solution for the Palestinians as we had been in helping the Israelis with their national home in the 1940's. What was needed above all was a spirit of fairness and common sense.

We would probably soon be confronted with the problem of where to seat the PLO at the Geneva Conference, which appeared likely to be reconvened. Some participants held little or no hope that a solution would be found there. A French speaker said that one could not isolate the analysis of the Arab-Israeli dispute from that of the other conflicts around the fringes of Europe that were going on today (*e.g.*, Portugal) or probably would be tomorrow (Yugoslavia). The failure of the last Kissinger mission was symptomatic of a lack of real will for peace in the Middle East. The search for Arab unity, having no economic foundation, had to be based on opposition to a common adversary. All that could be hoped for in Geneva was to gain time, but the risk was that the US and Europe, working at cross-purposes, would become even more divided.

An American speaker indicated that the US government would be prepared to return to Geneva, provided the conference were carefully prepared. Such preparation could include, among other things, further interim agreements aimed at improving the atmosphere and developing some confidence between the parties.

Another US intervention advocated the urgent adoption of the following course of action: that President Ford enunciate an American position, which should be essentially to give flesh and blood to Resolution 242 of the UN Security Council (for which there was allegedly overwhelming support in Israel); that it be stressed that this position was advocated by the US independently, not as a surrogate for Israel; that the American position should be affirmed before the Russians could claim credit; that the US and Europe should then work out a common position, on the basis of which they should seek agreement with the Soviet Union.

Such an East-West agreement would be based on the declaration made after the 1972 Nixon-Brezhnev summit that the US and the USSR would use their best efforts to remove areas of conflict around the world, particularly in the Middle East. The Soviet Union should be challenged to fulfill that declaration before the West agreed to go forward on another declaration, *viz.*, that foreseen following the European Security Conference summit, which would be especially sought by Brezhnev as a capstone to his career and a prelude to the twenty-fifth Communist party congress in February.

Finnish and British participants were not sure that the Russians were all that interested in "buying" a Security Conference summit with other concessions, such as about the Middle East. They had already largely achieved their principal aim of putting an end to expectations of change in Eastern Europe. Was it not unrealistic to expect them to pay a substantial additional price just for a summit declaration? All the same, countered other speakers, there was no reason for us not to drag our feet and put them on the spot. They might refuse to cooperate, but at least their attitude would have been made evident.

Regardless of the Russians' intentions, it was hard to count them out of the Middle East equation, in the judgment of a Swiss speaker. They were excluded from many international forums – on the monetary system, relations among the industrialized countries and with the oil-producing states – so it was not surprising that they would counter this isolation by trying hard to maintain a role in the Middle East.

An American contended that indeed the Soviet Union and the US would both want to guarantee any settlement there – and not only to block each other's regional pretensions and to prevent another war. Preserving the independence of Israel was also important to each of the superpowers: to America for political reasons and to the USSR as a means of putting pressure on the Arabs.

According to another American participant, the USSR had had a "no war/no peace" attitude about the Middle East, which they now realized could not endure. They sensed the double risk of (a) the defeat of their "client" in a war, and (b) damage to East-West détente. Furthermore, the avoidance of conflict on the periphery was seen as part of a new Soviet strategy which was concentrating on political weaknesses in such Western centers as Italy, France, Portugal and Spain ("the general crisis of capitalism"). The speaker consequently foresaw a conciliatory Soviet attitude in the Middle East.

This analysis was supported by a British participant, but a Frenchman took issue with it. With their resolute and unyielding ways, he said, the Russians were managing to impose their views everywhere, while they were busy building up an unprecedentedly strong naval force. Why should they be interested in a peaceful settlement in the Middle East?

An Italian also saw no evidence of the Russians' willingness to renounce their intention of restoring their influence in the Middle East, including the Persian Gulf. This speaker went on to say that any Mid-East settlement would have to begin with a validation of the moderate forces in both the Arab and Israeli camps.

Another Italian challenged the contention that the Soviets were now aiming to upset the balance in Europe. They were being kept too busy with their troubles with the East European Communist parties. The American speaker replied that he had not meant to suggest that the Soviets hoped to break up the Western alliance. It was rather that they sought to promote decomposition in the West wherever possible. Although they were now passing into a phase of great-power aspirations and achievements, they would take care to act prudently.

The role of Europe itself in any Middle Eastern settlement was the subject of several interventions. An Irish participant conceded that there was as yet no single "European viewpoint", and that some member countries were frankly more pro-Israel than others. Nonetheless, he detected enough shared viewpoints to suggest that a common European policy should be sought.

Other participants thought that this would be pointless. An International speaker, supported by a Frenchman, said that Europe would not in the near future be able either to deploy weaponry or to give political guarantees in the Middle East.

Several speakers – French, American and International – were persuaded that European interests could nevertheless fill an important post-settlement role in the economic sphere: helping the Palestinians to build roads and housing; leading the Israelis out of their economic isolation; and generally promoting regional economic cooperation.

A French speaker remarked that the application of anti-Israel boycott rules was being carried to inadmissible extremes. European countries had to get together and set limits beyond which they would not go in giving in to the

Arabs for business reasons. Any one country's resolution to draw the line somewhere could be undercut by other countries' not respecting it. The Netherlands was one of the few nations, he said, which had drawn the line in 1973 and stuck by it, demonstrating a great deal of political courage. The speaker said that his generation had not experienced Munich, but had read enough about it to be horrified by the idea of acceding to a boycott.

The 1973 crisis – with its enormous military and economic threats – had attenuated European-American relations, largely as a result of poor communications, according to an Irish and an International participant. But European attitudes about the Middle East had "grown up" since 1967, a fact perhaps not fully understood by the Americans.

An Italian said that if Europe still seemed self-centered, it was not that it preferred to leave all responsibility to the US, but that it was preoccupied with safeguarding its own fragile unity.

While an International speaker found apparently little residue of resentment in Europe about America's behavior in 1973, an Irish participant said that a question hung in the air: Did the existence of NATO really imply that Europe had a "duty" to follow the US every time the Americans judged that vital interests were at stake?

The ability of the US to play an effective part in the Middle East and elsewhere had been called into question by recent events in Southeast Asia and Washington. It was reported by a British speaker that Israeli politicians had expressed reluctance, after the debacle in Vietnam, to accept any formula for a settlement that would be primarily dependent on American guarantees. The discussion of this question led naturally into the next topic.

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II. *Other recent developments affecting the relations among NATO countries.*

A German participant said that, while there had been no gloating in Europe, no *Schadenfreude*, about America's recent reverses, Europeans could not help wondering about the implications of (a) Vietnam, (b) the assumption by the US Congress of more authority in foreign relations, and (c) the current style of American diplomacy, which seemed unable to deal with more than one major problem at a time. Even if there were to be no "linear progression towards the old isolationism", as he put it, a degree of readjustment seemed to be in store.

A Turkist participant reported that some Europeans envisaged having to lobby directly with the US Congress, or even with its constituencies.

According to a British speaker, there had been talk at a recent meeting of the Council of Europe of the need for increased self-reliance, while some had gone so far as to suggest putting out feelers about possible European neutrality.

On the other hand, said an Italian, there was a feeling in some quarters that there had been no fundamental change in Europe's attitude towards America. Since, in Soviet eyes, the US had suffered a major defeat in Vietnam, a Norwegian participant thought that it was now more important than ever for Europeans to reassure the US of their loyalty to the alliance.

To one American, Europeans in general seemed to lack a feeling of responsibility for events. It might not be too much to say that a creative impulse about its own responsibilities was missing from Europe. While Europeans were prepared to leave things to the Americans, many expressed doubts about the US security commitment to Europe and about US domestic cohesion.

There was a strong Marxist flavor to much of European university teaching about current affairs in the US, which the speaker illustrated by citing the titles of courses offered at the Free University of Berlin. This meant that a new generation of Europeans was growing up which might not feel that all of us in the Atlantic community were "in the same boat".

Several Americans commented on current attitudes in their country towards foreign commitments. One of them sensed a definite trend towards isolationism, a tendency to downgrade questions of security, alliances, the UN. He felt that a "prolonged effort of creative leadership" on the part of the Europeans and the Japanese was now needed to inspire the American Congress and public opinion.

Another American wondered whether the relentless criticism of US policies had not finally so blurred the distinction between the values of free and collectivist societies that the Americans would be unable to make a heroic effort if challenged. A Norwegian had the same question about young people in Europe.

Other speakers thought there was no doubt about the determination of the American people to fulfill their commitments in the world. A US participant pointed out that the NATO treaty had been ratified after a clear explanation to the public that it would give the president power to deploy US troops without further authorization from Congress. One of the major points of contention about the Vietnam war, which had caused such divisiveness in America, was that it had been pursued without proper Congressional approval. The end of that war might well enable the US to give better attention to its commitments in other parts of the globe, including Europe.

It was true all the same that a process of change was under way in Washington to redress the balance of power in the conduct of foreign affairs. As one US participant put it, the president was meant to be the architect but it was up to the Congress to supply the bricks and mortar, a division of labor that had been overlooked in recent years.

Another American participant suggested that the pendulum had now swung too far in the other direction, as exemplified by the Congressional ban on arms aid to Turkey. He characterized that action as harmful to NATO and the US, potentially helpful to the USSR, and non-productive of the goal its proponents allegedly had in mind, namely, the resolution of the Cyprus crisis.

The speaker was not sure himself exactly where the balance should be struck as between the executive and the legislature; a greater interest in the problem had recently grown up among the public, and the people would eventually set the degree of readjustment. What seemed likely, though, was that the present mood would not be definitive. The new Congress, in the wake of Vietnam and Watergate, had exhibited traces of an "anti-everything" spirit. When the "rib cage" of leadership eventually formed – that had not happened yet – the Congress would be able to respond to the public's dissatisfaction with the status quo.

But in the meantime, Europeans were counseled not to wring their hands in anguish about the "credibility of the US commitment". If a real threat to Europe emerged, there was no doubt in the speaker's mind that America would respond quickly. There was no real alternative for the US – or for Europe – unless one believed that détente was equivalent to peace, which it was not.

An International participant drew up a current NATO balance sheet. He saw on the positive side: Iceland's continuing membership as an "unsinkable aircraft carrier"; the successful restructuring of Germany's military forces; Italy's naval building program; strong French cooperation within the framework of the 1966 decision; increased defense budgets in real terms; and improved consultation within the alliance since Ottawa. On the negative side: the Far East situation; Portugal; the Turkish-Greek troubles; disaffected public opinion in many countries; and economic and monetary problems.

Other participants also mentioned points where the NATO alliance was vulnerable. A Norwegian emphasized relative naval weakness, recessionary effects on budgets, and the growing complexity of the northern flank (caused by oil developments). A Turkish speaker alluded to the pressures to be expected after the ECSC summit.

Turning to individual countries on the troubled southern flank, Swiss and

German interventions suggested that much had gone wrong in Portugal during the past year because other European countries had paid little attention to Portuguese needs. The election results meant that the leaders there still had to be malleable, and the opportunity should quickly be taken to offer Portugal a package of economic aid and EC association, against a guarantee of some minimum conditions of pluralistic democracy. An International participant took exception to the implication of "missed opportunities", pointing out that Portugal had been treated very correctly in NATO, with offers of economic aid and great sympathy to democratic leaders, all to no avail.

In Italy, the "historical compromise" seemed to have no chance in the immediate future, according to Italian and German participants. The Communists had conceded that Italy would remain in NATO and the EC. The economic crisis had been eased without mass unrest by the rapid adjustment of some imbalances in the Italian economy, and one could be cautiously hopeful.

Turkish-Greek relations were characterized by an International speaker as a latent sore which erupted violently from time to time. The principal components of the present conflict were Cyprus and the Aegean, and a German participant advocated a compromise whereby the Turks might yield on Cyprus and the Greeks on the Aegean. Perhaps the EC – full membership of which both countries aspired to – could be helpful in providing a fact-finding commission, a channel of communication and a meeting ground.

A Turkish speaker replied that Cyprus and the Aegean were completely separate issues, and that it was like mixing apples and oranges to talk of a joint solution. Although the arms race was debilitating to the economy of both sides, Turkey could not afford to let her defense arrangements remain suspended while NATO decided what to do.

Two compatriots added these points: that the issue in Cyprus involved the very existence of the state, which had been created by treaty and was *sui generis*; that the Turks were still counting on Greek willingness to negotiate; and that the US arms embargo was not only harmful to NATO but counterproductive. It was unfortunate that this regional dispute had been blamed for a deterioration in NATO relations. In Turkish eyes, American credibility had been much more damaged by the US reaction to the Cyprus affair than by the withdrawal from Vietnam.

As to the general state of NATO, an American participant observed that the alliance had worked reasonably well in handling things which the member countries had agreed to do together, which they had planned for, and which they had persuaded their publics about. The Middle East had unfortunately not been on the NATO agenda.

But the world had changed since that agenda had been drawn up, and it was time for it to be broadened to cover relationships with nations outside the alliance. On several occasions since 1973, Secretary Kissinger had proposed closer Atlantic cooperation on a broader range of issues; it had not been US reluctance which had slowed that inevitable step.

Another American suggested, however, that the current style of US diplomacy, which favored top-to-top rather than middle-level consultations, had been an impediment and should be discarded in favor of a return to "institutionalized foreign policy."

An Irishman in turn observed that Europe was slow to talk frankly because it seemed that the US was constrained – by current events or the constitutional process – to hammer out agreed positions different from Europe's own preconceived positions. At the same time, the US seemed unwilling to "agree to disagree", tending instead to adopt an attitude of "if you're not with us, you're against us."

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It was useful to step back occasionally to take a longer range view. To an Italian participant, we were faced not with an assortment of political crises but with a prolonged historical crisis of legitimacy.

In the judgment of an American, we were confronted with the interaction of a crisis of liberal democracy and a crisis of the international system. We often seemed to be talking about how to restore a cracked system, whereas we should be thinking in terms of broad innovation. A Dutch participant alluded to the "restorative tendencies" evident in the discussion of both agenda items.

Certain parallels between the discussion on inflation and that on political developments were commented upon. In each case, a lack of political will was often the stumbling block on the path to a solution; in each, there was a mystical expectation that people should be willing to renounce tehir aspirations and to act in a way contrary to their own interests; and in each, appeals for such selfless action were frequently heard from those who were required to give up very little themselves.

The Chairman remarked that, in his view, the implications of many of the issues touched on during the discussion would bring us up against the intractable problem of human population increase. The UN conference on that subject, held in Bucharest in 1974, had concluded that population growth would not present a political problem before the middle of the next decade – a timetable which seemed too optimistic to many observers.

As demographic changes operated very slowly, the more sensible view might be that there was no time to lose in planning for this difficult problem. One useful step would be to include a population factor in all economic considerations. We had also to keep in mind that the related problems of the environment – pollution, consumption of resources – were present in the developing and the developed countries alike.

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In closing the meeting, H.R.H. The Prince of the Netherlands, as Chairman, expressed his appreciation, on behalf of all those present, for the generous and efficient hospitality of Mr. Beyazit, the Turkish host, and for the efforts of the many people who had worked to insure the success of the conference: the authors of the working papers, the interpreters, the secretariat and the hotel staff. An American and a British participant thanked the Prince in turn for having presided at this interesting and enjoyable meeting.

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BILDERBERG MEETINGS

ÇEŞME CONFERENCE

25-27 April 1975