The Economic Club of New York

70th Year

The Honorable Claude Cheysson
Member, Executive Commission
of the European Community

The Honorable Elliot L. Richardson
United States Secretary of Commerce

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Questioners: Gordon W. McKinley, Senior Vice President
Economics and Financial Planning - McGraw-Hill

Wolf Schoellkopf, Senior Vice President
Chase Manhattan Bank

Introduction

Chairman J. Paul Lyet

Mr. Cheysson will be questioned by Mr. Gordon W. McKinley, Senior Vice President for Economics and Financial Planning at McGraw-Hill. Mr. Richardson will be questioned by Mr. Wolf Schoellkopf, Senior Vice President of the Chase Manhattan Bank.

Now our first speaker this evening is a distinguished member of the Executive Commission of the European Communities which is perhaps better known to most of us as the Common Market. He graduated from the famous French National School of Administration following his service as a tank commander in the French Free Forces having escaped from occupied France in 1943. In '52 he served as a political adviser to the Vietnamese government and later as head of the French Premier's private staff he took a leading role in the negotiations that brought independence to Vietnam, Cambodia, and Laos.

From 1957 to 1965, he turned his attention to Africa heading commissions that provided aid and technical knowledge to developing areas. In 1966, he was appointed French Ambassador to Indonesia and four years later he returned to France to serve as chairman of the board of the Chemical and Mining Enterprise which is France's largest chemical company.

In 1973, he was appointed a member of the Executive Commission of the European

Communities and his specific responsibilities are to promote cooperation with developing countries and to oversee budgetary and financial controls. He was the chief negotiator at the Lome Convention which has been widely hailed as a breakthrough in the relationships between industrialized and developing countries. Just last month, he signed important agreements with Algeria and Morocco and Tunisia on behalf of the European Communities.

He lives in Brussels in the headquarters for the Common Market. He travels a great deal to developing countries and also visits the United States several times each year. And we're most fortunate and pleased that he has taken time during one of these visits to address us. His subject will be, Facing the Third World in a Changing Society. Members and guests, the Honorable Claude Cheysson. (Applause)

The Honorable Claude Cheysson

Member, Executive Commission

of the European Community

Mr. Chairman, Mr. Secretary, and I just heard that we had been fellow fighters in Patton's army, in the Third Army at the time when Paris was liberated. Ladies and gentlemen, it is a great privilege for me to be accepted in this Economic Club of New York and to speak before this audience. A great privilege, but I must say I feel rather shy when I see the list of those who preceded me. I am the first member of the European Executive Commission to speak before you in 14 years after our former President, Walter Hallstein.

As the chairman said, my special responsibility in the Commission is to deal with Third World problems. And as this subject seems to be very much in the news, I have chosen it today, Facing the Third World in a Changing Society. I shall try, however, in my speech to follow the Economic Club's President's very good advice. He wrote to me, your speech will be related to the interests of the audience. This is very much my idea as I consider that relations between North and South are very much a concern for companies, executives, industry, banks, and not only problem for governments. Also remember that I have been an industrialist and, therefore, like to take such problems as a former colleague of yours.

Mr. Eckerman also said you should look forward. Your audience is used to thinking ahead. I am very pleased of this because I think it is essential when we think of our relations with the Third World to think of long-term development as it will take a very long time to shape. Also, as it is for me, a very happy occasion to think aloud and in long-term development, but I'm afraid that too often governments with which we have to deal in the European Commission have a tendency to be rather short-sighted and to consider the problems of the week, if not of the day.

Finally, the President of the Economic Club told me that I could be incisive, that I could be provocative; in fact, he meant I should not be boring. I shall do my best, although you will accept that I'm not speaking in my own language and that according to my watch, I'm five hours older than you are. (Laughter)

That we live in a changing society, you all know, so I shall waste very little time in recalling it. Monetary organized disorder, inflation, an increasing gap between rich and poor. You also know that there are signs of changes in the model of growth with which we live. You certainly realize that the changes are still more striking as far as the developing world is concerned. We have a political emergence of this Third World – political emergence which is partly due to their coalition, their concerted action, often I must say, in a rather destructive manner.

Economic emergence of the Third World too, due to their control of part of the raw materials and commodities which the industrialized world needs, due to the new wealth of a few ones. It's impressive to note that 65% was the increase in the value of imports in one year of the developing world. Therefore, these new countries in the picture are now in a position to be partners in world growth, when they feel and resent the fact that they have been suppliers of that growth until now.

May I underline the fact that we in Europe are particularly concerned with such development because we are dependent on our imports, on our external trade, much more than you are here in the United States. Seventy-five percent of our raw materials and commodities are imported. Fifteen percent is the figure as far as you are concerned. Our dependence on our exports to the developing countries can be shown very simply. If you take the index of exports of the European

Community, taking 100 for 1974, you find 110 in value in 1975, but only 95 towards industrialized countries, 135 to developing countries. We are more dependent than you are; we are more concerned with such problems therefore.

The problems at the world level have been stated by the Secretary of State a few days ago in Nairobi and by many other speakers in world meetings. Misery, hunger, poverty, despair for one billion inhabitants and they need additional financial flows of a great magnitude. For the most gifted, these financial flows should result from their own production. Therefore, from their access to our markets. Also from stabilization of the commodity markets. Not to impose artificial prices, but to reach a system through which regular and foreseeable changes in prices would be assured. Europe will take its responsibilities of course in that development at world level through its own resources and we have introduced a so-called general system of preferences giving duty-free access to manufactured products from the developing countries up to $5 billion a year.

But also, and mostly, next to the other industrialized countries, next to our American friends, next to the other OECD members, the industrialized world has a responsibility in this new order. In passing, may I note that the absence of part of the industrialized world in that common effort should be stressed more often than it is. Is it normal that the Eastern European countries should give so little financial aid when they deliver so many speeches about it? Less than $1 billion per annum, when the OECD countries give $13-$14 billion. Is it normal that 5% only of the external trade of developing countries should go to the Eastern European countries when 20% are taken on the American market, 40% on the European market? Is it normal that abrupt intervention on commodity markets should result into disruption of prices? Certainly not. These are problems that should be considered.

However, my intention today is not to go further in discussing, in considering the world approach, but I'd like to concentrate on an experiment that we make in Europe with developing countries, with some of them, with a more elaborate model of relationship. The chairman referred a few minutes ago to agreements that we signed, comprehensive cooperation agreements, with 46 countries in Africa, Caribbean, and the Pacific in February '75. Similar agreement that we have signed with three Arab countries a few days ago and that are being negotiated with other Arab countries in the Middle East.

What is the basic idea of such agreements? Before answering, I'd like you for a minute to try and understand the problems of developing countries seen from their own side. Most of them have struggled for independence. They have suffered to gain independence. Like young people, they are proud. They're anxious to prove themselves. They're anxious to stand together between brothers, although they fight with one another most of the time. They long for economic security, for stability. They need it too if they really want to develop because underdevelopment means lack of resources and resources should be used to the best which means some degree of planning. Mostly, they want to invent their own development and I think they're right.

There is no development that does not start from the society as it is, from the culture as it is, from one's own history, from one's own past, faith, and belief. Self-reliance is the basic factor of development. It is with their hands that they should build their countries, their nations, their future. We can just add tools to make these hands stronger. It should be their development as invented by them. They should try and face that situation that we have proposed the comprehensive agreements which I want now to describe.

I say that our partners should build their future with their own hands. And these hands should be strengthened with tools, with instruments, but with instruments of every possible kind. Financial aid, of course, and we, under the so-called Lome Convention, now give $4 billion over four years, $1 billion a year, for development of Black Africa. We are the first donor in Africa. But also access to our market in order that they can increase their resources with their own means, with their own production. Duty-free access for 99.4% of the exports of the African countries, a little less in the case of North Africa and the Middle East. Access to our market but also promotion of their trade, promotion of their industry, which means the famous transfer of technology which in fact means training of people in order that they should have the access to the kind of knowledge of our markets, of our commercial technology, of our industrial technology, of our management skill.

This should be done within their culture as I have said. This is why we have decided in these types of agreements that priorities will be chosen by them and not by us. As a result, 40% of our aid will be used for agriculture, mostly for subsistence crops. Development should start at home and should start right at the roots of their own culture and future.

Means adapted to their needs, therefore, financial facilities should go first to the poorest. Trade preferences should go first to those that have the greatest detriment in their trade action. Stability and security, did I say, there we've tried hard to enter into new experiments. One is a kind of insurance scheme through which we offer to the least developed, those that depend on one export, we offer them compensation if their export earnings suddenly fall. Whether it be due to some climatic accident, there were, how do you say ____ in Nigeria recently, or whether it be due to our own recession at home, we buy less timber this year as the housing construction programs have been decreased, we offer compensation. Also we give them stability because this whole set of tools, instruments, facilities, are guaranteed under treaty, under international treaty, ratified by our nine parliaments and therefore escape any unilateral decision which we may be tempted to take if one or a number of partners does not behave as we expected them to do.

Finally, this kind of offer we make to groups of countries because we feel that cooperation between them is part of their dignity, is part of their future. We want to make no choice between them. We want to ignore the conflicts between them. We want to play on detente – cooperation, peace – rather than on their clashes, conflicts, as are unavoidable in the present circumstances. And we feel that we, therefore, comfort their independence, force them into a kind of cooperation which goes in the right direction. May I quote what Yigal Allon; the Vice Prime

Minister of Israel said when he signed the agreement with us, "in the Middle East as in Europe, economic regional integration should constitute a powerful incentive to peaceful coexistence." This is our wish.

This is no new approach to Americans. After all, when you approached us after the war, and you offered to help Europe to rehabilitate under the great name of General Marshall, he approached all of us. He guaranteed all of us of our means of development. And if we want to assess this kind of approach, just think, – it's an absurd hypothesis – but just think of the impact that would have a similar type of agreement between the most powerful country in the world, the United States, and a region somewhere in the world, say Latin America for the sake of the argument. Whatever the regimes, whatever the competition, resulting of the free entry of products, manufactured products from neighboring Latin states. This has implications of course. We have accepted a kind of, may I say graft, of their ambitions on our own economy. It is true, we have offered that only to a small number of countries, or at least with small numbers of population, but still we have accepted that graft.

Of course, we are going to gain a better security of access to the raw materials that we need, and a number of them are in Africa, to their markets. We can also plan our exports likely better. Mostly if we enter into long-term contracts as I hope we shall for agricultural products. Another positive aspect is that it may appeal, it does appeal to our public opinion. It is a grand design directly linked with the history of a number of member governments of the European

Communities. And, as you know, what is related to our past has a better appeal to our people. It is not in the year when the United States celebrates their bicentennial that I should recall this. But on the other hand, undoubtedly, the organization of that competition on our own markets, that division of labor which we build with our own hands, will have an impact on our economy, possibly on our employment.

It will mean a restructuring of our economic prospects in the future. I think that I'm confident this can be done. It can be done, one, if there is growth. There is no sharing of existing wealth without conflicts and tensions. But there can be a sharing of the fruits of growth. With this kind of cooperation, integrated cooperation, between Europe and a number of developing countries which are already inter-dependent, we feel that we help, we promote that growth and that we can therefore find the complementary character between our economies.

Secondly, this policy, to be sensible, realistic, must be decided by all forces which are involved. It is no more a marginal policy. This policy of relations with the Third World will bite on our other polices, on our other economic development aspects. Therefore, all forces in our countries should be associated with the running of such policies. This is why in our cooperation agreements we have provided for consultation, constant consultation with the European Parliament, with our trade unions. This is why we have set up a so-called Industrial Development Center. Because, and I'm turning to you, my friends, the driving force for such development must be and can only be the industrialists, the bankers, the traders, the brokers, all those that know the realities of economic life, those that have the technology, those that will run the risk abroad and at home, those that will share the market, those that should take advantage of the economic opportunities offered by this kind of division of labor.

In the countries of our partners, the intervention of these operators, these entrepreneurs, will often take the form of joint ventures. Shared capital, but also leasing, long-term trade contracts, other types of sub-contracts, management contracts, servicing contracts. This will entirely be done under the responsibility of the entrepreneurs. But there are risks which companies cannot take. Risks of a political nature, risks of overproduction, of direct competition in improperly planned conditions.

Therefore, such policies which are led by governmental authorities, will never succeed without the full support of the entrepreneurs, operators, but on the other hand, the operators cannot enter into such ventures, into such risks without a full cooperation with public authorities. These should help where need be through technical and financial aid in developing countries, through guarantees at home, given under a national system or international schemes, through credit facilities, through the negotiation with our partners, negotiations that will be all the more profitable and interesting and they will bear on different subjects. A guarantee given in one field becomes much safer if other fields of cooperation are covered simultaneously.

This, of course, leads me to refer to the multinational companies. Secretary Richardson wrote recently that due to the action of multinational corporations, internationalization of production will in time do for the less developed countries what the industrial revolution did for the developed nations. I agree with him that such structures, such methods are needed. But this represents a tremendous power. And a great difference between what is happening on this international, multinational level, and what happened in our own countries is that we have not yet found the ways to establish a democratic control on such power. And this is a great must for the days, the months to come.

A similar reasoning should be made when we think of the implications of such policies within our own countries. Who can advise on the fields where transfer of activities can be accepted, should be profitable, when it is feasible, under what protection, with what guarantees, with what implications, again it is the enterprises and not the public authorities. But, on the other hand, who should take the risk of the political discussion? Who should take the responsibility of reconversion, restructuring at home, needed by and through that transfer of activities overseas? It is the public authorities. There again cooperation between both is needed.

We think at the European level that we have got the facilities enabling us to enter into such policies as we already spend now a good $3 billion per annum in forms of credits and grants for social action, regional development action, support to reconversion of industry.

So the key to all these policies is proper coordination between free enterprise and public authorities at all levels – international, world level, regional, I have said European, national. This is essential for such a new order, for such types of profitable, mutually profitable relations between North and South. But I think that this problem of cooperation between free enterprise and public authorities goes further than relations, North and South. In fact, it is the problem which we must face if we really want to be able to restructure, to adopt the changes in our societies which are needed now following the domestic demands for such changes. Demands of our youth, demands of our workers, demands due to the change in the model of growth, demands due to the insistence on the quality of life. No one can enter into such changes, no one, be he right or left, without the dynamism, the strength, the motivation of the enterprise. If we do not do it that way, we shall have to resort to some bureaucratic management which will probably prove ineffective, inefficient. And this will probably too lead to totalitarian methods.

The challenge is for the market economy inspired by the spirit of free enterprise, provided it accepts to be organized, controlled, managed democratically. The problem is difficult. I know no country in the world where this corporation between free enterprise and public authorities is entirely satisfactory and successful. But I thought that in this Economic Club I could draw your attention to the problem and tell you that we very much rely on you in America. We rely on your colleagues and partners in Europe for such development. Our western frontier in Europe is South. But the basic problem of interdependence is the same for all and also the place of free enterprise, of the spirit of entrepreneurship in this kind of development. Thank you very much. (Applause)

Chairman J. Paul Lyet: Well, thank you. Thank you for a most informative and interesting message, Mr. Cheysson. We are most appreciative. These dinners have one important characteristic in common and that is without exception our speakers are among the most distinguished in their fields. I cannot remember, though, when we have been honored as we are tonight by a man whose background can be termed totally unique. He is the only person in the history of the United States of America to have held four different Cabinet positions. His career of public service blends diversity and achievement on the federal and state levels of government as well as in the fields of law, education, and public affairs.

In the interest of time, just let me list for you only the positions he's held over the past 12 years. He moved from Lieutenant Governor of Massachusetts to Attorney General of Massachusetts to Under-Secretary of State of the United States to Secretary of Health, Education, and Welfare to Secretary of Defense to Attorney General of the United States to Fellow in the Woodrow Wilson International Center for Scholars and to Secretary of Commerce, a post he's held since February of this year. He holds a law degree cum laude from Harvard and honorary degrees from 14 colleges and universities. As Secretary of Commerce, he also serves as Chairman of the Energy Resources Council and the President's Task Force on Corrupt Business Practices.

It is a privilege to present one of America's most outstanding public servants, the Secretary of Commerce of the United States, the Honorable Elliot L. Richardson, who is going to talk to us about the creation of wealth. (Applause)

The Honorable Elliot L. Richardson

United States Secretary of Commerce

Thank you very much. Thank you very much Mr. Chairman. Monsieur Cheysson, distinguished guests, members of the Economic Club of New York. It always gives me an uneasy feeling to hear that recitation. But I cannot help on this occasion, Mr. Chairman, pointing out that you left out my best job, Ambassador of the Court of St. James. I have adopted for the first time in my life a concrete career goal. I hope that sometime between now and my 76th year, a President of the United States will allow me to fill out a full tour of duty in the U.K.

It is a great honor and a great pleasure for me to address this distinguished gathering tonight and to meet under such pleasant circumstances with so many leaders of the American business community. It was a happy discovery, in addition, to find that my predecessor on this program and I were comrades together in the liberation of Paris. An unforgettable day for me, the only one I think in my entire life on which at the end of the day my face literally ached from smiling. Ah, yes, Monsieur Cheysson says, and from being kissed. That is true. (Laughter) But my dog got more attention than I did. I hadn't thought of mentioning that. But I've had a little; I had a petit fox(?) that I had picked up on a battlefield, a counter-attack on a village called Mortagne. And I had this dog under my arm as we rode through the outskirts of Paris toward the Ile de la

Cite through a dense crowd of French men and women and children. And all the way along they would notice this little dog and say, oh, (Speaking in French)...I was badly upstaged that day. But of all the jobs I have held since that great day, none have been more gratifying or more instructive than my present one as Secretary of Commerce, and none, without exception, has given me a greater feeling of virtue. Now I am sure that many members of the intellectual establishment as well as those members of the public who show up on opinion polls as having a low estimate of business, I'm sure that these would be rather shocked by that statement. Certainly I must have felt more virtuous, more public-spirited at the Department of Health, Education, and Welfare or any of the other departments, all of whose concerns are commonly regarded as being more exclusively directed toward the public interest. No, not so at all.

This is the kind of wrong thinking, in fact, that I would like to set right this evening, the kind that assumes in large part that our business organizations lack social purpose, that the private pursuit of gain is all there is to business, and that business activities are therefore somehow ignoble and less than good.

Let's examine for a moment what we are really talking about when we refer to business in our society. In the most fundamental sense, fundamental to the very existence of a viable civilization, when we talk about business, we are talking about the creation of wealth, of useful goods that constitute the margin of survival for a society. Without these goods, without the margin of survival that wealth provides, we are brutes. No society can exist for long without the means to accumulate wealth. Moreover, the possibilities for human dignity, for the higher levels of organization and information that we call civilization, are wholly contingent on the production of useful goods, contingent on widening the margin of survival from the level of the brute to ultimately the level of the philosopher who, because he is relieved of the necessity of scraping for survival, has the time and the inclination for the pursuit of wisdom, the pursuit of justice, the pursuit of beauty, the pursuit of happiness.

Just look at those societies, those developing nations of which Monsieur Cheysson has already spoken this evening. I might add, sir, that if English is your second language, I cannot imagine the fluency and coherence with which you must speak in your own. (Applause) Those developing nations that are unable to generate wealth on a scale equal to the needs of their people, people who struggle desperately for survival on incomes of less than $200 a year, people for whom the refinements and surpluses of our society are beyond imagination – let alone expectation. Essentially they lack the means, they lack the business institutions that can effectively organize human effort, utilize material resources and establish an economic system for the creation of wealth. That is the elemental difference between developed and developing nations – the ability to create wealth, to create an abundant supply of useful goods, and it is a difference that our affluent, take-it-all-for-granted society cannot afford to overlook. So you can see why I advance the proposition without apology and with only the most obvious of caveats – that the true role of business in our society is the most fundamental of all bar none, which is not to say of course that every businessman in search of a sale is acutely aware of this role – no more than the foot soldier in the front lines is acutely aware of the grand design of battle or the purpose of the war. But he contributes to the victory just as the businessman fulfills the fundamental public purpose of business. In short, he does good by participating in the creation of wealth.

Similarly, to effectively manage as you do the creation of wealth, wealth on a scale that benefits others far more than yourselves, even though you are well, I trust, or at least adequately compensated, that is a virtue. That is acting in accordance with society's common good. And I think we can derive some meaning, not semantically precise perhaps, but some meaning from the fact that the words "wealth" and "weal" and "well being" share the same etymological root, just as virtue comes from the Latin word for strength. In the same vein, I think I can say that since it is the broad mandate of the Commerce Department to foster the economic activity of the United States, to foster the creation of wealth, that no department of government has a more basic, more important role to play which is why I feel a sense of virtue.

But I didn't come here tonight simply to tell you how I feel about myself or to persuade you to feel better about yourselves. Misconception about the true role of business goes far beyond the matter of public image or personal feelings. It goes, in fact, to the very heart of the debate about public purposes and to the very root of many of the economic problems we face today.

The great debate falls around the uses of our wealth and especially the claims of public interest on that wealth. But our society has become so accustomed to having wealth with a per capita income of almost $6,000, that the debate has become structured in a way that overlooks not only the necessity of creating it, but the limits, the finite limits of that creation. In other words, we, in the economic community, have allowed our critics to stack the cards against us. As a result, we are faced with an impossible number of proposals and demands on the public uses of the nation's wealth – demands which in the aggregate if carried out would critically overload the engine that produces wealth. Every proposal, every demand has a legitimate self-contained public purpose – protect and enhance the environment, protect and improve the occupational health and safety of workers, use energy more efficiently. You know the list better than I. The capacity of the economy – there are limits and straining those limits impacts on the other public and private purposes we are trying to pursue as a people.

What is needed is a legislative mechanism that encourages broad scale public participation in the decision making process and at the same time establishes a time table for action. And I think President Ford has shown the way to do this in his plan for regulatory reform which he sent to the Congress just last week. Now every government regulation of business activity originally had a very valid, presumably necessary public purpose. But in the aggregate, they constitute a serious drain on our national wealth. In fact, according to the Office of Management and Budget, the total costs of "unnecessary and wasteful" government regulation amounts to a staggering $130 billion per year or $2,000 for each American family.

I question whether this is all wasteful spending but there is undoubtedly much waste, especially in cases where the incremental costs far outweigh the marginal additional benefits of a given regulatory activity such as I mentioned – removing the last 5% of particulate emissions. The question must be asked can we achieve the same purpose less expensively. Obviously some hard choices have to be made without delay and made with public participation.

The president's plan called, The Agenda for Government Reform Act" has four principle objectives. First, to encourage broad scale public participation in the decision making process through public hearings in all parts of the country. This fundamental re-examination of regulatory practices will not only foster increased public understanding of how the system works, but also how it affects individual Americans. Second, to focus attention on the cumulative effect government actions have on individual sectors of the economy, thereby laying the foundation for lasting common sense solutions to our regulatory problems as well as highlighting the tradeoffs involved in all public restraints on economic activity. Third, to minimize the cost which government programs impose on taxpayers and the general economy through paperwork requirements, unnecessary program duplication, and compliance requirements that multiply the cost of government intervention. Fourth, to require the president and the Congress to act on concrete reforms according to a specific schedule.

And here's the way the plan will work. In each of the next four years, the president and his advisers will consider a different sector of the economy in all its regulatory aspects except taxes.

By January 31 of each year the president will then forward specific proposals to the Congress. If the House and Senate do not act on the proposals by November 15 of that year, they automatically become the pending business on the floor of each body and remain so until accepted or rejected. That, I submit, is a realistic, workable approach that could, if adopted, greatly reduce unnecessary government infringement on the marketplace and result in better, less costly ways to achieve social goals. It will also allow us to analyze systematically and achieve a consensus on just what our long-term public interests are and just how much we are willing to spend to achieve them.

How much is it worth in disposable income to achieve clean air of a given quality in a given period of time? How much is it worth in job creation to apply given amounts of capital to job safety? How much is it worth in capital formation with all that implies to provide given amounts to health insurance under Social Security or even national defense? These are the kinds of choices we have to make, free choices, and hopefully wise choices, but choices nonetheless. Choices on the use of our wealth, but choices that must not be allowed to inhibit the creation of that wealth. And that, I think, is where we came in. Thank you. (Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN J. PAUL LYET: Thank you Mr. Secretary. And now to the questions. Mr. Gordon McKinley is going to question Mr. Cheysson.

GORDON W. MCKINLEY: Mr. Cheysson, I'd to begin with a number of questions...(Problem with Audio)...Mr. Cheysson, I'd like to begin with several questions all of which are directed really at one important problem, and that is the problem of facilitating the flow of private capital to developing countries. Recently Secretary of State Kissinger has proposed the establishment of an industrial resources bank, one of whose functions would be to, in effect; facilitate the creation of what I would call three-party contracts between the investor, the bank, and the developing country. Thus, protecting or increasing the security to the investor, helping to ensure full participation by the developing country, and lessening the natural fear and distrust that is likely to occur in this area. Now my question is, what does the European Economic Community think of Mr. Kissinger's proposal? And will you support it?

THE HONORABLE CLAUDE CHEYSSON: Thank you very much. First, I'd like to say that this proposal of Secretary Kissinger has not been considered formally by the Council of Ministers of the European Community, therefore I can give no formal answer to your question. However, I'd like to give my personal views. And there I shall make several comments. The first one is in this resource bank proposed by the Secretary of State, it is not clear in our minds whether there would be public participation or not. Secretary Richardson a little earlier used an expression which I like very much which was the public participation in decision making. Will there be a public participation in decision making of this resource bank? This for me is a very important point to know. Secondly, I think that when we talk of joint ventures with developing countries and this three-tiered system which you mentioned goes right along such lines; we must see that the joint venture approach is not necessarily limited to direct sharing in equity capital. In some countries, this is the best way by far, and a great number of developing countries accept foreign investment. And it's quite interesting to note that some socialist developing countries, which were dead against any foreign investment, have progressively changed. You know that Syria now has started accepting foreign investment under certain conditions. But still there are countries that resist the entry of foreign capital or that limit this entry. Still there are other possibilities for joint ventures and I have indicated some areas a little earlier. You can give to a company established in the developing countries' financing facilities short of taking a direct share in the equity capital through financing guaranteed by long-term production contracts, by long-term trade contracts, on the products of this company. You can find other means of financing, and I leave it to you to go further in that thought. So on the whole; we are very much for a system of international guarantee of investment in developing countries through some kind of three-tiered system, whether the investment to be guaranteed is direct shares in equity capital or other means of financing. But we feel that there should be some public participation in decision making resulting in some kind of control by public authorities in what is finally done.

GORDON W. MCKINLEY: Carrying forward still this idea of the flow of capital, there have recently been proposed a number of codes of conduct for multinational companies. And I believe that right now in Paris the OECD is considering such a code. May I ask you whether you believe that the OECD actually will produce a code of conduct for multinational companies? And in view of the fact that that code will have been produced by the developed countries, what do you think its reception may be in the developing countries?

THE HONORABLE CLAUDE CHEYSSON: There is one great difficulty with the developing countries just now which is that when they talk about a code of conduct, they think of a binding code. And we, in the European Community, just as you on this side of the sea, are against a binding code. We think that a code of conduct should be non-binding, that the implementation with respect of such a code might open special finance credit facilities, yet but that should be a binding code, we are against it. To answer your question now, I very much hope that the OECD finds an answer. As you know, it is not the only forum where such an idea is being discussed. It's also being considered in the United Nations criteria – more particularly under the Under-Secretary for Economic Affairs, Gabriel van Laethem. I think it's quite important that we should try and find an answer to this problem. But by the way, the code of conduct for multinationals is not only needed in developing countries, or you may consider that European countries are still developing (Laughter), but the need for such a code of conduct, widely publicized and respected again on a non-binding basis, is very important too in our own society in Europe.

GORDON W. MCKINLEY: Along with receiving capital, the developing countries are very much interested in hastening the transfer of technology to their countries, to the lessening of patent restrictions, to the inhibiting of the so-called outward brain-drain, and to the hastening of the appointment of local officials to executive positions in foreign countries. What do you think is the best way of accomplishing or hastening this transfer of technology while at the same time protecting the interests of the companies who are providing, or bringing in that technology?

THE HONORABLE CLAUDE CHEYSSON: The transfer of technology has become a very fashionable expression. It's used now by almost every politician in the world including your good servant here today. Transfer of technology is not only a problem in the industrial field as I consider that the kind of technology which is needed in developing countries is also of a commercial nature. I'm always struck by the interest which most developing countries show in production and the complete ignorance of services, of trading, marketing, let us say of the commercial approach. Too many experts, engineers, in developing countries consider that the point is to produce and that the rest will be left in fact almost to no one. So transfer of technology, industrial technology, commercial technology, don't forget agricultural technology, because after all, the development of agricultural production is one of the most important factors for the future of developing countries. Now how can one facilitate a transfer of technology? I come back to the, what were the core of my speech a little earlier, indeed technology which is needed by developing countries to improve their resources, their production, their wealth – to take Secretary Richardson's expression – this kind of technology is not in the hands of government. It is not in the hands of public authorities. It is in the hands of what I call the entrepreneurs or operators. So this transfer of technology will only be made possible by your interest in more production, in better trading, in better servicing. It's only through these joint ventures, whatever the form, that the transfer of technology will be made possible. The second idea about this transfer of technology, it is first and foremost a question of training. This is not the kind of technology which you read in a book and then apply. The kind of technology which should be transferred, and this goes from management skills to trading, marketing possibilities, will result into the training which can only take place in joint ventures because it means field work, because it means practical, actual experience. Finally, I consider the best guarantees that can be given to those that will enter into such joint ventures is that interdependence be built systemically where it is possible. When we sign a comprehensive agreement, let us say with Tunisia, Tunisia is a small country with a liberal economy, with excellent people that have a long tradition of merchants, of traders. When we sign a comprehensive agreement with them, it means that they're going to be dependent on us in quite a number of different fields – for their supply of foodstuff, for the kind of products, agriculture products which they cannot make economically, for the financial aid that they will receive from us, for the technical assistance which they will have from us, mostly, through the access to our market which gives them chances to a number of export industries, of new manufacturing industries in such a country. All this being laid down in a comprehensive, in a global agreement, means that the guarantee on capital investment or the guarantee on a specific joint venture will be protected by all the other interests of the country concerned. They will not take the risk, or there is a better chance that they will not take the risk to lose all the benefits that result from the other parts of the agreement, simply to take ownership, to confiscate property in one special specific venture.

CHAIRMAN J. PAUL LYET: We'll have a chance of pace. Mr. Schoellkopf, are you prepared to question.

WOLF SCHOELLKOPF: Mr. Secretary, my first question concerns foreign policy. My only hope is that my manner of speech doesn't remind you of somebody else. (Laughter)

THE HONORABLE ELLIOT L. RICHARDSON: And why not indeed.

WOLF SCHOELLKOPF: And therefore isn't overly disconcerting. For many years, the Panama Canal has provided important benefits to our defense and our commerce. Now our future role is being debated. My question is, what type of arrangement with regard to the Canal would you consider as sufficient to safeguard both our military and our commercial interests in future years?

THE HONORABLE ELLIOT L. RICHARDSON: This is, I take it, is a question directed to the internal party politics of the Republican Party – a debate that has otherwise not stirred the country. (Laughter) But I am happy to address the question nevertheless. It's important, I think, to emphasize that the difference between the candidates is a difference simply of means. The question is by what means best to assure the security of use and access to the Canal over the long-term future? President Ford's opponent would have us believe that the best way to accomplish this is through a reversion to the gunboat diplomacy of the immediate post-1900 period when we talked about walking softly and carrying a big stick but in which we were quite willing to flourish the big stick at a moment's notice. The reality of the situation, of course, is that Latin America as a whole and more especially the Caribbean area consists of countries who feel a very strong sense of national identity, who feel to a degree threatened by the great strength and power of the United States, and who in today's world are not likely to be willing to be pushed around by gunboat diplomacy and who, should they be threatened by it, have the ability to mobilize in support of every similarly situated country. The situation is precarious enough already in that area and especially in the Caribbean so that we cannot afford to take the attitude that we are unwilling to discuss terms on which access to and control over the Canal will be continued for a very long period without making the central issue the question of sovereignty in the technical sense. And so our negotiating objective is one under which by a willingness to make some concessions on the issue of ultimate technical sovereignty we are enabled in the meanwhile to maintain for an indefinite period effective control. And I, for one, believe that this latter approach is the one that best protects U.S. security and commercial interests in the long term. (Applause)

WOLF SCHOELLKOPF: Thank you very much. The administration recently decided to continue its ban on export/import bank loans to South Africa despite the fact that very sizable export orders were at stake. This may seem as one other instance where U.S. business is being used as a tool of foreign policy rather than the other way around. My question is what is required to achieve a proper order of priorities between U.S. commercial objectives and merely diplomatic considerations?

THE HONORABLE ELLIOT L. RICHARDSON: I would have to answer that on two planes. The first and more fundamental one which your question really addresses requires the answer that we need to think through more carefully the question of the degree to which trade, economic relationships can usefully be harnessed to political objectives or made subordinate to that. This is a matter in which in my own brief tenure thus far as Secretary of Commerce, I have felt we should address a systematic review of U.S. policy. By and large, in an economy that does depend upon the decisions of the entrepreneurs to whom Mr. Cheysson has referred, it is not easy or often feasible to harness political objectives to economic transactions. This is so because we cannot ordinarily justify terms in a business deal that we would not otherwise have accepted because there was involved at the same time some extraneous goal, especially a goal that we cannot also talk about as publicly as we can discuss the terms of the business deal. But passing that, and looking to the question specifically of the continuing ban on Ex-Im bank loans to South Africa, again I think we have a short and long-term set of considerations to address. For the long term, quite apart from our security interests in the relationship of the United States to Sub-Saharan Black Africa as a whole, and I think these are important, we should also, I think, have in view the enormous markets that are represented by these countries, the opportunities for investment that are represented by them also. If you could imagine a substantial compounded annual rate of growth in those countries to which we contributed by all the means that Mr. Cheysson has addressed, we could, I think, look forward to a far greater potential economic opportunity than is represented by South Africa alone, at least then is represented by the marginal gain to our business in South Africa that would be brought about by relaxing our policy on Ex-Im bank loans. And so I think in that particular case both our political and our economic objectives for the long-term are in full accord.

WOLF SCHOELLKOPF: Mr. Secretary, responsibility for foreign economic policy is shared by a number of departments and by several agencies, but it seems to lack a single leadership and thrust. How would you propose to remedy the situation assuming you think it requires a remedy?

THE HONORABLE ELLIOT L. RICHARDSON: Well, I don't have any handy-dandy solution. And the reason is, of course, that just as military policy may be too important to leave to the generals, so foreign economic policy is too important to leave to any one government agency. There are very genuine interests, of course, from the standpoint of the Department of State, the Department of Agriculture, to a degree the Department of the Interior, certainly the Department of Commerce. We are all represented on the so-called CIEP, which is the Committee on International Economic Policy. And there is, at the same time, meeting regularly now the Economic Policy Board on which any agency that has a stake in a particular decision is represented on a given day and whose executive committee meeting continually includes the Council of Economic Advisers, the Department of Treasury, and the Department of Commerce. This serves, I think, as the most effective inter-departmental body that I have ever served on or worked with. And I really don't see any way whereby interests as broadly ramified as these can effectively be consolidated in a single place. We simply cannot create a mechanism that excludes or forecloses the interests of the Department of Agriculture for example and agricultural exports or in the terms of the ultimate agreements that may be reached in the MPN and so on. And since that is so, then I think our only practical course is to rely on inter-departmental bodies like those I've mentioned and to try to improve the effectiveness with which they operate.

GORDON W. MCKINLEY: Mr. Cheysson, may I continue with my questioning. The Third World has called for a new international economic order presumably primarily to improve the terms of trade in their favor. And specifically, they have proposed the indexing of a group of 17 basic commodities to a group of, I believe it's 89 manufactured goods. In your opinion, is this overall type of commodity agreement the best way of handling the problem of international commodity stability and the terms of trade?

THE HONORABLE CLAUDE CHEYSSON: Well, you certainly know that the Europeans as well as the Americans, Japanese, other OECD members stand very strongly against this comprehensive approach. We do not think that such an indexing system makes sense in our market economy. We do not think that the various commodities which should be covered by commodity agreements can be dealt with in the same manner as conditions are different from one commodity to another. There are commodities that have substitutes, others have not. There are commodities where buffer stocks can and, therefore in our opinion in Europe, should be used to stabilize the changes in prices. Again the problem is not to increase prices artificially but to see that the sudden, abrupt changes in prices should be avoided in the future. Every commodity has its own problems. A number of methods can be discussed at world level are right, but then on every commodity we'll have to see what method should be used. And it will not be the same methods for all commodities by far. Anyway, this type of indexing makes little sense. We should not forget also that we do not represent only the interests of industrialized countries when we try and take a stand on the general commodity problem and that a great number of developing countries already suffer from the increases in prices of commodities. A general indexing system would be very detrimental to the poorest in the world, would be quite beneficial by the way to these big industrialized countries. In fact, they are countries with large areas, they are countries with a continental basis in which they can find most of their own requirements plus export facilities. So a general indexing system would be very detrimental to some of the poorest countries in the world, would be very beneficial to the some of the already wealthiest countries in the country. We are positive this is not the proper answer to the problem.

GORDON W. MCKINLEY: That's interesting that you anticipated my next question by already referring to what I believe would be the very strong inflationary impact of such an indexing system. But may I move then from that overall type of commodity agreement to more specific commodity agreements. And I address this question particularly to you because I believe I'm correct in saying that France has shown somewhat more sympathy to individual commodity control agreements than many of the other developed nations. And in view of that, may I ask you, yourself, this question. Although commodity agreements certainly have a theoretical appeal, is it not true that with a few minor exceptions, the past history of such commodity agreements has shown that unenforceable, unworkable, and lead only to black markets or the development of alternative sources of supply which turn out not to be in the interest of the countries that they were intended to benefit?

THE HONORABLE CLAUDE CHEYSSON: It is not only the French government, but I think I can say every government in the EEC that believes that there are commodities for which commodity agreements may be useful and proper. However, a number of comments should be made. One, the running of any commodity agreement should not be left to one party only. In other words, a commodity agreement should, when proper, and this will not be for so many commodities, should be run into a kind of consumer-producer forum where all interested parties are represented. Two, I refer to what I said earlier about the absence of the state economy countries, the Socialist countries of Eastern Europe, from these discussions. The Eastern European Block represents 28% of the purchasers of rubber, 11% of the purchasers of wool. Even when their intervention on the market is limited in volume, as it can take into account their own system of economy, as it can be very sudden, it has a great disruptive effect. Just remember, when was it, three years ago, almost three years ago, the sudden purchase of wheat by the U.S.S.R. which resulted into an increase of wheat prices by 50% on four weeks. So I do not see how we can go much further in discussion of commodity agreements without knowing where Eastern European countries are going to stand. I do not mean that they should necessarily be part of agreements, but at least a, may I use the expression used in a different connotation earlier, that a code of conduct should be included with that. It might be bilateral agreements or for the kind of agreement which you, the United States, have now signed with the U.S.S.R. for their grain purchases may be the beginning of this kind of conduct in such a field. So in brief, there are not many commodities in our opinion where commodity agreements are proper. We feel there are some, there's already a tin agreement, we attach great importance to the discussions on copper just now. We feel that for a number of agricultural commodities there may be a scope for commodity agreements, but again, each commodity agreement being drafted, prepared, and then run according to the merits.

GORDON W. MCKINLEY: Thank you Mr. Cheysson. I think in the interest of time I should ask Mr. Schoellkopf to present his question.

WOLF SCHOELLKOPF: Mr. Secretary, I have a number of questions on capital shortage and the tradeoff between inflation and unemployment. But since time is running out, I'd like to ask you about your professed love, namely Britain. As our Ambassador to Great Britain, you have been able to observe the workings of the British economy at close hand. Britain is a member of the European Economic Community and its economic performance remains unsatisfactory. Today, the pound for a while fell to $1.80. How do you see Britain's economic future?

THE HONORABLE ELLIOT L. RICHARDSON: I think the problem of Britain's economic future is really a function of the degree to which the people of Britain are capable of facing in a steady, clear-eyed way the realities of the situation that confronts them. I think that the degree to which they do this will in turn influence their ability to do the things they have to do to survive economically. I derive some ground for confidence that they will succeed in this from their performance with respect particularly to the problem of inflation. During my own tenure there, there occurred a 180 degree about-face on the part of the British Trade Union Congress in light of the discovery that their own wage demands were not only producing a runaway rate of inflation, but destroying employment. They discovered that their wage demands were being nullified by inflation at a rate which prevented any real gain in income but worse than that, that this rate of inflation was destroying the confidence necessary to encourage consumers to spend and advantages to invest in plant and equipment. So at least they then were able to agree upon the 6 Pound limit which has been held intact since then, and more recently on the 4 ½ % wage limitation contingent on a corresponding reduction in taxes. The serious problem that still confronts them, or the two serious problems, are one, their willingness to face the necessity for curbing the rate of government spending in order to permit a larger rate of investment in plant equipment, and secondly, in the development of policies that will encourage, provide specific incentives for investment. And here too I find some reason for encouragement. For example, at the British Labor Party Conference in Blackpool in Last August, there was published an extensive analysis of the problems of investment in Britain, which reviewing past history included that this performance had been poor. The recognition was explicit that something had to be done to increase the rate of investment and improve the overall level of productivity. But nothing was said about the incentives necessary to encourage investment. This was in August. But in December, the Prime Minister, the Chancellor of the Exchequer, and other British Cabinet members met with representatives of the Trade Union Congress and the Confederation of British Industry at the Prime Minister's country residence in Chequers. At that meeting, another paper was issued. That paper reviewed the same problems of investment but came out with an explicit recognition that the key to encouragement of investment was profits. This, to me, reflects a recognition on the part of people who in many instances have regarded themselves as Socialist, that they had to back away from their doctrinaire ideas and recognize that if Britain is to be competitive, it must export, to recognize further that 95% of British export industry is in the hands of the private sector, gathered if Britain is to be competitive in exports and thus to survive, it must recognize the legitimacy of profits for the people who are prepared to risk capital in the export industry. I think it is a characteristic of the British people that they can face the facts, at least when they have to. They do have to. And I think the indications are that they are facing them and that they will do what they have to. The key question now, I think, and the one that they still have to address, the one that they have to, if you'll pardon the expression, bite the bullet on, is cutting public spending as an aggregate proportion of GNP.

CHAIRMAN J. PAUL LYET: Thank you very much. And on that thoroughly encouraging note, I think it's appropriate that we conclude this session. Mr. Secretary, Mr. Cheysson, we are very much in your debt for a most interesting evening. (Applause)