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BILDERBERG MEETINGS



ST-CASTIN
CONFERENCE

21-23 April 1961

LIST OF PARTICIPANTS

CHAIRMAN:

H.R.H. THE PRINCE OF THE NETHERLANDS

HONORARY SECRETARY GENERAL IN EUROPE:

ERNST H. VAN DER BEUGEL

HONORARY SECRETARY GENERAL IN THE UNITED STATES:

JOSEPH E. JOHNSON

HONORARY TREASURER:

PAUL RIJKENS

DEPUTY SECRETARY GENERAL IN EUROPE:

ARNOLD T. LAMPING

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ABE, HERMANN J.	GERMANY
BALL, GEORGE W.	UNITED STATES
BASSETT, JOHN W. H.	CANADA
BIRGI, MUHARREM N.	TURKEY
BLAISSE, PIETER A.	NETHERLANDS
BOHEMAN, ERIK	SWEDEN
BOLLING, RICHARD	UNITED STATES
BOVERI, WALTER E.	SWITZERLAND
BRUCE, FRASER W.	CANADA
CAVENDISH-BENTINCK, VICTOR	UNITED KINGDOM
CISLER, WALKER L.	UNITED STATES
COLDWELL, M. JAMES W.	CANADA
COLLADO, EMILIO G.	UNITED STATES
CROISILLIER, FRANÇOIS	FRANCE
DUNCAN, JAMES S.	CANADA

ERLER, FRITZ	GERMANY	SKAUG, ARNE	NORWAY
FLEMING, DONALD M.	CANADA	SNOY ET D'OPPUERS, BARON JEAN-CHARLES	BELGIUM
FOULKES, CHARLES	CANADA	SOUTHARD, FRANK A. JR	I.M.F.
GIBSON, J. DOUGLAS	CANADA	SPOFFORD, CHARLES M.	UNITED STATES
GORDON, LINCOLN	UNITED STATES	STONE, SHEPARD	UNITED STATES
GORDON, WALTER L.	CANADA	THURN, MAX GRAF	AUSTRIA
GUBBINS, Sir COLIN	UNITED KINGDOM	THURSTON, RAYMOND	N.A.T.O.
GUICHARD, OLIVIER	FRANCE	WILHELM, ARTHUR	SWITZERLAND
GUINDEY, GUILLAUME	FRANCE	WINTERS, ROBERT H.	CANADA
HAMPDEN, LORD	UNITED KINGDOM	WOHLSTETTER, ALBERT	UNITED STATES
HAUGE, GABRIEL	UNITED STATES	WOLFF VON AMERONGEN, OTTO	GERMANY
HEALEY, DENIS W.	UNITED KINGDOM	ZELLERBACH, JAMES D.	UNITED STATES
HEINZ II, HENRY J.	UNITED STATES		
HERTER, CHRISTIAN A.	UNITED STATES		
HØEGH, LEIF	NORWAY		
HOLMES, JOHN W.	CANADA		
JACKSON, CHARLES D.	UNITED STATES		
JACOBSSON, PER	I.M.F.		
JELLICOE, EARL	UNITED KINGDOM		
KLEFFENS, EELCO N. VAN	E.C.S.C.		
KOHNSTAMM, MAX	O.E.C.D.		
KRISTENSEN, THORKIL	O.E.E.C.		
LESAGE, JEAN	CANADA		
MAILLARD, WILLIAM S.	UNITED STATES		
MARCHAND, JEAN	CANADA		
McGHEE, GEORGE C.	UNITED STATES		
MICHENER, ROLAND	CANADA		
MONRONEY, A. S. MIKE	UNITED STATES		
MOLSON, HARTLAND DE M.	CANADA		
NEBOLSINE, GEORGE	UNITED STATES		
NITZE, PAUL H.	UNITED STATES		
PEARSON, LESTER B.	CANADA		
PLOWDEN, LORD	UNITED KINGDOM		
RABI, ISIDOR I.	UNITED STATES		
ROBERTSON, NORMAN A.	CANADA		
ROCKEFELLER, DAVID	UNITED STATES		
ROYEN, JAN-HERMAN VAN	NETHERLANDS		
RUGE, FRIEDRICH	GERMANY		
SAMKALDEN, IVO	NETHERLANDS		
SCOTT, HUGH D.	UNITED STATES		

IN ATTENDANCE:

BLAY, JAMES A.
DE GRAAFF, FRANS A.
LE ROY, BERTIE
SCHULENBURG, FRIEDRICH W. GRAF VON DER

INTRODUCTION

The tenth Bilderberg Conference met at St-Castin near Quebec on 21, 22 and 23 April 1961. It was the first time the conference was held in Canada. The previous meetings have been held in the Netherlands, France, Germany, Denmark, Italy, the United Kingdom, Turkey, Switzerland and in the United States.

Seventy-two persons from twelve different countries attended. The United States and Canada were strongly represented, the United States by twenty-two and Canada by sixteen persons.

It is not the purpose of these conferences to attempt to make policy or to recommend action by governments. The sole object of these meetings is to reach a better understanding of prevailing differences between the Western countries and to study those fields in which agreement may be sought. To reach this aim men of outstanding qualities and influence are brought together in circumstances where discussions can be frank and where arguments not always used in public debate can be put forward.

The discussions are so organized as to permit a broad and frank exchange of views to take place. They are held in conditions of strict privacy and neither the press nor observers are admitted. No resolutions are passed and no statements have to be approved by the participants who are free to draw their own conclusions from the discussions.

Those invited to attend the Bilderberg Meetings are chosen from different nations and from all fields of public activity and include politicians and statesmen, diplomats, businessman, intellectuals and leaders of public opinion. All participants attend these meetings in a purely personal capacity and the views they express are their own and do not necessarily represent those of the organizations or parties to which they belong.

The various items on the agenda are mostly introduced by rapporteurs who have prepared papers on these subjects. The documents are as far as possible circulated in advance of the meetings.

The agenda of the tenth Bilderberg Conference ran as follows:

1. What initiatives are required to bring about a new sense in leadership and direction within the Western Community?
 - a. The role of N.A.T.O. in the world policy of the member countries.

- b. The role and control of atomic weapons inside N.A.T.O.
2. The implications for Western unity of changes in the relative economic strength of the United States and Western Europe.

In the following text the introductory reports and the views expressed during the debates are summarized. In the annex a summary will also be found of a speech delivered off the record by a Canadian participant on the impact of Communist economic penetration in the Western world as well as a summary of a memorandum on an analogous subject by a German participant. No discussion has followed.



I. WHAT INITIATIVES ARE REQUIRED TO BRING ABOUT A NEW SENSE OF LEADERSHIP AND DIRECTION WITHIN THE WESTERN COMMUNITY?

In opening the meeting, H.R.H. the Prince of the Netherlands thanked the Canadian hosts for their hospitality, and especially for choosing so pleasant a meeting-place.

He went on to speak of Mr. Retinger, the group's honorary secretary, who had died shortly after the previous meeting, and said that the Bilderberg Meetings had owed a great deal to his efforts.

The President began by giving the floor to a Canadian participant, whom he invited to make some introductory remarks on item 1 as a whole. The speaker put his arguments in a deliberately "provocative" form, in order to stimulate discussion.

How would we go about it, he asked, if the N.A.T.O. Treaty had to be re-written in 1961? Circumstances had changed greatly and the organization had had to adapt itself in consequence. We should see whether it had succeeded in this.

In 1949, when the Soviet threat to Europe became apparent, the West had a monopoly of atomic weapons, whereas, in 1961, there was a deadlock due to the equivalence of atomic forces. Furthermore, the Soviet threat now went far beyond the limits of Europe, and was particularly apparent in Asia and Africa, areas that did not give very much cause for alarm when N.A.T.O. was set up 12 years ago. Although, during that period, Europe had recovered its spirit and its faith, the geographical and other limitations of N.A.T.O.'s terms of reference were increasingly obvious.

Moreover, the attitude of certain members of the Alliance was determined by various directives which made it, in the speaker's own words, "pro-Atlantic in Paris but not in New York". By this, he referred to the growing importance of colonial questions, which led certain members to attach a priority to their position in this respect before the United Nations, a position that it was ever harder to reconcile with that which they adopted towards some of their

partners in N.A.T.O. This was mainly due to the fact that the United Nations itself had changed its character and composition. In other words (cf. a recent editorial in the "Monde", reprinted by the American press) this state of affairs would not alter so long as the colonial question remained unsolved; and it was Angola, Algeria and the Congo that prevented the countries of the Alliance from achieving unanimity within the United Nations.

Another extremely delicate problem was that of adapting our Atlantic defence to the new strategic conditions. The main difficulty to be overcome was the fact that N.A.T.O. depended more and more on the nuclear deterrent at a time when the risk of a non-nuclear aggression was increasing. N.A.T.O. was ill-equipped for setting up the necessary conventional defences, mainly on account of their high cost. It was easy to see the contradiction which this caused between the wish to use and the fear of using nuclear weapons in a limited conflict which might, as a result of their use, develop into a total and general war. In this respect, the speaker quoted Mr. Herrer's well-known statement to a Commission of the Senate in 1959: "I cannot conceive of the President involving us in an all-out nuclear war unless the facts show clearly that we are in danger of devastation ourselves". It therefore followed, continued the rapporteur, that the European members of N.A.T.O. must reduce their military dependence on the United States. It remained to be seen whether they really wished to make the necessary efforts.

Another difficult point, but one which gave rise to greater optimism, was that of economic cooperation within the Atlantic Alliance. In 1949 we had hoped that this cooperation would develop as the organization grew thus helping to transform a military alliance into something wider and more durable. Disappointments had been many, but one encouraging sign was the establishment of new institutions such as the O.E.C.D., within which the United States and Canada were on an equal footing with the European countries.

There could be no doubt that the hardest, but also the most important problem was that of political cooperation within N.A.T.O.; it was a fact that, in order to take action, N.A.T.O. had to base itself on the highest common denominator of agreement between its members, and everyone knew what that meant. It appeared to be recognized that there was interdependence between these members, but this fact had not taken the organization far along the road to integration. As a German minister had written in a recent article published by "Foreign Affairs", absolute loyalty towards an alliance was achieved only when a country recognized that its own interests were at stake. In this connection, the rapporteur did not share the optimism of an American newspaper which had recently stated that reasonable success had been obtained in harmonizing the policies of the Atlantic Powers on important matters.

It was a fact that, in certain member countries – especially Canada – N.A.T.O. had a solid popular backing, but it seemed that there was a trend developing in the opposite direction, which was a real cause of concern for the future. In the world context, it was even more important to strengthen N.A.T.O. now than in 1949, and the organization could in no way afford to remain immobile, but must continue to make progress.

After this general introduction, the President asked participants to concentrate first on item 1 a) of the agenda.

A. THE ROLE OF N.A.T.O. IN THE WORLD POLICY OF THE MEMBER COUNTRIES

Some time before the Conference, participants received a Secretariat document summarizing eight reports* on N.A.T.O., written in reply to the three following questions:

1. What is the attitude towards the Alliance in the various countries?
2. What are the principal problems at present arising in connection with the Alliance?
3. Should it be attempted to increase cohesion among members and, if so, how?

Some introductory comments on item A of the agenda were made by an American participant who formerly occupied an important diplomatic post in Europe.

He said he agreed with the first speaker that it was essential for members of N.A.T.O. to recognise fully the nature of the dangers we had to face and, in consequence, to examine how far national interests should be subordinated to the common cause. It was to be deplored, in this connection, that the motto of "business as usual" was put into practice by too many countries in their commercial dealings with the U.S.S.R., which seized this opportunity of further increasing its foreign aid, thus weakening N.A.T.O.'s position in the world.

Our adversary could take any decision he liked without having to waste time in consultations, for his associates were mere satellites. We must therefore spare no effort to solve the problem of consultation between allies, and this raised the problem of leadership within the Atlantic Community. Here again, there were contradictions: how was it possible to lead an alliance in a certain direction and

* The writers of the reports belonged to the following nationalities: American, British, Canadian, Danish, Dutch, French, German and Italian.

formulate a policy, when, at the same time, the weakest position had to be adopted in order to content everyone? The development of the structure of the United Nations, now that it had so many new members, obliged us to depend more on N.A.T.O.; for this purpose, the Alliance must be made to function more effectively and rapidly. This was a most urgent matter.

It was also certain that the work of educating public opinion with regard to the threat from the East had been insufficient, and that those responsible for public opinion would have to do more in this respect.

In conclusion, the speaker said that, instead of concerning itself with the short-term interests of member states, the Alliance would have to develop a wider, long-term policy which would be in the interests of all.

In the course of the discussion which followed these statements many speakers mentioned the difficulties caused by the evolution of the world situation as compared with N.A.T.O.'s initial mission. Stress was laid both on methods of making the most of the existing framework and of widening it. The role of the United Nations was discussed in this respect, especially with regard to possible differences of opinion among its Western members. The functioning of the Alliance naturally led to an examination of the part played by American leadership and also of the idea described – too hastily, perhaps – as the setting up of a "three power directorate". With regard to American leadership, many speakers mentioned the recent events in Cuba and their effects on the position of the United States in the world.

The question of other institutions was also raised, in the light of the new tasks facing the Western countries to-day, and especially that of assistance to under-developed countries. It was only touched upon at this stage in the debate, as its economic aspect was to be thoroughly examined under item 2 of the agenda. However, several participants raised the question of whether or not N.A.T.O. could be used in this connection.

Several speakers expressed synthetic views which may be taken as reflecting the opinion of the vast majority if not of all those present.

A participant who had been one of the group of seven who drafted the text of the North Atlantic Treaty recalled that, in 1949, the world-wide nature of the Communist threat was not obvious to everyone; on the contrary, it seemed then to be concentrated on Europe. Care had to be taken not to go beyond the limits acceptable to national public opinions, and therefore to the Parliaments called upon to ratify the Treaty. This had led to a very precise geographical definition of the area in which an attack on one of the partners was to be considered as an attack on all. Even then, the possibility of mutual consultation on questions arising outside that area had not been excluded.

At the same time, there had been the problem of the Treaty's compatibility with the United Nations Charter under Article 51, but, in order to make the Treaty more acceptable to world public opinion, its Article 2 had been introduced, dealing with non-military cooperation within the Alliance.

Thus, as other speakers had confirmed, N.A.T.O. was a geographically limited response to a threat that had become world-wide. How could its field of activity be widened? If the need for this, which was stressed most forcibly by a French participant, were recognized, it seemed difficult to bring it about by a modification of the Treaty because, as a Canadian and an American speaker pointed out, some of the amendments that would probably be suggested would not, at the present time, be accepted by the various Governments and Parliaments. However, said one speaker, the geographical difficulty could be reduced by increasing the cooperation announced by Mr. Spaak between N.A.T.O., C.E.N.T.O. and S.E.A.T.O. Geographically, some thought the United Nations the most appropriate framework; but when it came to the subjects to be discussed, other organizations seemed more appropriate in some cases. These two points will be examined later in detail.

Several speakers stressed the numerous opportunities for consultation offered by the Treaty. But how was this to be conducted? Should it be confined to a simple exchange of views, or should it aim at a complete unity of views (and of action) resulting in a common position, within the United Nations, for example? In other words, could the members of the Alliance afford to disagree on certain problems, and to show their disagreement to the world at large?

One participant, who represents his country within N.A.T.O., thought that this question could be usefully clarified if pains were taken to classify the problems that arose in three categories:

- those for which common action was possible;
- those for which, in the absence of common action, a certain harmonization of the actions of each partner was possible;
- those for which "the right to disagree" should be granted.

In each case, he pointed out, the matter could always be viewed from a positive standpoint, that is to say that each government could do its best to hinder its partners as little as possible. Experience showed, he added, that this was not a mere pious hope.

A British participant went even further, and thought that it might be of advantage to the Alliance if its members did not adopt a monolithic attitude with respect to certain international questions. Thus, he said – taking as examples the Suez affair and the recent events in Cuba – N.A.T.O. would avoid giving the uncommitted countries the impression of being a coalition of interests some of which it was difficult to defend.

Although, as a Belgian participant pointed out, it was becoming harder and harder, and indeed impossible, to determine a world policy within the United Nations, because the latter had become a theatre for passion, the N.A.T.O.-U.N.O. dilemma should not be solved to the detriment of the latter organization. Several participants agreed with this; one, a Canadian, thought that the historical development of his country enabled it to exercise, within the U.N., an influence that was favourable to the very values that N.A.T.O. defended. Another thought that, although it would be difficult formally to set up a "N.A.T.O. group" within the United Nations, one might wish that there be more "private" discussion between members of the Alliance, mainly in order to obtain foreknowledge of the positions that each was to adopt in the course of important debates, thus avoiding mistakes. He added that the future evolution of the United Nations Organization, as a result of the modifications it had undergone during the past few years, should be the subject of a serious examination by the members of the Atlantic Community.

The discussion of these questions was closely linked with that of the scheme for an "Atlantic Directorate", rightly or wrongly attributed to the Government of the French Republic. A participant from that country forcibly stated that this expression had been invented by those who were enemies of the scheme, and that it was merely a matter of recognizing that some members of the Alliance had wider responsibilities than others, which should mean that, in the interests of the West itself, they should play a more important role in the discussion of certain international questions. A Canadian participant said that, after hearing the explanation, there was still question of a "directorate" whether the word was used or not. Several others, most of them from small countries, stated that there could be no question, for them, of purely and simply accepting decisions taken by others, and that this was all the more true when it came to situations in which they had no responsibility at all. Further, as two of them said, this idea could be harmful to the Alliance, both on account of the psychological opposition it could raise and the difficulties it could cause in the functioning of the Alliance, there being no mechanism for "weighting", such as existed in some parliamentary systems. Two European speakers also thought that there was only one great power in the Alliance; and this view raised the problem of "leadership", on which several participants spoke.

What is this leadership? One speaker attempted to give a definition, while admitting that it was insufficient: the leader, he said, was the country which:

- 1) fully endorsed all commitments resulting from the commonly-defined policy of N.A.T.O. and
- 2) expressed this responsibility by taking decisions rapidly and, if need be, without necessarily waiting for its partners to act.

Another participant considered that the partners' confidence in the leader was an essential of leadership; from this point of view, N.A.T.O. was a special case, for, in a democratic regime, the leader is replaced if confidence in him disappears, whereas, within the Atlantic Alliance, there was no other country that could replace the United States. This being so, as a Canadian participant said, most of the criticism levelled at the United States was superficial, and it would be absurd to expect the leader to be perfect, especially in the light of his enormous responsibilities. Within the Alliance, the leadership would always be strengthened by close coordination between the measures taken; under its guidance, the Alliance should give the impression of advancing along paths that have been generally agreed by its members.

Many speakers mentioned the recent events in Cuba in connection with the problem of American leadership. A British participant thought the action of the United States had been most harmful to the Western position, particularly since it had destroyed part of the advantages acquired during the first weeks of the Kennedy administration with regard to Asia, Africa, Latin America and even Europe. This impression had been heightened, he said, by the fact that the government had, on this occasion, insisted on the defence of purely American interests, thus stressing the idea of a sphere of influence within which the United States assumed the right to overthrow governments of which they disapproved. This was contrary to two provisos of the United Nations Charter, of which one forbade the use of force in the defence of a purely national policy, and the other intervention in the internal affairs of other States. The fact that the U.S.S.R. had broken these rules on several occasions only made it more necessary for us to be irreproachable in this respect. The speaker accepted the leadership of the United States, but said that they should give proof of political and military wisdom. He felt quite free to express this view, as he had been against his own government's position at the time of the Suez affair.

This strong and frank speech gave rise to several replies by Americans and Europeans. One should not forget, they said, that communist influence in Cuba was increasing daily, nor that the intensive arming of the Cubans by the Eastern countries was a danger that had nothing mythical about it. It was not so much a danger for the United States in themselves, as for the Latin American republics with which they were associated in the Organization of American States, whose firm and unequivocal stand against communism at the last conference at San José had caused the Cuban delegation to leave the hall. Finally, the instigators of the recent events were Cubans, some of whom had been convinced followers of Castro. Immobilism, said several of these speakers, would have been even more disastrous, in the light of the deterioration of Western positions elsewhere in the world.

In any event, a European participant seemed to have expressed the general feeling when he said that consultation between the Allies had been insufficient in this case, as it had been in the past at the time of Suez; it was therefore necessary to institute, within the Alliance, a common examination of questions which would not only include Europe and Asia, but also Africa and Latin America. It was less and less possible to speak of private areas of influence.

A problem which also interested the meeting was that of types of cooperation between Western nations which were not directly connected with military considerations. The idea that N.A.T.O.'s action should be limited to its military function was in no way shared by another European speaker (seconded by an American participant), who thought that N.A.T.O. would deteriorate unless its members reached agreement on basic political and economic problems. Several speakers wondered whether certain fresh initiatives, such as assistance to under-developed countries, could not be taken under Article 2 of the North Atlantic Treaty. On the whole, speakers to this point showed a preference for the newly-created institutions, such as the O.E.C.D. and the D.A.G., pointing out that their intervention would depoliticize certain problems, the more so as five non-Atlantic countries belonged to the organization mentioned. This would not prevent, said one participant, these questions from being previously discussed in some cases in N.A.T.O., whose main task would be to examine their political implications. Another speaker said that there were important economic conditions resulting from N.A.T.O.'s military policy, and that these would have to be discussed, especially as far as cost-sharing was concerned. Another participant thought that it was not inconceivable that a proportion might be worked out between the military burden borne by each partner and his contribution to other schemes, such as assistance, so that the sum of these contributions would be taken into account when it came to cost-sharing.

No participant argued that there was a contradiction between the existence of N.A.T.O. and that of the O.E.C.D. On the contrary, a European speaker seems to have reflected the general view in stressing that the ever-increasing interpenetration of Western economies, of which the O.E.C.D. was the visible sign, constituted the only solid and durable basis for a reinforcement of the military cohesion of N.A.T.O.

B. THE ROLE AND CONTROL OF NUCLEAR WEAPONS WITHIN N.A.T.O.

The discussion of this item was based, on the one hand, on a technical note from an authoritative source and, on the other, on an article by one of the

American participants that had recently appeared in FOREIGN AFFAIRS under the title: "Nuclear Sharing: N.A.T.O. and the N + I country".

The note began by recalling the decisions taken after the meeting of the heads of N.A.T.O. governments at the end of 1957: in the light of increased Soviet nuclear potential and the unilateral attitude of the Russians in this field, there was to be created the most efficient and modern defensive force possible, while, at the same time, nuclear warheads were to be stockpiled and the Supreme Allied Commander Europe (S.A.C.E.U.R.) was to be given medium-range ballistic missiles. From that time on, considerable progress had been achieved, especially with regard to equipping the Allied Forces with launching-devices. The general mission of the Atlantic Forces was to discourage aggression ("deterrence"); one of the main deterrents consisted in those Forces' reprisal-potential.

Another deterrent was the so-called "Shield Forces", made up of soldiers, sailors and airmen from the fourteen S.A.C.E.U.R. countries. It had also been deemed necessary to set up nuclear units to be associated with these conventionally-armed N.A.T.O. troops.

In the event of aggression, however minor it might be, the role of the Shield was to impose a halt that would force the enemy to amplify the incident if he wished to turn the affair into a major war. The second role of the Shield was to protect populations and territories. Its third role was to support the Western reprisal-potential, especially by enabling this to be adapted to the size of the attack.

Improvements in conventional weapons carried out simultaneously with the nuclear equipping of the Atlantic forces corresponded to two main ideas: 1) basic combat units must be organized, trained and equipped so that they could normally react, in the event of an incident, by means of conventional weapons, 2) however, if nuclear weapons had to be used in the fighting, the level of decision would have to be a high one, and the use of these weapons could only result from a deliberate decision, taken at a level laid down in N.A.T.O. directives and plans. In any event, this level would have to be situated above that of the commanders of basic combat units.

In order to meet this double requirement, the need for the Intermediate Range Ballistic Missile (I.R.B.M.) was recognized in 1957. The Jupiter missiles now being put into service met this need up to a certain point. The use of Polaris missiles was under study, and it was hoped to set up highly mobile land or naval units equipped with these weapons by 1963-65. The modernization programme extended until 1970; even by that date, it was not certain that piloted aircraft would be entirely replaced by missiles.

As for control of these weapons, a distinction had to be drawn between launching-devices and nuclear warheads, the latter remaining in the custody of the country which made or owned them, and only being issued to the combat units when the situation warranted and after decision at a high level.

The note recalled a recent speech by General Norstad on the subject of a greater centralization of nuclear control within N.A.T.O. The General stressed the difficulty of reconciling the increasing desire of the countries of the Alliance to participate in control with the need for the Alliance to be able to make effective use of nuclear weapons if the need arose. While stating that he had no wish to propose a definite solution to a problem that was, above all, political, the Supreme Commander Europe said that he would not recommend any system which resulted in an addition to the number of nations or authorities holding nuclear warheads, any more than he would subscribe to any facilitation or encouragement of the independent research, improvement or production of nuclear weapons.

"However", said General Norstad, "it cannot be assumed that the creation of a multinational atomic authority, making N.A.T.O. a fourth atomic power, as it has been expressed, would necessarily influence the desire of some nations to pursue their own independent quest for an atomic weapons capability. However, such action might very well satisfy the desire and interests of others by meeting fully the military requirements, and by assuring an essentially equal voice in the control of the particular pool of warheads which could be established as essential to the direct defense of Europe".

At the beginning of the article in *FOREIGN AFFAIRS*, already mentioned, the author asks: "Is the spread of strike nuclear forces good or bad? When we regard the diffusion of nuclear weapons as bad or at least worrisome, we refer to it as the Nth power problem. In this guise, it appears as the chief justification for arms control and especially for a test-ban". It seems, in the present state of affairs, that United States policy follows two lines, one of which holds that it is a bad idea to increase the number of nuclear powers, while the other seems to hold the contrary belief. On the one hand, there are the clauses of the Atomic Energy Law, which forbid the communication of atomic secrets to the allies of the United States themselves; on the other, certain facets of American policy seem to indicate an opposite tendency, such as the "double control" of missiles based in foreign countries, the possibility of technical assistance in the building of French and Dutch atomic submarines (this being limited, however, to the non-nuclear parts of the machinery), the cooperation granted to the United Kingdom after the modifications made to the Atomic Energy Act in 1958 (which greatly encouraged the other allies, and especially France, to proceed

along the same lines) and finally, the present project, which was intended to transfer a whole strategic nuclear system into the hands of N.A.T.O. In this last case, it was the word "sharing", with all its moral overtones, that was used.

Although these two lines of policy seem diametrically opposite, they are not entirely divergent: it might be said that the United States are ready to place nuclear weapons at the disposal of some of their allies, but that they refuse to supply them to other allies, to neutrals and to hostile powers. However, the acquisition of these weapons by certain of America's allies might favour a similar extension in the opposite or the neutral camps, which is precisely what should be avoided.

In the present political context, says the author, the time has come to decide whether the United States is concerned over the Nth power problem, or whether it is in favour of diffusion and the world situation to which that may give rise.

On this score, opinions in the United States differ: there are the pessimists (to whom the author feels drawn) who fear an era in which there could be a dangerous multiplication of nuclear powers, and the optimists, who believe that such a multiplication would militate against the use of nuclear weapons. A third school, believing that such a process is inevitable, hopes that the United States will cooperate in order to reduce the financial burden imposed upon their allies by the cost of nuclear equipment.

The author points out that all these schools of thought lack precision in their forecasts, especially with regard to the number and skill of the countries that might become "nuclear". He hopes that any "Nth country" that is a member of N.A.T.O., even if it only considers its own interests, will realize that its efforts run the risk of being not only arduous, but disappointing. However, from the standpoint of world stability, the Nth country tends to consider the problem as that of the "N+I-country": the third-power problem for the United States and the Soviet Union, the fourth power for the United Kingdom, the fifth power for France, and so on. It is surprising that the leaders of the two latter countries should have described their attempts at nuclear armament as favourable to future disarmament agreements.

From the standpoint of their national interests, the European countries in N.A.T.O. may ask themselves the following questions. What sort of nuclear capability are the lesser industrial powers in the West likely to achieve? What are the motivations for achieving independent capabilities? What is the role of the American nuclear guarantee? Is it, as it is currently fashionable to say, "incredible"?

The author then examines the four main positions open to the Western Powers:

- 1) The rejection of nuclear weapons, of the American guarantee and of all association with nuclear powers;
- 2) the development of national strike forces;
- 3) a jointly controlled force, and especially the N.A.T.O.-wide force;
- 4) reliance on the United States guarantee.

1st Assumption: the Repudiation of Nuclear Weapons

This is based on the supposition that neither of the two great nuclear powers will have recourse to war from fear of being annihilated, but that a policy of a "perpetual deterrent" leaves the door open to an "accident", even if it does not inevitably lead to one.

Those who hold this view belong to several schools. Many of them put the United States and the Soviet Union on the same footing, while others believe that a unilateral Western initiative could lead to a lasting settlement. The author refutes these ideas, which he accuses of ignoring the need for an active defensive attitude. He calls the assumption of an accidental outbreak of nuclear war a tautology.

2nd Assumption: National Strike Forces

This hypothesis is also based on the idea that no country would seek to defend another if, in doing so, it ran the risk of being annihilated. The most usual justification for the possession, by a given country, of nuclear weapons, on however small a scale, is that these enable it to make the cost of aggression out of all proportion to the profit that the aggressor might gain. According to this theory, a small country could deter a nuclear attack by a Power as great as Russia.

The author thinks that this view is too optimistic, given the forces in question and the conditions in which the fighting would take place. The automatic nature of reprisals, sometimes envisaged as a method of deterring a major power, could not be ensured. Moreover, a too-efficient system of this kind would present its own risks of an "accident". In addition its cost, and the expense of ensuring effective control, would be high for a small country, and would call for continual technical adaptation, especially in the important matter of delivery vehicles. The means required would only be within the scope of the great powers. However, even if these obstacles, and others, were overcome, it would be no less true that the threat, by a small country, of reprisals on a small scale would be equivalent to suicide. This reasoning also implies a serious doubt of the credibility of the American guarantee, which those who assume this theory wish to call in question. In extreme cases, this amounts to a denial of the good faith of alliances (as in the case of some partisans of

assumption no. 1) which, as the author puts it, is the same thing as underestimating the problem of deterring the Soviets from a deliberate attack.

However, there are two possibilities evoked by the partisans of assumption No. 2: that of a non-nuclear Soviet attack, and that of a conflict with other powers, for the defence of overseas interests, for example. In the first case, the author says, the enemy would take good care not to step over the "threshold" that would justify an atomic retaliation; while, in the second, recent examples, such as Suez, leave some doubt as to the possible use of nuclear weapons.

All this leaves out of consideration certain political and psychological factors (prestige, ideas of sovereignty and power in world affairs, and even the position occupied by a given country within the Atlantic Alliance) which play an important role. The author opposes, to these, the interdependence that nowadays characterizes international affairs.

Finally, speaking of international stability, he points out that the superiority of a great power (especially in the case of Russia which, on account of its totalitarian regime, can profit by the effect of surprise) makes it improbable that such a power could consider a lesser one as a danger; he admits, however, that deterrence might be operative between any two smaller powers.

If the extreme case were taken, and there were a generalization of nuclear capability, there would inevitably be dangerous states of instability, without mentioning a feeling of irresponsibility that could easily arise in some countries. Thus, the risks of "mistakes" and even of calculated war would multiply, despite, or even because of, a certain measure of control.

The author sums up the objections to the second assumption as follows: from the national standpoint, they are costly, of dubious military and political value and, moreover, transient. From that of world stability, wide nuclear diffusion would increase the likelihood of the use of nuclear weapons both by accident and by design.

3rd Assumption: Jointly controlled Strike Forces

While recognizing that the setting up of this type of force, which has been suggested for N.A.T.O., might appear to be a means of strengthening the Alliance and of preventing the expansion of atomic weapons programmes at national level, the author still believes that this assumption is a false one. He thinks that it is an imprecise expedient, which might well weaken Western cohesion and provoke that nuclear diffusion that he hopes to see controlled.

Those in favour of this system air their fears that the United States might not retaliate in the case of a massive nuclear attack on Europe. But would a N.A.T.O. strike force provide the solution? Above all, would it be more credible than the American guarantee? The author does not believe so, adducing the



right of vetoing the use of a deterrent which each Atlantic partner would possess; moreover, the existence of such a force would confer a certain independence on the American command, which would always have the S.A.C. at its disposal. Intermediate procedures, such as previous definition of the circumstances in which the nuclear weapon would be used, have always proved impracticable. And who would take the decision to use the N.A.T.O. strike force, that is to say to unleash World War III? The power of decision could, of course, be delegated to S.A.C.E.U.R., but why should that American general inspire more confidence in the Allies than the President of the United States? For the Americans themselves, this solution would imply a certain abdication of power on the part of their President. It would therefore seem unlikely that a N.A.T.O. deterrent would prove more credible than national strike forces, and it would certainly not increase the value of the American guarantee.

In summing-up, the author mentions the various reasons why an Atlantic force would encounter the same obstacles as national forces, without even the advantage that the partisans of the latter would consider it as meeting their demands. In addition, its sponsors have very divergent long-term objectives. Even if it be alleged that it would be a powerful force for political cohesion, it may be answered that its existence would also help to nourish tensions, divergences and even secessions from the Alliance.

4th Assumption: The American Guarantee

To what extent is it true to say that an American response to a Soviet nuclear attack in Europe is incredible? What does this statement mean? In the first place, it means little, if anything at all. In the light of the various situations that might arise, the alternative is not simply between "Yes" and "No". As experience has shown, the Russians consider a nuclear response as possible; for this reason they have abstained from an isolated attack on Europe. There are a certain number of reasons for this: to mention only one, there would be an inadmissible imbalance to the detriment of the United States if it remained inactive in such a case. The country's very existence would be at stake, and we may assume that the Russians realize this fact. Furthermore, the stationing in Europe of American forces speaks for itself, and United States military commitments recognize and manifest this situation. Finally, says the author, in order to be credible, our response does not need to be certain, but merely so probable as to make aggression extremely dangerous for the enemy.

If one puts oneself in the place of the Soviets, it may be assumed that they will not launch hostilities in Europe over the "threshold" that would unleash an American nuclear response; and even if their offensive remained below that threshold, it would have to be "profitable". The weakness of Europe is that it

is vulnerable to "conventional" attack, whereas America is not. Hence the importance for N.A.T.O. of increasing the level of its conventional forces in order to raise the "threshold of profitability" of an ordinary attack. In this respect, N.A.T.O. has shown itself defective since 1954.

The author points out that a certain weakening of Russian conventional forces since 1955 makes it possible for the West to face up to attack without raising the degree of violence. This state of affairs justifies even further the opinion that the West has every interest in being strong in this field.

At the present time, N.A.T.O. policy consists in preventing aggression of all kinds - even local, should it be prolonged - by threatening to convert it into total world war. It is this policy which leads some people to doubt the credibility of the response, as they fear Soviet cleverness in provoking small-scale conflicts. It is thus up to N.A.T.O. to reduce this margin of uncertainty, and Europe must make every effort to prove itself capable of meeting aggression at low levels.

Although it is not desirable to give N.A.T.O. an artificial nuclear capacity, much could be done, on the other hand, if Europeans were allowed to participate in the control of small-range nuclear missiles and of missiles based on their territories. Greater elasticity in the use of tactical nuclear weapons, if the situation warranted their use, would be in the interests of Europe.

It must not be forgotten that the maintenance of a highly-responsive central control over nuclear weapons is a guarantee of the degree of violence of conflicts which might occur.

But this control is a source of worry to the Allies of the United States, who fear either the refusance of the latter to use the supreme weapon or the impossibility of exercising a right of veto. In fact, it is up to the United States to continue the development of a force about the use of which, in the case of massive nuclear attack on Europe, there can be no doubt, but a force, at the same time, which runs no risk of being unleashed in the face of minor provocation or false alarm.

Rules for the automaticity of the response, although they may seem to solve the first of these problems, cannot satisfy the Americans (or the Europeans either, if they become too "independent"). The only solution is to maintain the American commitment strong enough for it not to be called in question, and to make Europe's defences strong enough to resist any type of attack. Hence the importance of the presence of American troops in Europe, which underline the role of those alliances that some people tend to believe are outdated in this nuclear age.

Further, states the author, if there were an "Atlantic" or a series of national deterrents, the United States might feel itself less inclined to make the necessary sacrifices.

In conclusion, after stressing the interdependence of Europe and America, the author, although he thinks assumptions 2 and 3 are better than No. 1, openly states that the fourth one is a necessity both for Europe and for America. It also serves the cause of world stability, if one concedes that it is in the common interest of both the West and the U.S.S.R. to avoid any mistakes in calculation.

In conclusion, the author mentions the slowness and difficulty of disarmament negotiations, but feels that the situation he suggests may make these progress one day, even though only step by step, even if the probability of a nuclear war may recur at any time.

After the author of the article had presented his point of view, a very animated discussion began on the basis of his views and those expressed in the note mentioned previously. Nearly all those who took part in this discussion were experts in the field. The close connection between the various aspects of the problem studied meant that these were often tackled in the same speech.

The military system set up when the Alliance was founded in 1949 was not questioned by any of the speakers, but it was recalled that, since then, the world strategic situation had radically changed, if only because of the nuclear parity between the two blocs, which now seemed imminent. If the purpose of the Alliance was still to prevent Russia from dominating the world, especially by means of an attack on Europe, the discussions showed that to-day, eleven years later, the problems were different and much wider in scope, but also that opinions in Atlantic circles had meanwhile become considerably more solid and profound; also in our own group, as the President and an American participant pointed out.

The speakers all began with the idea that, if we wished to avoid a new world war, we must, above all, take measures to localize any limited hostilities that might occur. No speaker was against the American strategic nuclear force as an *ultima ratio*, but most of them tried to indicate methods of avoiding steps which would inevitably cause the outbreak of World War III.

It was agreed that this desire to localize armed conflicts should imply that N.A.T.O. must perform its defensive tasks with conventional weapons, but this certainly did not mean that nuclear weapons should be lacking in the arsenal of the Atlantic forces, and it was important that the Russians should be aware of the Allies' firm decision to use these weapons if need arose — in other words, they should be convinced of the "credibility" of a nuclear response by the Allies. There were methods for "graduating" the Allied response in accordance with the gravity of the attack: the military had at their disposal a series of intermediate weapons, ranging from tactical nuclear weapons with a low charge

that could be used in the place of heavy artillery to medium-range ballistic missiles.

The need for and mission of "conventional" forces were much discussed. Some speakers expressed the fear that the Alliance did not have all the men and equipment required in this field, on account of their high cost (and, said an American speaker, because some countries were reluctant to keep a great number of men under conscription), and that the West might therefore be obliged either to capitulate or to have immediate recourse to nuclear weapons, with all the risks of extended conflict and the possible weakening of the Western deterrent that this implied.

As several speakers stressed, one of the major roles of the Shield was to halt aggression and thus give the Alliance time to take the necessary decisions about recourse to nuclear reprisals, and the Russians time to reflect on the dangerous situation they had created. However, said an American speaker, even if it were true that N.A.T.O. now had conventional forces as large as the Russians or even larger, the latter's troops were better-trained and more mobile.

In this connection, it was most important to raise the "threshold" of the means to be used in the face of a Russian attack, and the equipping of the Western forces with tactical nuclear weapons would be a step in this direction. In this connection different problems had arisen which various speakers have tried to outline.

Where, asked certain speakers, was the line to be drawn between the "tactical" and the "strategic" use of nuclear weapons? This difficulty had arisen in discussions on the use of the I.R.B.M., which some thought of as a strategic weapon, while others thought its role was to replace aircraft, which, although tactical, often penetrated hundreds of miles behind the enemy's lines. One speaker found this point so difficult that he doubted whether it was possible to limit a conflict in which any nuclear weapons had been used, which would cast doubt on the value of the deterrent as a means of preventing total war.

This question was important, as two assumptions had to be envisaged, both of which could lead to total nuclear war: either that, because of the very difficulty of establishing a distinction between the tactical and strategic uses of nuclear missiles, an initially limited conflict might rapidly degenerate into a total nuclear war, or that one of the antagonists might immediately have recourse to the "higher degree" from fear of being outclassed at the level originally adopted. In this respect, one speaker said that it did not seem as though the very wide range of atomic weapons possessed by the West was matched in variety by the Russians. It was thus possible that, if there were a conflict in which the Atlantic powers used tactical weapons of small calibre, the Russians might be obliged, not having such arms, to reply with much more

powerful ones, which could lead to a misunderstanding and thence to total war.

Perhaps the distinction between the tactical and strategic uses of nuclear weapons might be based on the choice of targets; however, this would not diminish risks of mistakes in range or judgement of what was tactical and what strategic.

Several people agreed with a speaker who said that it was undoubtedly necessary for the Allies to agree on points of this kind, but that we could not know whether the Russians followed the same reasoning as we did.

In the present state of affairs, a certain number of Atlantic units (too few, in the minds of some participants) was provided, be it under the system of "double control", with the means of using nuclear warheads for tactical purposes. There should be no risk of a confusion occurring which could lead to the fatal series of events mentioned above. This, said a European speaker, might be the case if defensive forces situated near the Iron Curtain, and in possession of nuclear weapons, found themselves isolated and in danger; there would then be a risk that the military would use those weapons in order to prevent the enemy from seizing them. The speaker thought that this situation might perhaps lead to an agreement on limitation and control, confined to this geographical area alone, and rendered easier by the parity now reached between the two camps. However, another participant thought that, even in this case, the threat of these weapons should be present in order to preserve the full extent of nuclear credibility.

This point was raised in a general context by one speaker, who had previously advocated measures to avoid the risk of "accidents": should N.A.T.O. only use conventional weapons in reply to an attack by means of such weapons? No, he said, for the deterrent factor would then disappear completely; in all cases there must remain a percentage of likelihood, however low it might be in some cases, that recourse might be had to the whole nuclear arsenal, in order to make the enemy think twice before attacking at all.

These considerations led several European participants to stress the need for greater efforts in the field of conventional equipment; this would be the more readily accepted if placed on a community footing, with the United States giving the lead. One speaker, however, while recognizing the need to raise the "threshold", wondered whether too great an increase in conventional forces might not diminish the "credibility" of the nuclear response, giving the Russians the impression that the Alliance was somewhat turning its attention away from atomic weapons. The speaker also believed that it would be difficult to bring about a great increase in conventional weapons, given the high cost entailed and the difficulty in finding the soldiers required.

The problem of national nuclear forces was raised by a French speaker who

explained the reasons for the efforts made by his Government, and mentioned the world responsibilities which his country had outside the Alliance and the national aspect of all defence measures in the eyes of public opinion, as well as the wish to provoke a closer cooperation in this field within the Alliance. Several speakers questioned these views, but one of them admitted that the rules laid down by the United States for outside cooperation, and especially the Atomic Energy Law, gave much colour to such an attitude. In any case, said another speaker, the systems of "double control" set up within the Alliance for tactical nuclear weapons should appease and satisfy the Allies of the United States; indeed, the governments concerned had expressed their satisfaction, in public and privately.

This raised the question of who was to decide when nuclear weapons were to be used. How could one reconcile the Allies' wish to have some say in a decision that so greatly affected their vital interests, with the need to decide without delay, because any delay would be interpreted by the Russians as hesitation, and would therefore diminish the credibility of the nuclear weapon?

A distinction should be drawn here. As regards the use of the major deterrent, there was no difference of views among the speakers: the survival of the West in the face of the Soviet peril depended on the Strategic Air Command, and only the United States could decide when to use that. What was being discussed was the question of the Allies' trust in the wisdom of the United States Government, and it was up to the Americans to do everything possible to justify that trust.

None of the speakers threw any formal doubt on the value of the American guarantee, which had been reaffirmed by the new President, but some of them thought that certain declarations and attitudes or, on the other hand, certain obscurities (not all of which were the fault of the Americans, as a participant who had been closely connected with the Eisenhower Administration explained) left doubts in some minds. Therefore, said another participant, it would be desirable if there were a Presidential directive recalling the automaticity of a nuclear response in the event of a nuclear attack on a member of the Alliance. In this connection, the recent decision to base "Polaris" submarines equipped with missiles in European waters of N.A.T.O. countries was hailed as a healthy gesture.

Questions of decision and control raised more controversy when it came to tactical nuclear weapons. Care must be taken to see that the decision to use these should be taken "neither too soon nor too late". This difficult question had not yet been settled, although, for the time being, tactical nuclear weapons were United States property, and under American control and command. But to what extent should the Allies have the right to share in the decisions? It was possible and desirable, said a European participant, to lay down clear and

detailed instructions for the use of tactical weapons that would be based on a "depersonalized" strategy, after a complete study had been made of the various aspects of the problem. This principle had recently been approved by the N.A.T.O. Council at the suggestion of the British Government.

These considerations led several European participants to stress the vital need to keep the American forces in Europe, if only to ensure a unity of decision concerning the use of the tactical nuclear weapons based in the various European countries.

Apart from the "N+I" problem outlined in the article, there was the extremely important question of whether the decision to use any nuclear weapon should be taken by the military or the political authorities. All those who spoke on this point thought that the politicians' prerogative in this matter should be safeguarded. The first decision to use a nuclear weapon, said a European speaker, must be deliberate, political and collective. Other speakers, although they agreed in principle, mentioned the difficulty of taking rapid decisions collectively. In any event, the necessary decisions would be taken all the more easily and wisely if, as one might reasonably suppose, the military authorities had already studied jointly, in a spirit of complete trust, the various strategic assumptions, and if a procedure had been found for giving the orders rapidly in each case. Efficiency of command should be sought, although it was not certain whether we needed – as the previously mentioned European speaker recommended – to separate the conventional and nuclear commands, as the Russians appeared to have done.

From the political standpoint, an American participant forcibly recalled the decision to consider an attack on one member of the Alliance as an attack on all fifteen, including the United States. An identical determination on the part of all the partners, even though more political than military in nature, was the best guarantee against a Soviet attack. What was important also, said an American participant particularly conversant with the functioning of the Alliance, was that the atmosphere of trust which might reign among the representatives meeting in Paris should be extended to include those who give them instructions from their respective capitals.

The vital role of public opinion in the Western countries was stressed by two speakers, who especially regretted that more had not been done to explain N.A.T.O.'s defence problems to the public. This was all the more important in the face of the fears aroused by the existence of mass-destruction weapons. It were those same fears, said one of these speakers – a Canadian – that forced us, however sterile our discussions with the Soviets might be, to spare no effort in order to reach a true disarmament agreement.

In closing the discussion on this part of the agenda, H.R.H. the Prince of the Netherlands mentioned certain points on which it seemed that the majority had agreed:

- The United States should be the power that kept its "finger on the trigger" of strategic nuclear armament.
- On the other hand, they should not be alone in having their finger on the trigger of all the smallest tactical arms, which to some extent depended on operational command.
- It was essential that the N.A.T.O. countries increase the size of their "conventional" forces.
- It was satisfactory that the United States guarantee as regards N.A.T.O. should have been confirmed, including Berlin.
- It was to be hoped that N.A.T.O. would progress towards integration and standardization, and that its functioning would be simplified.

Off the record, an American participant, who was following the present disarmament negotiations very closely, explained a certain number of facts and made comments on the subject.

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II. THE IMPLICATIONS FOR WESTERN UNITY OF CHANGES IN THE RELATIVE ECONOMIC STRENGTH OF THE UNITED STATES AND WESTERN EUROPE

The subject was introduced by two working papers, one by a United States participant who, after having been a public official, now holds a high-ranking post in industry, and the other by an international participant, the head of one of the great world economic institutions.

The very dramatic change in the relative positions of the United States and other industrial countries can be seen from the following figures: during the three years 1958-60, industrial countries other than the United States increased their reserves of gold and dollars by more than half. This was mainly the counterpart of deficits incurred by the United States in its balance of payments, which amounted to \$ 3.5 billion in 1958, \$ 3.8 billion in 1959, and \$ 3.8 billion in 1960. In these three years, the United States' gold stock was reduced by \$ 4.8 million, while U.S. short-term dollar liabilities to foreigners increased by \$ 6.3 billion.

It should be said that the two reports reach the same conclusions in many cases. There is little divergence between them, only a difference of stress as regards one set of factors rather than another.

For instance, both point out that the economic recovery of Western Europe from 1945 onwards has progressively reduced the continent's dependence on the United States, and has by now led, as one of them stressed, to something quite closely resembling the pattern of the immediate pre-war world. This is not an automatic process, but a result of commercial and financial policies adopted by the European governments.

Before the war, the industrial production of the United States was roughly equal to that of Western Europe and Japan. In 1947, U.S. industrial production was more than twice that of Western Europe and Japan, and even in 1948 it was some 75% greater. By 1960, industrial production in Western Europe and Japan was about 130% higher than in 1948, while production in the U.S. was only 60% above 1948. Even so, the industrial production of the United States was still about 20% larger than that of all the other industrial countries combined.

Between 1948 and 1953, output increased nearly as fast in the United States as in Western Europe and Japan. Thus, the other industrial countries did not seriously begin to regain their share until after 1953 (this was the state of affairs that gave rise to the idea that the predominance of the United States was an irreversible fact). However, between 1953 and 1957, output was rising about twice as fast in Western Europe and Japan as in the United States.

If we now turn to the development of the U.S. balance of payments over the same period, we see that, in the early postwar years, the rest of the world had large deficits with the United States as a result of the investment required for their domestic reconstruction at a time when production was still at a low level. There was a dramatic reversal after the devaluations of 1949 and the outbreak of the Korean War, which greatly increased U.S. expenditures in the rest of the world; and, in 1950, the rest of the world gained more than \$ 3.5 billion from the United States. During the next six years, however, the United States had moderate deficits, averaging about \$ 1.25 billion a year. These were not generally viewed with concern, as they helped other countries to build up their reserves to a more suitable level. Moreover, there was scarcely any reduction in the U.S. gold stock, as the rest of the world chose to increase its holdings of liquid dollar assets.

The rise in European and Japanese industrial output during 1953-57 did not have any adverse effect on the United States' balance of payments, on account of the favourable effects it had on the demand for U.S. goods, which were also in demand on third markets. Before the full impact of Europe's increasing industrial potential could be felt, the Suez crisis increased world demand for U.S. goods so much that talk of the "dollar shortage" was again revived. In 1957, the U.S. gained more gold than it had lost in the preceding six years.

Then, at the end of 1957, the United States' balance of payments swung heavily into deficit again. During each of the past three years, the United States has had a deficit of \$ 3.5 billion or more. However, the causes of this have been different every year. In 1958, it was due to higher government expenditure, a much larger outflow of U.S. long-term portfolio capital to the other industrial countries, and the cessation of net foreign longterm investment in the United States. In 1959, the deficit was mainly caused by a huge reduction in the trade surplus. In 1960, however, the trade surplus improved sharply, and was \$ 1.4 billion greater than the average from 1954 to 1956, but government expenditure abroad was nearly \$ 1 billion higher, there was an outflow of short-term capital of about \$ 2 billion and increased direct investment in Europe and Japan.

As one of the rapporteurs pointed out most strongly, if certain causes seem predominant from time to time, it is impossible to single out one item as the

primary cause of the deficit. This would be engaging in a "game of residuals," whereby the player itemizes all the factors in such a way as to suggest that the last item listed is responsible.

Both rapporteurs pointed out that differences between cyclical movements in the United States and in other industrial countries (movements whose inter-dependence is less and less certain) had played a certain part in the fluctuations noted (especially in 1959 and 1960).

They stated that, after serious study, it could be maintained that the price-levels of American products were not, in general, the cause. Those prices had remained competitive. However, if one excluded an important phenomenon such as the fact that Americans travelled abroad more and more, while there has not so far been a counterpart in the shape of foreign tourists visiting the United States on the same scale, the factors of temporary or long-term imbalance should be sought, on the one hand, in governmental policies (to be examined later) and, on the other, in the conditions obtaining on both sides of the Atlantic, and also in Japan, with regard to interest-rates, both short and long-term. There was increased rivalry on money markets. As regards short-term movements of funds, there had been variations in both directions, due to the differences in interest-rate offered. Such movements were not necessarily undesirable, said one of the rapporteurs, so long as their volume did not increase out of all proportion. In any case, a distinction must be drawn between these and United States long-term investments abroad, the scale of which had not ceased to grow recently. If the latter consequently represented an important part of the deficit, the American rapporteur pointed out that they constituted a source of revenue and, moreover, that they formed part of a policy of liberalizing international financial exchange, which was a very desirable thing in itself.

Both rapporteurs paid special attention to trade with the underdeveloped countries. It would seem that trade between industrialized countries and underdeveloped countries had been maintained, and even increased as far as volume was concerned. As to prices, the latter group of countries could not regain the position it has acquired at the time of the Korean War unless there were a simultaneous boom in the United States and the other industrial countries, which, as we have seen, had not been the case in recent years. Although the United States depended less than Europe on these countries for the supply of raw materials, these countries had succeeded in maintaining, more or less, their 1948 position on the market.

The foregoing raises the question of Western aid to these countries. Given the special importance of the subject, it was agreed, in accordance with the President's suggestion, to deal separately with this matter.

The two rapporteurs also referred to the influence of American financial assistance and military expenditure abroad on the balance of payments; these factors had been especially important in 1960.

In his note, the international rapporteur tried to be analytic, and therefore presented few conclusions. However, he stressed the need to take a new look at the financial arrangements between the United States and the other industrial countries. In this connection, the formation of the Development Assistance Group and the creation of the Organization for Economic Cooperation and Development, of which the United States and Canada were full members, reflected the new approach required. An economic structure was being built up that bound the United States much more closely to the other industrial countries, and the rapporteur thought that this augured well for the future.

The American rapporteur made some suggestions concerning a durable balance of international payments. Whatever way an imbalance swung, it was harmful to the Western world as a whole. In this respect, one should avoid doubtful and superficial methods that acted on manifestations of international imbalance rather than on its causes. Measures for an equitable readjustment of each country's financial responsibilities, both in the military and technical assistance fields, should be welcomed. However, they did not suffice. There should no longer be any discrimination, be it against the United States, Canada, or certain under-developed countries. Finally, there was the question of restrictions on agricultural imports. The rapporteur warned participants of over-optimism about a durable solution, because there were certain rigid positions which it seemed difficult to change. Any return to protectionism must be excluded.

The rapporteurs' remarks and conclusions on aid to underdeveloped countries will be given later on, together with that part of the discussion concerned with this question.

The rapporteurs paid special attention to the problem of international liquidity, which must be considered independently of problems of imbalance among member states. Recourse to gold was no longer enough, and the U.S.S.R. had a strong position in this field. Cooperation between monetary authorities was necessary in order to strengthen the position, which had been well-prepared by the decisions taken several years ago in the direction of currency convertibility. The International Monetary Fund had certainly an important part to play in this operation, which was within its terms of reference; although the new O.E.C.D. could also play a part, it did not seem proper that it should replace the I.M.F. in this respect.

The two rapporteurs presented to the audience the main lines of their reports: the discussion which followed ranged over a wide field.

A European participant, whose position made him particularly expert as regards international settlements, pointed out that considerable progress had recently been achieved in cooperation between central banks on either side of the Atlantic. Contacts between banks had been intensified in order to avoid the possible consequence of unforeseen distortion in interest-rates. Even when this cooperation did not lead to formal decisions, the exchanges of views involved took place in a spirit of freedom and frankness which enabled both sides to understand the other man's problems and motifs, and to take them into account.

This cooperation was far from being merely technical; it was political and psychological in its significance. It was no bad thing that the United States and Canada should have "come down from their pedestal", to cooperate on an equal footing with their European partners in the O.E.C.D. Interdependence between the two sides of the Atlantic was increasingly obvious, and this was a good thing. Many of the speakers mentioned this interdependence, and wondered whether the partners drew all the possible conclusions from its existence.

A participant who had recently assumed important international economic responsibilities said that the Atlantic partners should henceforth abstain from taking unilateral measures with the thinly-veiled intention of "exporting their difficulties", as is often the case when it came to devaluations. The purpose of the O.E.C.D. was to reverse this tendency, by substituting common measures, taken after consultation, for these egoistic attitudes. Some countries were able to take effective measures; the recent revaluations of the mark and the florin had been useful to the American and especially to the British balances. Similarly, measures such as the lowering of interest-rates could stem the flow of capital that weighed heavily on other countries. That was why, said an American official, not only was it necessary to have an institutional association of the Western countries as a forum for the exchange of views, but also each partner should seriously weigh the external effects of the monetary and fiscal policies he intended to pursue.

The recent revaluation of the mark was especially studied in this context; if, contrary to what had often been said, it was not the result of American pressure on the Federal Republican Government, it would appear, to use the expression of a German participant who deplored the fact, that considerations of national economic policy (especially wage-rates) had dictated its implementation. The same speaker hoped that the values of currencies would be made subject to rigid rules, included, if need be, in constitutional provisos in order to make uni-

lateral manipulation harder. At the same time, the latitude allowed to members by the Charter of the International Monetary Fund (the famous 10% margin) should be narrowed. In any case, consultations between central banks should precede any operation of this kind. However, there was always the risk that the professionals, who could agree fairly easily, would find themselves overruled by their governments when they returned home.

Whatever the reasons for it, the German revaluation was welcomed by the participants, except for one, who stated that it had shaken confidence in the stability of the mark.

Other positive measures could be taken without waiting for consultation, such as the case of a country in a strong position that lowered its tariff barriers.

As for the nature and prospects of the American financial balance, several speakers added points to the rapporteurs' analysis, which raised few objections. Some of the Europeans were optimistic, one of them, for example, stating that the deterioration noted did not contain any unhealthy elements (this view seems to be confirmed by the first results for 1961, which show a positive balance in favour of the United States); further, investments abroad could provide an interesting source of revenue. Several speakers said a distinction should be drawn between the trade balance (which was not in peril), the temporary balance of payments (which was certainly much influenced by speculative movements, an estimate of which varied slightly among the speakers, but which, as they said, were only dangerous if they continued to be one-way) and the structural situation of the country under discussion. In this respect, an American stressed that it was the multiplicity and scope of the United States Government's commitments abroad that made the position vulnerable; and this raised the problem, already mentioned by the rapporteurs, of a better sharing of the costs between allies. A Member of Congress said that, in the light of his country's difficulties, it would become increasingly difficult, despite constant education of public opinion, to get the latter to agree to foreign aid programmes unless it received the impression that Europe was doing more.

On the other hand, European speakers felt that measures such as increased taxing of income from foreign sources or the reduction of customs exemptions granted to Americans returning from abroad would do more harm than good, for they attacked the symptoms and not the disease itself. One European criticized the official support given to campaigns such as "Buy American, Ship American, Fly American". Another said that circumstances might make these campaigns necessary, but that giving them a durable character would be contrary to the common policy. The practice of granting loans on condition that they were spent on the American market was also criticized by a European. A Swedish speaker said that it was inadmissible that there should still exist dis-

crimination, here and there, against American goods, and these measures should be swept away at once, although they are few in number, especially the quotas.

Canadian speakers recalled that there was not only a problem of imbalance between the United States and Europe, but also a problem for Canada with regard to the United States. Their trade balance with the latter was very bad; it was true that, as regards payment, this situation was partly adjusted by an inflow of investment capital from the United States which could, in time, strengthen Canada's trade position, but the problem existed for the time being and should be taken into account in any attempt at a multilateral solution.

Many participants mentioned the vast field of action open to the new O.E.C.D., although it was not desirable that this body should compete with the International Monetary Fund or other institutions, such as the International Settlements Bank.

Most speakers raised the problem of the "Six" (the Common Market) and the "Seven" (the European Free Trade Association). It would be truer, said one participant, to speak of the "Seven and the Eight", on account of the advances made recently to these two groups by Greece and Finland respectively.

This problem was most important, because it concerned trade relations between Western countries, and played no small part in the shifts of balance that had been noted between the two sides of the Atlantic. It had already been widely discussed at the previous Bilderberg Meeting in 1960, and speakers on the subject mentioned the developments that had taken place since that date, i.e. the consolidation of the E.E.C. in accordance with the conditions laid down for it by the Rome Treaty. If the problem of the Community's relations with non-member countries continued to arise, it appeared more and more evident that it could not be solved by an adaptation of the Treaty.

As for the United States attitude to the Common Market, a member of the new Kennedy Administration said that its views were the same as those of the previous government: if the United States supported the Six, despite the trade discrimination the latter exercised against them, it was for political reasons, as they wished to bring about a closer union. They considered the European Free Trade Association as a convenient trade arrangement, and no more; thus, if this type of association were to prevail by swallowing up and "diluting" the Community of Six, there would no longer be any counterpart to the sacrifices made by the United States. On the other hand, they would be very pleased to see the Seven merging with the Six, if they unreservedly accepted all the political consequences that that would imply. In any case, the United States Government thought that this was a European affair to be settled by Europeans and,

in this too, it followed the line of its predecessor. Welcoming this, a participant from a non-member European country said he hoped that the Community of Six would keep its original character.

A Netherlands participant criticized the American attitude. He thought it wrong of the United States to look upon the E.F.T.A. as a purely trade institution. The lack of efforts to draw the Six and Seven closer together was not a trade phenomenon, but a political question. The Americans seemed to want — without admitting it — to force the United Kingdom (and the other countries of the Seven) to join the Six unconditionally. Of course, a result of this kind would justify the American attitude, but he thought that the necessary effort of adaptation should rather come from the Six. Given the power of the United States, it could not be a "purely European" affair. In the same way, a Canadian participant deplored the fact that the Common Market had confined the United Kingdom to a defensive position, and a Scandinavian had the idea that, within the Community of Six, or at least in the case of one of its members, there was a very strong desire to keep Britain out of Europe; even though, both among the other members of the Six and within the E.F.T.A. there were trends in favour of an association, which could, besides, be conceived in such a way as to preserve the political identity of the Six.

A European speaker, who had formerly played an active part in drafting the Rome Treaty, stressed that the Six had never wished to cut themselves off from the rest of Europe, but that they hoped to carry the other countries along in their wake, as could be seen from Articles 237 (adhesion of other countries) and 238 (association). He pointed out the flexible and evolving form of the Treaty, taking as an example relations with overseas countries, which resembled certain rules of the Commonwealth. However, there had unfortunately been certain equivocal interpretations during the ratification debates in the Parliaments of the member countries. In conclusion, he made an eloquent plea for the association of the Seven with the Common Market, in accordance with the provisions of the Treaty.

Whatever might be the eventual development of the institution, the aim was not to shift the barriers ("even if Britain were to join the Common Market") said this speaker "there would always be the problem of the Six and the Seven") but to lower them all, and the O.E.C.D. could do much to make this possible.

The Six were moving towards tariff liberalism, said a participant who recalled the discussion of this point at the previous Bilderberg Meeting. He hoped that, in the interests of the United States itself, the President would obtain greater freedom of action with regard to tariffs in order to be able to negotiate fruitfully with the E.E.C.

Many speakers expressed the hope that a way would be found to bring the Six and the Seven closer together; some said that, if it were not, it would be a disaster for the West. This view was not shared by another speaker, who said that there would be no serious division of Europe on the political level as long as N.A.T.O. existed; on the economic plane, said another participant, it seemed that the inception of the Common Market had increased trade between its members and third countries.

Much was said about the problem of assistance to underdeveloped countries. This time, the question was only tackled from the angle of its financial implications for the Western trade balance, its other aspects having been examined at previous Bilderberg Meetings. Two questions were raised by the rapporteurs, and discussed by other speakers: a) the question of the increase of coordination and more equal distribution of aid among the Allies; b) methods enabling backward countries to build a viable economy, which involved the vexed question of raw-material prices.

a) On the first point, the American report especially stressed the part that private enterprise could play. Speakers feared that the new American fiscal provisions concerning investments might militate against this.

Several participants welcomed the successful beginnings of the Development Assistance Group, which is to function in close cooperation with the O.E.C.D. Within the latter, there seemed to be a trend towards a contribution of 1% of the national income of each country, to be set aside for this purpose. For many countries, as a participant from one of them pointed out, this was another wide-scale effort. Agreement had already been reached on the nature of the task in hand, the procedures to be followed and the sharing of the burden in accordance with national wealth. For the first time, a complete balance-sheet of the possibilities and needs of each country had been drawn up. A "full-time" chairman had been appointed, who could make useful contacts. An American speaker pointed out the value of these first results.

b) Both reports mentioned the great importance, for the new countries, of stable markets which would enable them to build up a viable economy. This would prove equally true for the semi-finished goods which they should be given an opportunity of manufacturing. Neither the rapporteurs nor the speakers, however, concealed the fact that this was a delicate issue. It was a well-known fact that raw material prices had never again reached the level they had attained after the Korean War broke out, and that the 1958 recession had dealt them a severe blow. It was clear that the best solution for all concerned was to promote an expansion of the Western economy, the best situation for the producing countries being reached when that expansion took place simultaneously on both sides of the Atlantic. However, said several participants, the

West could not confine itself to a purely passive attitude. Despite its reluctance to admit competition from countries where labour was cheap – which is the case in under-developed countries – it should lower certain tariffs and increase certain quotas. As one speaker remarked, the O.E.C.D. should pay particular attention to this problem, as it was easier for twenty countries simultaneously to take customs disarmament measures than for one to do it singly. On the other hand, traditional-type international agreements on raw materials were greeted with scepticism by some participants.

After the discussion, the Secretary General for Europe briefly summarized three main points of the discussion:

1. We now had a much clearer idea of the United States' monetary difficulties than when the agenda had been drafted. We now realized that America's difficulties were not a fatal and irreversible accident, but a normal, manageable phenomenon. It was of the greatest importance that there existed an institution – the O.E.C.D. – within which countries from both sides of the Ocean met, on a footing of complete equality, to seek solutions for their common problems. This was not a mere formality: Americans, Canadians and Europeans were now talking the same language.

2. It was also of extreme political importance that none of the American participants in the meeting had expressed the idea that his country's difficulties could or should be solved by unilateral action or a return to protectionism. An approach of that kind would be the abdication of American leadership, for it was inconceivable that a country could lead the Western world politically and militarily, while at the same time returning, in the economic field, to protectionist and unilateral policies. There was now a climate, and there were institutions, for finding solutions to economic problems.

3. On the point of the Six and the Seven, the meeting had been different from that held at Bürgenstock in the previous year. At that time, it was realistic to believe that, in order for the groups to come closer together, the Six should join the Free Trade Area. Now, it seemed more likely that the Seven would join the Common Market.

The coming months would show whether the foregoing prospects would come to fruition.

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PRESS RELEASE

Seventy European, United States and Canadian leaders today concluded a private and unofficial three-day discussion meeting at Le Manoir St-Castin, Lac Beaufort, thirteen miles north of Quebec City, Quebec, Canada. Participants included those from the political, industrial, labour and professional fields.

The gathering, another of the so-called "Bilderberg Meetings" was chaired by H.R.H. the Prince of the Netherlands and covered a wide range of subjects of concern to the Western Nations. The areas discussed included approaches that might be made with a view to strengthening still further the Western Alliance. Points of particular concern included the role of N.A.T.O. in the world policy of the member countries, the strengthening of both the nuclear and non-nuclear deterrent power of the Alliance, and the responsibility for and control of atomic weapons inside N.A.T.O. The implications for Western unity of the change in the relative economic strength of the United States and Western Europe were also discussed at some length.

This was the tenth Bilderberg Conference and, although it followed the original Bilderberg concept of not attempting to reach conclusions or to recommend policies, there was substantial agreement on the desirability of promoting better understanding and more effective coordination among the Western Nations in dealing with common problems.

The original meeting took place in May, 1954, in the Bilderberg Hotel (from which the Conference was named) in Oosterbeek, Netherlands. Subsequent meetings have been held in many countries throughout the world. The 1961 meeting was the first in Canada.

ANNEX A

European Report

Faced with a continual increase in trade between East and West, and at the same time with increased Soviet aid to underdeveloped countries, the Western Alliance seems to lack a definite political line. It would be desirable if replies could be found to the two following questions:

- a) Does communist economic penetration of our world represent a real danger to our economy and our political situation?
- b) If so, can we establish a common policy approved by all the members of the Western Alliance? To what extent could such a policy be carried out?

Before answering these questions, the rapporteur analysed Soviet trade and assistance.

a) Soviet Trade.

This could be divided into three categories.

1. Within the Soviet bloc. This was the most important part of Soviet trade. It had represented 20% of the total before 1939, but had now reached 75%. Individual percentages varied from 85% for East Germany to 50% for Poland. This trade reflected a limitation and specialization of production for each satellite country, the U.S.S.R. and China being the only countries producing an entire range of industrial products, thus the rest increasingly depended on them.
2. With industrialized countries, especially Western Europe. This represented 10 to 20% of total Soviet bloc trade. For Western Europe, it only represented an average of 3.5% of foreign trade and only 1% of the foreign trade of the United States. Only Finland and Austria showed higher percentages, a reflection of their special positions. The only successful large-scale economic penetration achieved by the Soviets was the recent sale of large quantities of oil, especially to Italy.
3. With under-developed countries. In the very recent past, large strides had been made in this direction, and a considerable number of trade agreements had been signed in conjunction with aid programmes. Soviet bloc imports from these countries represented 15% of Soviet foreign trade; exports to them represented 13%. Several factors had favoured this impressive result.

Elements of Soviet Trade Policy

During the Stalin era, there had been an autarchical policy which had resulted in maximum investment within the bloc. Towards the end of that era, and more so after its close, there had been a thawing process which had favoured imports of raw materials and consumer-goods, while maintaining that of capital goods.

The regime had little choice, for it needed external aid in order to increase its productivity and thus satisfy popular demand, while continuing its foreign aid programmes. Increasing recourse to the most advantageous forms of trade with the capitalist countries was therefore necessary, but this caused contradictions with the systems of state control which were the rule within the bloc. Thus, the method of bilateral treaties, which had been its golden rule, deprived the bloc of the advantages of multilateral trade as now generally practised, and especially of the payment facilities which result from that method.

Advantages derived by the Soviet Union from its trade system

Thanks to its great purchasing possibilities, the Soviet Union was in a very good position to bargain with Western exporters. In addition, it could lower its export prices without caring about considerations of cost, if it thought it could derive any advantage, especially a political one, from the operation. Nor should it be forgotten that the Soviets had very large gold reserves.

The Soviet Union was able, when it so desired, to invade the markets of the new countries with its surpluses at prices which were so low that, taken in conjunction with its assistance and credit facilities, they enabled it to eliminate its Western rivals. However, this theory had so far been put into practice only partially, for realization of its own needs had prevented it from assuming, on any large scale, the economic sacrifices entailed by such action. It could therefore be assumed that, given the choice, the U.S.S.R. would tend to prefer transactions of a commercial nature. It seemed that one might see a sign of the conservative policy followed by the U.S.S.R. in the fact that it did not make use of its gold reserves, which were large enough to enable it to withstand a trade deficit for a long period.

The artificial nature of the exchange rates fixed by the Soviet authorities was such as to cause them increasingly grave problems.

Special nature of Soviet trade with under-developed countries

The Soviet bloc had great advantages with regard to under-developed countries, towards whom it played the joint role of technical adviser and in-

dustrial supplier. The needs of these countries were almost boundless, and was easier to maintain and handle. Furthermore, some satellite countries produced high-quality machinery.

It should also be remembered that the political context of this trade added an attraction in the eyes of the non-committed countries. Even the bilateral nature of these agreements might prove attractive to them when, as was so often the case, they had gluts of raw materials.

b) *Economic assistance provided by the Soviet bloc*

The important factor in the spectacular economic assistance offered by the Soviets was its tenacity. On the plane of reality, the Soviets were no more able to square the circle than were the Western countries. Without its political context, the Sino-Soviet assistance programme was almost pointless, as China alone could easily absorb all the aid offered by the bloc. Instead of that, China itself granted substantial credits to the non-committed countries of the Far East. In fact, this assistance had two aims:

- 1° the influence exerted;
- 2° its real use to the economy of the assisted country.

The Soviet economic system attached more importance to the first aim than to the second (increased industrial potential). All Soviet propaganda was oriented in this direction.

To the extent to which Soviet aid was really profitable to the countries that received it, one could enquire whether the increased standard of living thus brought about was not to the interests of the West. This question deserved closer study.

At present, the methods and scope of Soviet aid were known, but we still had to learn more about the way in which the bloc could choose the most favourable moment to launch fruitful political propaganda. It was a striking fact that bloc aid only corresponded, at the end of 1960, to one-thirtieth of total Western aid. Although world opinion was gradually acquiring a truer idea of the discrepancy between the effective volume of aid granted by the U.S.S.R. and the promises or propaganda which the latter put out, very clever and persevering action by the Soviets had enabled them to infiltrate deeply into certain countries. A more intelligent Western policy might perhaps have been able to avoid the successes achieved by the Soviets in many foreign countries, especially the new ones.

Wherever Western technical and financial assistance had been offered to a country, without any political mistakes being made, before the Soviets began to compete, the latter had only found a slight ideological response to their advances.

Perhaps joint aid might eventually be more favourable than otherwise to the aims pursued by the West, but only on condition that policy was changed accordingly.

c) *The Western attitude in face of Soviet trade and aid*

There was no well-defined Western attitude to Soviet trade and aid. Given the very slight importance of East-West trade, any chance of slightly increasing it was generally well received. There was more opposition to this trade in the United States than in Europe, and this fact had been brought out by the recent controversy over the desirability of granting medium-term credits to Soviet bloc countries. Those who were for, mentioned the interests of peaceful co-existence; those who were against, pointed out that such credits could be used by the Soviets to increase their foreign aid, an aid that the West could have just as well granted directly: while business circles dwelt on the commercial interest of these exports.

It was our task, said the rapporteur, to decide how to act in the face of such problems; in the light of the unfortunate attitude of business circles, it would be better to reduce barriers to East-West trade to the minimum compatible with security, and to do openly what was now being done with an ill grace.

With regard to aid, the rapporteur advocated that the West should propose to the Soviets that a coordinated effort be made for the pooling of resources, at least in part, under the aegis of the United Nations. This would enable the coordination of aid programmes and make for fairer competition in the size of the aid itself. The West would find acceptance advantageous; if the U.S.S.R. refused, the West would again have the advantage of having taken the initiative and having sought maximum efficiency, independently of political considerations.

Despite Soviet progress, the economic power and the experience of the free world were certainly much greater. In these circumstances, the West should integrate its aid to a greater degree, which would certainly place it on a stronger footing.

In the light of the limited prospects for expansion of East-West trade, we would run little risk if we adopted an attitude favourable to it. In the same spirit, and given the advantages to be obtained from political stability in under-developed countries, we should encourage any real Soviet aid, while doing more to coordinate the two sources of aid within the United Nations framework

ANNEX B

Canadian paper

Placed in a position which leads them to avoid the risk of a world conflict, but encouraged by the rapidity of their own development, the Soviets, unshakeable as ever in their determination to dominate the world, appeared to be transferring to civilian objectives the main accent of their strategy, using trade and aid as weapons.

Steps must be taken to oppose the success of such a policy, which was as dangerous as nuclear warfare, and which was, in fact, one facet of the Soviet strategic complex.

The speaker mentioned 1953 as the first year in which this Soviet economic offensive had been apparent. The free world had an overwhelming superiority in this field, but it would have to make the necessary sacrifices and efforts in a spirit of unity, matching the communist monolith.

There would be a long trial of strength, calling for many qualities, including an exact appreciation of the considerable strength of communism.

Several factors were involved in the conflict. In the first place, it must be remembered that the communist leaders were not supermen, and that Russian economic progress was mainly due to certain dynamic forces rather than to communism itself (e.g. the already considerable economic power of Czarist Russia).

The high growth-rate of the U.S.S.R. should not delude us. It was the result of its present state of development, which was greatly different from that of the old industrial nations; and the examples of Japan, Formosa and Western Germany, since 1958, showed that other regimes could attain an even higher rate of growth.

The rapporteur dwelt on these factors because, he said, we should not allow ourselves to be hypnotized by the belief that progress is ineluctably greater in a communist regime.

The annual growth of the Soviet economy over the past 8 or 10 years had been some 7% as opposed to some 3% for the United States. The greatest increase had been in industrial production: 10% as against 3.5% in the United States. In many fields, the aims of the last seven-year plan had already been overshot.

This production was oriented towards national development and war industries rather than towards consumer-goods, which only increased much more slowly. Similar progress had been accomplished in the satellite countries, especially China.

The picture would not be complete without a mention of the formidable influence exercised by the bloc as a result of this growth.

To the speaker's mind, the economic penetration of the Western world by communism was likely to be a greater threat in the distant than in the near future. For example, trade between the bloc and the free world, in both directions, had only amounted to 10 milliard dollars in 1960, as against 210 milliards for trade between the free world countries themselves. But, he said, Sino-Soviet trade was a State monopoly, and could be rapidly trained on political targets; its rapid growth was shown by the fact that East-West trade had only amounted to 3 milliard dollars in 1952.

In 1959, European satellites had accounted for 40% of this trade, the U.S.S.R. for 31-32% and China for about 19%.

The speaker said it would be an outrageous simplification to state that Soviet bloc trade was entirely based on political considerations. The bloc had to export in order to pay for its vital imports; however, although this motive was dominant in trade with industrialized countries, political considerations had priority in trade with the under-developed countries.

The aims of the Soviet bloc's commercial and economic strategy were two-fold: for the under-developed and non-committed countries, the aim was to draw them gradually into the communist bloc by cutting off, if possible, their traditional trade relations with the West; for the industrial countries of the West, the aim was to play a greater part in their trade, without excluding the idea of causing divergences of interest among them and weakening their powers of resistance.

The bloc was especially attracted by areas of temporary trouble (e.g. the Soviet attitude towards Egypt over Suez, Iceland over the fisheries dispute, Burma over its roads, not to mention the recent case of Cuba). The damage caused by this destructive action was often out of all proportion with the volume of trade concerned.

Several of these countries, falling prey to the temptation of short-term advantages, failed to realize the new position of dependence in which they had placed themselves until it was too late. In this connection, the speaker warned his audience against certain rash attitudes which might throw certain countries or territories into the arms of the bloc, and quoted the examples of Britain with respect to Iceland, and France with respect to Guinea.

Another trade factor in favour of the communist bloc was the complementary

nature of its economy with the resources and needs of the under-developed countries.

The speaker thought that, overall, trade between the free and communist worlds would remain relatively low during the years to come, because of the increased domestic needs of the communists. However, the bloc could switch large supplies to any country or area if it judged the circumstances opportune. Many Soviet and Chinese examples showed that these countries were ready, if need be, to export even products for which there was an urgent need at home.

The motives and trade methods of the West were radically different from those of the bloc. We were concerned with market conditions and a multilateral financial system. Bloc trade was managed by state monopolies under political control, and based on barter agreements or bilateral arrangements. The bloc often sold below world prices, as had been seen recently for exports of wheat, cotton and oil to certain Western countries. It was interesting to note that the satellite countries, in their trade with the U.S.S.R., obtained far less advantageous conditions, a fact that should make certain countries think again. The Soviets did not fix their sales prices in accordance with the cost price, either on the home or foreign market.

In conclusion, the speaker stressed the following points:

- a) Communist bloc economy and production continued to expand rapidly.
 - b) According to Kruschev himself, the aim of the bloc was to win over the uncommitted under-developed countries, while isolating and dislocating Western economies.
 - c) Communist foreign trade policy consisted in carrying out its import plans in accordance with the needs of the economy, and to place its exports in accordance with its political and strategic objectives.
 - d) The damage thus caused, especially in troubled areas, was much greater than the volume of trade in question.
 - e) The growing potential of the bloc would enable it to widen the scope of its offensive in the future.
 - f) It would not neglect any political occasion that might arise, and would act effectively, as in the case of Cuba.
- Without wishing to dwell on possible action in the face of the Sino-Soviet challenge, the speaker outlined some final comments:
- although we should never lose sight of the aim of the offensive, which was the domination of the planet, we could not succeed in countering it by means of negative ideas or boycott policies;
 - we must learn to take the communist viewpoint into account, and attempt, rather than shutting out their products, to increase their dependence on world trade, and help them to increase the living standards of their peoples. If a day

were to come in which the comfort and luxury enjoyed by the Soviet and Chinese peoples were comparable with that of the Americans, the danger of a conflict would be greatly reduced;

- we should not, however, open a path for the disturbing trade practices of communism. We should put into effect practices of regulation rather than of prohibition, and we had such a preponderance in world trade that we could do this successfully. The G.A.T.T. countries, which voluntarily adhered to certain disciplines, controlled 80% of world trade. The state monopolies used by the Soviet bloc should not become our models;

- unity of purpose among the Western nations was essential if we were to maintain normal commercial practices, which the Soviet bloc might well admit if they were presented with enough force, determination and cohesion;

- as the uncommitted under-developed countries were mainly neutralist, they bought their requirements on the best market: we must therefore act towards those countries in a generous, liberal and disinterested fashion, granting them our aid without attaching conditions to it.

Finally, the speaker appealed to the reflection, decision and confidence of the free countries of the world in the fact of the long-term challenge directed at them.