

Dialogue

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COMMISSION RECOMMENDS COOPERATION WITH OIL-EXPORTERS, PROPOSES NEW AID AGENCY, CONSULTS WITH FORD AND KISSINGER

"The international system is undergoing a drastic transformation through a number of crises. Worldwide inflation reflects, transmits and magnifies the tensions of many societies, while the difficulties produced by the abrupt change in oil prices are accompanied by the entry of major new participants onto the world scene.

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lying assumptions of the old system could lead to a general breakdown. On the other hand, creative policies to adapt it to the new partners and conditions could extend the area of effective cooperation more widely than ever before. Such cooperation must be based on the principle of equality. This is the core of any future political understanding."



Members of the Executive Committee meeting with President Ford about Trilateral Commission recommendations. From the President's left, they are as follows: David Rockefeller, Chairman, The Chase Manhattan Bank, N.A.; Zbigniew Brzezinski, Director, The Trilateral Commission; Robert W. Bonner, Q.C., Bonner & Foukes, Vancouver; Tadashi Yamamoto, Japanese Secretary of The Trilateral Commission; George S. Franklin, North American Secretary, The Trilateral Commission; Francois Duchêne, European Deputy Chairman, The Trilateral Commission; Kazushige Hirasawa, Radio-TV news commentator, Japan Broadcasting Inc.; Harold Brown, President, California Institute of Technology; Chujiro Fujino, President, Mitsubishi Corporation; Cesare Merlini, Director, Italian Institute for International Affairs; Gerard C. Smith, North American Chairman, The Trilateral Commission; Mary T. W. Robinson, Member of the Senate of the Irish Republic; Umberto Colombo, Director of the Committee for Scientific Policy, OECD; Jean-Luc Pepin, P.C., President, Interimco, Ltd.; Georges Berthoin, former Chief Representative of the Commission of the European Community to the U.K.; Max Kohnstamm, European Chairman, The Trilateral Commission; Nobuhiko Ushiba, former Ambassador of Japan to the United States; Marc Eyskens, Commissary General of the Catholic University of Louvain; Elliot L. Richardson, Fellow, Woodrow Wilson International Center for Scholars, Smithsonian Institution; Otto Grieg Tidemand, former Norwegian Minister of Defense and Minister of Economic Affairs; Lord Patrick Gordon Walker, former British Foreign Secretary.

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These opening lines of the Resolution adopted by the Trilateral Commission's Executive Committee at its December meeting in Washington represent the spirit in which the Commission is recommending trilateral governments approach the present changing international situation. The communique goes on to make a number of specific recommendations, some of which have already gained significant attention.

New Aid Agency

One such recommendation offers a method for raising \$3 billion per year in additional, urgently required aid for developing countries over the next five years. A new international development agency would be created to borrow the \$3 billion a year from OPEC countries at eight percent and to make it available at three percent to the most needy developing countries, as twenty-year loans with four-year grace periods. The total cost of the necessary interest subsidy from 1976 to 1980 would be about \$900 million a year, of which \$100 million might be from World Bank profits, \$300 million from OPEC countries, and \$500 million from the developed countries. The U.S. share might be about \$170 million, a sum small enough so that it should be politically feasible, especially when it is realized that it would provide the leverage for a \$3 billion annual transfer to the most needy countries. The special fund would be managed by a "tripartite governing body," with representation and voting power shared equally between trilateral countries, OPEC countries, and other developing countries. (In the Bank and Fund itself, the task force recommends that OPEC quotas and voting rights, now about 5%, be increased to between 15% and 20% of the total.)

The proposal endorsed by the Executive Committee was developed by the Trilateral Task Force on Relations with Developing Countries, and is presented in its second report — **OPEC, The Trilateral World, and Developing Countries: New Arrangements for Cooperation, 1976-80**. The Executive Committee considered a draft of this report in December and it is now being revised for publication.*

The task force's proposals were considered by the 20-

nation Joint Development Committee of the World Bank and International Monetary Fund which in January urged immediate study of a third loan "window" for the Bank, based on the interest subsidy idea. The Development Committee is expected to take a decision on the new agency at its next meeting, in June in Paris.

Recycling, Relations with Producers

Most consuming countries cannot expect markedly concessional loans to cover their ballooning balance-of-payments deficits with oil-exporting states, but some inter-governmental framework is needed to "recycle" the funds needed for these deficits to be financed while consumers adjust to the new situation. The private banking network and the existing system of ad hoc responses cannot, it was emphasized, bear the entire load. In its Resolution, the Trilateral Executive Committee recommends that OPEC countries be approached to find out if they would consider joining in a new Bank for Fund Recycling, with the oil-exporters holding half the voting power and subscribing half the capital. "Such parity is essential," the Resolution notes, "to create confidence and stability, enabling the bank to borrow funds from OPEC countries on an acceptable debt instrument." While noting the great potential for dislocation from oil-exporter surpluses, the Resolution also argues that, if cooperatively used, these accumulating funds are "a potentially massive new source of investment in a world which will be in desperate need of capital."

It was a persistent theme in the trilateral December discussions that oil prices cannot be expected to collapse, and that even if there is a significant quantitative decline, the qualitative adjustment problems will be the same and need immediate attention. There were two main occasions on which these issues were considered at the December meeting. One was in the opening session, when speeches on energy-monetary problems were presented by Paul Delouvrier, Nobuhiko Ushiba, and George Ball. Then, in the second session, consideration was given to the draft final report of the Trilateral Task Force on the Political and International Implications of the Energy Crisis, now published as Triangle Paper No. 6 — **Energy: A Strategy for International Action**.†

Mr. Ball, former U.S. Under Secretary of State, was particularly critical in his address of confrontationist strategies aimed at forcing down prices and organizing recycling without producer participation. "A more practical course," he stated, "would be for consuming countries to

*The rapporteurs of this task force are: Richard N. Gardner, Professor of Law and International Organization at Columbia University; Saburo Okita, President of the Japanese Overseas Economic Cooperation Fund; and B. J. Udink, former Dutch Minister for Aid to Developing Countries. Prof. Gardner is the principal drafter of this report.

†The rapporteurs of this task force are: John C. Campbell, Senior Research Fellow at the Council on Foreign Relations; Guy de Carmoy, Professor at the European Institute of Business Administration in Fontainebleau; and Shinichi Kondo, former Japanese Ambassador to Canada.

institute as soon as possible a continuing discussion with OPEC nations in which we seek to enlist their cooperation with regard to the whole range of questions created by their price actions — including the problem of recycling — without specifically seeking an adjustment of prices.” The proposal for a Bank for Fund Recycling, with one-

half OPEC participation and control, was presented in Ball's speech.

Mr. Delouvrier, Chairman of Electricite de France, saw no reason to expect a substantial reduction in oil prices. He argued that ensuring relatively stable oil prices over time is now a more important issue and that, furthermore,

TRILATERAL COMMISSION

EXECUTIVE COMMITTEE

adopted December 10, 1974

Resolution

The international system is undergoing a drastic transformation through a number of crises. Worldwide inflation reflects, transmits and magnifies the tensions of many societies, while the difficulties produced by the abrupt change in oil prices are accompanied by the entry of major new participants onto the world scene.

Confrontation in an attempt to maintain the underlying assumptions of the old system could lead to a general breakdown. On the other hand, creative policies to adapt it to the new partners and conditions could extend the area of effective cooperation more widely than ever before. Such cooperation must be based on the principle of equality. This is the core of any future political understanding.

This applies notably to the most urgent challenge, the one posed by the funds being accumulated by the oil producers. These could dislocate the system if they are not properly absorbed. Cooperatively used, on the other hand, they are a potentially massive new source of investment in a world which will be in desperate need of capital.

In view of the proposals which have been put forward for cooperation between the oil-consuming countries, and the need for cooperation also with the oil producers, the Executive Committee of the Trilateral Commission calls on the major oil-consuming countries to approach the OPEC countries in order to find out if they would consider:

- Setting up a new Bank for Fund Recycling, with subscription of an equal amount of capital and joint control by oil consumers and producers. Such parity is essential to create confidence and stability, enabling the bank to borrow funds from the OPEC countries on an acceptable debt instrument.
- Creating a new international agency associated with the World Bank to supply the extra \$3 billion a year urgently required by the most needy developing countries. This agency should borrow \$3 billion a year at 8% interest from OPEC countries and lend it to low income countries at 3%, in loans with 20-year maturities and four-year grace periods, in each of the years 1976-1980. The total cost of the interest subsidy required for these loans would amount to

\$900 million a year for the years 1976-1980, a sum small enough so that it should be politically feasible to raise it among the OECD and OPEC countries.

These short term solutions are complementary to the need simultaneously to develop a longer term framework for international cooperation. The executive Committee believes that this should involve a tripartite global structure in which the oil producers are encouraged to invest in low income areas by joint guarantees with the highly industrialized countries. To prepare the necessary long term framework for cooperation, a tripartite conference, or series of conferences, should be organized, involving some of the highly industrialized countries from each of the three trilateral regions, some of the oil producers and some of the low-income countries.

The solidity of the long term framework also requires that the major oil-consuming countries cooperate on energy policies. The Executive Committee welcomes the agreement on an International Energy Agency able to organize crisis cooperation and hopes that other countries of their regions will join the group.

It also endorses the recommendations for joint action contained in the report on "Energy: A Strategy for International Action" submitted to it and particularly the proposals for (i) the reduction of dependence on imports, (ii) holding the annual growth of energy consumption below 2% in North America, 3% in Europe and 4% in Japan, and (iii) cooperation in developing the extensive energy reserves, actual or potential, of the trilateral area.

The success of measures to rejuvenate the international economic system is umbilically tied to successful progress towards a lasting peace in the Middle East. Such a peace settlement must be guaranteed by the United States and the Soviet Union; other countries, especially the European states, should be ready, if required, to associate themselves with them.

The Executive Committee has discussed means by which the Trilateral Commission could in the future further the proposals in this resolution. Also, it has initiated a trilateral policy program on a Renovated International System, to be completed by 1976. The Commission will hold its first Plenary Session in Tokyo in May 1975.

the increase in oil prices is consonant with the general need for higher prices for raw materials of developing countries. Delouvrier envisaged the oil surpluses improving the fortunes of all developing countries through a sort of OPEC "Marshall Plan" for other developing countries, initiated jointly by these parties.

Nobuhiko Ushiba, former Ambassador of Japan to the United States, was the least sanguine of the three in respect to existing oil prices. Referring to "a sense of helplessness and frustration" among the Japanese people in the oil crisis, he stated that he did "not believe that the Japanese in general can afford to say the current high price of oil is a foregone conclusion and that there is no way of

bringing it down." He also expressed doubts about the "practicality" of 50% OPEC participation in a new recycling mechanism before there is a more basic "meeting of minds" between the various parties. Ambassador Ushiba did not, however, advocate isolation of the issue of price and a confrontation strategy to bring it down. He recommended a broad policy of "conciliation and dialogue" with the oil producers, with efforts to create the "objective conditions" necessary for price relief.

The energy task force report also emphasizes a broad, cooperative approach to the oil exporters, without isolating

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NOBUHIKO USHIBA
Remarks on the Energy Problem
delivered December 8, 1974

When Japan was jolted by the sudden impact of the oil crisis in the wake of the 1973 Middle East War, some likened the Japanese position to that of passengers in a hijacked plane. We were seriously affected by a development totally out of our control. We watched almost helplessly as this series of events took place. Such a sense of helplessness and frustration still persists and prevails among the Japanese people.

There is no doubt that the sudden price increase of oil has severely affected the Japanese economy. The degree of the sense of crisis among the Japanese leadership and public alike might be beyond the comprehension of our American or probably even European friends. Our basic posture in this situation, therefore, is to seek dialogue with oil-producing countries instead of confrontation, with a hope for possible reduction of the oil price. I understand that a fairly optimistic note has been struck by some of our American friends to the effect that the present economic system can withstand such a high price of oil, and economic growth can be maintained even with the present level of price. I do not believe the Japanese in general can afford to say that the current high price of oil is a foregone conclusion and that there is no way of bringing it down. We feel that we should continue our efforts to lower the oil price by creating the objective conditions necessary. Further price increases through indexation, which will bring about further inflation and set a precedent for the pricing of other raw materials, would put an almost unbearable burden on the Japanese economy as well as on our socio-political system. The slightest hint of another outbreak of war in the Middle East brings a nightmarish shudder to the Japanese people. We are looking to American good offices in avoidance of such a calamity.

As I have already suggested, basically we seek conciliation and dialogue with the oil-producing countries. It is a

mistake on the part of oil-consuming nations to gang-up against OPEC countries. Nevertheless, it is vital for the oil-consuming nations to establish good communication and coordination among ourselves for improvement of the situation. In this sense, establishment of the International Energy Agency and the International Energy Program is a most welcome development, and we do hope that it can prove to be an effective vehicle for our cooperation. I very much hope that our French friends will participate in such efforts and work with us for our mutual benefit.

Whatever efforts we will be engaged in, it will take some time before a semblance of settlement of the oil crisis will be achieved. In the meantime, some recycling mechanism should be created in order to alleviate the burdens of resource-poor developing nations as well as industrialized nations suffering from acute balance-of-payments problems. I do not have any serious reservations against creation of a new mechanism for recycling backed by sufficient international guarantees, but it seems to me that a more realistic approach would be to make effective use of existing international institutions. I have some doubts about the practicality of seeking 50% participation of the OPEC nations in establishment of a new mechanism to rescue industrialized nations afflicted by balance-of-payments problems. I believe a basic meeting of minds should precede such a high degree of collaboration with the producers. In this context, it will be essential for us, the Trilateral nations, to undertake more sincere and concerted efforts for development of the economies of the OPEC nations.

With regard to easing the serious burdens of many developing countries without oil resources, I believe that the oil-producers should carry major responsibility, although the Trilateral countries should at least maintain the real value of their existing aid levels.

PAUL DELOUVRIER
Remarks on the Energy Problem (excerpts)
delivered December 8, 1974

There is no reason to expect a substantial reduction in oil prices. There is no prospect of one before the 1980's, when nuclear energy and new oilfields outside the Middle East can begin to make a massive impact on the energy balance. Even subsequently, major price reductions are unlikely, since a relatively high price will make it possible to maintain, on the one hand, the oil revenues and reserves of the producers and, on the other, the competitive capacity of oil fields which are more difficult to prospect and develop than those of the Middle East, and of substitute fuels such as tar sands, oil shale, coal gasification, geothermal or solar energy, etc.

However great the temptation may be to press for lower oil prices, it is more important to ensure the relative stability over a fairly long period of whatever price level has been reached. It is particularly important to guard against frequent and substantial price variations of such a basic product. Nothing could be more harmful to the conservation of energy, the opening up of new oilfields, the development of substitute fuels, or — a point which tends to be underrated — well-directed investments for the production or use of energy.

In any case, would even a substantial reduction in oil prices which cut the balance-of-payments deficits of Europe and Japan really change the order of magnitude of the problems posed by the surpluses of the producing countries? The answer seems to be "No." These problems were beginning to emerge even before the war of October 1973. The impact of the war has been to bring into the open and to magnify the oil problem, not to create it.

The increase in oil prices is consonant with the need for higher raw material prices, which some nations have long since urged in international conferences, in order to help the developing countries by enhancing the value of their natural heritage.

The special characteristics that have made a global problem of oil are, first, the size of the increase in prices, second, and more important, its abruptness, and third, last and above all, the fact that the major beneficiaries are countries with very small populations which cannot, however much they would like to, make effective domestic use of the enormous surpluses with which they have suddenly been saddled. Had the oil wealth of the Middle East been situated in India, the problem would be transformed. Here is a situation without precedent on this scale. Wrong-headed solutions for dealing with it could lead mankind to major economic disasters and even dangers of war.

The ways and means for dealing with oil surpluses are not of primary importance so long as there is agreement on the manner in which the problem itself is posed and a

political determination to tackle it in a spirit which rejects the temptations of self-centeredness, the will to dominate, or more simply the desire to get one's own back. On the other hand, these ways and means will be counter-productive if they convey the impression that one region is gang-ing up against another while ignoring a third, not to say a fourth party, that Fourth World which, as it has been said, is the Third World short of the oil-producers.

We are in fact dealing with a world problem which directly affects all countries. It must be approached at that level, as a crucial issue, which is new both in scale and in terms of the difficulties it raises. If the problem is correctly defined and its lessons suitably drawn, it can and must serve the greater prosperity of the world by giving a new stimulus to the economies of the developing countries.

Just as the United States, with the Marshall Plan after the Second World War, helped to reconstruct and launch the European economy; so now the oil surpluses, which cannot be used in the short-term in the producing countries, could improve the fortunes of all the developing areas, that is, of two thousand million human beings.

In postwar Europe, the national shares of Marshall aid were worked out in the international organization specifically set up to that end, the OEEC. Despite the great diversity of the developing countries, their economies and populations, the same kind of approach, even if more complicated in detail, should be initiated jointly by the oil-producing countries and the rest of the Third World.

As for the highly-industrialized nations, their indispensable contribution would be to provide their combined guarantees to the oil-producers on loan operations through appropriate bodies existing or yet to be created.

The establishment of the system here proposed will inevitably take time, but the scale of the funds involved and the number of countries affected make this equally true of any of the proposals which have so far been put forward.

It will thus be necessary to establish interim machinery to prevent a worldwide economic crisis, condemning all countries to recession, with or without recurring inflation, and certainly accompanied by serious social crises associated in some cases with a revival of racist attitudes. The interim solution, if it is to match the challenge, must involve the conversion of short-term funds into medium or long-term investments. This again would call for guarantees of the advanced industrial countries administered through an institution set up in such a way as to avoid financial domination by any single industrial power. It must never be forgotten that no one can force the producing countries to convert their surpluses out of short-term deposits.

GEORGE W. BALL

Remarks on the Energy-Monetary Situation and the Middle East (excerpts) delivered December 8, 1974

I. Transitional Recycling

Although the problem produced by the shift of wealth and power to the OPEC countries is of unprecedented magnitude and complexity, I intend to speak tonight about only one limited aspect: how we can most effectively — and with the fewest dislocations — help nations finance severe balance-of-payments difficulties stemming from increased energy costs until such time as the world can adjust to its new situation.

Today it is fashionable in some quarters to dismiss proposals for recycling as an irrelevance. What is imperative is to bring about the reduction of oil prices. But if that seems outside our current competence, what then do we do?

What, among other things, we urgently need are transitional measures. We are faced, after all, not by a permanent disruption of our financial and economic system but by a problem stemming from timelags in the adjustment process. The primary reason that the fourfold increase in oil prices threatens disaster is not that it has occurred but that it has occurred abruptly. Phased over five or ten years such a drastic price change could be absorbed with only minor dislocations.

Our problem, then, is to deal with a limited time gap while the world adjusts to high oil prices or those prices fall under the impact of reduced demand resulting from the curtailment of consumption or the increase of supply that follows the development of alternative energy sources. What compounds the difficulty — and makes the problem potentially so politically divisive — is that the burden of those prices falls unequally on individual consuming countries. A few, such as the United States, have indigenous oil production that covers the largest part of their requirements. Others, such as the United Kingdom, have such production in prospect. Still others, such as Japan, are dependent 100% on imported oil to meet a large part of their energy requirements and have no serious possibility of developing domestic sources.

Some nations, such as the Federal Republic of Germany entered this period of strain and difficulty with large financial reserves and a substantial surplus in their balance of payments. Others, such as Italy, were already suffering a deficit in their balance of payments when the increase in the cost of imported oil produced the drain that now threatens their national solvency. Finally, many less-developed countries — and particularly those that do not export other commodities lately enjoying high world prices — face the desperate prospect of further impoverishment unless extraordinary help is forthcoming.

To provide nations in distress with needed funds at anything approaching prevailing commercial interest rates by no means fully meets their problem. They cannot afford, over a protracted period, to continue to build up enormous external debts with the resulting cumulative burden of carrying charges. At the end of that road is chaos — defensive actions of the most destructive kind, drastic restrictions on trade and capital movements, disruptive swings in currency parities, and ultimately moratoria and repudiations. Thus specially tailored financing is required of a kind that cannot possibly be provided from the private sector. The banking system has already reached the limits of its capacity to provide credits.

II. The American Proposal

These realities, which the United States Government for so long ignored — even denying they existed — were finally acknowledged by Secretary Kissinger in a speech on November 14, and by Secretary of the Treasury Simon four days later. These speeches put forth the rough outline of an American recycling proposal, or at least an impressionistic portrayal of an imprecise idea. That idea did contemplate that the governments of Western Europe, North America and Japan might put in place a system of mutual support through the creation of a common facility capable of redistributing up to \$25 billion in 1975, and as much again the following year. It embodied a mechanism for recycling, at commercial interest rates, some of the funds flowing back to the industrial world from the oil producers. Yet monies available to the facility would apparently not be directly related to the backflow of oil payments, nor would the oil-producing nations participate in the scheme. The costs and burdens would be borne exclusively by the oil-consuming nations.

In my view the most notable deficiency of the American scheme — and of most of the other schemes so far proposed — is that, by their terms, the consuming countries would assume the whole burden of recycling, while those producing countries responsible for the creation of the problem would be offered no role to play. Nor is the structuring of the American proposal in this way by any means accidental. It reflects the intention to confront the oil-producing countries rather than seek their cooperation. That is an attitude which has shaped American policy toward all aspects of the oil problem; in fact, a considerable part of America's diplomatic effort with its allies during the past few months has been to try to prevent the nations of the European Economic Community from meeting with oil-producing states. The American objection as stated is that such a meeting would be premature. Before any such meeting should occur, the oil-consuming nations

should have formulated a fully agreed position. In the words of Secretary Kissinger, the "conditions for a constructive dialogue will have been created" only after the consuming nations "have taken some collective steps toward a durable solution — that is measures to further conservation and the development of new additional supplies — and for our interim protection through emergency planning and financial solidarity." And, if these hurdles are finally overcome and a dialogue eventually takes place, the "main subject must inevitably be price."

One difficulty with this position is that the United States itself has done virtually nothing to put in place a program for "conservation and the development of new supplies," and in the absence of visible and effective American action, even our shrillest exhortations are unlikely to inspire other nations to act. So it may be a long, cold day — and I use the adjective advisedly — before the consumer nations have fully met Mr. Kissinger's preconditions and are thus in a position to begin discussions with the OPEC countries.

Such a long postponement of a serious dialogue would, in my view, be a serious error, and we should carefully scrutinize the logic that prompts this rigid position. One element, I suspect, is a tactical aversion to dealing *en masse* with the OPEC countries, and particularly the Arab nations — since it is feared that might tend to consolidate the cartel which the consuming nations would like to see disintegrate. In addition, there is no doubt some concern that the meeting might result in pushing the more moderate OPEC governments toward harder positions by focusing the pressure from their more activist neighbors; certainly that has been an underlying tactical assumption of the American government in shaping negotiations for a solution to the Arab-Israeli conflict.

But the fundamental reason for not engaging the OPEC countries in a dialogue derives from the strategy of confrontation implied in Secretary Kissinger's remarks. What is presumably envisaged is that after the consuming countries have reached a common agreement on handling the financial problems resulting from capital flows and have taken concerted action to reduce demand and increase other sources of production, they would then be in position to sit down with the producing countries and demand a lower oil price.

Such a conception raises many questions. If, as American officials assert, the producers' cartel will disintegrate and oil prices be forced down, is that not more likely to result from the silent operation of market forces than from the give and take of a formal negotiation? In fact, is not the prospect of confrontation more likely to unite than fragment the cartel?

The answer depends at least in part on the extent to which oil prices reflect political, as opposed to purely commercial, considerations and that, in turn, varies from one

producing state to another. Those states where the capacity to produce oil far exceeds the current capacity to absorb funds are Saudi Arabia, Kuwait and Libya. For these states which have no present need for large revenues, the purely economic question as to whether it may be more advantageous to leave oil in the ground or sell it at the current market is by no means a simple equation. No one can predict with any assurance the relative purchasing power of oil ten years from now.

Nor can one assume that, in terms of political considerations, such states as Saudi Arabia or Kuwait are completely free agents. They must respond to the dynamics not only of Arab politics but of OPEC politics. Saudi Arabia may prefer, in order to strengthen its ties with the U.S. and for other reasons, to reduce oil prices, but it is not likely to go against the strongly-held views of more activist Arab states or of Iran — as experience has vividly demonstrated.

As an abstract idea, the concept of the consuming countries negotiating as a solid group with the producing countries to obtain lower oil prices has considerable appeal, but — in view of the complex currents and cross-currents among the oil-producing nations — it would probably tend to solidify OPEC more than fragment it. Presumably, in any such negotiation the full arsenal of political and economic inducements would be brought into play — promises of technical aid organized through the public sector as well as political and military assistance — but in view of the prevailing competition between America and individual nations of Western Europe for arms sales, I am not sure that the consuming nations as a group could effectively utilize those inducements.

On balance I am inclined to think that the strategy of trying to solidify the West and then engage in a bargain for lower oil prices is not well conceived. A more practical course, it seems to me, would be for the consuming countries to institute as soon as possible a continuing discussion with the OPEC nations in which we seek to enlist their cooperation with regard to the whole range of questions created by their price actions — including the problem of recycling without specifically seeking an adjustment of prices. Meanwhile the consuming countries can, by taking effective measures to reduce demand and increase non-OPEC supplies, create a market environment in which the disparities in the situations among the various OPEC countries will operate to weaken their common front.

We cannot, it seems to me, mobilize many effective bargaining counters other than market pressure. Regardless of the talk that sometimes passes as wisdom, military threats simply are not credible. In spite of the dark mutterings of our statesmen, automatically qualified or retracted the following day, we are not going to persuade the OPEC countries to stop overcharging us by launching

a military expedition to the Middle East. Many things have changed since 1958 when America landed troops on the Lebanese beaches with no opposition. Even more has happened since 1956 when America rather sanctimoniously forced its British and French allies to withdraw from Suez. Today there is a Soviet Black Sea fleet patrolling the Mediterranean alongside America's Sixth Fleet. There are substantial beachheads in Syria and Iraq. Finally, we no longer live in a world of nuclear superiority but of nuclear parity. I cannot believe that the Soviets would stand idly by while we expropriated the oil wells of the Middle East. In fact we ourselves demonstrated in October 1973, by proclaiming a worldwide military alert at the mere suggestion of a possible Soviet intervention, that any military move by one superpower in that area would be countered by the other. So we should reconcile ourselves to the reality that no responsible government in Washington would ever turn the oil-producing areas of the Middle East into a nuclear Armageddon.

If no solution by force is possible, neither is any solution by the sanctions of economic denial. Anyone who studies the limited import requirements of the Middle East must necessarily come to that conclusion, since there is little the area desperately needs that it could not procure either from Eastern Europe or the Soviet Union — or elsewhere. And, on the basis of our experience so far, I think it doubtful the West or Japan would submit to the discipline an effective program of economic sanctions would require.

I question, therefore, whether it is wise to delay a serious dialogue with the OPEC countries until the consuming nations have taken all the steps listed in Secretary Kissinger's speech. Time is wasting and the breakage from the high energy costs and massive capital flows is beginning to accumulate.

III. Another Proposal

Not only should we promptly talk with the OPEC countries but we should, in my view, enlist their cooperation in trying to find a common solution to the common financial problems the world now faces as a result of their actions. It was with this in mind that last September I proposed, in a speech in London, a recycling scheme that differed substantially from that since put forward by Secretaries Kissinger and Simon, and, in my view, offered substantial advantages. Rather than continuing in the prevailing vicious atmosphere of confrontation, I suggested that we try to create a recycling facility in which the OPEC countries would fully participate. That many of them are seriously concerned by the threatened damage to the world financial system seems, from the evidence, quite clear, and we do them a great injustice by assuming *a priori* that, because they are unprepared to reduce oil prices, they would be unwilling to join a cooperative effort to find a long-term solution to the havoc such prices are creating.

A scheme for such cooperation has already been put forward by the Shah of Iran and, from my own observations in the Middle East, I think it likely that the OPEC nations would respond to a well-considered approach.

That was the starting point for my proposal. I suggested that we invite the OPEC countries to play a co-equal role in the design and construction of a special financial institution which might be called the Fund or Bank for Capital Recycling. That facility, I suggested, might be set up alongside the Bretton Woods institutions, drawing on them for personnel at least in the early stages. It would, however, differ from the Bretton Woods institutions — and in that sense would be more attractive to the producing countries — in that the institution would be owned 50% by a group of major consuming countries and 50% by the OPEC countries, with each group sharing equally in voting rights and management. Apart from the capital subscribed by each side the funds for relending would be obtained by issuing forms of debt instruments designed especially to meet the requirements of the producing countries — debt instruments that would probably contain some provision for maintenance of value. Since the OPEC countries have suffered severe losses from currency devaluations and from the inflation in the cost of the goods they buy it seemed to me that a maintenance of value provision might appropriately be related to the changing terms of trade. Another possibility, as I now see it, is that, since the option of the OPEC countries is either to produce oil or retain it in the ground, repayment might be related to the purchasing power of a barrel of oil at the time of repayment.

An initiative of the kind I proposed would, as I saw it, make it more attractive for the OPEC countries to invest their revenues over and above the amounts they were able to absorb internally or to invest externally. Of course, the procedures for relending the funds would have to be carefully designed. Since one of the objectives of the enterprise would be to help less-developed countries, arrangements would have to be made for subsidizing concessionary interest rates, with the OPEC nations assuming their share of the subsidy.

"What is truth on one side of the Pyrennees," wrote Blaise Pascal, "is error on the other side," so we might try to appraise the problem as it looks from Riyadh or Kuwait or Teheran. Only on that basis, and in that spirit, might we be able to engage the OPEC countries in a common effort to resolve a common problem — the distortions produced by the massive and protracted capital flows resulting from the OPEC price decisions.

Nor should we be put off by fear that a cooperative scheme such as mine would give the OPEC countries too much control over the financial welfare of industrialized countries. It would not be the only mechanism in the field — and any attempt to politicize the decisions of the recycling bank could well be offset through other mechanisms.

IV. The Middle East

At the very outset of the American effort to promote a Middle Eastern settlement, a decision had to be made as to assumptions on which strategy should be based. One possible assumption was that the Soviet Union favored the continuance of turbulence in the Middle East, so long as that did not threaten a direct U.S.-U.S.S.R. confrontation. The second was that the Soviet Union considered *detente* so important and the dangers of a head-on collision so grave that it would prefer a stable Middle East so long as it could play a co-equal role in bringing about that stability. If one accepted the first assumption, America should clearly try to limit Soviet influence and insulate the Kremlin from settlement discussions. But, if one assumed that the Soviets would prefer a stable Middle East provided they played a co-equal role in bringing it about, we should have promptly enlisted their help.

In embarking on his brilliant round of shuttle diplomacy Secretary Kissinger seems to have opted for the first assumption, since he quite deliberately picked a bilateral format that excluded not only the more activist Arab states but the Soviet Union as well. His tireless efforts proved successful in bringing about a military disengagement, first on the Egyptian and then on the Syrian fronts. But since the recent Arab summit conference at Rabat and Arafat's UN speech on November 13, it seems clear that Mr. Kissinger's conception of a step-by-step solution of the Arab-Israeli conflict is now approaching a dead end. The more activist Arab states are not prepared to see Egypt negotiate a solution of the Sinai issue that could effectively cause it to lose interest in further negotiations of other issues. They are thus insisting on linking any further bilateral discussions on the Sinai issue with at least some simultaneous discussions of the issue of the Golan Heights on which rapid progress seems extremely difficult.

Above and beyond that, however, the two principal substantive issues involved in the Arab-Israeli dispute — the Palestinians and Jerusalem — are issues that engage the interests of all of the Arab states and are, therefore, not available for settlement in a bilateral context. The decision to turn over to the PLO final responsibility for a Palestinian state meant that the negotiation could take place only at the Geneva Conference where not only the more militant Arab states will be represented but where the Soviet Union acts as Co-Chairman. Under these circumstances, the strategy of bilateral negotiations has run its course, and it seems clear that no Middle East settlement of the Arab-Israeli conflict is likely to be achieved without the concurrence of the Soviet Union — which means, in practical terms, without giving the Soviets a co-equal role in bringing about a settlement.

I would go even further and suggest that a solution is probably only possible if, once the terms of a settlement are agreed between Moscow and Washington, provision is made for joint guarantees by the superpowers, and perhaps

for joint Soviet-American patrols of buffer areas.

There is, of course, no assurance that the Soviet Union would be prepared to play such a constructive role. But the time has come when we should find out whether the expansive talk of the beauties and glories of *detente* has much practical meaning. There are two acid tests of *detente*. One is, of course, the control of nuclear weapons and it is not yet clear how much, if any, the recent Vladivostock talks may have advanced that cause. Equally important, it seems to me, is the Middle East, which could well become the Balkans of the latter twentieth century, resulting in a dangerous collision between the major powers. I see, therefore, no reason why approaches should not be made to the Soviet Union to ascertain at least whether the course of action I have outlined finds any resonance in Moscow. I strongly urge that such a course be promptly considered. If the negotiations are permitted to drag, the negotiating process loses its momentum, and the Palestinian issue continues to fester, then the probability of war seems to me grave indeed.

It is here that the oil issue and the issue of peace in the Middle East come close together, for a wholly new element has been added by the increase in oil prices. The Arab oil-producing states now have unlimited capital. At the Rabat conference they voted to grant the front-line Arab states \$2,350,000,000 for additional weapons. The Middle East is rapidly becoming the world's greatest arsenal. From the point of view of the Israelis, time is no longer on their side. They are now, I think, fully aware that a nation of 2½ million people cannot, in the long run, prevail against 100 million Arabs amply financed and armed with the most advanced weaponry.

If momentum toward peace is not maintained, therefore, the Israelis will be under great pressure to launch a preemptive strike against Syria before many months. If they wait too long — which means if they wait even until next fall — the inflow of arms into Syria — and into Egypt, once a new deal is made with the Soviet Union — will threaten Israel's survival. Although a preemptive strike would do nothing to promote an ultimate settlement — merely exacerbating already inflamed feelings in the area — it might at least buy time for the Israelis, while the West renews its efforts to find such a settlement.

If such a preemptive strike were to occur, I doubt that it could be limited to conflict between Israel and Syria, in spite of the desire of Egypt not to engage in another war. The dynamics of Arab politics would seem to preclude it, much as they would seem likely to precipitate a further oil embargo, even though such major producing states as Saudi Arabia might wish to avoid turning off the oil spigot again.

These are realities of the situation. I do not wish to appear as alarmist, or even as overly pessimistic. But we would do well to face the future possibilities with a clear appreciation of what the months ahead may hold for us. ■

(Continued from page 4)

the issue of price. It elaborates a number of areas in which common and reciprocal interests might be pursued, in a variety of forms, bilateral and multilateral. At the December meeting, the task force rapporteurs each stressed the need for early discussions between oil-importing countries and OPEC countries.

Trilateral Energy Policy

Such a cooperative approach to the producers does not preclude active trilateral support of the International Energy Agency and of efforts to conserve energy and develop alternative energy sources. A persistent theme in the December trilateral discussions was the essentially complementary — and not conflicting — character of the French and American positions here. Commissioners had the opportunity to present these views in a meeting with President Ford and a dinner hosted by Secretary of State Kissinger, and we have reason to believe that our emphasis had some bearing on the outcome of the Ford-Giscard meeting in Martinique later that week.

The energy task force report expresses hope that France and Norway will join with the other trilateral countries in support of the emergency sharing plan administered by the

International Energy Agency. For the medium term, the report sets out specific goals for the trilateral regions in energy conservation, reduction of import dependence, and development of new supplies. On consumption, the Executive Committee Resolution endorses the task force recommendation that the annual growth in energy consumption from now to 1985 be held below 2% in North America, 3% in Western Europe, and 4% in Japan. Even with these different rates, North America would still have substantially higher per capita energy consumption in 1985. In the base year of 1972, per capita energy consumption in North America was more than twice that in the European Community, and between three and four times that in Japan. Discussion of the report brought out that the suggested conservation efforts in Japan, where the growth of energy consumption has been running at over 10% per annum, would be exceedingly difficult. Since the industrial share of Japanese oil consumption is the highest of the trilateral countries, Japan has less margin before "cutting to the bone."

The task force sees the greatest medium-term potential for increased trilateral energy resources coming from the development of fossil fuel resources in the trilateral areas themselves. Although these resources are quite

ANDREW SHONFIELD

The Social and International Effects of Inflation delivered December 10, 1974

The first point which I want to stress is that the present inflation is of a very special character, and that I am going to address myself to *it* rather than to the numerous historical examples which are frequently adduced to explain what inflation is all about. It is however worth making one general point about these historical examples. They are usually employed to demonstrate the proposition that societies invariably break up in a cataclysmic fashion when they are faced with a high degree of price inflation. However, when one examines the cases themselves more closely, one is struck by the fact that they usually tell one more about the character of bad or weak government than about the influence exerted by inflation on society.

Almost invariably the great historical examples of extremely damaging inflation begin with a weak government. This is outstandingly true of the German inflation of 1923 which is perhaps the most frequently cited case. Now, it is characteristic of a government of this type that it is also incapable of making the effort required to offset the evil social effects of the inflation which it has allowed to proceed. In these circumstances it is not surprising that the situation creates the threat of a revolutionary breakdown.

The point that I am making can be put the other way as well: if inflation occurs in circumstances where there is

reasonably effective government, the social situation does not produce a breakdown. But this is the kind of historical case which is not usually cited. The favourite examples are those of poor government combined with inflation.

The reason why this point is especially relevant today is that we have, for the first time in history, a large number of governments among whose primary tasks is care for the welfare of disadvantaged groups of the population. If one examines the efforts to cushion the effects of inflation in contemporary Western societies, one must, I think, be struck by the fact that vast numbers of those who have been the chief sufferers from rising prices in the past are being fairly well protected. Above all the class of wage-earners has been managing very nicely so far — some people think too nicely — to overcome the effects of inflationary rises in the cost of living. The result has been in a number of countries a shift from profit incomes towards wage incomes — the share of profits has diminished — and this is now complicating the conduct of national economic policies. Unlike in previous inflations, the owners of capital are notably failing to make large capital gains. There is no precedent for the large losses of money wealth suffered by capitalists, combined with the simultaneous sharp increase in the money incomes of wage earners.

unevenly distributed among the trilateral countries, it is important that the needs of all be taken into account in their development. The task force report puts considerable emphasis on this point as a test of trilateral solidarity. "If the solidarity and cooperation of the Trilateral countries is necessary and desirable for reducing dependence on OPEC, for emergency sharing, for coping with high oil prices, and for moving ahead to develop nuclear power and other forms of energy for the future, then it should be valid as well for the development of known resources, whatever their location, within the Trilateral area." The Executive Committee Resolution gives this point general support in calling for "cooperation in developing the extensive energy reserves, actual or potential, of the trilateral area."

While not pessimistic about the long-term future, the energy task force was emphatic in seeing within trilateral societies "a transitional period of extraordinary difficulty and adjustment, until such time as our societies can count on more secure and more abundant energy." It sees economic growth as bound to slow down as the energy consumption growth rate declines. "It is a real question, therefore, whether the necessary sacrifices will in fact be

accepted by powerful elements in the body politic, be they politicians, civil servants, trade unions, businessmen, or an undefined mass of ordinary citizens. In such cases, there is instability and turmoil whether a government tries to face the crisis or to avoid it. We foresee growing extremism, both of the right and of the left, which will feed on this instability." In the December Executive Committee discussions, some questioned the realism of the conservation targets. There was also substantial debate about the real implications for economic growth of stabilizing energy consumption. At the very least, it seemed agreed that a readjustment phase would be required within trilateral societies.

Middle East

The oil issue in the Middle East cannot be separated from the Arab-Israeli conflict. "The success of measures to rejuvenate the international economic system," the Executive Committee communique asserts, "is umbilically tied to successful progress toward a lasting peace in the Middle East." The communique goes farther than the energy task force in stating that "such a peace settlement must be guaranteed by the United States and the Soviet Union." The rationale for this view was most fully

SHONFIELD (Continued)

Any effort to analyse the probable social effects of this inflation must start by indentifying the particular groups which are likely to suffer. There are three main categories which can be identified. First there is the group made up of the very poor, people who are wholly or partly dependent on social security payments. It is true that in the current inflation — again, unlike in any other of which we have records — the level of these social security payments is being adjusted upwards fairly frequently to take account of the rise in prices. The inflationary effects may not be completely offset and people in the disadvantaged classes, which include the old, do suffer from anxiety; but this is not a disastrously rapid and continuing deterioration of the living standards of a large poverty-stricken vulnerable class.

The second category which is undoubtedly damaged in the present situation consists of the very rich — those who are living on their capital. Because of the curious character of this inflation they have found the value of those capital assets very sharply reduced, while the services which they buy have risen very sharply in cost. There is no offsetting help from the state for the very rich. They do not even attract public sympathy.

The third group of sufferers are the middle classes, particularly those who are retired, who rely in part on a fixed income to supplement earnings and pensions of various kinds. The reduction in the real value of this supplementary income is surely upsetting the lives of a num-

ber of people. There has been a tendency among some commentators to treat this class of persons as if they were placed in the same sort of position as the salaried middle and lower middle classes of Germany, which were ruined in 1923. That is a wholly misleading picture.

I conclude from this brief and necessarily inadequate survey of the chief sufferers from the present inflation that their condition is not one which leads straight on to social revolution. What the inflation does produce, especially when it coincides with a business recession, is a very widespread anxiety that could in time have serious social consequences, and I shall consider in a moment how some of these effects might be countered.

But before that I want to turn to the subject of the international consequences of the current inflation. The first point that is now generally recognized is that as a result of increased international interdependence, it becomes less and less possible to impose a kind of quarantine on individual national inflations. Their effects spread outwards very rapidly. And because it is no longer possible to put up an effective barrier against the international inflationary movement, a state of extreme anxiety develops among the relatively low inflation countries, Germany and others, about catching the disease. They behave rather like the Western nations which gathered in 1866 in Constantinople, to agree on joint measures to control the cholera coming from Asia. As in that earlier case, there is a certain aggressiveness which develops in the international

expressed by George Ball, in his opening session address at the December meeting, excerpted in this issue. "It seems clear that Mr. Kissinger's conception of a step-by-step solution of the Arab-Israeli conflict is approaching a dead end," Ball stated. "It seems clear that no settlement of the Arab-Israeli conflict is likely to be achieved without the concurrence of the Soviet Union — which means, in practical terms, without giving the Soviets a co-equal role in bringing about a settlement . . . I would go even further and suggest that a solution is probably only possible if, once the terms of a settlement are agreed between Moscow and Washington, provision is made for joint guarantees by the superpowers, and even, perhaps, for joint Soviet-American patrols of the buffer areas . . . There is, of course, no assurance that the Soviet Union would be prepared to play such a constructive role. But the time has come when we should find out whether the expansive talk of the beauties and glories of *detente* has much practical meaning . . . I see, therefore, no reason why approaches should not be made to the Soviet Union to ascertain at least whether the course of action I have outlined finds any resonance in Moscow."

The energy task force emphasized the importance of a common North American-European-Japanese approach to

a Middle Eastern peace settlement. The December trilateral discussions put less emphasis on this point. Some participants stressed recognition of real divisions among trilateral countries on Middle East questions. The Resolution issued after the meeting declares that "other countries, especially the European States, should be ready, if required, to associate themselves" with a Soviet-American guarantee.

Inflation

Inflation and its political implications was the topic for an open-ended discussion in one of the last sessions of the December Trilateral Commission meetings. Opening presentations were made by Andrew Shonfield, Sumio Hara, and Robert Roosa. Mr. Shonfield is Director of the Royal Institute of International Affairs in London. Mr. Hara is Chairman of the Bank of Tokyo. Mr. Roosa, who has served as U.S. Under Secretary of the Treasury for monetary affairs, is now a partner with the investment banking firm of Brown Brothers, Harriman & Company. These opening presentations were followed by general discussion, without any attempt to develop joint recommendations or conclusions.

It was Roosa's opinion that long continuing inflation is incompatible with the survival of free democratic systems.

SHONFIELD (Continued)

relationships between the countries that are relatively immune to inflation and those which are high inflation carriers.

The second point derives from the exceptional economic circumstances surrounding the present worldwide inflation. The particular feature that I have in mind is that the whole of the Western world is involved in a collective balance-of-payments deficit of massive proportions, due to its inability to pay for the oil which it imports. The collective deficit is both unavoidable and likely to endure for some time, at least for three or four years.

In ordinary times during the postwar period, relative degrees of inflation have shown up in the relative strength of the national balances of payments of the countries concerned. Now they are all, with the solitary exception of Germany, in deficit on their current balance-of-payments account. The relatively weak have come to look extremely weak.

Turning to the capital account of the balance of payments, which nations are now finding they have to use more actively than ever before to meet their current account deficits, there is one country again which stands out with an overwhelming advantage. It is the United States, which is the chief magnet for the surplus capital funds. Thus there are two nations which, for different reasons, are in an extremely powerful position. The result is a tendency towards a certain kind of polarisation in

international economic relations between the two strong nations, Germany and the United States, and the rest.

That leads to the third special characteristic of the present situation. There is no way for the weaker members of the system to eliminate the deficits in their current balance-of-payments accounts except by means of beggar-my-neighbour policies. That is because this is a zero sum game — indeed the sum is inherently negative, as I have been saying. Therefore if these nations are pressed very hard to deal with their balance-of-payments deficits quickly, they are bound to cause escalating damage to the whole system. It seems to me that the proper way to look at this international situation is to see it in two stages. In the short term there is very great effective power wielded by Germany and the United States. In the medium term however there is the usual power of the weak to bring the house down on top of the strong.

The situation will therefore become dangerous if the relatively weak economies with a higher rate of inflation are not actively deterred from adopting the traditional means of overcoming their balance-of-payments deficits. The danger is, I think, compounded by limitations of national vision. Just as, in the words of one blasphemer, man created God in his own image, so each nation views the international phenomenon of inflation in terms of its own particular social circumstances. Characteristically, the United States, which seems to have a higher tolerance for

A basic link in this argument was that a political democracy must have a functioning market economy. The next link was that sustained inflation leads to the degeneration of a market economy or to autocratic measures to preserve it, in either case destroying the democratic political structure.

The "underlying trend force" in the present inflation, Roosa suggested, is the proliferation of expectations and effective demand across the world at a pace faster than our capacity to squeeze out of the real resources of the world the materials to meet all of that demand. He suggested we picture the world economy as a Marshallian firm, with demand now pushed out beyond the declining phase of the firm's real cost curve into the increasing cost sector of that production curve. To deal effectively with this persistent underlying cause, we need to find a way to expand real capital formation to move the capital base of the world economy to the point where we again are functioning in the zone of low or decreasing costs.

Here, Roosa ventured, the oil crisis might offer some fortuitous benefits. The oil-exporter surpluses, he suggested, might provide the accumulated savings necessary for this added capital formation. The higher "tax" we pay to the producers for oil is a sort of imposed savings on the world's consumers which might then be redirected

into the needed investments. The sharply-changed oil situation also provides us, Roosa argued, with a clearcut choice of priority areas for investment — the "fundamental energy center of the whole industrial complex." Our investment work here would also spread into all those additional forms of investment needed to accommodate what will inevitably be a new energy mix in industrial economies for the rest of this century.

Hara made several points. He noted inflation's "distorting" effects on the comparative economic strength of various segments of society, and the political changes and "confusions" that could follow from this. He noted that the Socialist countries do not seem to be suffering from the same "galloping inflation" now underway in the First World of industrialized, market-economy countries, and that this may seriously affect the comparative power of the two groups.

Hara distinguished "demand inflation" from "cost-push inflation", and concentrated particularly on the latter. He noted that for the latter variety an anti-inflation policy based on restrictive monetary and/or fiscal policies is neither logical nor effective. It is the wrong treatment for this kind of disease.

When cost-push inflation is caused by some sector of society maneuvering with its special power, this must be

SHONFIELD (Continued)

unemployment than the rest of us, is inclined to say to a country like Italy: "Why don't you deal with your problem by imposing a more severe monetary policy? We do it, so why don't you?" What tends to be forgotten is the great difference between what the American social system and the Italian social system will stand without profound damage.

Similarly I find the Germans responding in a puzzled way to my own country, Britain. I realize that it is genuinely puzzling in its behaviour, it sometimes puzzles me a great deal. But the Germans argue simply: "Look, you have got a big established trade union movement — why can't you persuade it to behave rationally, in the way that other trade unions, notably ours, behave?" They go on, when one admits to sharing their wish: "Surely all that's needed is the political will to make the unions behave." I do not believe that it is in fact a lack of courage on the part of the British government which is responsible for its inability to follow the kind of policy which the German government under Helmut Schmidt has recently been able to introduce with the agreement of the trade unions.

I regard the West German experience as most especially important in the context of international inflation. There is much misunderstanding of Germany's methods of economic management. What the German government has found it possible to do in this latest period is to make

a bargain with a highly organized and effective trade union movement involving a trade-off between a curb on the rise in wages and a reduction in the level of unemployment. German unemployment in 1974 has risen particularly sharply. The trade unions were ready in effect to reach a concordat with the government which commits the latter to a series of measures to expand the economy. These are on a vast scale and include greatly increased expenditure on public works and massive tax cuts. It seems on the basis of recent evidence that the trade unions are doing their part in moderating wage claims.

There is however one feature of this unusual concordat which is worth stressing. The German government knows that it is about to undergo the supreme test of its relationship with the trade unions. If the implicit guarantee to return to full employment in the second half of 1975 and in 1976 is not realized, the trade unions are likely to turn on the authorities and destroy the basis of their economic programme. This programme relies on the revival of industrial investment first, leading to a subsequent increase in consumer purchasing power. If unemployment remains high, the union answer will surely be to demand that a lot more effective consumer purchasing power is put into the system — and in these circumstances high wage demands become virtuous instead of vicious.

The German case illustrates the point that restrictive

cured by measures to persuade those maneuvering or to counteract their action. This leads us inevitably to income policies, Hara argued, though he did not mean legal or administrative control of wages and prices, but rather a policy of persuasion through discussion among the interested parties including the government.

When cost-push inflation is caused by the exercise of monopolistic or oligopolistic power, the cure should also be to counteract these maneuvers. A global anti-trust system will probably have to be developed to deal with the growth of multinational corporations.

Shonfield's comments are printed elsewhere in this issue. He argued that, almost invariably, the great historical examples of extremely damaging inflation begin with a weak government. They usually tell us more about the character of weak government than about the influence on society of inflation. With a reasonably effective government, the situation does not produce a breakdown. Shonfield noted the various offsetting mechanisms in modern welfare states which cushion the effects of inflation. Vast numbers of those who have been the chief sufferers of inflations in the past are being fairly well protected. Nevertheless, the present inflation is producing a general

social "anxiety" (especially when combined with a business recession) which could in time have serious social consequences. To help counter this, Shonfield suggested an indexing of wages to retail prices, thus guaranteeing individuals protection against whatever increase in the price level does occur. This would hopefully remove from initial wage claims the factor of covering for anticipated inflation a year or more ahead, and establish the "psychological base" for a decisive reversal of inflation in the longer run.

In the international arena, Shonfield noted that increased international interdependence makes it less and less possible to "quarantine" national inflations. This creates anxiety in relatively low-inflation countries (like Germany) about "catching the disease", and encourages "a certain aggressiveness" in international relationships. At present this is combined with and very much complicated by the massive collective balance-of-payments deficits of the industrialized countries from sharply higher oil prices. "The relatively weak have come to look extremely weak", Shonfield noted, and, if pressed too hard, could bring the house down on the strong. Shonfield commented on various national situations and perspectives, particularly those of West Germany and the United Kingdom.

SHONFIELD (Continued)

monetary policies, which have been used extensively in Germany, are not sufficient by themselves. They have a part to play in managing inflation, but they have to be conducted in combination with the concordat on the level of wage claims. This is the kind of model which the British government has recently been trying to follow through its "Social Contract" with the trade unions. However the performance to date is I fear only a poor simulacrum of the operation which the Germans have carried out so brilliantly.

Finally, how can industrial workers elsewhere, those who have not reached the advanced stage of organization of the German trade unions, be persuaded to moderate their claims for higher money incomes? The most dangerous stage in the progress of an inflation comes when wage claims have built into them the *anticipated* inflationary rise in prices for a year or more ahead. The British National Institute of Economic and Social Research in its most recent review of the economy pointed out that the terms of the British "Social Contract" might be met in practice, i.e. that real wages in Britain would remain static during 1975, and yet prices might be pushed up by over 20% in the course of the year. This would happen if the money wage bargains were generally based on an anticipated rate of inflation of this order and tried to allow for it in advance. That in itself would ensure that the inflationary expectation would be validated in the event.

Somehow the Germans have been able to control the factor of anticipation; the authorities are sufficiently trusted for their ability to keep prices down.

But in the British case, and this is probably the more usual one, some special measure is required to take this cost-push factor out of wage bargaining. What seems to be required is a credible guarantee to the people concerned that if the price level goes up by more than they have bargained for, they will be automatically compensated. I am, in a word, suggesting that wage levels should be linked to the index of retail prices. Governments of course intensely dislike indexation; it reduces their room for manoeuvre and it may positively aggravate the inflationary process in the short run. It is nevertheless necessary to employ a device of this kind if we are to establish the psychological base for a decisive reversal of inflation in the longer run. Even though the present is not, as I argued earlier, a situation of revolutionary breakdown, it is one of generally diffused anxiety which could disrupt normal social relationships. If anxiety is not to dominate the situation so that each social group — not only the wage-earners but an increasing number of others — fights desperately to pre-empt an excessively large money income, in order to avoid being left behind in the inflationary race, then there must be guarantees of real income. This is the condition for maintaining the framework of civilized social bargaining. □

A number of points were brought out in the discussion which followed the opening presentations. One participant provided extensive remarks on the German worker-management "co-determination" system. There was some mention as well of worker-management arrangements in Scandinavia, Japan, the U.S., Austria, and Holland.

Another participant offered "commodity inflation" as a third type of inflation to be added to the two presented by Mr. Hara — demand-pull and cost-push. In the United States in the last two years, he stated, 80 percent of the inflation could be explained by food, oil and dollar devaluation — all three to be included in the "commodity

inflation" category. This complicates the Shonfield indexation proposal aimed at restraining a wage-price spiral. If the initial inflationary spurt came from commodity inflation, such indexation could then induce increased inflationary pressure. It is a tricky issue. With reference to Mr. Roosa's comments on markets and democracy, one participant distinguished between expected inflation and unexpected inflation. The latter, violating expectations built into contracts and behavior, poses the real threat, it was argued. To the extent inflation is anticipated at some steady rate, our institutions can be geared to handle this rate, as they were for steady rates in earlier years. □



The three Chairmen of the Trilateral Commission at the recent meeting of the Executive Committee. They are, from the left, Max Kohnstamm for Europe, Takeshi Watanabe for Japan, and Gerard C. Smith for North America.

PRESS COVERAGE OF RECENT DISCUSSIONS

The December Trilateral Commission discussions were well covered in the press in all three regions. It was the trilateral communique's emphasis on the need for a U.S.-Soviet guarantee of a peace settlement in the Middle East which headlined Marilyn Berger's article in the December 11 *Washington Post*. The article described as well other major recommendations emerging from the Commission meeting.

Joseph C. Harsch wrote of the George Ball speech in his column in the *Christian Science Monitor* for December 12. Under the headline "An 'Imposed' Peace in Mideast?", Harsch wrote that George Ball had "said, loud and clear and for quotation, what a lot of diplomats have been thinking and saying privately among themselves for a long

time but no one of prominence had quite dared to say out loud." Harsch proceeded to discuss aspects of the "imposed" peace idea, for which he found some strong supporting arguments.

Edwin L. Dale wrote in the *New York Times* of December 27 about the proposal of the Task Force on Relations with Developing Countries. Under the headline of "Plan Offered to Channel Oil Money to Poor Lands," Dale described the interest subsidy method by which the task force report proposed that \$3 billion in additional aid to developing countries be provided annually over the next five years. He quoted the report on an aspect of the plan that should be attractive to the industrial countries — "in a time of stagnant growth and rising unemployment, it is

obviously advantageous to move funds from OPEC countries that cannot spend them on trilateral-country exports to developing countries that will."

In Japan, the *Japan Times* carried four articles on various aspects of the December discussions. Under the headline of "Marshall Plan of Aid to Poor States Urged," one of these articles (December 11) told of the address given by Mr. Paul Delouvrier and his ideas on how oil-exporter surplus funds might be creatively used. Takeshi Watanabe, Japanese Chairman of The Trilateral Commission, wrote of the December meeting and its recommendations in his article in the *Senkai* newspaper on January 11.

Le Monde carried an article on the December meeting and recommendations in its issue of December 14, joining the article with other material on the Giscard-Ford meeting about to begin in Martinique. Written by the Paris newspaper's Washington correspondent, Henri Pierre, the article noted Commission support for the French idea of tripartite discussions among a number of industrialized countries, oil-producers, and other developing countries.

It presented other main Commission recommendations as well.

An article by Dieter Cycon in *Die Welt* of December 18 focussed on the Martinique "accord" and its background. Noting Western European keenness for maintaining contact with the oil producers, the article states that this position "powerful . . . support" a few days before the Martinique summit when the Trilateral Commission advocated "as soon as possible a dialogue with the oil producers at all levels" and issued "a warning against confrontation of any kind."

The December Trilateral Commission discussions and reports figured in many other newspaper and magazine articles as well. On television, George Ball appeared on the CBS Morning Show in conjunction with his address to the Commission's Executive Committee. I. W. Abel, Francois Duchêne, and William M. Roth appeared together on the Martin Agronsky discussion program of December 10, broadcast on public television.

The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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