

Speech of Prof. Mason at the Wiesbaden Conference.

Your Royal Highness, let me say at the outset that I agree wholeheartedly with what I conceive to be the central theme of Professor Tinbergen's paper - that is that the less developed world does need a substantially larger volume of imports than they are likely to receive under present policies; and I mean policies in the less developed world and in the developed world, if they are to maintain a satisfactory rate of growth. And that means, I think, that the Atlantic countries, plus Japan and a few others, need very much to reconsider both their aid policies and their trade policies, because again I agree with Professor Tinbergen that this is not a question of trade versus aid - something has to be done in both areas.

Now as I look at the sentiment in my own country, and sense the sentiment in Western European countries, I must say that I am filled with a rather deep degree of pessimism as to whether this is likely to be done. But I do think that this is one of the most important questions of public policy that the Western world can turn its attention to. On the other hand, I do not think that we need take too seriously the figures that Professor Tinbergen has quoted from the United Nations. You will remember that these figures were prepared mainly for the United Nations conference on trade and development. And if I may speak in the vernacular, one of the most important purposes of that conference was to put the bite on the developed world, and I feel free to say, and I think it is true, that that purpose entered into the preparation of those particular figures. I don't think there is any such thing as a trade gap or foreign exchange gap. There are many gaps, the size of which depends on the kinds of assumptions you make with respect to a number of variables. It depends on the assumptions you make with respect to the rate of growth that is possible in the less developed world; it depends on the type of development program, development expenditures that are undertaken and what the import components of these development expenditures are likely to be. It depends on what is a feasible rate of increase of export earnings in the less developed world, and it depends very much on the policies that the less developed countries themselves follow with respect to the generation and use of their own resources.

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Now what I might call "gapology" has become a very popular study in this area over the last few years. There is a very good technical document put out by the US Aid Agency that comes to the conclusion that the size of the gap in 1970 might be anywhere between 7 billion dollars and 22 billion dollars, depending on what assumptions you make with respect to these variables that I have talked about. The World Bank, President George Woods, has made statements in recent months that suggest that perhaps as much as 3 or 4 billion dollars in addition to what is provided already could be very effectively used. So the point I am making here is, let's not take the figures of 20 billion and 32 billion in 1970 and in 1975 too seriously. Nevertheless, I repeat what I said at the outset, it does seem to me that if the less developed countries are going to maintain a satisfactory rate of growth they have got to have a greater access to foreign exchange, either through trade measures or through aid measures, or preferably a combination of both.

Now Professor Tinbergen has advocated a figure to be aimed at, a 7% rate of growth of GNP on the average in the less developed world. I don't think that that is a possibility. I mean if you look at what has happened over the last few years, there are not more than two or three lesser developed countries that have approached that at all. Israel has exceeded it, Taiwan for a few years, for the last few years, has attained that particular rate of growth. Venezuela has shown a growth rate of that sort on the basis of its very large oil revenues for some time; but that is a very high figure indeed. And if you take the under-developed world as a whole, I would think it is very unlikely that they would be able to use even the additional aid that I am talking about in such fashion as to attain that average growth rate. Now that does not mean that I don't think that it would be highly desirable if they could attain that rate, but I don't think it is a practicable figure.

I have suggested that a great deal depends on what kinds of policies the less developed countries follow themselves, as to what the size of this foreign exchange gap is. And when I talk about those policies, I am talking about the policies they adopt with respect to exchange rates; do they have a very highly over-valued exchange rate, what kind of export promotional policies do they follow, what kinds of policies do they follow in the use of their own resources, substituting for imports; what kinds of policies do they use to increase their domestic rate of savings, and so on? It is within the competence, speaking

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only economically here, for the less developed world to change their policies in such a way as greatly to lessen the size of this gap.

This brings me to what seems to me to be one of the really central questions that this body, and the Western world in general, should concern itself with. What kind of influence can the developed world bring to bear to influence the domestic policies of aid-receiving countries in such fashion as to make better use not only of their own resources, but of the aid that is provided to them. How much influence can be exerted, and what kinds of influence?

This leads you, I think, into a very difficult problem of what you might call foreign aid diplomacy. I am talking now about the question of conditions that might be attached to aid, strings attached to aid, the leverage that aid gives to aid-providing countries to bring about changes in domestic policy, bargaining power and so on. These are all highly unpopular terms, and the concept in general is unpopular in the less developed world. Because we are dealing here with countries newly emerged for the most part to independence, which have a high degree of sensitivity with respect to interference from abroad in respect to their domestic policies. At the same time, the flow of resources from abroad - and I am including both private investment and public flows - amount, on the average, to close to 25% of the total development expenditures in the less developed world. This is a sizeable fraction. And the provision of these resources does, I think, entitle the developed world to say something about the domestic policies in less developed countries that can affect the efficiency with which aid is used.

This is a terribly sensitive kind of question, and as you look at the problems of the instrumentalities through which this influence can be best exercised, I don't think there is much doubt about it that if you can depend on an international agency its advice is likely to be better received than if you depend on strict bilateral dealings. When you look at the field of international agencies, I come to the conclusion that the only international agency that can do this task acceptably is probably the World Bank which is itself a large provider to the flow of funds, and which is better staffed than any other international agency to form a sensible judgment on what kinds of domestic policies can be influenced in the aid receiving countries. Perhaps George Woods will want to say something about that later. But it is, I think, a fact that the World Bank has been moving more and more in the direction of equipping itself to form sensible judgments on domestic

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policies in less developed countries, and how a change in that policy might make for an effective, more effective use, of the resources of the countries themselves and of the resources that come in from abroad.

In conclusion, Your Royal Highness, I would like to illustrate what I have had to say by reference to the contrast that I have observed at fairly close range between what has happened in India and Pakistan over the last five years.

During the 1950's there was a very large contrast in the success of development programs in these two countries. In sum, the national income of Pakistan increased at a rate of about two-and-a-half per cent during that decade, which was approximately the rate of population growth so there was little, if any, increase in per capita incomes. India did much better. The rate of growth in real terms of Indian national income was about three-and-a-half per cent, and most people around the world thought of the Indian experience as a successful experience, and of the Pakistan experience as a rather dismal failure.

There has been a rather remarkable change in the period of the 1960's. The Indian growth rate of national income has declined if anything - it is perhaps around 3 per cent over the last five years, not including this year in which there has been a rather desperate crop failure in India. On the other hand, Pakistan's national income has grown at the rate of about five-and-a-half per cent a year. And in the field of agriculture, in which it lagged far behind in Pakistan, the rate of growth has been something like 4 per cent, which in the agricultural sector is remarkably good.

When you look at the causes of that change, obviously one of the influences - and I wouldn't minimize the importance of this - has been that Pakistan from all sources has received almost twice aid per capita as India has. The figures, for what they are worth, are about \$ 5 per capita per year in Pakistan, and a little over \$ 3 per capita per year in India. That has made it possible in Pakistan to adopt certain policies that would be very difficult for India to adopt without more aid. But that is not the whole of the story. I would say that Pakistan has also adopted domestic policies that have greatly increased the efficiency of resource use in Pakistan. They have not developed as large a public sector in industry as India has, they have given considerably more scope to private enterprise in Pakistan than India has. I will just take a few examples in the field of agriculture. As far back as 1959 they freed their trade and food grains from government control.

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India has not done that yet, India still procures from surplus areas at fixed prices for sale elsewhere. Pakistan introduced competition in the distribution of fertilizer to farmers; India still to date - although it is in process of change now - has that as a form of Government monopoly plus distribution through cooperatives. Pakistan has given a great scope to the introduction of private irrigation facilities, introduction of pump wells - tube wells - by farmers, which means that the water can be distributed through the land so that you maximize the output per unit of water input, and so on.

I could go into much greater detail about this, but I think the essence of the story is that although Pakistan has received a good deal more aid, and that is a very important consideration, Pakistan has also followed domestic policies with respect to the use of its own resources and of the aid that has been provided to Pakistan, that it has made for much more efficient use of these resources. This I think explains the difference in the growth rate of national income in India and Pakistan in the last five years.

In conclusion, let me say that I do think therefore that one of the central questions confronting all the countries that provide aid, is how can this aid be provided in conjunction with the much larger input of resources from the less developed countries themselves, with a mutual consideration of what are sensible development policies. I don't think it can be done terribly effectively by an aggressive program of bilateral negotiation in which the US or some other country says "You do this, or else you don't get any aid", I don't think it is going to work that way. But I do think that with the help of the World Bank and perhaps certain other international agencies one might develop a common view as to what needs to be done in these countries in order to promote their economic development.

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Speech of Mr. Woods at the Wiesbaden Conference.

Your Royal Highness, as briefly as possible I propose to address myself to the second question on the agenda, the future of world economic relations especially between industrial and developing countries. I will direct my attention particularly to the latter part, "especially between industrial and developing countries". I expect to touch on one or two recent developments affecting relationships between industrial and developing countries; then refer briefly to some of the previous comments on this general subject; and finally, if time permits, touch on Professor Tinbergen's paper.

First, I would like to observe that there has been, in the relatively recent past, an exceedingly important development in the area of development finance - that is financing productive economic development in the developing countries of the world. I refer to the collaboration between the principal aid-givers and the World Bank which has taken the form of a series of consultative groups. There are in existence today perhaps eight or nine of these consultative groups, those that come to my mind are groups for India, Pakistan, Colombia, Tunis, Nigeria and Sudan, and in addition for Turkey, Malaysia and Thailand. I believe that within the relatively near future, certainly within twelve months, three or four additional of these consultative groups will come into being. I think the probabilities are that there will be a group for Morocco, for East Africa, Korea, and very likely for Brazil. It is my hope that ultimately there will be 16 or 18 of these consultative groups which will relate at that time to countries which are receiving perhaps as much as 70 or 75% of the total development assistance which is being provided.

Some of these groups are chaired by the World Bank, one or two of them by OECD, and I believe there is one shortly to come into existence which will be chaired by the Inter-American Development Bank. We in the World Bank have no feeling of priority or proprietary interest in these consultative groups - personally, I am very much interested in having various agencies chair various groups in order that the most perfect possible techniques can be worked out in practical operation. I say that these organisations represent an important event because they do bring together, with a focus on a given host country, all of the important aid-giving countries in the Western world - that is Western Europe and North America (meaning the US and Canada) plus Japan. The collaboration, the coordination, the need to inter-relate the activities to which so many speakers have reverted to, I believe is a recognised need and it seems to me that it is now receiving attention.

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In connection with these consultative groups for important aid-receiving host countries, I would like to observe that I am conscious of an increasing interest on the part of the Western European countries and North American countries, in collaboration, on economic matters, with Eastern European countries. It is true that the interest in such a collaboration is rather more evident in such countries as Hungary and Rumania and Poland rather than in the USSR itself, but nevertheless there is such a trend. We in the World Bank have received delegations within the past year from two of the Eastern European countries enquiring in depth into the steps that are necessary to become part of the Bank Fund family. The ultimate result of these, of course, will be seen only in the future. In passing, I might observe that we do have one Eastern European country among the membership of the World Bank and Monetary Fund, that is Yugoslavia. Poland and Czechoslovakia were members in the past, but they withdrew some years ago. Cuba withdrew shortly after its revolution and last August, most recently, Indonesia withdrew from the Bank Fund.

The presence of Yugoslavia is, without doubt, acting as a bridge between the other Eastern European countries and the Bretton Woods institutions, and I look forward with considerable interest to the results of the enquiries they have been making.

Further on the subject of collaboration and cooperation may I say that the regional development banks that have come into being, and are coming into being, the Latin-American entity to which I referred, the Inter-American Development Bank, the recently organized African Development Bank, and the about to be organized Asian Development Bank, all represent a modicum of collaboration and cooperation. The share-ownership of these entities differ in each case - there is no pattern. In the case of the Inter-American Bank, it is with the Latin-American countries plus the US; the Asian, you have heard in the past day or so, includes not only the countries in south-east Asia and the Far East but various European countries and the US. The African Development Bank, by decision of the Africans themselves, is limited so far as ownership is concerned to the African countries. In addition there is of course the European Development Bank. There is an increasing atmosphere of collaboration and cooperation, joint missions, joint study groups, joint economic reports, between the World Bank, the International Monetary Fund and the regional institutions. In addition OECD and its affiliated entity DAC are also involved in this general area of relationships - economic and financing relationships - between the industrial and the developing countries of the world.

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Mr. Spofford's suggestion is interesting. It should and will, of course, receive consideration. I must confess that having listened to Ambassador Murphy and one or two others, I have the instinct that the Treaty Organisation itself was essentially for military purposes and OECD, which has been in existence for a number of years, has a staff and an area in which it functions, in the broad field of development finance. I have felt that OECD was the chosen instrument so to speak of the Treaty Organisation for economic purposes. However, a coordinating review on a high level, the Ministerial level, would be constructive and some good could come of it provided that the Ministers came for a long, enough period of time to have an appreciation of the rather complicated problems that are involved.

Passing on to another subject that has been touched on, the general subject of the flow of aid, development finance, from the wealthier countries of the world and the form and the root it is taking. Sir Andrew Cohen may well be right that for an indefinite time in the future this aid will come from public sources, when he referred to the fact that it has been largely from public sources, I assume that he had in mind international agencies as well as the public sector. However, I myself believe that there can and should be - in fact, there must be - an increasing participation by the private sector. I am foursquare with my friend Mr. Abs in this regard. The amount of aid has been on a plateau for approximately five years, since 1961. As a result of this many of the under-developed nations are beginning to feel, and I think rightly so, that it will be private investment which brings experienced management and know-how; they are beginning to feel that the private sector must be cultivated, must be welcomed, and they must learn to live with the private entrepreneur and private capitalists from Western Europe, North America and Japan. My observation is that these underdeveloped countries are learning this fact of life by bitter experience; their efforts in the more sophisticated industrialized areas are, it is self-evident, something less than perfectly successful. I think they are realizing they must rely to a greater extent, they must open the door wider, make the welcome warmer for private entrepreneurs. We in the Bank have had this view for many years, we have worked consistently in the direction of encouraging private enterprise in the developing countries. We have recognized that the infrastructure, the basic power, transportation, telecommunications, port works and such, are properly things that must be handled by government, but we have also recognized that as the infra-structure becomes more and more complete there will

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be the need for private entrepreneurs to get the most out of the infra-structure that has been put in place. To this end we have - it has been touched on - been working diligently in the organization of an entity for the purpose of conciliation and arbitration. Strange as it may seem, there is nothing in the world which provides the arbitration or conciliation service as between sovereign governments and private investors. I believe that this entity will come into being before the end of the current calendar year. We have something in the order of 34 or 35 countries who have already accepted it, and ratifications are proceeding at a reasonable pace. When 20 countries have ratified the instrument it will be effective. This instrument having been completed as far as the thinking and planning is concerned, we in the Bank have turned our attention to what I consider is a sister or associated entity, and that is a multi-national entity for the guaranteeing of investments by private entrepreneurs. This idea has been explored for a long period of time. OECD has prepared a draft of a suggested convention and at the request of the Trade and Development Council (the Association of the Poorer Nations of the World) we in the World Bank, have been studying the OECD draft. I hope that by this fall our deliberations will have come to a point where we can publish a document with a view to floating a discussion, a series of meetings, on the subject of a multi-national agency for providing certain guarantees for private investment in the under-developed world.

In a word, the object will be to provide insurance for investors against expropriation, nationalization and also a modicum of protection against exchange risks.

It seems to us in the Bank that these two efforts should substantially open the door to private entrepreneurs who do have an interest but have been unwilling to accept the risks, which time has proved are implicit in making investments in the under-developed world.

Your Royal Highness, you have referred to the proposition of a relationship between NATO and the third world as being a proper subject for discussion at this meeting. I have already touched on this in referring to Mr. Spofford's remarks. My own view is that OECD/DAC are the vehicles which should work with the Regional Development Banks, with the World Bank, with the International Monetary Fund, and keep in touch with the consultative groups which are being organized between the aid-giving countries on the one hand and the host countries on the other hand.

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However, I believe that the representatives to all the diplomatic, political and military groups - including NATO - should be familiar with the economic problems of the underdeveloped world, and the particular problems of providing the finance necessary for development. They should be in a position to support, in their governments, sound development programs by the individual NATO countries. This would be on the theory of de-fusing the tinderboxes represented by incipient so-called wars of liberation which are, as I view it, in fact consciously or sub-consciously, wars of liberation from poverty, and as such perhaps the advocacy of financial assistance by the diplomatic and military representatives at the level of such international groups is a proper effort because it is a step in the direction of possibly avoiding conflicts for which preparation is being made.

Moving now to the comments that have been made by one or another of the conferees earlier today and yesterday, I can reservedly agree with Professor Mason in his comment on the desirability of finding a voice with the under-developed countries in connexion with the financing of development. Professor Mason suggested the World Bank as an international agency available for such a purpose. We, of course, would require the assistance, as they become more powerful and as they become more adequately staffed, of the regional agencies throughout the world. In this regard, I find myself in disagreement with my friend Mr. Abs. My few years of experience in this field has brought me to a feeling that foreign aid accomplishes several things and included among them are finance for aiding exports from industrialized countries, both industrial exports and agricultural exports, financing to further the diplomatic and military objectives of capital exporting countries; and paranthetically I find nothing evil or wrong about development finance in connexion with the furthering the exports of an industrialized country, or assisting in political or military objectives. I simply make a difference between financing for those purposes, and financing that is wholly and purely, solely and exclusively, in the interests of the developing country; financing that is organized and set up on a basis of obtaining the absolute maximum increase of productivity in the developing country for the money spent. The assistance received for the purposes to which I refer is, of course, welcome to the developing countries. However, development financing that is exclusively in the interests of the developing country, I believe can and should be administered by international multilateral agencies.

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I might take a moment, if I may, to make clear on what I mean by a multilateral agency. I think it is a stool that has three legs. It must be multilateral, it seems to me, from the standpoint of the source of its funds. In other words, a maximum number of aid-giving countries, industrialized countries, capital exporting countries, must be involved. Secondly, it must be multilateral from the standpoint of the recipients of the funds. They certainly must be more than one or two countries, and must involve not only regions but entire continents in some cases. Thirdly, and perhaps most importantly, a multilateral agency must include a professional and expert staff with a wide diversification of nationalities. In the World Bank, I must say that my task is made much easier with respect to applications from Latin-American countries when I know that I have a competent and experienced group of engineers, accountants, lawyers and businessmen, from the Middle East or from south-east Asia to vet the applications from Latin-American countries, and of course the converse is true. Thus "multilateral", to me, has to do with the source of the money, the final use of the money, and perhaps most important - the staff that administers the money. I do feel that the way we get the greatest increase in productivity for the money that is available is to use a multilateral agency.

Professor Mason also referred to the general area of supplementary finance and Mr. Heinz touched on that. We in the Bank have drawn up a rather detailed plan which reflects the germ of an idea originally put forward about two years ago by the United Kingdom and Sweden. It is built on the basic proposition that a developing country which has a sound and well thought out plan which has been approved in advance by an administrative agency, will receive assistance in the form of cash in the event that catastrophe overcomes its programs, particularly its export programs, arising from events which are completely beyond the control of that country. If a country does have such a plan, and if it does receive approval, and if its efforts have been satisfactory to the executing agency, this plan for supplementary finance would put that country in the possession of funds that it is being deprived of by reasons of developments and catastrophes beyond its control. The plan is now before the capital exporting countries, and only time will tell what is going to happen to it. It has certain attractions but and on the other hand there is a question as to whether very many of the developing countries will be willing to accept the disciplines it contemplates.

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I agree with Sir Andrew Cohen on his comments with respect to Mr. Portisch's idea. I submit that we have a perfectly good idea in our present programs for financing development, particularly with the consultative group procedures. It is perhaps even a better one than the Marshall Plan; having in mind that it involves many more people, it involves far greater changes in their way of life, and it can be worked over and improved on in many ways and made to pay off for the developing countries over a great many years to come.

The future of the business of development finance depends to a large extent on collaboration between the representatives of the aid-giving countries, and as you know from what I have said, I am rather optimistic about the procedures which are now under way.

I must put into the record my full agreement with Mr. Chiaro's reference to the fact that there is no way to satisfactorily finance increased productivity in the developing countries unless there is political stability in the countries. This is the absolutely vital ingredient and it is beyond the control of those outside the host country. Gradually, I feel, political stability is coming in many important areas of the world, often in conjunction with economic stability. One feeds and depends on the other.

I move now to Professor Tinbergen's paper which I found exceedingly interesting and thought-provoking. I would like to make two comments as I close, with respect to it.

First, his use of global figures troubles me. In the World Bank we have 103 shareholders, 103 Governments, which are Members of our institution. About 20 of the 103 countries are capital exporting - that leaves 83 that are developing or capital importing countries. I might say that these capital importing countries receive approximately - again a global figure, I confess - four times as much foreign exchange on account of their export activities (Mr. Wyndam-White's area) as they receive from foreign aid or development finance. Their own exports are four times as important to them from the standpoint of foreign exchange as is the finance we have been talking about. The 83 capital importing countries in our membership are, I would say, divided approximately equally in three categories. The first category are countries where I believe there can be a substantial change for the better, there can be a light at the end of the tunnel so to speak, in the course of the next 10 or possibly 15 years.

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These include the countries I have mentioned as being subjects of consultative groups. These countries represent far and away the largest part of the population in the under-developed world.

There's another third at the other end of the bracket that, even for me and I am an optimist, have a long, long road to travel. I don't think anybody is going to see light with respect to those countries for a great period of time, possibly 50 years or more.

Progress with the middle third will depend very much on the progress made with the upper third. I have the hope, and even expectation, that over the years the third of our capital importing countries which I expect to markedly improve their position in the next 10 or 15 years will be doing more and more development financing in other developing countries lower on the rungs of the ladder of development than they are. The strain and the pressure on today's 20 capital exporting countries should be reduced. In fact it must be, and I think the job will be taken over to a gradually increasing extent by the top third of today's developing countries.

Thus, global figures that cover the world as a whole I think sometimes are misleading. Personally, I don't take much notice of the 20 billion dollars estimate. It is a frightening figure, and from my own experience I wouldn't know how to go about using it. In the Bank we look ahead five years, partly with the help of our economists and partly with the help of our 20 or 25 loan officers responsible for our loaning operations. We feel that perhaps 3 to 4 billion dollars a year, in addition to what is now being provided could be effectively and intelligently used over the next five years. My figure of availability at the present time is  $9\frac{1}{2}$  billion dollars, from all sources including the Soviets, going to the poorer countries - this excludes the amounts that are repaid on principal. But if from the  $9\frac{1}{2}$  billion dollars that in 1964, according to my figures, went to the developing world, there is deducted the interest, the dividends, the royalties, the service charges, etc., amounting to about 4 billion dollars, I say that 5 to  $5\frac{1}{2}$  billion dollars is available to the under-developed world on the basis of 1964 facts for purely development purposes. I think 3 billion dollars more than that would be a generous amount of aid, of development finance, if it could be provided. I think that the situation in the matter of money that could be intelligently used varies from country to country. We are always going to hear a great deal about India and Pakistan, because they are so large. It is not generally realized, Your Royal Highness, that the population of India alone is slightly

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more than the entire population of the continent of Africa and the continent of South America combined. In the continent of South America there are ten republics that are Members of the World Bank, in the continent of Africa there are thirty-four. That is forty-four countries, forty-four Prime Ministers, finance ministers, chiefs-of-staff- and still the aggregate population being discussed is slightly less than India. So we in the Bank do give a considerable amount of attention to India, and we have to because it seems to us that it is such an important leader in the developing world so that if we can get it slightly turned around so that it is beginning to help those that are less fortunate, we will have made a great step forward.

Secondly, in Professor Tinbergen's paper he says, "Finally a helpful contribution on the part of the developing countries might consist in a clear announcement of the sectors of industry which they consider an appropriate field for private activity. Each government is autonomous in its preference for public activity in some sectors, .." etc. I close with a clear and definite statement that we would prefer to have all governments cancel all previous announcements with regard to the sectors reserved for public operations and to make no more announcements for five years. I think we would then make progress in the private sector! Thank you very much.

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Speech of Mr. BELL at the Wiesbaden Conference.

There are many elements in the discussion which might provoke my comment.

Let me simply try to focus on one, and in passing say that I support very strongly what Professor Mason, Sir Andrew Cohen and Mr. Woods have said. In the case of Mr. Woods, there was one small exception. I do not agree that the productivity of economic aid is necessarily greater through international organizations, which is not to say that international organizations cannot be highly productive in their aid. The World Bank is; others in my opinion are not.

But I do not want to argue that point now, Sir, I would like to carry further a point that both Mr. Woods and Mr. Zijlstra alluded to and which in recent years has come to be at the very centre of the American concept of foreign assistance and that is an idea which has not been developed very extensively in this meeting so far. This is the idea that we should be working through our foreign aid programs to help achieve in the developing countries a situation, a condition of self-sustaining economic growth and the termination of concessional aid - concessional aid meaning aid in the form of grants or of loans at less than commercial rates of interest. We think this can in fact be a meaningful and effective standard of reference and objective to set for all of the major aid-receiving countries.

We have seen the achievement of this objective in some important cases already. Perhaps the most striking case is that of Taiwan. A few years ago it was commonplace in the United States to regard Taiwan as an indefinite pensioner of the U.S. But this has not turned out to be so. Effective economic policies on the part of the free Chinese Government on Taiwan, and effective economic assistance have resulted in a strong self-sustaining Taiwan-Chinese economy and we have in fact brought our economic aid to an end in that country. It is not needed any longer. The Chinese economy is growing at 5% per capita per year and has built into it now the patterns of savings and investments, the habit of reliance on private enterprise, sufficient competence and know-how, so that this rate of growth can be expected to continue. We see no reason why similar achievements cannot be expected, given sensible policies and sensible aid programs, in all of the major countries. We foresee, for example, that Brazil and Chile, within 5 years, could reach such a situation. We expect it quite definitely in Turkey in 5 to 7 years, we expect it in Korea. We think that in India and Pakistan it will take ten to fifteen years, but it is clearly visible within that kind of a time-scale.

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Now, if you look at the aid process this way, you reach several, very important practical conclusions. First of all, you have a standard of measuring the quality of economic policies in the developing countries and of aid policies in the donor countries which everyone can agree on, and you can work out standards of self-help and performance on the part of the aid-receiving countries which are based on technical judgments. And this makes the relationship - even a bilateral aid-relationship - much simpler than if it were simply a matter of one's ideology or one's doctrine. There are in fact enough common understandings among economists so that these matters can be approached on a straightforward technical basis with the expectation that similar judgments will be reached.

Secondly, there are very important implications about the amounts and the terms of assistance. If we set as our objective to achieve, in a minimum period of time, self-sustaining economic growth in the aid-receiving countries, then the conclusion follows that if those countries do undertake the self-help measures and the economic policies that will bring that about, it is incumbent on the aid-donor countries to provide sufficient assistance and sufficiently soft terms to help them achieve their objective. This provides a standard for measuring the sufficiency and quality of the assistance that is to be made available by aid-donors which, I submit, is a far more realistic and useful standard than the overall global figures which Professor Tinbergen has quoted in his paper.

Moreover, this notion gives us some basis for trying to achieve stronger and broader popular support in our own countries, in the aid-donor countries. Because this means we can show that the assistance process has a limited duration and a clear and sensible objective.

Now, obviously, when a country has achieved a self-sustaining economic growth, it is not necessarily a capital-exporting country. Quite the contrary. Taiwan, for example, will need capital imports for many years to come, but it can afford to obtain those imports on essentially commercial terms: from the World Bank, from our own Export-Import Bank and the corresponding agencies in other Governments, and through increasing amounts of private investment.

Lastly, this set of ideas, I believe, gives us a firm substantive basis for aid coordination. We have seen this in practice when we have worked with the World Bank, the International Monetary Fund, and other Governments in certain specific cases, notably Brazil, Chile, Colombia and now we hope India. We can find common ground, normally under the leadership of the technical staff of the World Bank, for assessing



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the self-help policies which we should ask the aid-receiving country to adopt, and for determining the amounts and types of aid which the aid-donor countries should be asked to provide. So that this set of ideas, I think, gives us a solid technical basis for a coordination.

I would not want to exaggerate, Your Royal Highness, the speed or the efficiency with which we can achieve self-sustaining growth in every country. I would like, in closing, however, to comment that I am not at all sure I agree with Mr. Woods that there are one third of the developing countries one should call hopeless. We in the United States have not yet found a hopeless case. We have not analyzed all the countries yet from this point of view, but Taiwan was not a hopeless case, Korea is not a hopeless case, Jordan is not a hopeless case, Laos is not a hopeless case, and this reduces us to the question whether Somalia is a hopeless case and I am not yet sure about that one!

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Speech of Sir Andrew Cohen at the Wiesbaden Conference.

1. I think perhaps the most useful contribution I could make to this Meeting would be to say nothing except to express full agreement with what Professor Mason has just said. There is really nothing that I can add except to cross the t's and dot the i's. Like Professor Mason I broadly accept Professor Tinbergen's diagnosis of the nature of the problem facing us. That statement is the statistical counterpart of Mr. Reuther's inspiring speech yesterday.
2. At first, I must confess, I was a little concerned at this and other suggestions made yesterday, because I thought these were pleas that NATO should get into the aid and development business. That, as Mr. Murphy said, would be proliferation indeed. And it would be the kiss of death to the kind of co-operation with the third world which is vital to successful aid programmes.
3. But I realise on reflection that I should not have been concerned about these suggestions, but pleased. I am going to take it that what was meant was that NATO as such should not get involved in aid, but that members of the Atlantic community, through the proper organisations in the U.N. family and through the Development Assistance Committee of the O.E.C.D., should stretch themselves to the limit to make their full contributions to the problems of underdevelopment. On that basis I align myself 100 per cent with Mr. Reuther and others who spoke in a similar vein yesterday.
4. As I understand the position, the essence of what Professor Tinbergen says in his paper is that the gap in wealth and development between the richer and poorer nations is widening, not narrowing, and that this leaves large parts of the world in poverty or stagnation. That is the essential point, the stark and alarming fact that we have to face. I say alarming both because it is dangerous to world stability and because it is an affront to our consciences.
5. This state of affairs cannot be reversed without positive action of a world scope and on a massive scale. Professor Tinbergen's plea for a doubling of world aid flows in a few years may be thought by many too ambitious. If we could do half this it would be a major triumph. But the prospects even of this are not good, let us face it.
6. Net official aid has tended to remain stuck on a plateau in the last three or four years and does not show much sign of getting off it. Our own record in Britain is quite good. The total of British Government

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aid disbursements is expected to be 18% higher in the coming financial year 1966/67 than in 1964/65. But, unless my Minister can persuade Sir Eric's to give us a bigger share of the National Plan, we may not be increasing much thereafter in the next two or three years. I get the impression that the prospects of other countries are similar.

7. Therefore we may not collectively achieve the kind of increase in official aid flows which we must, I believe, all accept to be needed. I propose to leave trade, commodities and private investment to others, not because I in any sense under-rate their importance, but because I do not want to lengthen this speech. I will only say that the prospects of changes in trade relationships, or of commodity arrangements, making a major contribution to reducing the gap between rich and poor countries, or solving the problem of poverty, are, as Professor Tinbergen implied, not very good. Hence the picture is extremely gloomy. We cannot deny it.

8. But we can be too statistical. We have learnt the word "gapology" from Professor Mason this afternoon. Gap statistics themselves tend to contain an intellectual gap. There are certain things which we can and must do - and I believe will do - in the present world situation. I would like to mention five of them if you will allow me, Your Royal Highness.

(1) We must make arrangements as between donor and recipient countries to give aid the best chance of being effective. Professor Mason has made this point. I wish to emphasise it as strongly as I can, because I believe it is at the root of the whole matter. It is not just the point that developing countries must be more efficient, although heaven knows they must be. We ourselves must be more efficient in this respect. If we do not succeed there will be waste of resources, frustration on the part of developing countries, and disallusion on the part of donor countries, making it less likely that they will increase their aid. In our relations with the developing countries we in Britain have been inhibited by our ex-colonial past. We have hesitated to impose conditions on our aid because of fear of being neo-colonialistic. But we are getting over this inhibition.

Professor Mason has said that donor countries are fully entitled to impose conditions on their aid. I would go further and say that they are not only entitled to do so, they are not entitled not to do so. And let me make it very clear that when I say conditions I do not mean political strings, but conditions directly relating to aid and development and designed to make aid more effective. But at the same time there is a limit to what individual countries can do, because the volume of their aid individually may not be large enough to influence the receiving countries

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in the right direction. International agencies can often be more effective in imposing conditions. But most aid is going to continue bilateral, because aid is so important in relations between countries that it is going to continue to flow from country to country, from the power centre to the power centre. Hence we need to marry international with national arrangements. The Consortia and Consultative Groups organised by the International Bank have a vital part to play in this.

(2) We must work together much more closely as donors to mobilise our bilateral resources within the framework of coherent plans. We must in fact devise means of working out priorities on a world scale - or at any rate a free world scale. The United States Agency for International Development has shown what can be done in the concentration of aid and we have learnt from them the admirable policy of anti-scatterisation. But, given the limited resources available from all countries, it is not sufficient to fix priorities on a national scale. We ought to practice anti-scatterisation on a world scale; this would involve much closer co-ordination than has been achieved or attempted so far.

One has only to compare the French, the American, the Swedish, the German, the Italian, the Japanese, the British and of course the Dutch programmes. There are wide differences between them. The points of co-ordination are so far only limited. There is no coherent pattern. If we are to improve this situation two things must be done. First the Development Assistance Committee must be made much more effective than it has been hitherto. This needs action both by the Member Governments and by the Secretariat. Secondly we must spend much more time on bilateral co-ordination between donor governments and be prepared to devote more manpower to this. It is not always easy at present with our limited resources of personal dealing with aid management. I have felt this myself when, for example, I visited the A.I.D. office in Karachi and found that their staff was 117. The British staff in Karachi dealing with aid matters was only two or three. If we are going to do the job we must have the men to do it.

(3) We must give priority to technical assistance, to the supply of men and women, to training of local people, to the transfer of know-how, to surveys, consultancies and educational aid. This is sure fire. Technical assistance must be pure gain if properly organised. Not only advisory personnel but operational personnel is needed. The French and we have led the way in operational personnel and are proud of this development from our Colonial pasts. We in Britain give absolute priority to technical assistance and the Ministry of Overseas Development and bodies associated with it recruit about 3,000 people a year for the purpose.

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We are much encouraged by the recent aid messages of the President of the United States and particularly the emphasis on building up small career services in the message on education and health.

(4) We must concentrate on points of breakthrough in the field of science and advanced technology. I am thinking of such activities as de-salting of water, pest control and of above all population control. Dr. Enke says that aid given for population control, if it is well organised, would be one hundred times more effective than the same amount of financial aid. This is no doubt an exaggeration, but the point is essentially a sound one.

The major part of the underdeveloped world is not yet in a position to operate effective research services on the scale which is needed. There are countries which can do this, such as India, Brazil and Mexico. There are many others which have neither sufficient first-class scientific manpower available nor enough money which can be diverted from needs which seem more urgent in the short run. The results of scientific research are of benefit to many countries. National frontiers mean little in science. Research is therefore a peculiarly suitable field for outside and international help, and the major donor countries and international agencies must make a special effort to give assistance in this field.

(5) We must support the aid programmes of international agencies. Here the picture is more hopeful than the general picture of aid prospects. By 1967, according to the best projections, multilateral aid may be expected to have grown by 50% over the three preceding years. It will by then have risen from 14% to 18% of the gross total. We must support the replenishment of the funds of the International Development Association which will have to be considered later this year - and we hope that those countries who, we feel, have given proportionately less in relation to their resources - will consider redressing this. We must support the new U.N. Development Programme formed by the merger of the U.N. Special Fund under Paul Hoffman and the Expanded Programme of Technical Assistance under David Owen. We must give most serious consideration to the scheme for Supplementary Financial Measures worked out by the International Bank staff in response to the UNCTAD resolution of 1964 promoted by Sweden and Britain.

We are anxious to work closely with the U.N. Development Programme and with the International Bank. We acknowledge George Woods as our leader I wish that Dr. Prebisch was here. If he was, he might repeat the remark he made at the seminar which our Ministry recently organised at Oxford.

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Dr. Prebisch then described George Woods as the Pope John of the International Bank. We must give him all support. It is not sufficient to support him in words; we must help provide him with the resources which will give him more power to his arm.

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THE FUTURE OF WORLD ECONOMIC RELATIONS,  
ESPECIALLY BETWEEN INDUSTRIAL  
AND DEVELOPING COUNTRIES

J. Tinbergen  
Rotterdam, January 1966.

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THE HON. FRED HARRIS

THE FUTURE OF WORLD ECONOMIC RELATIONS,  
ESPECIALLY BETWEEN INDUSTRIAL  
AND DEVELOPING COUNTRIES

S U M M A R Y

1. Introductory.

Two ways of looking at the future - assumptions made - sources of information - convergency between Western and communist Europe - no need to fear a depression.

2. Some main problems to be expected.

Increasing gap in well-being between industrial and developing countries - role of population explosion - increasing unemployment and hunger in developing countries - trade gap to be filled in 1970 estimated at \$ 20 bln, in 1975 \$ 32 bln - some background figures - industries in which developing countries will obtain comparative advantages - food problem - impact of population explosion - some favourable factors in development - nevertheless, reason for concern.

3. Some solutions within reach.

Extension of financial assistance to some \$ 15 bln, partly automatic, partly by IDA disbursements - less protection of European agriculture and textiles - buffer stocks for some more products - increased private investment to be helped by insurance against political risks - need for training of all kinds, for less red tape and westernized tax policies in developing countries - need for a clear delineation of the public and private sectors in such countries.



THE FUTURE OF WORLD ECONOMIC RELATIONS,  
ESPECIALLY BETWEEN INDUSTRIAL  
AND DEVELOPING COUNTRIES

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1. Introductory.

There are two ways of looking at the future. One is known as forecasting and usually rests on the assumption that no fundamental changes are made in economic policies. A forecast tries to indicate the most probable development and in a way, therefore, requires prophetic gifts. The other way of looking at the future, sometimes called planning, aims at indicating the most desirable development. In a way this second approach to future events is simpler and does not need knowledge about unforeseen events to the extent needed for a good forecast. Rather "a plan" must be based on notions about the needs of people and the means to obtain optimal wellbeing<sup>1)</sup>. The use of the word "planning" in this context does not imply that a policy of detailed intervention is suggested; today we also speak of planning for any type of economic policy and for most countries this only means a moderate degree of intervention by public authorities.

Even so, it has to be admitted that some assumptions have to be made about a number of uncertain elements which possibly may play their role in the period to be discussed. It is clear enough, therefore, that any statement on the future of world economic relations must start from some assumptions.

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- 1) Of course things are not quite that simple. Some of the unforeseen events will influence also a plan, that is, the most desirable development. If some of these events are, for instance, new discoveries of national resources or new inventions, the most desirable development may well be more favourable than originally assumed. If the unexpected events imply a considerable deterioration in conditions, they may make the most desirable development as originally seen just impossible. But in the middle range of not so very favourable or not so very unfavourable unexpected events we will try simply to counteract them if they arrive and to stick to our original "plan". This is true in particular for temporary deviations from expectations, such as crop variations, cyclical movements in demand or minor random events.
- Another way of saying all this is that unexpected events simply cannot be taken into account in a plan, but, if persistent, will lead to change in a plan after they have occurred.

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Thus, we will assume that a major military conflict can be avoided, that the development of population numbers will not show any dramatic changes, or that technology will be completely revolutionized and so on. Even so, everybody will be aware of the disturbances which may occur and can hardly be foreseen. Even if no major conflict occurs, there may be smaller ones; the attempts now under way to get under control the population explosion may be less successful or more successful than we now assume; automation may be less important than some of us think or more dangerous than others seem to hold. Political decisions such as the ones taken by the president of the French republic are not easy to forecast precisely and even some of the cultural tendencies of the West may have unexpected consequences for, say, the general efficiency of our labour force<sup>2)</sup>.

The sources of our information on future events are essentially twofold: on the one hand we have a number of careful but slightly traditional analyses made by various research institutes, including a number of United Nations agencies or for instance the (American) Agency for International Development (AID). The virtue of these analyses is that they try to be realistic in the light of previous experiences and consistent in their assumptions. Another source of information is provided by the imaginative minds of individual thinkers who try to introduce into the picture some of the conceivable changes of a more fundamental character. As an example I would like to quote an author as Jean Fourastié, who impressed the economic profession with some of the novel ideas he launched, or simply a man like H.G. Wells who impressed all of us.

In the present analysis we will mostly rely on the first source leaving it to the imagination of our readers to introduce elements from the second type of source.

Before dealing with our subject in a more direct way, we want to mention one major factor that is bound to influence our subject, namely the evolution of thinking in the communist world. On the one hand it becomes every day clearer

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2) One may wonder, for instance, when the increasing frequency of printing errors in our newspapers will cause a major political crisis; or to whether hooliganism will once deprive us of a president of the United States.

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that the Soviet-Union and Eastern Europe show a development which brings them closer to Western economies if not even societies. This convergency of systems cannot only be observed, as I have set out elsewhere<sup>3)</sup>, but also understood from some general theorems of welfare economics and in a way will simplify our subject. It is far less certain whether this phenomenon of growth will spread sufficiently early also to China or whether, on the contrary, the rift between the two main currents will induce China to stick to completely different policies such as have been announced in Mao-tse-tung's writings and speeches. Our assumption will be that in the next ten years Chinese policy will not work out as a major factor to our subject. This may well be one of our weak spots.

As a final introductory remark I want to submit the statement that the future of world economic relations will not be influenced to an appreciable degree by the occurrence of an old-style depression as we know it from the 'thirties. This is not to say that the beginning of such a depression might not develop. It may indeed, but we know how to handle it and how to restrict its impact on economic development.

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3) Most recently in a report to be published by Professor Benoit of Columbia University. As early as 1960 the well-known sociologist Sorokin submitted a similar statement on social and cultural aspects of the Soviet society.

2. Some main problems to be expected.

Turning now to our main subject and using the information provided to us by the explorations made by several United Nations agencies and more particularly the United Nations Projections and Programming Centre of the Bureau of Economic and Social Affairs, we will find as the main phenomenon that, in the absence of a fundamental change in our policies, an increasing gap in wellbeing between developed and developing countries must be expected. This is partly due to the accelerated growth of developed economies: whereas before World War I the average rise in real national income in Western societies was in the neighbourhood of 2.5 to 3 per cent per annum, these are now developing at a rate of about 4 to 5 per cent. On the other hand, the developing countries, though not developing less rapidly than before or even than the rich countries in the 19th century, are severely handicapped by the population explosion. The rate of increase in population is now estimated to be 2.5 to 3 per cent per annum as an average for the whole underdeveloped world. This implies that an increase in total national product does not work out to the same extent as before in an increase in income per capita. In fact, incomes per capita have advanced by at most 2 per cent for the whole of the underdeveloped world during the last five years<sup>4)</sup>. This contrasts with an increase of 3 to 4 per cent in incomes per capita of the rich countries and therefore does represent the famous increasing gap in wellbeing.

At the same time, without a fundamental change in our policy, we have to expect an increase in mass unemployment which may assume a quite unprecedented size. Even if the development of developing countries can be somewhat accelerated and brought at the level of 5 per cent per annum cumulatively for the decade 1960-1970, there will be an increasing gap in wellbeing and at the same time in

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4) With a so-called capital-output ratio of 3 years, an additional increase in population of 2 per cent per annum (as we now have it, in comparison to the 19th century) requires additional investments of 6 per cent of national income, virtually all of the savings made in the poorest countries, only to maintain their standard of living.

the trade balance<sup>5)</sup> of the developing countries. Here we arrive at one of the most strategic figures which have been estimated by the United Nations Projections and Programming Centre, a figure no doubt which is going to influence all the discussions between the developed and developing countries in the next few years. The present estimate is that this so-called trade gap may amount to \$ 20 billion in 1970 and to \$ 32 billion in 1975. If anything like a quiet and accelerated development of the developing countries is to be obtained financing must be found for this gap. There are mainly two sources from which such financing can take place, the famous twins of aid and trade. The time is over where we could discuss whether it should be trade or aid. It has to be both<sup>6)</sup>. As far as trade is concerned, this will mean an extension of the import possibilities into the developed countries beyond the normal increase already taken into account in the estimates just quoted. With regard to aid it will mean an extension of aid to something close to \$ 15 billion. I am coming back to this question later on.

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5) Here supposed to increase invisibles (payments for services).

6) At the same time, the Centre estimates that the gap between investments and savings will be \$ 12 bln in 1970 and \$ 20 bln in 1975. In principle this savings gap is equal to the trade gap and the question must be posed, what explains the difference between the two estimates. Evidently the assumptions made are not consistent. This may either mean that the possibilities to export have been underestimated or the possible investment levels overestimated or still other assumptions have to be revised. For the time being we may consider the two alternative figures as two different estimates of an uncertain figure.

If for a while we take both figures for granted they imply a suggestion about what portion of the gap should be bridged by aid and what portion by trade. To the extent that aid will be given, a disequilibrium between exports and imports can continue to exist, since it is made up for by the aid received. If we assume that a reasonable amount of aid is equal to the difference between the investments the developing countries have to make in order to attain the goal set for their development and their own savings, then aid should be \$ 12 billion in 1970 and \$ 20 billion in 1975. The remaining trade gap should then be covered by improved trade relations. Most experts do not see, however, how \$ 8 billion more exports or less imports in 1970 and \$ 12 billion in 1975 could ever be attained. We may therefore conclude that more aid will be needed than the difference between investments and savings. Moreover, the investment figure is based on an average growth rate of national income of 5 per cent. With a higher figure for this latter rate we would automatically arrive at a higher savings gap also and to less need for increased trade.

In comparing aid and trade we should not overlook the difference they imply for investments. While aid can be used fully to finance investments, exports cannot. Part of the income derived, directly and indirectly, from increased exports will be consumed and is not available, therefore, for the financing of investment.

In order to facilitate the appraisal of the figures just quoted I think it is appropriate to bring together a few of the other key figures which characterize the present structure of international relations and the development to be expected over the coming ten years. They will be found in Tables I and II.

Table I. The structure of current international economic relations, 1950 and 1962, in % of world trade.

		Importing country groups			
		Developed	Developing	Centrally planned	Total
Exporting	Developed 1950	41	17	2	60
	1962	48	15	3	66
country	Developing 1950	22	8	1	32
	1962	15	5	1	21
groups	Centrally planned 1950	2	1	5	8
	1962	2	2	9	13
	Total 1950	64	27	8	100
	1962	65	21	13	100

Source: World Economic Survey 1963 I, United Nations.

Developed countries: North America, western Europe, Australia, Japan, New Zealand and South Africa;

Centrally planned economies: eastern Europe, mainland China, Mongolian People's Republic, North Korea and North Viet-Nam:

Developing countries: rest of the world.

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Table II. Some orders of magnitude of the development of the main economic variables, at 1960 prices, in billions of \$.

	<u>1960</u>	<u>1970</u>	<u>1975</u>	<u>Remarks</u>
Gross domestic product developed countries	920	1380	1720	Crude forecast
Gross domestic product developing "	170	261	362	Based on past trends
Gross domestic product developing countries	170	277	362	At 5 per cent ("plan") annual growth
Developing countries ) Current payments in foreign				(Estimate by U.N.
) exch.	26	51	70	(Proj. and Progr.
) Current receipts in foreign				(Centre ("plan")
) exch.	21	31	38	(
) Trade gap	5	20	32	(
Exports by industrial countries	81	.	.	
Exports by developing countries	26	45	56	Based on past trends
Exports by other prim. prod. countries	4	.	.	
Exports by centrally planned economies	15	.	.	
Net capital flow to developing countries	7.4 <sup>1)</sup>	.	.	

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 1) In 1964, at 1964 prices: 8.9; there are, however, interest and profit payments in the opposite direction, of the order of a few billion \$.

In the preceding figures it has already been assumed that there will be a gradual shift in the division of labour between developed and developing countries. The latter will no longer be able to specialize only in primary goods. Step by step they will have to enter the field of secondary goods, which means industrial products, starting with the less sophisticated and relatively labour-intensive ones and gradually climbing to the more sophisticated and the less labour-intensive goods. Well-known examples of labour-intensive goods are

textiles<sup>7)</sup> and finished products in the metal sector and the Japanese position in shipbuilding provides an excellent illustration of this trend. One of the forecasts made of Latin-American imports also reflects the same evolution: imports of textiles will go down and so will, percentagewise, imports of agricultural products and paper, even if total imports from Western countries are supposed to rise considerably.

This is brought out by a forecast prepared by the Economic Commission for Latin America (ECLA) showing the following figures:

Table III. Composition of imports of Latin America from other continents, 1954/6 and 1975 (percentage).

	<u>1954/6</u>	<u>1975</u>
Capital goods	32.5	41.6
Motor cars	3.9	10.9
Steel and semi-finished products of steel	9.8	10.4
Coal etc.	6.6	5.9
Chemical products	9.8	10.0
Paper, etc.	3.2	2.4
Cotton yarns and tissues	3.9	0.0
Agricultural products	4.4	2.5
All other products	25.2	15.3

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 7) Recently textile manufacturers have made the point that the textile industry is no longer a labour-intensive industry. My impression is that there have always been more labour-intensive and more capital-intensive processes in that industry, with a considerably wider range of choice than in many other industries (The same applies to agriculture and to construction - maybe to all very old industries). It is natural that in Western countries more capital-intensive processes are now the only remunerative ones left over and it is wise for textile industrialists to shift in that direction. Even so the labour-intensive versions are attractive to developing countries. I see particular wisdom in the decisions of some textile firms to shift part of their production to developing countries and in the decisions of some other textile firms to introduce modern materials such as plastics as a new device.



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Another very important feature of the future of world economic relations will be found in the food problem of developing countries. It is just another consequence of the population explosion and of the stagnant technology of agriculture in many of these countries, but experts of FAO as well as such independent experts as Prof. Fritz Baade of Kiel made it clear that very critical years are ahead for India, Pakistan, Turkey and a few more developing countries. In all probability it will require the full use of the productive capacity of the developed countries in agriculture to overcome the extreme scarcity of food in the coming five years. At the same time everything must be done in order to raise agricultural production in the developing countries themselves. A considerable portion of their population can hardly be reached at all, for lack of transportation facilities, by increased food imports from the richer countries.

Among the major factors which will influence the picture of economic development ten years from now will be the effect, if any, of family planning policies. It has been estimated by AID that a successful policy of this kind in the case of Pakistan may reduce by one half the financial aid needed by this country.

Finally, it needs hardly to be stressed that the biggest single question which will influence the picture of the future is the degree of optimism one can have with regard to the development potentials of the underdeveloped world. We all know that there is a wide divergency between optimists and pessimists among the experts. Since at this moment pessimism seems to be fashionable I venture to quote a few examples which may contribute to a more equilibrated view. First of all, I feel that in a way Japan is the example of an Asian country which succeeded to join the developed world. More convincing even may be the recent news from Pakistan. Several observers feel that some sort of a break-through is under way in this country. It is felt that some of the really effective stimuli have finally been discovered and applied. Medium-sized and large farms are in a process of rapid improvement by the combined application of irrigation from tube-wells, fertilizer from natural gas and better seeds (Mexican wheat). But also in a number of other countries there may be hidden sources of success: the effect of some long term investments and of teaching and training may still turn up. A simple example is the Aswan High Dam or the possible effect

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of training in many countries if we think of how this worked out in the Soviet Union. In a number of countries it looks as if a young generation of national civil servants and managers with a Western education comes to the fore with a real promise in them. It also seems that the Peace Corps idea is able to make a real contribution to one of the biggest problems: the one of influencing directly the rural small-scale entrepreneur.

For the time being, however, the effects of all possible positive factors have been definitely disappointing and it seems realistic to take this as our starting point. The total effect of development policies so far observed does not guarantee at all that the big threats mentioned at the outset of this section can be met if we continue to behave as we do. A fundamental change in policies is needed. If the West is wanting to play a certain part in the future development of the world at large, it will have to increase substantially its contribution to the development of the developing countries.

The guide line for our policy must be to reduce the gap in per capita incomes between rich and poor countries. This requires a rate of growth in national incomes of developing countries surpassing the rates of the last decade and tending to figures of 7 per cent per annum until the population explosion will be more under control. Some of the possible contributions will be discussed in the next section. That section, then, will be an attempt at contributing to policy decisions rather than to simple forecasts; that is, to the second approach to the future mentioned in the introductory section of our paper.

### 3. Some solutions within reach.

In an attempt to remain realistic I am concentrating in this section on a number of policy changes which I think are technically possible and psychologically acceptable to the Western world. Even so, they will only be applied if a sufficient understanding exists of the urgency of the problems facing us. Contributions to overcome the menace set out in the previous section will have to be made by the developed countries as well as by the developing countries. For politicians with a minimum of imagination and with a sense of responsibility for our future generations it must be possible to convince their electorate of the necessity and feasibility of the set of measures listed below.

The first contribution the developed countries can make in order to facilitate the development of the low income countries is the reduction of the foreign exchange pressure by an extension of financial aid to the developing world. I already mentioned the amount of \$ 15 billion which I think should be our aim here, to be attained in a few years. To be sure, this is a net figure and it should be accompanied by measures to reduce or at least stabilize the repayment obligations of the developing countries. The additional financial aid implied is of the order of some \$ 7 billion and can partly be made automatic by the introduction of deficiency payments to primary producing countries, comparable to what Western countries pay to their farmers. Such payments may be linked to some general index of the terms of trade, with a view to maintaining the capacity of the developing countries to import originating from their exports of primary commodities. To be sure, such payments should not be made available to the individual producer but to the governments of the countries concerned for the financing of their imports of capital goods. Another automatic portion may be handed over to the developing countries on the basis of the creation of new international liquidities the need for which is now generally recognized. While creation of these new liquidities may be organized by a more restricted group of countries, a portion of those liquidities might nevertheless be made available to developing countries. The remaining part of the \$ 7 billion could be disbursed in roughly the same way as is done at present, or rather with increased emphasis on IDA disbursements. It is interesting to mention, in passing, an analysis made by Professor Hollis B. Chenery, now of Harvard Univer-

sity, showing that it is a direct interest of the rich countries to step up financial aid right now because this will reduce the need for aid in the future<sup>8)</sup>.

The second contribution by the West to reduce the foreign exchange pressure of the developing countries may consist of more liberal trade policies. Particularly with regard to products which in the future will be the "natural" products of the developing countries. I already mentioned textiles and agricultural products. We must accustom ourselves to less protection especially in the field of agricultural products directly competing with products of the developing countries. Examples are sugar and fats. Apart from being an important contribution to the solution of a world problem reduced protection will simply be also in the interest of Western consumers. With creeping inflation as a permanent problem this instrument must be given more emphasis than it has received so far. Of course, difficulties will arise, but in a situation of over-full employment we should not be too afraid of facing some of these difficulties which actually may be a blessing in disguise.

A third contribution the West can make is to cooperate more positively in the establishment of stabilization schemes for some primary products. Not too much should be hoped from this type of policy, but among the instruments to be applied, buffer stocks can be recommended without reserve. I do not think that complicated schemes of regulation of imports, exports and prices are commendable but the operation of buffer stocks does not require such complicated schemes. They may be set up for coffee, cocoa, sugar, and rubber<sup>9)</sup>.

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8) In a public lecture given at the Pakistan Institute of Development Economics, Karachi, 18 December 1965.

9) The case for buffer stocks has been eloquently made in the "Haberler report" of GATT (Trends in International Trade, Geneva 1958).

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A fourth contribution of the West may consist of increased activities of Western business in developing countries. I am thinking of a deliberate shifting of labour-intensive industries to developing countries. Some interesting activities are already under way, tending to shift parts of the textiles and clothing industries to such countries. Similarly, shipbuilding and some comparable industries may also be shifted. These activities of the private sector need support from the authorities, especially by the introduction of an international insurance scheme against political risks. As is well known such a scheme is in preparation but has not come forth so far. The business community will also need some guidance in the field of market analysis from more elaborate studies in this field to be undertaken by some of the new United Nations institutions, for instance the Projections and Programming Centre and the United Nations Organization of Industrial Development (UNOID).

A positive co-operation with these agencies would be the last and fifth example I would like to quote of the efforts within reach to be undertaken by Western countries. One might call this "planning at the world level" if planning is to be understood in the somewhat looser way we nowadays prefer. I am happy to add that the Dutch government has understood the need for an intensification of this planning work and offered a special grant of \$ 1.4 million to the United Nations for this purpose.

As already observed it is clear that also the developing countries will have to play their part. It should not be forgotten that several of them do already make important efforts and that, as a rule, the larger part of investment and training anyway takes place within the developing countries. Yet, there is scope for intensified activities in all fields, especially in the field of training, of the improvement of efficiency, the elimination of red tape, the westernization of tax policies, and so on. Special mention may again be made of the need for population policies aiming at a reduction in the rate of growth of population.

Finally a helpful contribution on the part of the developing countries might consist in a clear announcement of the sectors of industry which they consider an appropriate field for private activity. Each government is autonomous

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in its preference for public activity in some sectors, but the damaging element around this question is often the uncertainty existing about which sectors are considered the appropriate field for public and which others the field for private activity. Elimination of this uncertainty will be a useful step to both parties involved.

These, then, seem to be most important items on any agenda for the future of international economic policy. I am aware that I am not making any novel contribution to what has been said about this subject. Unfortunately, the need for "frapper toujours" seems to be characteristic of this field as much as of so many other fields. The one thing I would like to add is that we have, in my opinion, no alternative.

J. Tinbergen

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ANNEX.

Percentage official development aid of the main aid-giving countries.

Countries	I	II	III
Italy	39,186	62.3	0.16
Canada	35,419	93.4	0.26
Japan	56,506	171.7	0.30
Netherlands	12,923	59.2	0.46
Germany, Fed. Rep. of	78,480	436.0	0.55
United Kingdom	73,245	440.8	0.60
Belgium	12,240	83.2	0.68
U.S.A.	528,287	3,696.0	0.69
France	67,291	887.1	1.32

I = Gross Domestic Product at Factor Cost in 1963 (millions of U.S. dollars).

II = Average Flow of Long-Term Official Resources to Less Developed Countries and Multilateral Agencies, 1962 - 1964 (Disbursements, millions of U.S. dollars).

III = Official Development Aid in Percentages of Gross Domestic Product.

Calculated from: I : Yearbook of National Accounts Statistics, 1964.  
(United Nations, 1965).II : Development Assistance Efforts and Policies, 1965 Review.  
(O.E.C.D., 1965).

MAR 2 1966

25 February 1966

To the American Participants in the  
1966 Bilderberg Meeting

From: Joseph E. Johnson

Enclosed herewith are the "Notice to Participants"  
and the Provisional List of Participants, which were not yet  
available when the other material was sent to you last week.

I am also enclosing a copy of a speech by David  
Rockefeller, made at the International Industrial Conference  
in San Francisco last September, which seemed to me rele-  
vant to the second item of the agenda for the forthcoming  
Bilderberg Meeting.

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Enclosures

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part of so many who are here. Regretfully, I do not. However, instead of an  
oratorical accolade, I am sure it will be more meaningful to all these out-



MAR 2 1966

Address by David Rockefeller  
President, The Chase Manhattan Bank  
At International Industrial Conference  
San Francisco, September 17, 1965

".....THE ASPIRATIONS OF MANKIND IN A TROUBLED WORLD....."

This conference has been an exceedingly stimulating and worthwhile experience for all of us who have been privileged to participate. I feel especially fortunate in my own assignment, for it has afforded me an opportunity to review the excellent speeches we have heard this week, to study the fine position papers that were prepared and the highly interesting proceedings of the various panels, as well as to read the reports that some very competent rapporteurs wrote on the fascinating discussions held in the round table study sessions, some of which I was unable to attend personally.

I wish I had the time to relate to you in detail all that has been said here this week, and I wish I had the eloquence to pay sufficient tribute to the insight, intelligence and dedication that have been so evident on the part of so many who are here. Regretfully, I do not. However, instead of an oratorical accolade, I am sure it will be more meaningful to all these out-

standing people if we take their contributions to this conference to heart and express our understanding and appreciation of them in our future actions.

The conferences of four and eight years ago led to a number of subsequent proposals and initiatives which have been very concrete and worthwhile. We can be sure that the splendid caliber of the discussions this year will prove similarly fruitful.

In a sense, perhaps the most significant theme that emerges from our deliberations is that we have not really said much that is startlingly new. There have been some shifts of emphasis. Positions have been refined, problems have been put into sharper focus, and possible solutions have been more fully delineated. Yet, most of the questions with which we struggle today intruded upon our consciousness some time ago, and our answers today retain a measure of the uncertainty and controversy that they had in our previous meetings.

This means, first, that we are facing stubborn facts that will not disappear merely because we wish it. We are not imagining the perfect world of our dreams, but are wrestling with the very imperfect real world. It means also that we have no smug surety of success, no false overconfidence in our own abilities. We recognize that in some instances our response to the challenges of our time has not always been adequate; that many old difficulties persist in new forms; that all of us must redouble our efforts, if the aspirations of mankind are to triumph in a troubled world.

Our common acknowledgement of the pressing need to improve our performance is an encouraging sign, for if necessity is the mother of invention, then it may truly be said that dissatisfaction is the father of progress.

Our discussions have encompassed such a broad and diverse array of subjects that they cannot be compressed into a neat capsule statement. Nevertheless, it seems to me that they lead to three fundamental conclusions.

First, we must act on several fronts with a sense of accelerating urgency.

By the end of this century, according to some statisticians, the population of the world may be twice what it is today. Of course, the statisticians could miscalculate to some degree. Unquestionably there will be a tremendous population increase, and it could well be too great for us to control. The most spectacular growth will take place in those developing nations which are already the least able to offer their peoples the basic amenities of life. In contrast, food production is likely to increase at a slower pace, and the yield of nature's bounty will advance most slowly in precisely those areas where there will be more people to feed.

This highlights what may well prove to be the central concern of our era: the expanding gap between rich nations and poor nations. Aside from the basic factors of plain compassion and farsighted self-interest, these problems compel our attention because of the readiness of the communist nations to exploit human tragedy. Moreover, the greater communication and exposure among the countries of the world, have spurred the forces of impatience, so that the man who accepted a half-filled stomach as his own lot in life, will not accept it as the inevitable fate of his child. On the other hand, while we have revealed the promises of development, we have not been so successful in imparting the lessons that

underlie its accomplishment. In many areas there is, I fear, what we might call a revolution of unfounded expectation. It is characterized by the illusion that mere expectation produces achievement -- ignoring natural endowments, practical attitudes, realistic policies and plain hard work.

Of course, it is not only the plight of underdeveloped lands which is characterized by heightened urgency. In our most industrialized nations as well, we confront problems of increasing scope and perplexity. Growing investments in research and development are paying enormous dividends, and there is reason to believe we are still on the threshold of technological advance heretofore undreamed of. But already we find changes and complications that we are not yet quite prepared to cope with.

We have not yet learned to manage, with sufficient dispatch, the economic dislocations and shifts in employment patterns that are caused by the new technology. We are far from having found adequate solutions to the pressing demands for new managerial techniques and the creation of those expanding markets which our increasing productivity requires. We have not yet channeled a proper measure of our growing leisure time into those pursuits which truly enrich and ennoble man. The evolving relations between government and private enterprise remain to be fully appreciated, and the stresses on both domestic and international monetary and fiscal policies leave us with serious and unfinished business. These, and a host of other problems, are compounded by our rapid advances in scientific discovery and technological innovation.

The demands for stamina and resourcefulness are unending. Yet somehow we must all manage to keep in step, for if we break ranks, this brave, exciting and potentially most rewarding march toward a better tomorrow will flounder in chaos.

A keynote that has sounded throughout this conference is this sense of urgency in tackling the ancient problems and the new troubles that beset us. None of us is an alarmist, but we all seem to recognize that the clock runs against us. Perhaps there was a time when man could be content just to endure. Today he must show -- and show soon -- his ability to prevail.

The second major conclusion that emerges from our discussions is that we must act more imaginatively.

Many of our problems today have been with us for a long time, but certain aspects of them are still so relatively novel to human experience of the past that traditional approaches will no longer serve our purpose. I do not mean to imply that many of the fundamental precepts which have guided our conduct in the past are not valid and applicable today. Indeed, I think it is of the utmost importance that we do not permit the new shape of our challenges to obscure the continuing value of the lessons of the past. Rather, it is our task to up-date those lessons, to adapt them, and to direct them to the solution of contemporary difficulties.

ture.

This sort of imagination calls upon all of us, in this multi-national gathering, to understand that, no matter how different our countries or how diverse our conditions, we are embarked on a common voyage and we share both our apprehensions and ambitions. We have entered upon an era in which interdisciplinary cooperation on a worldwide basis must be the cornerstone of accomplishment. Each of us has the duty to fashion his own contribution to fit the grand design of a global community.

It is significant, and I think it is not an exaggeration to observe, that the overwhelming majority of those attending this conference -- and I believe it to be an international assemblage of business and financial leaders of unprecedented distinction -- are all convinced that the driving force of our progress on many fronts should be the competitive inter-play of our free enterprise system. The paramount aim of international economic cooperation is to delineate the problems, to establish the framework and to proclaim the rules that guide a competition of private, free participants in an endeavor in which everyone can be a winner.

The developing nations are in desperate need of investment capital, of the responsible exploitation of their resources, of building infrastructure, of educating their people for a meaningful role in the modern world, of upgrading their essential agricultural base, of endowing all their inhabitants with the freedom, dignity and material blessings worthy of mankind. To do this, they must be able to count on help and support from the industrialized nations, but they themselves must act imaginatively and realistically.

history has taught us, and there is no better illustration than the United States of the Nineteenth Century, that foreign capital is essential to rapid development in an emergent country.

There must be a greater awareness of where the legitimate responsibilities of government should be concentrated and where the creative involvement of private enterprise can reach its fullest fruition. There must be a unification of national purpose that makes for political stability and an acceptance of those stern disciplines which make for economic confidence.

There must be an example of uprightness, enlightenment and selflessness in the leadership elements, and a determined rejection of the easy evasions of demagoguery. New social, political and economic attitudes must be formulated, and basic to them all must be the extension to every individual of an equal opportunity to compete. For in free and responsible competition, the furtherance of individual ambition also becomes a contribution to the commonweal.

In the more industrialized nations, there is not only the moral obligation to assist those neighbor lands which have entered late upon this era of phenomenal economic advance, but a self-interested need to expand their sources of raw materials and their worldwide markets. Among other things, this calls for an increasing investment abroad in subsidiaries, affiliates, joint ventures and other forms of private enterprise. And one of the wonderful attributes of capitalism is that these investments will prove immensely beneficial to both the host countries and to the companies that put their capital to work within their borders.

However, we must bear in mind that, just as the host nations must adopt certain enlightened policies in order to make these investments pos-

sible and productive, so equally must the private companies which make investments abroad. Most assuredly they should aim at profitable operation, for the essence of capitalism is mutual gain, not one-sided philanthropy. But they must also show an understanding of the need for economic planning; a sensitivity to local attitudes, mores and business practices; and an appreciation of national pride and ambition.

These considerations lead me to one of the main points that has been reiterated in many speeches and discussions of this conference; the amazing growth of large multi-national companies and the heightened incentive for even some smaller companies with local markets to adopt an international orientation. This development is beginning to permeate many aspects of business thinking and must necessarily influence our ideas about sound management. The good manager of today and tomorrow, whether in an industrial or developing nation, must have a command of language that extends beyond his native tongue; an outlook that crosses his own national boundary; an adaptability and flexibility that will permit him to apply the values of traditional experience to the novelty of new challenge; and a fuller measure of that elusive, but crucial quality of leadership that gives inspiration, incentive, guidance and personal recognition to his many and varied associates.

This demand for a new and imaginative type of management is not necessitated by just the increasing international complexion of business. The fantastic speed of the computer, the flood tide of electronically processed information, the complexity and intricacy of modern business require the manager of today to give more meaningful and explicit direction to the handling of routine business, while permitting him to devote even more time and talent than before to problems that call for foresight, planning, and real creativity.



One of the foremost tasks we shall face in the future is the building of sufficiently competent, broad-gauged and imaginative leaders of business. It is they who will largely shape our response to the demands of our time. They must feel a responsibility to society which goes beyond the maximizing of profits for their shareholders. As leading citizens in their communities, they must have a hand in the affairs of the nation and the world. Thus private enterprise must commit itself to an unremitting effort to identify, recruit and train the very finest management available.

It will be the assignment of this management to come up with imaginative answers to the problems of investment and development, as well as to draw new patterns of global trade. For many of us, the marketplace of tomorrow will be no less than this whole planet of earth. We must make sure that this trade is mutually beneficial, not one-sidedly exploitative; we must insist on international balance, as well as a balanced development within individual countries; we must be certain that it helps preserve the proper interests of all the manifold segments of our domestic and worldwide societies.

In addition to the sense of urgency and the truly creative imagination with which we must confront our problems, I discern one more common conclusion of this conference.

The third conclusion is that we must act with greater responsibility.

There are numerous areas in which we have concluded that more responsibility on the part of business leadership is imperative. One area of great importance is that of communication. In the judgment of many of us, it is especially vital that we tell the story of the real role of private capitalism in the development of emergent nations in a manner which is understandable, effective and convincing. If this is done, hopefully the new nations themselves

will respond with objectivity and will help us get the message across through their educational systems which presently have a very different orientation in many countries.

To do right is basic, but if in the process we permit the public to believe that we are doing wrong, we have lost half the battle and can be accused of neglecting an essential element of our job.

Misunderstanding about the role of private capital is partly due to inattention on our part and partly to a carefully planned campaign by those who seek to destroy free enterprise. It is up to us to counter the insidious and antiquated Marxist line that free enterprise is a predatory system. All of us in the business community have a particular obligation to develop a relevant, accurate and cogent message about Twentieth Century capitalism and the opportunities it presents.

Having developed that message, it is our responsibility to distribute it effectively, especially to gain the understanding of the opinion-shapers of the new nations -- the businessmen, government officials, labor leaders, the professors and students in the universities. And, having developed and distributed our message, it remains our continuing task to give it credence through action. Let us never be deluded into the mistaken belief of our opponents that propaganda can be a substitute for performance.

There is growing evidence that both the governments and the companies of the industrial nations are acting with heightened responsibility in the developing nations. They are showing a flexibility, an adaptability to local conditions, a willingness to compose differences and concert activities that were not always evident in the past. Likewise, more realistic and positive attitudes are coming to prevail in the emergent nations, and these foreshadow

an era of increasingly fruitful cooperation. These are trends that must continue, if our common cause is to triumph.

The growing interdependence of nations, their inextricable involvement in each other's affairs, their expanding arena of common activity and mutual concern, all demand that we join together in seeking solutions to the trials and travails of our times. The 1960's were initiated with the optimistic proclamation that this would be the great decade of development. We all hope it will be, but much progress is still to be made, if such a promise is to be fulfilled.

We must, therefore, proceed with an extraordinary sense of determination and responsibility, for no less than the future of the world will swing on the hinge of our conduct. In all of our international dealings -- whether they relate to investments, trade, development, monetary policy or other aspects -- we must act with the selflessness of enlightenment, the courage of restraint, the boldness of imagination, the deliberateness of understanding and the speed of anxiety. It is, indeed, a taxing catalogue of challenges that confronts us.

Amazing new advances must, and unquestionably will be, made in agriculture, bio-medicine, oceanography, space exploration, computer sciences and a score of other sophisticated endeavors. But nothing less than spectacular achievement in these fields, and others, will permit us to meet our manifold requirements -- the needs for more food, more energy, more industrialization; the necessities of improved education, improved communication, improved opportunity for individual effort; the undeniable demand for a tremendous transformation in our thinking and in our allocation of resources to meet the requirements of an increasingly urbanized and industrialized world.

And, in the course of these many activities, there will inevitably emerge unexpected ramifications. What we do will manifest itself in ways that we cannot foretell, and it will have an unforeseen impact upon individual lives and whole societies. But we cannot shirk responsibility for our actions, merely because the results were not exactly what we intended. The recognition of this responsibility forms the very core of our modern concept of corporate citizenship. That concept must not become an idle cliché, but must be practiced as a living faith.

We face so many baffling problems that the most stout-hearted among us could become discouraged. I have by no means been able even to touch on all of the problems that have been discussed here during the past week. But with great problems there are linked exhilarating opportunities in equal number. Thus, I do think it would be accurate to state that the dominant theme of our sessions is simply this: we must all act with more intense urgency, with greater imagination, and with renewed awareness of our responsibilities.

In my judgment, there are two other aspects of this International Industrial Conference that deserve a special word. One is the fact that the conference is truly international in its nature; that it signifies our irrevocable commitment to close cooperation in an indivisible world. The other is that we do not come here as members of any delegation, representatives of any bloc, or spokesmen of any political ideology. Rather, we gather simply as a group of individuals having in common their involvement in business and finance.

In all the aspirations we hold and all the actions we undertake, let us never forget that our pre-eminent purpose is to elevate, enhance and enrich the economic and spiritual condition of the individual in this world. It is

the dignity, the decency, and the enduring supremacy of the individual life that must give ultimate worth to our labors.

And that life will take on meaning only if it becomes the eloquent expression of our spiritual, as well as our material heritage; only if it gives dominion to all the kind and gentle impulses in the nature of man; only if it nurtures our capacity for comradeship; only if it frees the spirit to dream, and opens the mind to the wonders of learning, and holds the heart enshrined in love. This is the life which should be the reasonable aspiration of every man. Its hope should be his birthright, and its fulfillment his legacy.

Human endeavor cannot reach for a more noble goal, and I am proud to have been associated in this conference with so many men who are devoting themselves so unstintingly to this great quest which beckons us all. We have come together from many distant parts, representing many diverse origins, and carrying with us many different faiths. Yet, however each of us may interpret it, I think we can all find meaning and value in one simple phrase which, to me, sounds the keynote of our common purpose:

What we are is God's gift to man;

What we become is man's gift to God.

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Confidential

BILDERBERG MEETINGS  
March 1966

## Agenda Item I

SHOULD NATO BE REORGANIZED, AND IF SO, HOW?  
by Robert R. Bowie

The question of how the Atlantic Alliance should be organized can only be answered in terms of (1) its purposes; and (2) the relations among its members. Both are affected by the world situation and its appraisal.

From the start, the Alliance has combined two aims. The primary purpose in 1949 was to counter the direct Soviet threat to a prostrate Europe by a regional defense assuring the United States guarantee. But along with other actions taken in 1947-1950--including the Marshall Plan and the Schuman Plan--the Alliance also reflected a wider purpose.

Together these measures projected a long-term course (a) to construct firm bonds of many kinds between the United States and Europe; (b) to build a strong, unified Europe by gradual stages; and (c) to counter the Communist threat and work toward a stable world order.

Not all members shared all these aims at all times or gave them the same priority. Yet over the ensuing years, these have been major guideposts for Atlantic policy, marking its direction in spite of many detours and roadblocks. And the progress achieved, despite the setbacks, has been a decisive factor in transforming the situation in Western Europe, the Atlantic area, and the Communist world.

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THE HON. FRED HARRIS

This process of rapid change has inevitably affected the relations of the allies among themselves and their attitudes toward the Alliance and its functions. One consequence has been a growing debate on how to adjust the Alliance to new conditions and a steady stream of proposals for reform.

No short paper could hope to catalogue or analyze this rich repertoire of commentary and ideas. Instead, the aim has been to choose for discussion a few key issues. What follows outlines (1) the changed conditions facing the Alliance; (2) how they have affected the need for joint action and the relations of the allies; and (3) selected proposals for improving Alliance operations.

#### I. The Conditions Now Facing the Alliance

The factors of change, which have affected both the challenges to the Alliance and the relations among its members, are familiar and can be briefly summarized.

##### 1. Soviet threat to Europe

The Soviet military threat is largely discounted in Europe despite the steady growth in Soviet military power. Underlying this sense of security is the confidence that a nuclear balance, to which NATO contributes, has created a reliable equilibrium. That conviction was reinforced by the outcome of the Berlin crisis of 1958-1961 and the Cuban missile crisis of 1962.

Also encouraging Soviet restraint are its serious domestic problems (lower growth rates, planning difficulties, stagnation in agriculture, and shifts in organization and top leadership) and the weakening of Communist cohesion (Sino-Soviet conflict, East European pressure for more autonomy, greater independence of the Communist parties in Western Europe, and Sino-Soviet competition in parties elsewhere).

-3-

The U.S.S.R. has been seeking to adapt its strategy and tactics to these complexities. Its policy of coexistence appears to reflect both its desire to avoid risks of nuclear war and its recognition that a resurgent Europe offers poorer prospects for success than the less developed nations. In general, its policy toward the Atlantic world has been to cultivate an atmosphere of lower tension while making no concessions of substance and exploiting disruptive tendencies among the Europeans and between Europe and the United States. And in the less developed regions, its aim is to expand its influence and erode their ties with the Atlantic nations.

## 2. The widening challenges of international affairs

Over the last decade, technology, decolonization, and many other factors have made international affairs truly global.

The relations of the West with the Soviet bloc have taken on a new dimension. The ferment in Eastern Europe and the Soviet situation offer the Atlantic allies greater scope for an affirmative policy to encourage this evolution.

Asia, Africa, and Latin America are potential and actual sources of instability and rivalry. Cyprus, the Congo, Vietnam, Santo Domingo, Kashmir, Indonesia, and Malaysia are symptoms and examples of the turmoil and disorder which seem sure to plague these less developed regions for many years to come.

The pressure of Communist China poses a separate threat for the West in the Far East and in the wider reaches of the less developed world. It raises difficult questions of how to organize a framework for security in the Far East and to improve the capacity to resist disruption and subversion.



### 3. Relations among NATO members

Trans-Atlantic. A decade of growth and prosperity unmatched in its history has now restored European self-confidence but has not reduced the disparity in actual power between the European allies and the United States.

This gulf remains very wide for even the largest European states (GNP's from about seven percent to fifteen percent, and military spending from about three percent to nine percent of that of the United States). Despite the success of the Common Market, no European political entity exists which can take decisions or mobilize resources for foreign affairs or defense.

This disparity creates trans-Atlantic tensions.

Intra-European. Within Europe, tensions have also developed. The larger states, while sharing a desire for a greater influence in world affairs, diverge in their concepts of Europe and of Atlantic relations and their priorities. Although they do not differ greatly in size or resources, the nuclear issue has introduced disparities among them. The British and French forces, however limited as deterrents, do serve to distinguish those two countries from the other NATO allies in Europe. Claims of primacy or special roles on this basis inevitably inject elements of friction and rivalry into the relations among the European allies.

## II. How Far is Concerted Atlantic Action Necessary and Feasible?

In their aggregate effect, these changes have created a radically new setting for the Atlantic Alliance. The effort to contain the U.S.S. R. (and China) now takes many forms in a vastly extended arena. Even more important, that effort

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can be seen as only the negative side of a larger challenge. Its positive aspect is the building of a viable world order to accomodate both the advanced and the less developed regions--a long and arduous task at best.

In this process, the Atlantic nations, with their material and human resources, have the power to influence the outcome greatly--perhaps decisively. The crucial questions are: how far and by what means should they attempt to pursue joint policies? How should they organize relations among themselves?

On these issues the allies are far from unanimity. Indeed the divergencies today are much more basic than earlier differences, and harder to compose or compromise. As fear recedes, some allies feel freer to readjust their priorities, with more concern for parochial interests and greater resistance to subordinating them to wider needs. With confidence revived, allies with a wider outlook may put more stress on their role or standing. Those who see their interests in more limited terms object to extending their involvement.

These differing reactions naturally produce very different assessments of the future of the Alliance. In one view the major tasks facing the Atlantic nations demand wider concerted efforts and cannot be handled adequately by either Europe or the United States alone. The most extreme counterview asserts (1) that the basic interests of Europe and the United States now diverge too far to justify joint action; and (2) that close Atlantic ties are bound to submerge the European allies under an unacceptable U. S. hegemony. These contentions deserve brief analysis in order to clarify the outlook for the Alliance.

1. Specific Interests

Security. The original foundation for the Alliance remains solidly intact: Europe's security is a vital interest of the United States and ultimately depends on U.S. nuclear power. The doubts about U.S. reliability which were discussed for several years no longer seem to be taken seriously. Both Europe and the U.S. are primarily concerned to create an effective deterrent which will prevent any hostilities. Their disputes on strategy have mainly been about means for assuring this result.

Detente. Any genuine detente depends on resolving the critical issues in Central Europe. This the U.S.S.R. has so far refused even to consider; and its policy is not likely to change until some years of further evolution. The experience of twenty years hardly suggests that this process will be hastened by a U.S.-European split or that the U.S.S.R. would be readier to negotiate with Europe alone. On the contrary, constructive change is most likely to result from maintaining the cohesion of the Alliance while concerting to foster the more hopeful Soviet trends. Such a dual policy of constraint and limited cooperation can easily create friction among allies. Only intimate and continuous joint policy-making will enable the Atlantic nations to combine both courses and to guard against cleavages and distrust among themselves.

Economic. The economic needs of both the advanced countries and the less developed world seem to call for more joint action rather than less. With their economies steadily becoming more closely linked, the Atlantic nations must concert monetary and economic policies, and trade policies as well, for their own

prosperity and well being. And the measures essential to promote growth and stability in Latin America, Africa and Asia--aid, trade, commodity prices, training, technical assistance--all require combined efforts by the advanced Atlantic countries (and Japan).

Peace keeping. The problems of subversion, disorder and local war in the less-developed areas and Far East are not always seen in the same light by the U.S. and its allies. The cause is less a conflict of interests than differences about priorities and what should be done, and questioning of unilateral U.S. action.

In short, the interests of the Atlantic nations in security or prosperity, in East-West relations, or North-South relations appear to be basically compatible and to require close cooperation for their pursuit.

But the necessity for joint action will not make it easy to achieve. The problems themselves are complicated and offer much room for differences in approach and in judgment. The central issues--the construction of Europe, East-West relations, and development--all call for positive, detailed actions extending over long periods. Hence they require the interested nations to coordinate both major purposes and many specific actions and decisions on varied topics.

## 2. Roles and Influence

Shared interests may not result in effective cooperation for pursuing them if the allies differ deeply about their respective roles and relative influence in the Alliance. Such discontent is likely to be especially corrosive when the cement of fear has weakened.

The imbalance in resources and influence between the United States and the several European members poses this problem sharply. It often produces resentment and frustration, as discussions of NATO strategy have repeatedly shown.

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It must be frankly faced that separate states of Europe can hardly be full partners of the U.S.; in joint efforts the degree of influence is bound to be closely related to the respective contributions. This fact has its negative feedback. Some NATO members, while recognizing their interests outside NATO, for example, are reluctant to become involved where action is so largely in the hands of the United States, which often feels compelled to act on its own.

Such tensions arise as much among the European allies as across the Atlantic. Indeed they may be more divisive in some cases: given the disparity in size and resources, inequality with the United States may be more readily accepted than inequality with another European ally of similar size. The nuclear issue, for example, displays both problems. It reflects partly a European demand for a greater voice on these life-and-death matters; but the non-nuclear allies also object to the inequality inherent in the British and French national forces. Again, on issues of arms control or East-West detente, the German concern lest the pursuit of detente lead to acceptance of the status quo or to discriminatory measures is not primarily a European-U.S. issue; indeed, the United States has been more insistent on equality for Germany than most of its European allies.

Thus the interaction of Atlantic and European structures is inescapable. In the long run, a viable Alliance is intimately bound up with how Europe organizes itself. If the European allies wish a genuine partnership, they could achieve it by European political entity, as the experience of the EEC has already shown in the trade and economic field. But the lesson of the European Community is that Europe will in fact attain effective unity only if its members are willing to forego efforts for primacy or domination and to accept basic equality among themselves.

Only the Europeans can decide that issue. But the interaction with the Alliance suggests one criterion for Atlantic action: the Alliance structure should be designed not to interpose obstacles to the emergence of a European political entity. Concretely, this means that the handling of Alliance problems should not create or perpetuate inequalities among the European members, which will impede such a European entity.

### 3. Guidelines for action

An ideal structure for the Alliance would (a) provide effective means for devising joint policies on the common tasks; and (b) satisfy the desires of various members as to their roles and influence.

There is no prospect of developing such definitive solutions under existing conditions. While Europe's structure is unsettled, the Alliance cannot adjust its organization or procedures to satisfy fully either the needs for joint action or the aspirations of some of the European members, or to overcome the existing disparity in power between the European allies and the United States.

The only alternative is to proceed on a partial and interim basis. Even to do that the Alliance will have to resolve two questions:

(a) Should the Alliance limit changes to what will be approved by all members, including the most hesitant or obstructive? Or should those who agree on measures to strengthen NATO institutions or integration go forward over the objection of one or more who may oppose such action? Of course, no decision can bind any objecting member if those who are prepared to act do proceed.

(b) Given the differences in long-term outlook, will members who recognize the need for joint action be willing to proceed with intermediate measures which

leave open future outcomes? If so, some Alliance institutions and practices could be improved without prejudging the ultimate structures which might be adopted for working together in Europe and the Atlantic area as and when the conditions become propitious. (See Section III)

To the extent the Atlantic nations do concert their actions--political, military, and economic--they will, of course, make use of various institutions and agencies besides NATO--such as OECD, the European Community, the International Bank, the Monetary Fund, etc. Since our discussion is concerned with NATO, however, these other agencies will be left aside in what follows.

### III. Specific Measures for Reform

The various suggestions for modifying NATO organization or procedures outlined below have in general been limited to measures which could be acted on in the near term. They are put forward primarily as a means for provoking analysis of some of the critical issues regarding structure and operation of NATO, rather than for discussion of their specific details.

#### A. Integrated System of Defense

Even if the Alliance widens its scope, its first task will continue to be to contain and deter the threat from the massive Soviet military capability. On this the members seem fully in accord. But they differ on what is needed to achieve it.

##### 1. Should NATO dismantle its integrated system of defense?

For some fifteen years, NATO has developed and maintained unified commands, facilities, and activities as the basis for collective defense and

deterrence. Should the integrated NATO structure now be dismantled as no longer needed and the Alliance continue merely as a guarantee?

Most of the NATO allies reject this position. They consider that integrated commands, strategy, and planning are still necessary in order to maintain an effective deterrent against the Soviet threat. While that threat seems relatively quiescent now, it might not remain so if the NATO system were pulled apart.

Most seem to agree with the Secretary General --

that, under modern conditions, you cannot have an effective military Alliance without some kind of organization in peacetime. The material and strategic problems involved are too big. You cannot devise a nuclear strategy, an early warning system, or a pipeline network, over night. . . . If there are no allied troops in Germany or elsewhere in Europe in peacetime, the credibility of the deterrence is greatly diminished. On the other hand, if allied troops are stationed on European soil, there must be some sort of organization for command and communications.

2. Should NATO create an integrated strategic planning staff?

Various proposals have urged that NATO should have a focal point for defense planning where (i) political and military aspects can be integrated, and (ii) members of the Alliance can assert their views.

This could take the form of a NATO staff, headed by a man of high standing and ability, to perform for the Alliance functions analagous to those of a national ministry of defense. The small staff would be composed of professional officers and civilians qualified to analyze strategy, forces, weapons systems, resources, etc.



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This "NATO Defense Minister" could work directly with foreign and defense ministries in developing strategy, forces, logistics, etc. By acting as a spokesman for the common interest, he should help bridge the existing gap between European members and the United States.

More specifically his functions could include: (a) recommending to the Ministerial Council, in the light of expert advice from NATO commanders, defense staffs of NATO members, and his own staff, strategy and force goals for the Alliance; (b) negotiating with national governments to carry out these programs, as approved by the Ministerial Council; and (c) performing other functions regarding logistics, weapons systems, etc. related to the defense planning of the Alliance.

The existing NATO military structure could then be revised (a) to abolish the Standing Group or designate its members as military advisors to the NATO defense minister, making its staff the nucleus of the defense planning staff; and (b) attaching members of the Military Committee to the Council permanent delegations as military advisors to the Permanent Representatives.

3. Should NATO create a larger integrated ground force?

It has been suggested that the Alliance might usefully build up an integrated force which could be available for special tasks and could serve as a mobile reserve to re-enforce the center. It would be of special value (a) as NATO strategy comes to place more stress on ability to deter and resist limited threats below general war; and (b) if NATO members accept greater obligations for peace keeping outside the NATO area.

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This might be done by starting from scratch or by developing the existing ACE (Allied Command Europe) mobile ground force, which is now largely a token allied force for showing the NATO flag at the flanks. Such a force would be under a single commander and integrated as far down as feasible. It should have a single logistic and signal system and every effort should be made to standardize its equipment. It might ultimately need to be three or four divisions in order to play the suggested role.

The creation of such a force might test the feasibility of wider integration of NATO ground forces, with unified logistics and standard equipment.

B. Improved Methods for Concerting Policy and Action

1. A variety of measures have been suggested to improve the concerting of action among the allies. These include:

(a) Foreign ministers or their deputies might meet every two months.

These occasions would allow restricted groups of ministers to meet on specific topics for more intimate exchanges;

(b) Policy-making officials and experts from capitals should meet at regular intervals to develop courses of joint action and to prepare topics for ministerial discussion;

(c) To tie the Permanent Representatives more closely into policy-making, they should regularly return to capitals for consultation;

(d) A group of three to five senior advisors, who would be independent of governments, should be appointed as a standing group to appraise the situation of the Alliance and from time to time make reports and proposals, which would go on the agenda of the Council.

(e) The Alliance might appoint a minister for political affairs who would be charged solely with promoting political consultation among the members.

2. Common to these proposals are three principles based on experience with NATO and other agencies:

(a) Those consulting should as often as feasible be officials directly involved in policy-making in their governments. They should be more expert and better able to inject any joint conclusions into the policy-making at home;

(b) The number consulting should be kept small and should be restricted to those who are prepared to act. Normally this would include the larger members with others added for specific matters;

(c) Finding common ground and devising joint policies is often facilitated by having a disinterested person or group who can serve as spokesman for the common interest...

3. Existing NATO procedures do not sufficiently reflect these principles. The Permanent Council is suitable for exchange of information, but poorly adapted to joint policy-making on complex or sensitive issues.

The Permanent Representatives cannot be expert or intimately informed on many of the problems and may not be in a position to influence policy-making in their government. A meeting of all fifteen members of NATO will certainly be too diffuse for the uninhibited analysis and discussion essential for effective planning of joint policy. Indeed, on many issues, especially those beyond the NATO area, half of the NATO members are not prepared to devote resources or to assume obligations.

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4. NATO has, of course, used restricted meetings informally and ad hoc. But a program which formalized and expanded this practice would be a break with NATO custom which could raise serious objections from some members. To make the practice more acceptable, such groups (a) could include the NATO Secretary General or a rotating member to protect the interests of those not attending; and (b) could keep the Council informed of any major decisions.

5. Certain fields may require more than can be met even by the expanded consultation discussed above. Thus, the issues involving Central Europe and the Soviet Union-- German unity, arms control, commercial relations, etc-- can severely strain Atlantic solidarity. The ability to conduct a flexible policy and take initiatives will depend on the mutual confidence of the key NATO countries and especially of the Federal Republic. That may require continuous participation in developing such policies and proposals.

One solution for this type of issue would be a restricted working group (perhaps in Washington) similar to the Ambassadorial group which worked on Berlin.

6. Over time, the practical effect of these various measures might ultimately be to divide the NATO members into two classes: (a) those who normally concerted on a wide range of policies, which would surely come to include the members with the resources and interest to play an active role; and (b) those other members, who did not but who would continue to benefit from the protection of the Alliance.

In essence, such a development would distinguish two functions of the Alliance: (a) as a regional security system; and (b) as an instrument for conducting a concerted foreign policy.

Would this strengthen the Alliance? Would the members be prepared to accept it?

C. How Should the Alliance Handle Nuclear Sharing?

1. For a variety of reasons, the issues relating to control of nuclear weapons have become critical for the solidarity of the Alliance:

(a) The strategic and tactical nuclear weapons which support NATO strategy are primarily under United States control, directly or through double key systems;

(b) British and French claims for special status or greater influence based on their national nuclear forces have been a divisive factor within the Alliance;

(c) The extreme dangers from any accidental use, plus the doctrine of flexible response, have increased the U.S. insistence on the need for centralized control of such weapons;

(d) Concern about the possible consequences of the spread of nuclear weapons has steadily grown in step with their destructive power;

(e) In the discussions about a possible treaty on non-proliferation, the Soviets have insisted on terms which would bar any kind of collective force or similar nuclear sharing system in which the Federal Republic would participate.

2. The result of these various factors is to create serious strains within the Alliance as between the European allies and the United States and between nuclear and non-nuclear European allies.

3. In recent years, efforts have been made to broaden the knowledge and understanding of nuclear planning and related matters by various measures such as appointing a special SHAPE deputy for nuclear matters, by designating NATO liaison officers at SAC headquarters, and by creating the Special Committee. But the issue has not yet been adequately resolved.

4. The situation creates real dilemmas for NATO. In essence, a solution should meet the following criteria:

(a) It should curtail the spread of nuclear weapons in national hands, by assuring no additional force under national control and, if possible, by absorbing one or both of the existing national forces;

(b) It should give the European members of NATO a greater voice in nuclear strategy, guidelines, planning and use, and related matters such as arms control;

(c) It should satisfy the legitimate desire of the non-nuclear powers for relative equality among the European NATO members;

(d) It should be capable of developing or adjusting as the political situation in Europe evolves, so that a political Europe, if and when it emerges, could assume a more equal role as a partner of the United States.

5. The main alternatives which have been proposed for nuclear sharing are briefly as follows:

(a) A Special Committee, with participation in planning, etc. for all nuclear forces available to NATO defense without any sharing of ownership or control over use;

(b) A collective Atlantic force which would be jointly owned, managed and controlled and might or might not absorb one of the existing national forces and whose board could also participate in planning for all NATO nuclear forces;

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(c) A Control Committee, which would control the use of some segments of existing nuclear forces (to remain under present ownership, manning and management), and which could also participate in planning for all NATO nuclear forces;

(d) A European force, which would be jointly owned, operated and controlled by a European authority, but "coordinated" with U.S. forces and planning.

6. No proposed solution will fully satisfy all the above criteria under existing conditions. Hence any choice must be based on comparing benefits and disadvantages of various alternatives. In doing so, the allies will also have to consider the relation of any solution to efforts for a non-proliferation treaty. In particular, it will be essential to weigh the value of Soviet agreement to such a treaty in comparison with its impact on Atlantic cohesion, especially if its effect is to freeze existing inequalities.

#### IV. Conclusion

If the great task for this period is the building of a viable world order, the Atlantic nations can contribute in two ways: (1) by organizing their own relations as a stable component of such an order; and (2) by utilizing their resources and influence to encourage orderly development of bases for stability and cooperation, and to deter and prevent disruptive actions and coerced change.

Both processes will require patient efforts over a long period. To make this possible, the Atlantic nations will have to hammer out a common framework which will give direction to their activities. Consensus on such a broad conception can only emerge from extended discussion and debate not only among governments but also among influential private groups.

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Measures such as those outlined could assist the Atlantic nations to improve their cohesion and capacity for joint action during this pivotal stage of transition. Hopefully, they could also nourish the attitudes which would advance both European unity and Atlantic partnership.

In the present confusion, the immediate results are likely to be modest. It will take time to expand horizons of interest and readiness to share and assume responsibilities and burdens. The efforts involved must be partly viewed as an investment to attain future dividends in Atlantic relations and international order.

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CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

UNITED NATIONS PLAZA AT 46TH STREET NEW YORK 17, NEW YORK CABLE ADDRESS INTERPAX OXFORD 7-3131

8 March 1966

To the American Participants in the  
1966 Bilderberg Meeting

From: Joseph E. Johnson

I enclose herewith a copy of a study, entitled  
The Atlantic Alliance: Basic Issues, prepared by the Sub-  
committee on National Security and International Operations  
of the Senate Committee on Government Operations. I think  
you will find this of interest in connection with the first  
agenda item for the meeting.

I shall also send you, within the next few days,  
copies of two reports of the Atlantic Council's Committee  
on NATO, which are relevant to our agenda.

*enclosed*

Enclosure

From the Collection of  
THE HON. FRED HARRIS

*The*  
**ATLANTIC  
COMMUNITY**  
*Quarterly*

**Non-Military Functions of NATO**

**A Report Prepared by the Committee on NATO  
of the Atlantic Council of the United States**

*(Preprinted from the Winter 1965-66 issue of The Atlantic Community Quarterly)*

THE ATLANTIC COUNCIL OF THE UNITED STATES, INC.

1616 H STREET, N.W.  
WASHINGTON, D. C.

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## FOREWORD

At the Atlantic Treaty Association Assembly in Ottawa in 1964 it was agreed that the 1965 session of the Assembly to be held in Rome this September would give priority consideration to "The Future of the Atlantic Alliance." Some weeks ago the Atlantic Council of the United States appointed a Committee to study the problems involved, beginning with the question "Are changes in the North Atlantic Treaty necessary or desirable?" The members of the Committee are: W. Randolph Burgess, Chairman, Theodore C. Achilles, Admiral Robert L. Dennison, General Alfred M. Gruenther, Livingston Hartley, John Hickerson, Dr. Robert Jordan, Livingston T. Merchant, Garrison Norton, General Cortlandt v. R. Schuyler, Gerard Smith, Charles M. Spofford, and Arnold O. Wolfers.

The first report of the Committee was submitted to the Board of Directors of the Council on June 30, 1965. The Council authorized its publication as a Council statement, including publication in the next issue of *The Atlantic Community Quarterly*.

Further reports are anticipated.

July 26, 1965

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## ARE CHANGES IN THE NORTH ATLANTIC TREATY NECESSARY OR DESIRABLE?

*A Report Prepared by the Committee on NATO  
of the Atlantic Council of the United States*

The provisions of the Treaty, which entered into force on August 24, 1949, concerning modification and withdrawal are as follows:

### Article 12

"After the Treaty has been in force for ten years, or at any time thereafter, the Parties shall, if any of them so requests, consult together for the purpose of reviewing the Treaty, having regard for the factors then affecting peace and security in the North Atlantic area, including the development of universal as well as regional arrangements under the Charter of the United Nations for the maintenance of international peace and security."

### Article 13

"After the Treaty has been in force for twenty years, any Party may cease to be a Party one year after its notice of denunciation has been given to the Government of the United States of America, which will inform the Governments of the other Parties of the deposit of each notice of denunciation."

The Treaty is based on the simple commitment in Article 5 of each Party to regard an armed attack on any other Party as an attack on itself and to take "forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area."

Apart from this specific commitment, the Treaty was deliberately kept as simple as possible in order to provide for collective defense in a framework sufficiently flexible to be adapted to any future needs which might arise.

Incidentally, the provisions of Article 13 represent a compromise between the desires of the French Government, which pressed hard for a duration of 50 years, and the U. S. Government, which was reluctant to enter into such a novel and far-reaching commitment for more than 10 years.

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The integration of command, forces and infrastructure which has taken place under the Treaty, Articles 9 and 3, has been in response to the increasing need for such integration to provide effective defense in today's world.

Those articles read:

#### Article 9

"The Parties hereby establish a Council, on which each of them shall be represented, to consider matters concerning the implementation of this Treaty. The Council shall be so organized as to be able to meet promptly at any time. The Council shall set up such subsidiary bodies as may be necessary; in particular it shall establish immediately a defense committee which shall recommend measures for the implementation of Articles 3 and 5."

#### Article 3

"In order more effectively to achieve the objectives of this Treaty, the Parties, separately and jointly, by means of continuous and effective self-help and mutual aid, will maintain and develop their individual and collective capacity to resist armed attack."

Despite the clear language of Article 13, there is a widespread misimpression that the Treaty expires, or must be renewed, or must be modified, in 1969. This impression obviously has no *legal* basis. From the *political* point of view, however, it is necessary to consider the possible direction and extent of the pressure which may be brought to bear between now and 1969 by any Party which might decide to withdraw from the Treaty unless changes it demanded were made. Although formal consideration of changes in the Treaty has been legally possible since August 24, 1959, no nation has ever requested such consideration. Any change would require unanimous agreement by the 15 Parties and unanimous reratification by their respective constitutional processes.

There has as yet been no official notification from any Party specifying its desires concerning modification of the organization developed under the Treaty or consideration of withdrawal from the organization.

Despite whatever real or apparent improvement has taken place in East-West relations there is as yet far too little evidence of any

change in the basic Communist objective of world-wide Communist domination to justify the West in letting down its guard. The threat in Europe, even though it might decline, cannot diminish the need for unified defense by the United States and its allies. Whatever the level of defense necessary in the future, it will need to be more, rather than less, integrated.

From the military point of view the Treaty as it stands is as good today as when it was signed. The recognition in Article 5 that an armed attack on any one Party shall be considered an attack on each is no less pertinent today than it was in 1949. The adequacy of its simple provisions to provide flexibility in meeting changing needs has been proved by 15 years of experience.

However, unified defense today far transcends the purely military field. It depends essentially on common political *will*. Basically it requires the development of greater unity in all fields.

During the Senate debate on ratification of the Treaty in 1949 Senator Vandenberg declared: "Unless the Treaty becomes far more than a military alliance it will be at the mercy of the first plausible Soviet peace offensive." The prophetic truth of his words has been demonstrated by the discord among the allies which has increased every time there was an apparent slight reduction in East-West tensions. The long range future of the Atlantic alliance depends upon developing positive Atlantic unity of the type which would be in the common interest even if the Communist threat had never existed.

#### Conclusions

In the opinion of the Atlantic Council of the United States:

1. The *NATO Treaty* provides a firm commitment and flexible framework for collective defense as valuable and necessary today as it was in 1949. No government has proposed any changes, although under the Treaty changes could be considered at any time after the first ten years. One means of removing possible continuing uncertainties after 1969, would be the negotiation of a protocol embodying the undertaking of the Parties to extend their commitments under the Treaty for a further period beyond 1969 without the right to withdraw.

2. The Organization under the Treaty can of course be modified at any time by action of the NATO Council. No country has submitted to the Council any proposal for major changes. The United States has always been prepared to consider fully and objectively any

*Very Important*

☆

☆

proposals for change. The clear principle is that in the nuclear age, deterrence and defense require, in advance of any emergency, effective peacetime unification of military forces and resources. Any modification of the existing organization should be designed to make such unification more, and not less, effective.

3. We believe the American people give full support to President Johnson's VE Day statement of May 7, 1965: "Let us therefore continue the task we have begun, attentive to counsel but unmoved by any who seek to turn us aside. We will go all together, if we can. But if one of us cannot join in a common venture, it will not stand in the way of the rest." The United States is fully committed to multi-lateral rather than bilateral arrangements.

4. The effective security and future well-being of the Atlantic Community transcend the military field. They require a maximum of common or harmonized policies and concerted action on major matters of common concern in any part of the world.

5. Institutions are less important than the *will* to cooperate. If adequate will exists, present institutions will be adequate to achieve our common objectives or can be developed to make them so.

~~X~~

89th Congress }  
2d Session }

COMMITTEE PRINT

THE ATLANTIC ALLIANCE  
BASIC ISSUES

A STUDY

SUBMITTED BY THE  
SUBCOMMITTEE ON NATIONAL SECURITY AND  
INTERNATIONAL OPERATIONS

(Pursuant to S. Res. 181, 89th Cong.)

TO THE  
COMMITTEE ON GOVERNMENT OPERATIONS  
UNITED STATES SENATE



Printed for the use of the Committee on Government Operations

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From the Office of  
 SENATOR HENRY M. JACKSON (D., WASH.)  
 Chairman, Subcommittee on National  
 Security and International Operations  
 Tel.: 225-3381

FOR RELEASE: 10:00 A.M.

Wednesday, April 27, 1966

OPENING STATEMENT BY SENATOR HENRY M. JACKSON, CHAIRMAN

Hearing with Dean Acheson

Wednesday, April 27, 1966, 10:00 a.m.

Today we open public hearings for a frank and impartial stock-taking of the Atlantic Alliance.

Authorized by resolution of the Senate in 1965 and 1966, our Subcommittee has been reviewing the conduct of national security policy, with special reference to the Atlantic Alliance. Our approach is nonpartisan and professional. During the first session of the 89th Congress, the Subcommittee took testimony which laid the foundation for the current phase of the inquiry. In February we issued a special study entitled The Atlantic Alliance: Basic Issues which examines key problems on which testimony will be taken.

Our inquiry has three major purposes:

One: It is time to get Atlantic area problems high on the agenda of Congress and the Executive Branch and give them the priority they deserve.

Two: The North Atlantic Alliance has worked -- remarkably well. It is the most successful peacetime alliance of modern times. But the world has been changing, and there may be some new and better ways to use the Alliance and to improve its effectiveness, and this committee wants to help find them.

Three: There is an important educational job to be done. The American people need to catch up with what has been going on in the North Atlantic area and understand the continuing dangers and the opportunities in the most decisive region for the future of this nation and of individual liberty.

We are greatly privileged to have with us today, the Honorable Dean Acheson. Distinguished servant of the Nation, prime mover in the reconstruction of Europe and architect of the North Atlantic Alliance, his strength of will, bold mind and independent judgment have placed the free world forever in his debt.

We welcome your statement, Mr. Acheson.

For Release 10:00 A.M., Wednesday, April 27, 1966

Statement of  
the Honorable Dean Acheson  
on the North Atlantic Alliance  
before the  
Subcommittee on National Security and International Operations  
Senator Henry M. Jackson, Chairman

Wednesday, April 27, 1966  
10:00 a.m.

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**THE HON. FRED HARRIS**

Mr. Chairman, may I begin with a fable.

A town suffered a number of disastrous fires. The citizens organized a volunteer fire department, bought some modern fire-fighting equipment, trained some vigorous fellows as firemen, and carried on a thorough fire-prevention campaign. For several years the town had no serious fires at all, only an occasional grass fire, which was quickly put out.

The town prospered. Memories of its past misfortunes dimmed. Some people began to wonder if, after all, the danger of fire had not been exaggerated, and to question whether the trouble and expense of a fire department were necessary. In time, a volunteer resigned, to be followed by others until only a small crew remained. The fire-prevention program lagged; trash accumulated in the backyards and alleys. One day a careless smoker tossed away a cigarette, and in the resulting fire much of the town was destroyed.

Mr. Chairman, NATO is the fire department of the Atlantic Alliance. One of the volunteers is resigning. We have not had a fire recently, and unfortunately there is nothing like a fire to make short-sighted mortals appreciate their fire department. The debris of World War II has not been fully cleared away, and is lying there, a fire hazard, capable of being ignited by a spark.

The North Atlantic Treaty was signed 17 years ago this month. It was signed to fill a need which not even all the resources of the Marshall Plan could meet. This was the need for security in Europe and the essential sense of confidence without which economic growth and political stability could not occur. Official French statements of those days, pleading for an American presence in Europe, sound a bit odd today. "We know," said Henri Queuille,

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the French Prime Minister, "that once Western Europe was occupied America would again come to our aid... But the next time you would probably be liberating a corpse." All of Europe did not possess the power to hold in check the power of Soviet Russia, aimed, as it was, at obtaining hegemony in Europe. The events of 1946, 1947, and 1948 left no doubt of that. So the power of North America was added and combined in a commonly directed purpose.

What has happened in the next few years is a success story. A strong Atlantic defense has been organized. Western Europe has not only recovered economically but has also gone on to achieve new levels of prosperity. Old divisions were being overcome; old hostilities were giving way to cooperation. In combination, all these things have induced feelings of comfort and security, and in this relaxed state, some have begun to wonder whether a time had not come to shuck the burdens of alliance and to rearrange things in the grand manner.

The Russians have known all along what they wanted -- to consolidate their sphere on a line drawn as far to the West as possible and to keep the West divided and off balance. But more importantly, they have known what they did not want. It takes two to tangle and they have not wanted to tangle with NATO. They have been standing still because, whenever they tested the will and determination of the Alliance, they did not find these qualities wanting. Russian moderation is better explained by this change of scene than by a loss of ambition.

Circumstances, therefore, changed in many ways, mostly for the better, and helped to moderate Soviet policy. But the exposed position of Europe, the relative strength within Europe of the Western European states and the

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Soviet Union, and the ambitions of the latter have not changed. Germany is still divided; Berlin remains an island; important boundaries have not been finally decided; the governments of the countries liberated and occupied by Russian forces two decades ago exist not by the consent of the governed but despite its absence; powerful armed forces face each other across frontiers which are a constant temptation to anyone with incendiary tendencies; and from evidence at hand, it is clear that the Russians do not accept the notion that military technology has reached a plateau and that the present military balance is fixed for the future. They are gambling enormous resources on the chance that they may score a decisive advance in weapons systems.

If the Western coalition now weakens and instead of a strong, united front we find a divided one, with Western Europe itself split into a number of small to medium-sized and weak states, surely the result will be a Russia not more, but less cooperative.

Now, apparently, the wheel of circumstance is turning again. Not much is to be gained, I think, from rehashing the past. If things had been different, they might have been very different. But they weren't, and there is blame, more than enough, for all to share.

Marshal Foch used to tell classes at the French War College: "Let us dispense with all automatic solutions. Let us first have general principles, then let us apply these principles to the case at hand, which is always new and fresh, and let us keep asking ourselves the question that the mind tends to neglect: 'What is the objective?'"

Our first principle is that our hopes for peace must be firmly based on allied unity of purpose, unity in action, and strength in being. All of

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us were ready to cooperate with the Russians after the war. But they were not ready to cooperate with us. Having lived through the 30's and having learned that war was the price democracies paid for weakness, we recognized that only the strong can be free. President Truman, General Marshall, Arthur Vandenberg, Bob Lovett, Will Clayton, and many reflective and far-sighted Europeans did not have to waste time discussing whether strength was to be preferred to weakness.

In dealing with Moscow they knew that the best and, indeed, the only way was to create a strong position which had to be recognized and dealt with. They found the Russians hardheaded, unsentimental, and undoctinaire in action; they recognized facts.

Priority was therefore given to Europe's economic recovery and to the building of its defenses. The United States, the United Kingdom, and France stationed forces in Germany. The three gave their full support to the German leaders who created the Federal Republic. Together they brought it as a respected and equal member into the Alliance, and into a Europe moving increasingly toward unity in defense and civil life. An integrated international command structure was established under General Eisenhower as the supreme commander of allied forces in Europe. Together we worked out, in consultation and cooperation, a military strategy for Europe's defense, trained and equipped our forces, and readied them for an emergency.

All this was based on the sound doctrine that unless there is power to stop the use of power, the Russians need only threaten its use to advance their interests. But with NATO in existence and prepared, Western Europe

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would not have to knuckle under to any demands directed at it by the Kremlin. No one then thought of all this as subordinating any ally to any other. It was not, and is not, subordination but the prudent combining of our resources in a common plan and under single direction which makes for deterrence in an age when military science has reduced reaction time to a matter of minutes.

The need for a strong Western coalition has not diminished. It remains fundamental to the achievement of the positive goals which a united, prosperous and strong center to the free world can accomplish.

The second principle follows from the first: because it is better to be united than divided, the foundation of our policy with respect to France should be, as well said in the study released by your committee, the principle of the "empty chair". We should do nothing on our part to prolong France's absence; we should keep her place ready and work for her return. But first we should understand clearly the full implication of French policy.

The present attack from Paris is no mere criticism of the plans for the defense of Europe, the united command which has been set up near Versailles to take over in the event of conflict (and not before), and the forces in being which all the allies have stationed in Europe, including in France, to respond to that command. The attack is upon the whole idea of having such a plan and forces to carry it out, upon the idea of American presence in Europe, but, even more, upon the great European effort toward unity of the past fifteen years. By this we mean the creation of European institutions with powers which give scope and opportunity for growth to the economy of Europe. A more unified Europe strongly linked with North America could be a central powerhouse for the free world made up of five hundred

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million skilled people producing a thousand billion dollars of goods and services annually. The potentialities of such a society are enormous.

The banner of nationalism in Europe has been raised again. It has been stated frankly in Paris that France because of her past glories and present nuclear weapons is the natural leader of Europe. Great Britain, as an island, is said not to have a European point of view, but might be acceptable if and when she purges herself from suspicion of sympathy with American notions. Germany, while divided, is not entitled to be regarded as an equal European state, and can only be united on some vague but neutralistic terms.

It is against this background that the assault on NATO must be viewed. So viewed, it is a plain warning of dubiety -- a warning that France disapproves of NATO policy, finds its organization abhorrent, and wants it out of the country. Its members are offered the solace that if they are attacked and have not brought their troubles on themselves, France will come to their aid.

As a result, the NATO commands and the United States headquarters for U. S. forces in Europe, both invited and even urged to locate in France, are told to move out within a year. No landlord serving notice of termination of a lease upon an undesirable tenant could have been more brusque. French officers serving in the NATO commands and French troops in Germany and elsewhere will be withdrawn from NATO connection on July 1, 1966. American facilities in France and American troops on them are asked to be removed within a year.

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However, notice has not been given of withdrawal from the treaty. France will be found fighting by her allies if one of them is subjected to "unprovoked attack", reserving the prerogative of deciding when an attack is unprovoked. If, for instance, a stand taken by the allies against demands of the Soviet Union is disapproved in France, would one be surprised if France regarded Soviet threat of force as "provoked"? In short, the recent development of French policy has not drawn a picture of France as a dependable or an effective ally.

Our third principle is simply that power exists to serve a purpose. From the outset our purpose has been not to freeze the status quo in Europe but to create an environment in which a flexible and imaginative diplomacy could work to create a more stable and acceptable situation.

If the Western allies have made a mistake in these past years, it has been in failing to set their sights high enough. They have been right in not desiring strength for itself. It is desirable for the prospects it opens up, the most exalted of which is to create an environment in which free societies may exist and prosper.

We have already noted the vast contribution to creating this environment which could be made if Western Europe and North America jointly pursued common ends. A vital part in this development could be the evolution of a European society with strength and vision worthy of the common interests of 300 million persons with an annual productive capacity of \$450 billion. Here would be the essentials of power, a combination of skilled people, natural

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resources, advanced technology and the will to act. A Europe of small and medium-sized nationalities, divided by jealousies and selfish rivalries, can never play a part worthy of Europe's potentialities.

In 1950 under French leadership six of the European nations began the task of combining their resources within the framework of a new European community. The goal sought was more than economic rationalization. The community was bound together by strong and developing political ties as well. Due to a change in French governmental attitude this process is for the moment checked, but the movement has such broad support in Europe that some time in the future the process will be resumed.

The immediate political purpose of such a vigorous partner in the Atlantic Alliance would be to play its full part in creating an atmosphere favorable to solution of the problems which create instability in Central Europe, the unresolved problems of the late war. These are the division of Germany and the gap between the peoples of Eastern and Western Europe. Here, quite as much as in the effort for military security, the path to success lies in joint efforts to further a common interest. Individual and unconditional attempts to advance the special interest of one state over others as the agent of a *détente* can only lead to division and suspicion.

These are the prospects, Mr. Chairman, that could flow from the maintenance of a strong, cooperating, forward-looking Western coalition. They offer the soundest hope and belief that one day there may come a European settlement with the Soviet Union which would make this battle-scarred planet a better place.

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In all of this, the United States has a special responsibility deriving from its power and substance. We are involved in many important areas of the world, but none more crucial than the North Atlantic area. Europe and our relations with Europe are central to the whole problem of the survival and the success of free societies.

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