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# **BILDERBERG GROUP**

## **BUXTON CONFERENCE**

13-15 September 1958

### **PRELIMINARY REPORT**

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SURVEY OF EVENTS SINCE THE LAST BILDERBERG CONFERENCE IN  
FUIGGI

The Seventh Bilderberg Conference, presided over by H.R.H. the Prince of The Netherlands, opened with a survey of developments since the previous conference held nearly a year ago in Italy. The discussions ranged over events of major significance to the Western Alliance and were introduced in turn by a European and an American speaker, each giving an assessment of the world scene as it was seen on his side of the Atlantic.

At the Chairman's request, the discussion concentrated on those issues which did not arise for debate under later items in the Conference Agenda.

There were few reasons for satisfaction. In the previous twelve months Russia had demonstrated her technical progress in the field of missiles by being the first to launch an earth satellite, the United States had experienced a recession, which had hit the primary producer countries hard although it now seemed to be ending. In Europe, France went through internal upheavals, and although she looks like solving the problem of her overseas territories, the future of Algeria remains as uncertain as ever. The solution of the Cyprus question is no nearer. The negotiations and manoeuvring about a summit conference did not bring any result one way or another, and in the Middle East the West had experienced setbacks. Now the West was likely to suffer further reverses in the Far East.

There were, however, some areas of progress, as in the field of European Economic Co-operation, where the Common Market had been set up and the Free Trade Area negotiations were more likely to succeed.

Discussion concentrated on the two most topical problems: the Far East and the Middle East, both of which had an immediate impact on relations between Europe and America.

A European participant remarked on the different historical circumstances which conditioned the attitudes of Europeans and Americans towards China. Whereas for Europeans, China was the most remote country in the world, for Americans it was a neighbour across the ocean. Europeans looked upon Far Eastern problems in practical terms of political or economic interest, with little or no bias of sentiment or tradition. America's thinking on China was tinted with strong moral feeling. Unlike Europe or Africa, China carried for Americans few unpleasant connotations and attracted, therefore, much of their sympathy and attention. This had been expressed in the very powerful missionary

effort through which large parts of America were made aware of Chinese problems. Many Americans regarded the Chinese as their spiritual children. During the Civil War the bad Chinese had defeated the good ones, who retreated to Formosa. It was now hard to leave these friends in the lurch. Another powerful factor was the Korean War, which, in terms of casualties was the second largest America had ever experienced, and left a residue of hostility towards the Peking Government. Again, Formosa was the base from which the Japanese attacked Pearl Harbour and it therefore had to remain in friendly hands. For all these reasons a strong emotional streak was injected into American thinking on the subject. One of the American speakers remarked that all nations develop on some point or another an emotional attitude, a "sticking point" on which they find it difficult to yield; China had become such a point for the American opinion.

All this influenced America's attitude concerning the admission of China to the United Nations. Most American participants felt that China should not be admitted because it had failed to prove its willingness to abide by the United Nations Charter. On the other hand, while some Europeans shared their view, the majority did not attach much importance to this argument, considering that the United Nations already included governments with equally bad records. Most of the European participants were prepared to consider the case on its political merits. Among the arguments put forward was the position of China as a major power, and also the necessity of creating conditions in which peaceful changes and adjustments could take place. Some European speakers considered that the crisis over Quemoy and Matsu was typical of many situations in which Chinese membership of the United Nations could prove helpful. Above all, however, there was the problem of China's relations with Russia. It should be our principal aim to break this alliance and China's entry into the United Nations might ease our task in this respect.

The exact relationship between these two powers was an enigma. It was noted, however, that differences existed between their respective attitudes, as was shown at the time of the Hungarian Revolution and, later on, over the second break with Tito. We should not, however, put too much hope in major divergencies arising between Russia and China in the near future. For a long time these two countries would stand together.

Quemoy and Matsu naturally occupied a prominent place in the discussion. It was generally felt that the question of the off-shore islands was creating serious differences between Europe and America and that therefore it was particularly appropriate that it should be fully examined at the Bilderberg Conference. European speakers pointed out that it appeared as if the United States was trying to apply a right principle, that of opposing the use of force, to a wrong cause. The majority felt that the islands should be treated as part of the mainland, and that the conflict over them was in reality a further episode in the Chinese Civil War. For this reason, the argument against the use of force in aggression across frontiers did not sound convincing. Moreover, the islands

were important to the Nationalists, not as a bastion for the defence of Formosa, but as a forward base for possible invasion of the mainland. Though such an invasion was today both unpractical and improbable, as one of the participants pointed out, it served to support a myth which the Chiang Kai-Chek regime needed to maintain its hold on its supporters. Public opinion in Europe and also in Canada, was therefore unwilling to support a defence of the islands, and this attitude was further strengthened by a lack of sympathy with the Nationalist regime. A rapid and incomplete poll taken during the Conference evidently reflected this public opinion. The survival of the Nationalist regime was generally considered as of little importance, and only few Europeans thought it could be of serious significance for the Chinese colonies in South East Asia. Accordingly, the transformation of the Nationalist regime into an independent state of Formosa, following some kind of popular consultation or plebiscite, was suggested. In expressing their views on Matsu, Quemoy and Formosa the European participants distinguished clearly between the last and the off-shore islands, and no European dissent was heard from the view expressed by Americans that whatever the fate of the off-shore islands, Formosa should not be allowed to fall to the Communists.

The main argument for present American policy was that we were faced with another manifestation of the general policy of the Soviet Bloc to provoke the West at distant points of the globe, to test its determination and will to resist. A line should be drawn somewhere, and considering that the West was in a weak position in many places around the world - for instance in Berlin - it was better to take a firm stand from the start. One of the American speakers said, however, the United States opinion was aware of the drawbacks of taking a stand in Quemoy and Matsu, but it was believed that firmness was the best way of securing a respite which would permit the U.S.A. to extricate itself from this unpleasant situation.

The difficulty of the present position was generally appreciated on all sides. The arguments, therefore, were mainly directed at the policy which had led the West into an untenable position. It was pointed out that the United States had lost a good opportunity during the period of peace which followed the previous attack on Quemoy, to come to a reasonable assessment of the situation and avoid getting into the present difficulties. For this reason, as one of the American participants pointed out at the end of this debate, it would help to rally public opinion, in any case in Europe; if it was understood that the United States in its present predicament aimed, not at maintaining the status quo, but at extricating itself from an unfortunate position.

During the last eleven months, the West had experienced severe set-backs in the Middle East. Some of the speakers felt, however, that Western action had succeeded in averting still greater dangers, and that by stepping in in time we had prevented a revolution spreading throughout the area. Whether we succeeded or not was open to question, for the presence of American and British troops in the Lebanon and Jordan was only a temporary measure, and their withdrawal might well restart the chain of events which was interrupted by their landings. As it was, the situation was not wholly bad. The Baghdad Pact, though it could no longer hope to become a rallying point for the Middle East as a whole, remained as a shield in the north. Although with the fall of the Nuri Said regime in Iraq, Cairo remained the sole pole of attraction for the Arabs, some participants thought that in time the emergence of other nationalist regimes, such as that in Baghdad, might prove to be beneficial. Arab nationalism was dangerous in so far as it fell under Soviet influence or Nasser's domination, but because it stood for independence and produced apparently popular regimes, it might yet be valuable and useful. Its three characteristics, one of the speakers observed, were jacobinism, xenophobia and anti-Israelism. Apart from these nebulous and mainly negative attitudes it had yet to define itself and find its expression in a more positive programme. Nationalist revolutions could well yield positive results; as was the case in Turkey under Kemal Ataturk. It was objectionable, however, when it reached beyond its own borders hurting the interests of others. In such cases we had the right to protect ourselves, and should be firm about it.

As it was, some participants felt that, in a sense, we had acted in the Middle East to stop the Arab revolution. It was a natural process that had to run its cycle, and our best policy was to try instead to come to terms with it. Otherwise whoever in the Arab world carries it through and emerges as its leader, will do so as our enemy. This was, moreover, an inevitable process which will continue, if for no other reason, to get rid of Western influence in the area. That and its anti-Israeli character were the two negative sources of its strength. It need not be necessarily true, however, that a victorious Arab nationalism would be a greater danger to Israel. So far, unstable governments, for reasons of demagoguery, vied with each other in asserting their hostility to the Jewish state. The temptation to do that would be lessened for a unified Arab state or for popular governments.

In the Middle East we were witnessing not only a nationalist revolution, but also a social revolution. The Arabs were moving from a medieval world into a modern one, and this rapid change was not, and indeed could not be, accomplished by way of peaceful political evolution. They were following a revolutionary path led by small elites recruited from the newly emerging classes. As always in history, the armed forces led by the younger officers, were playing a prominent part, and their outlook was in line with the Cartesian formula of the dismantling of the past and attempting a logical reconstitution of the present. What happened in the Middle East indicated a social transformation, a transition towards industrial society and national emancipation, but it should not be confused with

communism. It was accompanied by coercion and violence, but often no other way was possible.

Internal violence was promoted and supported, however, by indirect external aggression, the use of pressure, threats, infiltration and subversion. This could hardly be tolerated in view of our commitments and interests, and we had to act to prevent force from succeeding. There was a difference between one successful coup d'etat and an epidemic of revolutions and violence sponsored from the outside.

If the use of force was to become a common occurrence the transition would prove a hazardous process which could lead to unpredictable results. It promoted an imperialistic state of mind which could occur in small nations as well as large, leading to equally dangerous and unwelcome results. These circumstances, some participants felt, considerably detracted from whatever sympathy one might feel with the cause of Arab emancipation.

This concept of resisting external, indirect aggression should not be carried too far, however, for it might involve us in resisting national evolution. In spite of the United Nations' resolution, some speakers felt that the West stood on weak ground in defending present frontiers, as the frontiers of the Middle East were imposed by the West and had little significance for the Arabs. Externally sponsored indirect aggression only succeeded when the internal ground for it was favourable. Again it was in the Western liberal tradition to support forces opposing unpopular regimes. Bad as our dilemma was, it was further aggravated by Communist action and influence. They had the techniques, the means, and above all the determination to exploit such situations, whereas the West was practically unprepared to deal with them. This was a problem to which attention was drawn on several occasions. It was a particularly urgent problem, as similar situations were likely to arise in other parts of the world, and maybe even in South America.

At present, as a European speaker emphasised, the Middle East with its uneven mixture of bad and hopeful points, confronted the West with a problem which was largely one of tactics. As was often pointed out, we found ourselves associated with regimes on their way out. To try, however, to identify, let alone support, the right forces of the future was a dangerous game and the likelihood of error was great. There was no simple and magical formula. A realistic approach was recommended. Too often we seemed to fall in for generalisation and slogans. Nasser for instance was sometimes made to appear as an ogre, sometimes as a martyr. Again, the principles underlying our policy should be adapted to the facts of the situation and the mentality of the people concerned. If we need to be firm, if in extremis we have to intervene, let us at least do it openly. The more explicit the threat the less the chance of needing to carry it out.

Economic means could be used. Whoever came to power in the Middle East, as one of the American participants said, would have to bear in mind his

country's need for oil revenues, and he did not doubt the ability of the oil companies to strike a bargain. Besides, the West could do more than anybody to promote the economic development of this region, and the most promising course was to encourage the Arabs to pursue the same lines of economic co-operation as were developing in Western Europe. Our search for new institutional formulas was of great significance to the new nations trying to find their proper place in the world. Larger economic entities could weld irresistible political aspirations with the necessities of modern civilisation based on the free market economy. The movement towards economic unification in Europe was an attempt to reconcile national sovereignty with economic necessity and social progress. It embodied three principles - the large market, the price mechanism corrected and controlled to eliminate excesses, and common institutions evolved to meet administrative needs. The new nations might well benefit from our example and try to follow this path.

## II

### THE FUTURE OF N.A.T.O. DEFENCE.

In the course of a special sitting devoted to this subject one of the participants outlined the strategy of N.A.T.O. and some of the problems it had to face.

The task of the military planners, that of defining a minimum strategy to achieve maximum security, largely turned on an assessment of strategy over the next five years; so did the programming of military procurements. In view of the rapid technological advance in weapons, what was appropriate five years ago was unlikely to be suitable five years hence. However, the military planners were satisfied that their policy was as sound today as it proved to be in the past. N.A.T.O. strategy was based on the dual concept of the shield and the sword. The task of the shield is to hold an initial attack, and it must be of sufficient strength to meet and hold an aggressor, so that the onus of deciding to extend the conflict would rest with the enemy. This situation was naturally a delicate one to plan for, and for instance it was considered doubtful whether an attack could remain limited if the Soviet forces were directly involved. The shield force had thus three functions :-

1. To complete the deterrent.
2. To give military and political flexibility to our reactions.
3. To defend the European members of N.A.T.O. if attacked.

Its strength had to be planned in accordance with the estimated power of the enemy's limited or general attack. It was believed that the integration of our forces and the maximum use of science and technology would compensate for our manpower inferiority and would enable us to hold the balance. However, our actual strength was constantly below requirements. In spite of the steady reduction in the manpower demands of S.H.A.P.E. the gap persisted. It was

particularly severe as regards ground forces, but much less so as regards the air force. Moreover, a rapid increase in the use of missiles would necessitate an increased financial effort of the order of 15% on procurements, on the part of governments. Money and men continued to be the main headache of N.A.T.O. planners.

The inadequacy of the available resources and the resulting problems attracted much attention during the ensuing discussion. As one of the British participants remarked politicians found it sometimes difficult to explain the apparent contradiction that whereas the resources put at the disposal of the military leaders were chronically short of their demands, the political objective of preventing war has been fully achieved in the past. Our reliance on the deterrent proved sufficient and there might be, therefore, some hope of reducing the shield, particularly if, for instance, some agreement on the controlled reduction of forces in Europe were to prove possible. The answer was that whereas N.A.T.O. was considering the possibility of working out some scheme of inspection and limitation of armaments in Europe, and there was no objection in theory to such proposals, we must be certain that the balance of security will not be impaired as a result. As it was, N.A.T.O. had to plan not only for present conditions, but also for any foreseeable contingency. Since the Soviet atomic capability was growing, and the gap between the battle worthiness of Soviet and Western divisions was rapidly closing as a result of Russia's modernisation effort, the danger of Moscow risking a limited engagement was increasing. Whereas we had about ten divisions near a border over four hundred miles long, the Soviet were able to concentrate rapidly about twenty divisions at a single point, and it was difficult to estimate precisely how many we needed to make the shield force effective. There was no significant reduction in the Soviet military strength, and some concern was felt lest the efficacy of our present strength would not diminish as a result of the progress they might accomplish within the next three to four years.

It might be that some relief to the increasing burden of defence could be obtained by lowering the production costs through the standardisation of weapons and specialisation of production, but the progress achieved so far was considered disappointingly small. There was little hope of progress as regards the simpler equipment which any industrial country could produce, but some positive results could be expected with new weapons.

Again, there was considerable internal pressure in the member countries for the reduction of the period of conscription. While it was difficult to generalise on this point as it was primarily a question of training and of the efficiency achieved in different countries by units comprised of national service men, the position had, therefore, to be examined case by case. The snow-balling effect on others of the reductions in any one country was the greatest danger. Regular armies, if these could be provided in sufficient strength, would help in this respect.

Some concern was expressed at the reliance of the shield forces on atomic weapons as it blurred the line dividing it from the retaliatory force. This was said to be largely unavoidable as certain installations, for instance, airfields, served a dual purpose in defence and deterrence, and also because we had to take into account the possibility that the Soviet armies might use atomic weapons. This was one aspect of the more general and complicated problem of 'how does a modern war start?'. How can correct decisions be arrived at and orders given and executed in the conditions of present atomic and missile warfare? The military leaders hoped for a period of warning, which would be provided by the mounting international tension likely to precede the attack, so that during this period an interplay of political and military consultation would take place and the crucial decisions would be reached before the attack was launched. In any event the military commanders were confident that technical delays would be reduced to an acceptable minimum. The atomic warheads provided by America to N.A.T.O. countries, which under the United States laws, had to be in the possession of American forces until the last moment, would be handed over without any delay.

Once hostilities started involving the use of atomic weapons, it was practically impossible to estimate future developments. The initial devastation, which might well be increased over the level expected today, could reach such proportions that there was no reason to be concerned with the relative superiority in military man-power left to either side.

### III

#### WESTERN ECONOMIC CO-OPERATION, WITH SPECIAL REFERENCE TO THE POLITICAL CONSEQUENCES OF THE EXISTENCE OF SEPARATE CURRENCY AREAS WITHIN THE WESTERN WORLD AND TO THE SOVIET ECONOMIC CHALLENGE IN THE UNDER-DEVELOPED COUNTRIES.

The debate on this point of the agenda can be roughly divided into three main headings: monetary policy, economic unification (i.e. problems relating to the Common Market and the Free Trade Area) and the development of the poorer countries.

#### MONETARY POLICY.

Numerous speakers stressed the need for co-ordinating monetary policies among the Western countries, and protested against the seemingly sacred right of individual countries to inflate independently of all others. The resulting strain on the balance of payments jeopardised all efforts at economic co-operation and was putting a brake on the harmonious development of international trade. Several speakers considered the problem of inflation as crucial to the progress of economic unification. In this connection one of the participants made a plea for greater consideration to be given to monetary policies. Budgetary control proved insufficient to stem inflation in rapidly

expanding economies. The old techniques of regulating the supply of money through the manipulation of rates of interest and the control of the volume of credit, which recently were coming into favour again, proved much more effective.

The progress made on the road to convertibility was noted. All participants who referred to the subject stressed the crucial importance of making sterling fully convertible, and many felt the conditions for doing so were considerably improved. This was of as great importance for Great Britain and the member countries of the Sterling Area as it was for the other countries of the West. As one of the Italian speakers pointed out, the Sterling Area provided a compensatory mechanism for the operation of multi-lateral trading. It provided the liquid reserves on which countries could draw in times of need in addition to capital markets for long and medium term loans. It permitted member countries to keep their imports at a much higher level than would otherwise be possible, which in turn benefited third countries. Ultimately some such compensatory system should be devised to encompass as large an area of the Western world as would prove possible. Commonwealth preference was part of the system and contributed to the equilibrium in which we were all interested. In the dollar-earning countries of the Sterling Area it created, however, the impression of converting a world wide currency into a limited one and gave rise to the suspicion that it forced on them non-competitive sterling commodities.

Whatever measures were needed to bring full convertibility nearer, the ultimate step, involving the abolition of exchange controls, would be a radical departure which would necessitate new techniques. As several speakers observed, it required strengthening the reserves of the E.P.U. countries and of the Sterling Area. Though all recognised that, with some exceptions, their present level was too low, and that consequently a jump into convertibility might carry too great a risk, there was some divergence of views as to the extent of the increase needed. The E.P.U. was a useful compensatory mechanism through which countries experiencing particular difficulties could receive help. The I.M.F. could also be called to the rescue in more extreme cases. But this, as one of the British speakers observed, was not enough, and the small safety margin available to most countries forced them, at the first signs of danger, to adopt deflationary policies which slowed down their economic progress. On the other hand, a major increase in the reserves might well prove too great a temptation. This reasoning was epitomised in the story which one of the French participants recalled when, during an International conference dealing with this problem at which a proposal to set up an international fund was discussed, it was pertinently observed that the chief purpose of such a fund was to be emptied.

One of the proposals put forward in a report involved a 100% increase in the price of gold as a means of increasing reserves and creating a dollar fund to support convertibility of Sterling and the E.P.U. currencies. This

proposal was generally rejected on a variety of grounds, both political and technical. However, the necessity of international support for the reserves of the Sterling Area as well as of the E.P.U. countries was generally recognised. President Eisenhower's proposal to increase the reserves of the I.M.F. was therefore welcomed, though some speakers doubted whether this measure would prove sufficient, so that, with the continued upward movement of the world prices and the constant growth of international trade, in a few years' time we might find ourselves in the same position as we are in today.

#### ECONOMIC UNIFICATION

Referring to the Common Market, several speakers from the countries concerned emphasized its dynamic and outward-looking character. It was conceived in a spirit of liberalization, it excluded autarchy, the philosophy of the treaty was largely liberal and above all it was not to be considered as a final construction but rather as a stage forward on the road to a larger and more complete integration of the Western economies. That is why an extension of the Common Market through the setting up of a Free Trade Area or through treaties of association was wanted by those of the participants who were most closely associated with it. On the other hand, participants from non-member countries also stressed the importance they attached to the setting up of the Free Trade Area, which could eventually embrace the overseas countries of the Commonwealth. Some suggestions were made for its ultimate extension to include the United States.

Concern was expressed, however, lest the present Free Trade Area negotiations drag on for too long, or fail altogether. The Common Market was due to come into operation on 1st January, 1959, and it was feared that if no solution were in sight by then, the first appearance of discrimination would produce a schism between the Six and the rest of Europe. The future progress of negotiations might be seriously impeded as a result. On the other hand one of the participants pointed to some serious technical difficulties. The Commission of the European Economic Community which was formed earlier in the year and gradually took over negotiations on behalf of the Six countries, had to yet work out a common position. The Commission had not, so far, had the opportunity of working out some aspects of policy, for instance on agriculture, which were left open in the treaty. Complicated technical studies on tariffs also took a long time. Moreover, there were much greater differences between the economic situations of the countries involved in the Free Trade Area project, than among the original Six. The proposal to extend the 10% tariff reduction to all countries concerned in advance of general development was not yet accepted by the Six, still less by the others. Further the speaker suggested that the Free Trade Area proposals was not the only alternative to the European Economic Community. The notion of association had a technical meaning and various degrees of rights and

obligations were conceivable and could be worked out between the European Economic Community and individual countries on a bilateral basis.

At that point a speaker referred to the difficult situation confronting British industrialists at the time of the publication of the Spaak's Committee's Report. The United Kingdom could not join the E.E.C., as it wished to keep the imperial preference system, which had preserved freedom of trade over a large area in the critical period of the Thirties; to dismantle it now would be a step backward. The Free Trade Area offered the first ray of hope and turned out to be the best solution for other countries, the so-called "other Six" which shared much the same approach. A breakdown in negotiations might provoke the adoption of protectionist measures and eventually result in a breakdown of the E.P.U. He believed some of the difficulties and fears, particularly of French industry, were exaggerated. A detailed examination of the different industries, section by section, would be the best approach. Also a general reduction of tariffs on raw materials would go a long way to reduce the tariff problem. Provided the OEEC was used as a basis he thought that the institutional problem would cause no insuperable difficulties and was therefore hopeful about the outcome. One of the participants said that although France would strive to see the Free Trade Area established, the Common Market Treaty took into consideration the special position of some sections of the French economy, and provided the necessary escape clauses. To press the negotiations to the point of redrafting the Treaty could lead to a collapse of everything that has been achieved. We had to preserve the existing structure, as a renegotiation of everything from scratch would hardly be possible.

Another major problem facing the European Economic Community was the co-ordination of monetary policies. As one of the participants pointed out, the economic integration of the Six required the co-ordination of all fields of economic policy. The Treaty was comprehensive but it recognised the evolutionary and expanding nature of the association and certain aspects of integration were left for later definition. This was the case with the financial policies of the member countries and although something has been done in this field it was not sufficient to exclude the possibility of conflicts arising which would result in balance of payment difficulties. To be sure there was the possibility of mutual help being provided and there were also escape clauses. Here was, however, the greatest weakness of the Treaty. Monetary policy was closely linked with national budgets and budgetary discipline was notoriously hard to achieve. Finance Ministers were usually more understanding and might occasionally welcome external pressure but it was more difficult to convince the national parliaments. The speaker doubted whether in the long run the problem could be successfully solved without an appropriate institutional mechanism.

This point was taken further by a participant who looked to a common currency as the ultimate solution. Inflation was held to be the main danger, and doubts were expressed whether the Common Market could develop unless some means were found of dealing with this. However, pointing to the successful operation of the Benelux Union another speaker felt that gradually most difficulties would be overcome and that the co-ordination of parallel policies could be achieved.

It was also suggested that some useful progress might be achieved in the co-ordination of fiscal policies. This field deserved close study which could also include the possibility of replacing the taxation of incomes by some system of taxing based on expenditure.

On the wider aspects of the European integration one of the participants felt American support for the Free Trade Area would be helpful, while others considered that a greater effort should be made in the United States, and Canada, to inform the public and rally opinion in favour of European economic unification. This had a bearing on the danger that protectionist tendencies in the United States might take advantage of public ignorance about the tariff adjustments that were due to take place in Europe. The perennial problem of the American tariff wall was also broached, some of the European participants pointing to the dampening effect on European exports of escape clauses in American tariff legislation. It was noted, however, that although the protectionist strength in the United States was likely to remain a headache for many years to come there was a steady improvement. It was significant that in 1958 in the midst of a recession, considerable progress was achieved. There was a growing realisation that trade was a two-way traffic and that, as one of the participants put it, the eagle on the American dollar was really a homing pigeon.

#### THE DEVELOPMENT OF THE POORER COUNTRIES.

The roles of private and public foreign capital in the under-developed countries was discussed. They were felt to be complementary to one another, although different considerations should apply to the provision of each. It was pointed out that public capital should be directed primarily to the development of the economic infra-structure. There was sometimes a tendency to direct it towards very large schemes and although these might be politically attractive, particularly at the project stage, Iraq was there to remind us that their impact on the economic well-being and political stability of a country was likely to be slow. Public funds were used for a variety of purposes ranging from outward budgetary aid to the provision of investment funds at market conditions, and it sometimes happened that, as a result, in the minds of the recipient countries the distinction between business and aid became

blurred. One of the European participants pleaded that we should be more careful to draw a line between the two. As to private capital, it was generally agreed that to depart from sound business principles was, in the long run, harmful for everybody concerned.

In this connection one of the American participants feared the multiplication of international lending agencies, which could compete against one another, might encourage a departure from sound business principles. The same might be said in respect of some aspects of governmental guarantees offered on medium term loans, though it was pointed out that this was an essential condition for capital exports. If sufficient guarantees were provided and the business sound, interest rates were of a secondary importance, as in the case of most under-developed countries, the interest rates were in any case considerably higher than in the industrial countries of the West. It was further observed that there was a strong case for encouraging Western capital to flow not only to the least developed, but also to the more advanced regions which had a better supply of managerial and industrial skill.

Though the conditions might be otherwise favourable, private capital might still prove reluctant to move in. There was, in some cases, a certain element of inertia and it was suggested that a greater effort could be made on the part of our governments to make use of private enterprise to establish productive units with the help of public funds or in partnership with governments. More publicity should be given to such arrangements as have been made, as there was a noticeable reluctance by private enterprise in this field. In any case, the association of foreign with local capital was regarded as beneficial and helpful.

The extent of the gap between the capital required and available for the development of the poorer countries led one of the participants to suggest that perhaps fiscal policies could be used with advantage, and that, for instance, the necessary savings might be generated if the taxation of incomes was replaced by the taxation of expenditure. Money, however, was not enough and the growth of a class of managers, technicians and skilled workers was equally important for the development of more primitive economies. A further problem was to provide stable markets for primary products, on the exports of which the development of such countries depended. Their modernisation programmes largely rested on the size and regularity of their foreign exchange earnings, and some solution to this question was urgently needed.

It was further a question of creating conditions of security for foreign investments. There was a case for creating an international charter for foreign investment which would be binding on all parties, although some

doubted the possibility of implementing it in the near future, and efforts in that direction were held to be worth while. Investment should not be made to run legal risks in addition to the economic and political ones, and a multilateral agreement was necessary. It was also felt that lending countries should stand together to protect themselves and the rules of good conduct in these matters. Those who infringe them should not be able to receive help elsewhere.

Finally, it was pointed out that the problem of foreign investment was obscured by the growth of tenacious prejudices and the lack of adequate information. Hence, it was suggested that the example of the Export Import Bank, which published details of its loans, could be usefully followed.

THE WESTERN APPROACH TO SOVIET  
RUSSIA AND COMMUNISM.

There was considerable unanimity on the assessment of developments within the Soviet Union. Political considerations continue to dominate the evolution of every sector of Soviet life, whether economic, military or other. Whatever changes are occurring do not concern the essence of the regime, but the tactics it follows.

There was an improvement in the standard of living and there were certain perceptible changes in the Soviet way of life. There was the formation of a class differentiation with the attendant social, economic and cultural aspirations. There were also timid beginnings of the formation of a public opinion, of a greater academic freedom, and signs of a religious revival. We should follow this evolution carefully, and whenever possible help it along. The value of contacts, particularly in the cultural field, was stressed.

Some of these developments were further helped by recent economic measures. While control at the top was strengthened decision-making was handed downward with the result that local officials had been given greater power and assumed greater importance. These people, in the future, might come to express much more effectively than was possible at present the growing desire for consumer goods and a higher standard of living, which might well develop on similar lines as it did in the West. The class of more highly paid people was growing and the new generation of planners, who did not know the harder times, might well give greater consideration to pressure for more consumer goods and improved living conditions.

Already, in numerous sectors, a considerable revision of outlook was apparent. The former dogmatism was giving ground to pragmatism, and institutional arrangements were subject to revision. Agriculture was a case in point, which could be of considerable portent for the future. As

one of the speakers observed, even the recognition of the price system and of some forms of the market mechanism were no longer beyond the realm of possibilities. The use of incentives which have lately been given added emphasis could well be extended further.

As it was, the growth of the economy and the improving standard of living helped the government and increased its political strength. The Russian leaders could somewhat relax and promote economic growth. The stick was less necessary and the emphasis was shifting to the carrot. In these conditions, it was generally believed that if the system was to change, and this could only happen as a result of internal pressures, it would take a long period of time. It was more reasonable to expect a continuous growth in the political, economic and military strength of Soviet Russia.

It was sometimes felt that a general relaxation of tension in the world could help that trend of evolution which we hoped for inside of the Soviet Union. At the same time, however, one of the European participants believed that were we to give the Russians cause to believe that they might make headway abroad by the use of force, it would reflect on internal policies and make it more difficult for those evolutionary forces to operate.

The growing Soviet strength would naturally have its impact on Soviet foreign policy. It was thought unlikely, however, that the Russians would engage in direct military aggression. As one of the participants observed, it seemed as if the Soviet leaders had no great confidence in their ability of keeping wars limited. When confronted with a situation such as might lead to an armed clash, they either used threats of massive retaliation or suggested negotiations. However, speakers noted with concern the way in which the possibilities and merits of preventive attack were being discussed lately in the Russian press. Also in view of their growing strength, they might feel more inclined towards an adventurous policy.

True to their philosophy, the Russians saw victory through third areas. They paid to them increasing attention, they appraised their position much more realistically and adapted their policies in consequence. They recognised that the new nations were independent, and in spite of their capitalist system, were not necessarily in league with the West. They also recognised and exploited nationalism abroad, although they opposed it within the Communist bloc, in the satellite countries or among the minorities within the Soviet Union.

At the same time it was noted that there was a greater tightening up among the satellites in both the political and doctrinal fields. It was particularly noticeable in the case of East Germany and some participants expressed concern at the future course of developments. The possibility of

another blockade of Berlin or of an explosion similar to that of June 1953 were mentioned.

As it was, developments within the Soviet Bloc confronted us with what were in one sense, more subtle dangers. In some respects Stalin has been an easier opponent to deal with than Krushchev. In the long run it might prove more difficult for us to mobilise our public opinion and find a common line of policy. This difficulty might arise both on the national and the international planes. To be sure, there were some opportunities and some hopeful signs. General disarmament was hardly to be hoped for but some possibilities of limited agreements existed. The possibility of the Russians accepting, at some point in the near future, some form of controlled disengagement in Europe was mentioned by an American participant. Also the seeming Russian interest in preventing the spread of atomic weapons could lead them to conclude some limited agreements.

There were numerous opportunities for us to take the initiative, and it was unfortunate that so many were missed. The Satellites, referred to by some speakers as the Achilles Heel of the Soviet Bloc, provided many such "targets of opportunity". Some of them were mentioned. We failed to expel the Kadar Regime from the United Nations, although this proved possible in the I.L.O. The way America gave aid to Poland practically neutralised its effects. In spite of the recent escape of the Rector of the Jena University, Western universities sent delegations and messages of good will on the occasion of its 4th. Centenary celebrations. At the Economic Council for Europe meeting in Geneva, we had practically no positive proposals to make, leaving all the initiative to the Russians. Again, we should make a much greater effort to co-ordinate our propaganda, directed both at the Soviet orbit and to third countries. We could usefully speak to them of Russian colonialism, of Soviet efforts at disrupting commodity markets and about the essentially political character of communist economic ventures in the under-developed regions of the world.

Several participants pointed to the continuing lack of a global strategy and of joint planning among the Western countries. A high degree of co-ordination has been achieved within such organisations as NATO or O.E.E.C. and there was no valid reason why it should not be attempted on the world scale. Some suggestions were made such as the setting up of a centre of study of Russian policies and tactics. Again it might be that within the Atlantic framework we could tackle the problem of expanding technical and economic education, which was fundamental to our economic progress and to our hopes for the development of poorer regions. The Russians were making much greater progress in this field than we were. As one of the speakers observed, it was a question of broadly disseminating modern production techniques in all their aspects, and somehow our universities lacked the necessary co-ordination and seemed unable to deal with the problem on a large enough scale. Maybe if a joint policy decision was taken on this matter through N.A.T.O. or some

other body, the necessary progress could be made. But above all, as one of the participants pleaded, we should and we must agree on a general grand strategy, in the same way as was done between the Allies during the last war. We are not living in peace now. There was too much discussion of what were, after all, tactics, while the priorities of our aims were not clearly defined. He suggested, in particular, that the separation of Russia and China should be our principal target, as the combination of these two powers constituted for us the greatest danger.

The problem of a common strategy and of common attitude attracted the attention of many participants. One of the speakers who discussed this subject more fully believed that the importance attached to foreign policies in the national politics of our respective countries seems to be getting less. This would seem to be noticeable both in the United States and in Europe. We all spoke about the importance of the West speaking with one voice, but this was more and more a case of paying lip service, and the time had come to improve our attitude. Co-ordination of our respective policies, and particularly of our aims, should have top priority. These were listed as:

1. The rapid increase of our economic potential which was presently insufficient to meet all our requirements.
2. The stability and development of the uncommitted countries irrespective of whether they join our side or not.
3. Progress in missiles and atomic weapons and a much greater effort to diminish the risk of suicide inherent in our present defence strategy.
4. Common propaganda.

While it was realised on both sides of the Atlantic that the Western alliance was the core of our policies, the implications of this were too often forgotten. We should pay more consideration, for instance, to the liquidation of unprofitable and hopeless ventures which were straining the alliance. We need not treat unanimity as sacrosanct, however. In the discussion on this problem it was pointed out that often disagreements reflected a genuine clash of interests or a genuine difference of opinion. While in general a unanimity on fundamental priorities was essential, more thought should, therefore, be given within the alliance to the problems of grand strategy. Occasional differences on tactics or on problems of lesser importance and the resulting jerks were unavoidable and all we could do was to strive at a better climate which would facilitate their solution. But as one speaker observed, diversity of views and interests was a defect which occasionally could even prove useful.

The Soviet bloc was now entering the field of trade with the under-developed countries on a big scale. Soviet interest in those areas was primarily political and the communists looked upon their trade relations as yet another means of achieving their political aims. This was, therefore, a matter of deep concern to the West. On the other hand, however, some speakers pointed out that inasmuch as we could not possibly do everything ourselves, there was no great harm in the Communist countries contributing to the economic development of poorer regions.

The Communists benefited from certain advantages, but they also suffered from certain drawbacks, though these might not always be immediately apparent. For many people in the under-developed areas Communist Russia has been able to achieve in one generation what the West has done in three. It offered them in many cases an alternative to commercial relations with the West and enabled them to secure better conditions for themselves. In particular, the Soviet Union was a buyer of raw materials and was better able to satisfy the need of these countries for long term stable markets. To be sure the trade of the Soviet bloc was comparatively small but through bulk buying and the conclusion of bilateral agreements, the Communists received considerable publicity for their deals. Their buying methods seemingly provided an answer to the basic problem of the development planning of these countries, which was to estimate correctly future foreign exchange earnings with which to pay their imports of capital goods. Some participants felt the provision of stable markets for primary products the crucial problem for us to solve. The idea of buffer stocks, originally considered as part and parcel of the Bretton Woods proposals, has been abandoned and the commodity agreements concluded since the war have generally failed. However, some speakers believed we should not abandon the search for a solution along these lines and that maybe some technical improvement in the working of commodity agreements might provide the answer.

The advantages which the Communist bloc had to offer in this respect proved, however, often more apparent than real. The commodities they purchased were occasionally resold, affecting world markets in a way prejudicial to the producer countries. Moreover, the Soviet Union was itself an exporter of some primary products, such as tin or oil, and their sales, in competition to the exports of the under-developed countries, often took the appearance of dumping. In return for their purchases, the Communist bloc, apart from armaments, supplied almost nothing but capital goods. There were no fears of their competition in the field of consumer goods, though it was observed that this was likely to arise within the next decade. Even as regards the supply of industrial installations it was suggested by one of the participants that since the Soviet Union itself contracted for complete factories from Western countries, their own export possibilities must be limited.

As it was, there was general agreement on the need of stepping up the development of poorer countries, though one of the participants remarked that in adopting this approach not enough attention was given to maintaining stability. Though in some cases private Western investments were flowing in at an adequate rate, and economic progress was satisfactory, this was generally not the case in what were, politically, the more critical areas. It was noted that in many instances, even if conditions were otherwise satisfactory, one could not rely on the free play of economic forces to attract capital in the time and for the amount required. Moreover, Western industries often lacked capital for investing abroad, and it was suggested that government funds could be usefully channelled through private industries. More extensive governmental guarantees on the part of the lending countries would also prove helpful.

It was also believed that we could make considerable headway in our partnership for the industrial development of the poorer countries by adopting a suitable approach which would take into account the susceptibilities of the newly independent countries. A right political attitude, recognising their insistence on equality, was of particular importance. In this connection it was pointed out that because M.I.D.E.C., S.A. expressed these very considerations it was extremely well received throughout the Middle East.

In a general way, many participants expressed their belief that the setting up of the European Economic Community and eventually of the Free Trade Area would considerably improve our position in our dealings with the under-developed countries. Our economic strength would increase as a result, our competitive position as regards the Soviet Bloc would improve and the underlying principles of European integration were likely to prove attractive to the uncommitted nations, and might be taken as a good example.