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THE INDUSTRIAL DEMOCRACIES AND THE FUTURE

I want to talk to you tonight about the central concern of American foreign policy: our relationship with the industrial democracies of the world.

For three decades we and our allies in the Atlantic Community and Japan have been the engine of the global economy and the cornerstone of global peace. But fundamental change is now before us; the world we have known is in the process of transformation.

We must understand this change, and help shape it. Thirty years ago the democracies banded together in the Marshall Plan and peacetime alliance to overcome the chaos of the aftermath of the Second World War. Today, a decade of upheaval impels us to make the cooperation of the industrial democracies as dynamic and creative a force in shaping a new world environment as it was a generation ago. The challenge is above all to our imagination and our vision.

Americans have learned, several times in this century, that their own security and global peace, their own prosperity and the global economy, are inextricably linked. In an age of intercontinental missiles and thermonuclear weapons, of global communications and a world trading system, events in other continents touch our lives directly and immediately. The 1973 Middle East War, oil embargo and price rises -- which cost the United States over 500 thousand jobs and over ten billion dollars in national output -- brought home to us that a breakdown of peace far away can have profound political and economic consequences here at home. If this self-interest determines America's involvement, our traditional moral concerns -- for the survival of freedom, the relief of suffering and the security of our friends -- produce the conviction to carry out our responsibilities.

We will not now fail the tradition which has made us a beacon of hope to millions around the world.

At the close of World War II, this country broke with its isolationist tradition and undertook a role of leadership in world affairs. In those thirty years America has achieved an extraordinary record. We have made our mistakes, but we assured the economic recovery of Western Europe and Japan; our alliances safeguarded the common security and maintained the balance of power; we built an economic system that has fostered unprecedented growth and prosperity around the world; we created international organizations to help keep the peace and to promote economic development; we have pioneered in arms control; we have mediated conflicts; we have fed the hungry, educated young men and women from other lands, and been a refuge and symbol for all those who resisted tyranny and oppression.

America, since its birth, has symbolized above all the power of free men to choose their future, to be masters and not victims of their fate. When we took the lead, others took heart; when we exerted

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ourselves for the common good, others were encouraged to redouble their own efforts. The American people can be proud of what they have done to safeguard the strength and well-being of the industrial democracies.

We now face different international challenges. The allied statesmen who shaped the post-war international order would not recognize the planet we inhabit today. The growth of nuclear arsenals and the proliferation of nuclear weapons give confrontation and conflict a perilous new dimension; multiplying centers of power and influence call for new approaches to international issues; interdependence has spawned a host of unprecedented social, ethical, and economic dilemmas. No government alone can resolve the range of problems before it. In the words of a famous Pennsylvanian, we must hang together or we shall surely hang separately.

In an age of undiminished ideological competition, America will never forget that its most important relationships are with those nations which share our principles, our way of life and our future. It is for this reason that next Saturday President Ford will meet in Europe with the heads of government of Britain, West Germany, France, Italy and Japan at what has come to be called the Economic Summit.

The immediate task of the summit is to deal with economic questions. But in a more fundamental sense, it is a step to confirm and consolidate allied cooperation in every sphere at a crucial moment in history. It will not resolve all problems, but it can set goals for common policies and chart a direction for common action.

The Central Role of the Industrial Democracies

Clearly, the post-war era of international relations is ended. No single upheaval marked this transformation in the way that two world wars shattered the earlier structure of the international order. But the cumulative evolution of a generation has profoundly altered our world.

In the forties and fifties, the world was divided into rigid blocs locked in continual confrontation. Western Europe and Japan needed our military shield for security and our aid for reconstruction. Crises were frequent -- in Greece, Berlin, the Taiwan Strait -- and in Korea and Indochina there was war.

The industrial democracies responded with courage and imagination, building new institutions and relationships. America's nuclear supremacy and economic strength gave us the predominant role in our alliances and in world leadership. We drew on our domestic experience of reform and organizing skill in dealing with global issues. We mobilized vast material resources. The American people, with pride in victory and with fresh memory of the folly of isolationism, confidently assumed the responsibilities of an active foreign policy.

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Today, as basic conditions have changed, so have our challenges. America's role is still crucial but we can no longer overwhelm our problem with resources. Thirty years of exertion have distributed power in the world and require wider participation. We have reached a new stage of alliance relations, marked by greater equality and sharing of initiative and responsibility. Europe's unity has grown hand in hand with its economic and political revival. The European Economic Community is heading towards political unity and a greater European role in both political and economic issues. Japan and Canada have made remarkable progress.

We welcome and support these trends. The unity of the industrial democracies is one of our greatest material -- and moral -- assets. Collective approaches to our common problems have become more and more indispensable:

-- The military strength of our alliances is the foundation of the global balance of power that permits all nations to live in peace and security. A strong joint defense is the precondition for all other policies.

-- There can be no durable progress in East-West relations unless we maintain our political cooperation. If the Soviet Union is permitted to play one ally off against another, the reduction of tensions becomes a tool of political warfare and not an instrument of peace.

This Administration has never had any illusion about the nature of the Soviet system, or about some of its objectives. But neither must there be any illusions about how to deal with it. In the thermonuclear age, there is no alternative to coexistence. Rhetoric cannot remove the Soviet nuclear arsenal or reduce the risk of needless confrontation. We will never give up our vital interests or those of our allies. But we must also seek to ease tensions and resolve conflicts. The principal challenge is to make coexistence compatible with our values and over time to turn it into a more constructive relationship.

In relations with Communist countries, therefore, all allied governments are challenged to maintain a steady course. We must pursue a strategy far more complicated than that of the past. Our peoples must understand the need for both strong defense and efforts to seek more constructive relations; we must vigilantly defend our interests and seek to negotiate solutions to the underlying problems. We must face up to this moral complexity for it is the reality we face. If we cannot pursue both the course of conciliation and the requirements of conciliation, we will not be able to achieve either.

Together the industrial democracies have been the engine of global prosperity. We account for 65% of the world's production and 70% of

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its trade. The international financial and trading system depends crucially on our performance. Together we have led the global effort of assistance to developing countries and the fight against hunger and disease.

But the institutions and practices created at Bretton Woods in 1944, which fostered expanding trade and monetary stability for a generation, were founded on realities in the process of change: American preponderance, the exclusive participation of the developed countries, and the openness of the free market. Today, fresh centers of economic power -- in both the industrial and developing worlds -- strain the system. New participants, practices, and demands have given rise to disputes -- over energy, food, raw materials, and rules for exploitation of ocean resources. Economic issues are now a central dimension of international politics.

The interdependence of all our economies -- consumer and producer, industrial and developing -- emphasizes the necessity of cooperative solutions. Only cooperative solutions can maintain and spread global prosperity; an era of economic warfare would spell common decline. The industrial democracies, as the wealthiest and most technically advanced, would best survive economic conflict; but we take no comfort in suffering less when everybody will suffer. How these economic issues are addressed by the world community will determine the kind of world that our children will inhabit and the nature of international relations over the last quarter of this century.

The actions of the industrial democracies, therefore, are crucial to the peace and prosperity of the world. And the United States has most at stake.

In 1973, the United States called for a reaffirmation of the solidarity of our alliances with the Atlantic Community and Japan. We emphasized the overriding need for a fresh, common approach to the interrelated issues of politics, economics and security. We stressed the necessity of galvanizing our peoples with the challenge of new positive endeavors.

In the last two years, this need has been brought home by economic difficulties. All of our countries have been in the throes of recession and inflation, more severe than at any time since World War II.

The European experience in the 1920's and '30's teaches us the crucial relationship between economic vitality and the health of political institutions and global stability. Then, inflation and depression tore the fabric of democratic societies. Social and political divisions weakened the capacity of democratic governments to overcome economic and social problems. In some countries the confidence of people in free institutions eroded; the habits of accommodation that bind societies together gave way to extremism and mounting civil strife. Strains within nations spawned economic nationalism; increased tensions between nations led to war.

Similar economic problems, if of a lesser magnitude, have assaulted almost the entire industrialized world in the last few years -- unemployment, loss of production, rapid inflation. The oil embargo and the quadrupling of oil prices dealt further severe blows; a central element of the price structure of our economies was now at the mercy of other countries whose interests were hardly identical with our own.

The deepest consequence is not economic but the erosion of people's confidence in their society's future and a resulting loss of faith in democratic means, in governmental institutions and leaders. Criticism degenerates into demagoguery. In some countries public cynicism is reflected at the polls, or in the weakening of traditional party loyalties; in other countries it spawns the resurgence of extremist political parties of left and right; in yet other countries, it leads to communal or ideological violence. In America, we suffered the additional tragedies of a divisive war and constitutional crisis, though our institutions have shown a resilience that is the envy of our partners.

In every one of the industrial democracies a new generation accustomed to freedom and military security questions the very values and institutions that have brought these conditions about. It does not remember the spirit of the late forties and fifties -- the immediacy of the dangers that brought about our alliances, or the enthusiasm with which we undertook the Marshall Plan and collective defense.

Instant communications force the pace of events and expectations. Unwieldy modern bureaucracies become obstacles to creative government, making more difficult the tasks on political leadership. The technical complexity of issues challenges the capacities of leaders, legislators, the media and the public.

Ironically, democratic ideals are most cherished in countries where they are least practiced by governments, and most disparaged in the countries of their origin, where they too often are taken for granted. What we need now is the boldness and creative spirit that animated our response to crisis a generation ago; we must infuse our actions with an overriding sense of our common heritage and common future.

This world-wide crisis to the democratic process is the deepest challenge before the leaders at the Economic Summit. They meet to give their peoples the sense that they are masters of their destiny, that they are not subject to blind forces beyond their control.

I am confident that this test will be met. The industrial democracies will demonstrate, as so often before, that the greatest force in the world today is the voluntary association of free peoples.

The Economic Summit

It is the economic issues which must be solved first. Since the Great Depression, the well-being of our citizens has been a fundamental goal of all our societies. High unemployment and the persistence of poverty have become politically and morally intolerable. Inflation, which eats away at the living standard and status of all classes of society, is rightly regarded as a social evil. The striving for a share in national prosperity drives groups into sharper competition with each other. As competing sectors press for higher wages, more credit, increased federal spending, or rising industrial or agricultural prices, the claims on the economy expand faster than its capacity to produce. A slackening of capital investment retards the growth of productivity. Budgets become chronically unbalanced. If these trends persist, all industrial democracies will be locked in a cycle of growing frustration -- with raised but unfulfilled expectations, and sluggish growth and continuing inflation.

In such a situation, the close and important ties among the industrial nations are imperiled. Trade is threatened by protectionist measures that attempt to shift the burden to consumers and other nations. Continued instability of exchange rates, swings in short-term capital movements, and periodic crises in the international monetary system -- all these reflect and exacerbate instability in our economies.

Because of interdependence, no country's national programs for recovery can succeed fully in isolation. The Economic Summit springs from the conviction of all of the leaders of the industrial democracies that only by cooperative decisions can the trade and monetary system be adapted to changing conditions and yet be kept stable enough to stimulate the international flow of goods, services and investment. Cooperation among the industrial nations is also essential if we are to achieve greater self-sufficiency and less vulnerability in energy; if we are to maintain and expand the world's markets and supplies of food; and if we are to ensure adequate supplies and market stability for other vital raw materials. Our relations with the developing world and the centrally planned economies are becoming increasingly important in the international system; we can

meet this challenge effectively, and turn it into opportunity, only if we are conscious of our own common interests and move boldly and jointly in these new areas.

A special responsibility falls on the United States. We are the world's largest and most dynamic economy. We produce fully two-fifths of all the goods and services of the industrial democracies. Our leadership is essential in the trade and monetary negotiations. Our example is vital in the field of energy, food and raw materials. The recovery of the other industrialized states depends importantly on our own. As President Ford said in his State of the Union message last January: "A resurgent American economy would do more to restore the confidence of the world in its own future than anything else we can do."

The United States intends to discharge its responsibility.

The Program Before Us

At the Economic Summit this weekend the leaders of the industrial democracies will concentrate on these specific tasks:

- first, to cooperate more closely on policies for recovery;
- second, to look beyond this, to common action to strengthen the basic structure of the international economic system for long-term stability, expansion and prosperity;
- third, to review their policies on trade negotiations, monetary questions, and our dialogue with the developing countries.

The first task, economic recovery without inflation, is of immediate concern to every American. The industrial democracies are already on the road to recovery -- partly as a result of cooperative actions over the recent period. At the beginning of the recession and the oil crisis, the United States joined other industrial countries in a pledge not to resort to restrictive trade practices to deal with payments deficits caused by excessive oil prices. We set up institutions and mechanisms to cope with financial emergencies and to guarantee emergency sharing in the case of any new oil embargo. Last winter, in a fresh departure in allied collaboration, President Ford held a series of bilateral meetings with heads of government of Germany, France, the United Kingdom and Japan, to review the state of our economies and to determine whether new action was required. After these meetings, expansionary measures were adopted in several of the major industrial countries, including most decisively our own.

A strong recovery is well underway in the United States, as shown by the 11 percent increase in our national product in the third quarter of this year. Other nations -- while our efforts cannot substitute for theirs -- will feel their recovery reinforced by ours.

We intend, at the Economic Summit to consolidate the cooperation of the industrial democracies. We plan to discuss common goals and agree on cooperative means to achieve them. The heads of government can assess the current situation, identify needs, and discuss measures that they should take in common.

In the United States' view the summit should set as our goal generalizing the recovery during 1976 among the major industrial countries. We should seek to restore vigorous, sustained expansion and high employment by 1977. We should aim to reduce inflation in our economy as a whole as well as disparities in our national inflation rates. And we should seek to restore vigorous growth in world trade as our domestic recovery proceeds.

The United States will propose that Ministers of our countries responsible for economic policy meet periodically to follow up on policy directions set at the summit and to review what further decisions may be needed. The United States representative would be Treasury Secretary Simon.

In a climate of recovery, and renewed confidence, the United States and its major allies must then lift their sights beyond the business cycle -- to the fundamental challenge of improving the structure of the international economy in order to foster stable growth and cooperation over the long term. Let me suggest some of the areas that the United States will submit for consideration.

World trade has been a major stimulus to our economic growth. Encouraged by progressive reductions in tariffs, it has increased at a rate twice that of domestic economic activity. The United States and over 100 other countries have therefore undertaken a new round of multilateral trade negotiations to continue trade expansion by reducing barriers. Congressional passage of the Trade Act in December of 1974--an impressive example of executive-legislative cooperation -- gave the President the authority to participate and lead in this important process.

The present recession, with its high unemployment and large trade deficits in some countries, is now subjecting governments to domestic pressures to impose trade restrictions. Such restraints invite retaliation. Without a determined international effort, they could set off a cycle of barriers that would choke off trade generally. Protectionism raises prices to consumers; it jeopardizes jobs and incomes; it creates political frictions among allies; and it undermines our efforts to achieve other American objectives in the trade negotiations. It would weaken recovery.

The Economic Summit should, therefore, seek explicitly to expand world trade through joint efforts in economic policy. The President intends

to propose that we reaffirm our common determination to avoid new barriers to trade as well as actions which provoke countries to erect them. We plan also to put forth specific goals for the trade negotiations. The industrial democracies should use the summit to renew their resolve to pursue the multilateral trade negotiations to an early conclusion and to develop a forward-looking program.

The industrial countries have been moving towards a broad understanding on the contemporary requirements of the international monetary system. The summit should add to our progress. The United States believes that the system should foster, not restrict, policies for domestic growth and price stability. We believe that to achieve this goal, each country should be free to choose the exchange rate regime that best suits it, provided it respects international obligations to avoid trade and capital restrictions and competitive devaluations. By implementing policies for non-inflationary growth at home, we can promote more stable exchange rates and more orderly foreign exchange markets.

Because energy is at the heart of our industrial system, the recent dramatic changes in the price of oil are a direct challenge to all the industrial democracies. They affect the price level in all our economies, the standard of living in all our societies, and our freedom to determine our foreign policies according to our own objectives. We must not let our economic future remain indefinitely subject to decisions made by countries which cannot be expected to have our best interests at heart.

We can end our vulnerability to outside pressures and transform the conditions of the international oil market only by determined joint actions that give the industrial democracies a greater voice in economic decisions affecting their future.

In order to reduce their dependence on imported oil, the industrial democracies since 1973 have launched substantial conservation programs. We have undertaken to develop alternative sources of energy -- by removing legal obstacles to exploration and production, by measures to sustain or guarantee return on investment, and by research and development on a large scale. The eighteen countries in the International Energy Agency are now developing a detailed program of conservation and alternative sources for adoption by December 1.

The United States will urge the summit to recommit the industrial democracies to an even more forceful pursuit of the fundamental long-term goal of depriving the oil cartel of the power to set the oil price unilaterally. The U.S. effort would be powerfully reinforced by agreement on an energetic and far-reaching American program. Since all industrial democracies are profoundly affected by the energy crisis, joint action towards greater self-sufficiency will be a vital test of their ability to act and to cooperate.

The significant rises in food prices in the last few years have taught every American consumer that the international market in food now

affects our economy directly and pervasively. The world faces the specter of chronic shortages of food. This means severe price fluctuations everywhere, and the scourge of famine in the poorer countries.

Because of our central position in the world food economy -- and because this crisis requires the contribution of all countries -- the United States in 1974 proposed the World Food Conference which met in Rome a year ago. We set forth a plan for international collaboration, based on the proposition that foreign assistance could only alleviate but not resolve the long-term problem of shortages. However important our food aid, any lasting solution requires an expansion of food production in the developing countries themselves. Much of our plan is now becoming reality: a higher target for food aid programs by all the food-producing nations; a new fund to develop agricultural production in poor countries; and an international system of grain reserves to build stocks in good crop years and to alleviate shortages, mitigate price rises, and meet famine emergencies in poorer crop years.

The Economic Summit can spur joint action in each of these areas.

In the field of commodities, the industrial countries as a group already largely enjoy self-sufficiency. But many developing countries are critically dependent on earnings from their commodity exports to finance their development and feed their peoples. This instability of export earnings is one of the principal concerns of the developing nations who comprise most of the world's four billion people and who seek responsible participation in the global economic system. At the Seventh Special Session of the United Nations this past September, the United States proposed a new Development Security Facility which would provide international loans and, in some cases grants, to offset such sudden shortfalls in export earnings.

The Economic Summit provides an opportunity to advance this proposal and to review other proposals to fashion mutually beneficial and durable long-term relationships with developing countries. The dialogue between the industrial and the developing nations is of crucial importance to the building of international order. The industrial countries have common interests -- and a conciliatory attitude. We shall resist tactics of bloc confrontation. But fruitful cooperation requires that both developed and developing countries -- and especially the moderate developing countries -- see a prospect for achieving some real progress. The forthcoming Conference on International Economic Cooperation between consumer and producer countries is a crucial stage of this dialogue. The United States intends to ask its partners at the summit to consider what programs and positions the industrial countries can take together in these efforts.

A Common Heritage and A Common Purpose

Ladies and gentlemen:

For more than three decades America has been the dynamic force in the building of a just international economic and political system. We can take pride in what we have done. But our very accomplishments have produced new challenges. The institutions of the post-war international order depended upon the wisdom and vision of the United States; the course of the last quarter of this century depends upon American imagination and dedication even more. Thirty years ago we were predominant; we could overwhelm our problems with our resources. Today we know our limits -- perhaps too well. After a decade of war, two years of constitutional crisis, and an uncertain period of domestic recession, there are those who have come to doubt either the wisdom of further involvement abroad or even our moral right to lead.

But this cannot be the view of the great majority of the American people. Moral timidity never characterized America in the 200 years of its history; it does not characterize America today. We have not lost our perception of our interest -- or our humane concern for the

fate of our fellow men. We have expended great effort -- and given lives -- in the thirty years of our leadership, because we knew that the cost of abdication -- for ourselves, our children, and mankind -- was far greater. Certainly we have made our share of mistakes, but we know that we have done great things -- and we have great things to do now.

All of us want to pass on to our children a more prosperous nation and a more peaceful world. And this means that we and the other industrial democracies must dedicate ourselves to the agenda before us. This is not a goal that can be achieved by an America torn by self-punishment or by an impulse to escape from reality or to shrink from challenges.

Today the world needs most of all the optimism and confidence that America has always embodied. It needs our strong faith as a source of hope to others that the world can solve its problems.

America and her fellow democracies are called upon again to demonstrate our cohesion, our confidence, and our readiness for tomorrow. The belief in man, and in freedom, is the common heritage we hold in trust and the common promise we hold out to the world. This faith defines our duty and assures that we will be equal to it.

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