allocation of resources. The relaxation of capital controls began in 1969 and they were finally revoked in January 1974. Since then the United States has avoided controls and our financial markets have been open to domestic and foreign governments and companies.

The U.S. government has reaffirmed its intention to avoid additional restrictions on foreign investments in America. There have always been specific requirements that foreign investors conform to U.S. laws and certain types of investments – such as ownership of communication companies, nuclear energy facilities, mineral resources on Federal properties, certain transportation companies and a few others – are prohibited. But in general foreign investors receive the same treatment as domestic investors. During the period of maximum concern about the possibility that OPEC funds would flow into America to buy up basic industries various bills were submitted in the Congress to severely restrict foreign investment. The Administration strongly opposed such actions and no additional barriers were created. The OPEC nations have given no evidence of any effort to buy up American firms. At the same time the inflow of investment frof Europe continues to increase steadily and U.S. foreign investment continues at a samewhat moderated pace. As of the end of 1974, the total book value of U.S. foreign direct investments totaled $ 119 billion. Of the total amount $ 45 billion, 38 percent, was committed to Western Europe. From the opposite viewpoint, foreign direct investment in the U.S. was $ 22 billion of which $ 14 billion, or 64 percent, was by European investors.

V. *Outlook.* It remains as true today as ever that the economic performance of each nation will depend upon the effectiveness of its domestic fiscal and monetary policies and how well it adjusts to the competitive environment created by the increasing integration of the world's economic system. Member nations of the Atlantic Community continue to share the same basic economic goals and they all face the same problems in their achievement. Fortunately, the disruptive experiences of the past when cooperation failed provide strong incentives to continue working toward a more open international monetary, trade and investment system. The specific day-to-day reform negotiations will be slow and occasionally abrasive. However, these temporary frustrations should not cause us to lower our goals but to use more realism and determination in achieving them.

Finn Gundelach:

Our recent economic experience has more than ever before shown us the necessity of close co-operation between the US and the EEC. We may have a number of differences between us, but the recent economic upheaval has clearly shown the interdependence between the US and the EEC. It has underlined the joint responsibility of the US and the EEC for the world economy. This responsibility involves co-ordination of major economic issues partly among the industrialized countries and partly between the industrialized and the third world.

Amongst the industrialized countries we have learnt that the really big issues in economic relations between industrialized countries are not the outstanding trade problems, however important they may be, nor how to find a new technical solution for an international monetary reform. The overwhelming issue for immediate action is economic stabilization, i.e. how to reduce the enlarged swings in the business cycle, unemployment and inflation. With these issues under control we will have a solid basis on which to treat trade, development and financial and monetary questions.

The industrialized countries participate in the so-called North-South dialogue, the aim of which is to avoid confrontation between the rich and the poor by creating a mutual understanding of common problems and economic interdependence. However, this dialogue will not bring us very far unless the same mutual understanding of common problems is created between th industrialized countries themselves.

In order to establish this dialogue between the industrialized countries, it is not necessary to erect new institutions imposing new formal obligations upon the participants. We have in fact today a considerable number of international organisations taking care of specific problems as well as more general questions (OECD). If the system does not work properly – and apparently it does not – it must be subscribed to lack of political will. Governments assume their responsibilities for the countries' internal development, but they are not inclined to assume any responsibility for international development.

Look at this in contrast to the fact that the US economy and the EEC economy are increasingly dependent on international trade. It then becomes clear that the governments' position is illogical and serves no purpose. On the contrary, governments' attitudes could well result in serious losses of confidence in the international economic system.

I do not emphasize this in order to put the blame on the US alone. The European countries should undertake their part of the responsibilities, but that they cannot do before they engage themselves internally in a true and efficient co-operation on economic problems. A commitment to this has proved much more difficult to obtain than to engage in a discussion of how to create a future political union, but it is much more important.

The importance of such co-operation is underlined by the present situation. Confidence in the future can only be restored if business circles feel convinced that the previously experienced "stop–go" policy will not be repeated. In order to achieve that, the underlying balance of payments problem needs to be solved by structural adjustments in our economies, which adjustments are equally necessary to diminish the problems of inflation.

It could well prove necessary to introduce specific measures destined to break the wages/prices spiral which often, during a recovery and even some time after, endangers the economic stability.

How the Americans would try to achieve this is not a matter for me to consider, but I think that for several European countries it could prove necessary to introduce income policies or other equivalent measures.

Both industry and labour must be involved more deeply than today in the decision-making process. Not in order to take responsibilities away from the politicians, but in order to create an understanding by the social partners of basic economic realities.

To this end, it is important to integrate employees in the decision-making process in industry. Workers' participation is probably the only feasible way in a modern complex society to bring into proportion conflicts of interest which are often artificial and more apparent than real. This is not least important in order to bring about confidence in a fair burden-sharing in the present situation where economic growth to a large extent necessarily must be used for structural adjustments, that is increased exports, investments in new energy resources, in energy conservation, protection of the environment and transfers to the developing countries.

Co-ordination – or call it dialogue if you prefer – between the US and the EEC is more important now than in the sixties, because the almost total collapse of the Bretton Woods system has resulted in periods of wild fluctuations in key exchange rates. An evolution like this can very well disturb international trade and investments more than existing barriers to trade for industrial products. These erratic fluctuations not reflecting changes in terms of trade are caused partly by lack of confidence and partly by lack of co-ordination of national monetary policies. The Rambouillet and Jamaica talks have in this regard constituted not unimportant progress. But obviously not enough.

It is not possible to stipulate one final solution to this problem. However, I am firmly convinced that institutional reforms in the International Monetary Fund or elsewhere do not contribute much to a solution. The real problem will usually be left behind. The link between external monetary developments and internal economic policies is recognized in the work towards an IMF reform, but all depends on whether the political will to co-operate on these issues is present. This implies that neither the US nor the European countries should regard economic policies as falling exclusively within national competences.

Another important issue at stake is the relationship between the industrialized world and the less developed countries.

Many less developed countries have claimed the need for a new international economic order. Their main problem is fluctuations in prices of raw materials which, for many countries, play an important role in their export earnings. In our opinion two ways are open. One is commodity agreements where we, like the US administration, are willing to consider the problems on a case-by-case basis. Where it is possible and economically justified we are willing to make a financial contribution for, for example, the necessary buffer stocks. We do not, however, accept the idea of a general indexation scheme. A system of this kind would set out of play the market forces which are necessary if structural changes in demand are to be reflected in relative prices and terms of trade for individual countries as well as for groups of countries.

Less developed countries must adapt their economies to the hard facts of life, although it is painful to do so and more painful for less developed countries than for industrialized countries. We therefore support the alternative idea of a system for stabilization of export earnings. In fact the system has already been incorporated in the Lomé Convention agreed between the EEC and forty-six less developed countries.

Incidentally, the Jamaica Conference also contributed to alleviating the immediate balance of payments problems of the developing countries. A bigger contribution must, however, be demanded from the oil producing countries.

When seeking solutions to international economic problems, the EEC and the US have a co-responsibility. Our interests and approaches are not always identical but nevertheless they are in the areas discussed sufficiently close to permit a convergence of positions rather than dangerous confrontation.

Still, I cannot hide the existence of a certain number of unsolved trade issues between the US and the European countries. While tariff reductions are becoming a less pronounced element in the GATT negotiations, a number of other issues are carrying a heavier weight. Such issues are non-tariff barriers to trade, safeguard clauses, agricultural problems and quantitative restrictions. While the EEC is willing to discuss the rules of GATT it is quite clear that we cannot accept rules conflicting with the GATT unilaterally adopted by the US. Any change of rules must of course be internationally negotiated, or we will be on the road to international anarchy.

An issue in the discussions between the US and the EEC is the EEC's agricultural policy. It is obvious that agricultural policy both in the US and in the EEC is a special case. Large interventions in this sector have been undertaken. While recent developments on the World Market have for the time being allowed the US to pursue a more liberal policy in the agricultural field, it is questionable whether this policy will last. In Europe, the social and regional consequences of a breakdown of the Common Agricultural Policy would be politically intolerable. The security of supply is also an important aspect which has been underlined by temporary US supply restrictions.

Of course we are, in the EEC, willing to discuss with the Americans problems in connection with the CAP, but in order to assess the problem, you should know that the EEC imports more agricultural products from the US than we export to the US. The Americans pretend to be liberalists at heart, but in the field of agricultural policy the proclaimed American belief in the doctrines of Adam Smith is at variance with what is practised. A somewhat less hypocritical discussion – from both sides – of the agricultural problems would be desirable.

From our point of view the Trade Act is a main hurdle in European/American relations. Especially the absence of a real injury clause in cases of alleged export subsidies and dumping is in our opinion contravening the GATT rules. It is reassuring, however, that the US administration has not so far adopted a protectionistic line based on the Trade Act. Nevertheless, the road has been opened for protectionist pressures creating a dangerously uncertain atmosphere and much negative publicity. We recognize that the Trade Act also opened the way for the broad multinational trade negotiations, aiming at further liberalization of world trade. We support these negotiations wholeheartedly and look forward to a constructive dialogue with the US as a principal partner in these endeavours.

International economic and political relations are based upon mutual understanding and acceptance. Confrontations are inevitable, but conflicts should be solved – and solved with respect to the international rules of the game. These rules must be brought in line with new economic and social realities.

Comment

ERIK HOLM (The prime minister's department):

In his introduction to the conference on international economic stability Niels Thygesen said that the purpose of the conference was not to give deeper insight into the problems of which the present international economic crisis is composed, but to *review these vast problems in their interrelated setting.*

I think that the conference succeeded in doing so to a rather large extent. A number of cross-references easily can be made between the papers presented at the conference. Similar lines of reference could be drawn to other problems apart from those focused on by the organizers, some of those problems, however, being found in the periphery of the issue of the conference.

Nevertheless, I doubt whether the conference succeeded in clarifying for the participants the scope for action which might be open for the politicians in order to recreate economic stability internationally. I even doubt whether the participants got a sense of direction as to where such action is mostly needed.

Most, if not all the speakers approached the question at issue in the way in which we have been used to tackle any problem during the last generation. We have been brought up as problem-solvers; we have been told to define problems as scientifically as possible, and to suggest rational solutions to them. These possible solutions we have presented to the politicians and then asked them to choose.

It might be the economists who have suffered the most from this upbringing in the philosophical school of functionalism where the basic assumption is "the primacy of the social and the economic over the political aspects of man's life".[1] But it certainly has left its imprint on the political scientists who also reasoned as functionalists when they intervened in the discussions.

Therefore, the conference did not succeed in establishing a dialogue between these two groups. In my opinion it was because no attempt was made to analyse the political foundations of the international economic system and its present crisis.

Should I try to make such an attempt in a brief comment it only can take the form of an "outrageous proposition" like the following:

Our generation has been brought up in a political stable world. We have got used to consider this stability as natural or self-evident, and therefore not worth worrying about. But just because we did not care, we have surpassed the boundaries or the preconditions of political stability and we thus now find ourselves in a world of instability.

Let that be *my* outrageous proposition. I think there is a very basic truth to be found in it, both in the international situation as

1. Robert Jackson: "Divergent Philosophical Approaches to Foreign Policy" in *In Search of a New World Economic Order,* edited by Hugh Corbet and Robert Jackson (London 1974). An excellent survey of the functionalist school is given in Charles Pentland: *International Theory and European Integration* (London 1973).