ADDRESS

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TO THE

CONFERENCE ON TRANS-ATLANTIC TRADE

IN AN ERA OF TWO-DIGIT INFLATION

AT

STATE UNIVERSITY OF NEW YORK AT ALBANY

Mr. Chairman:

Thank you very much for your kind words of introduction. I am honored and pleased to be given this opportunity to present Europe's view.

According to the Holy Bible, Egypt, once upon a time, was sent seven plagues. I think it is fair to liken the Western industrialized countries position now to Egypt's position then. We have inflation, recession, unemployment, energy crisis, floating exchange rates, high interest rates and high food prices.

In Egypt, the plagues followed one after the other. But we have gotten all our plagues over our sinful heads at one and the same time. If we could trust that this would mean a fast ending to the plagues, it might be an advantage. But here I am a sceptic.

The inflation will probably stay with us for the rest of our time, although we can hope that it will be reduced in size. But still in reduced size it will be an illness -- a cancer -- in our economic system.

The energy crisis or the oil revolution which it, to my mind, should be called, can only be solved over a number of years.

The most optimistic development in this field, in my opinion, is the creation of the

International Energy Agency which has been a success and I find the latest American proposal for international cooperation in the energy field (as outlined by Dr. Kissinger in his speech on Monday) encouraging. The fair reception of this proposal at the Paris meeting of the Agency members on Wednesday is a good omen for the future cooperation.

I am convinced that a sufficient degree of consumer unity will be obtained so that the proposed consumer-producer conference will have a better chance for leading somewhere; hopefully to lower prices.

As you will have seen by the press, both France and West Germany find that such a conference should start in March.

The recession and the unemployment can undoubtedly be solved through the known means... lower interest rates, easier money and credit and, as far as the U.S. is concerned, larger budget deficits.

But a forceful anti-recession policy will increase the rate of inflation; the same will be the case of an effective energy policy. The tax on oil as proposed by President Ford, will give its momentum to inflation, I think with 2 - 3%.

The truth is that, since we have gotten the plagues at one time, we will also have to regard them as a unity.

What we have is a Western world economic crisis of a character we have never known before. A crisis which is self-reinforcing and getting deeper and deeper. It not only affects the elements I mentioned just before, it also creates big deficits of the balance of payments both in the Western industrial world and for the non-oil-exporting LDCs (while neither the Soviet Union nor China are touched by these developments).

Plans for recycling have been made and will, I hope, be carried out successfully, But, recycling is only a temporary solution. It creates whole series of new debts between the countries. Some experts only regard these debts as a question of bookkeeping. This is not the reality. Through the oil revolution the power structure and the economic structure of this world have been changed, and it takes a lot of courage to regard this as just a bookkeeping question. Important circles in the U.S. believe in the possibility of a sizeable roll back in the oil prices. The future negotiations with the OPEC countries this year show what the reality of such a hope is.

Recycling will however be an absolute necessity for carrying the Western industrialized nations over the first hump which I expect to last two or three years before the necessary adjustments in national economies can be made.

A certain movement of the short-term oil money into longer term investments and maturities has been noticed over the last six months which, among other things, had the effect that the strains in the European money market have been easing over the past few months.

In the longer run it will, of course, be a necessity to deal with our collective oil deficit which will mean a sizeable transfer of real-term resources from the oil-importing to the oil-exporting countries.

The solution will, undoubtedly, be diversified and complex.

In the energy conservation field, I also see some hope in the fact that there was an average drop of 6% in 1974 in oil consumption in the nine Common Market countries. Most of this is attributed to higher prices rather then to other efforts.

The Bretton Woods agreements are ruptured and the most important currencies are in a state of what polite people call controlled floating.

Large sums of money are placed on short-term both in the U.S. and in Western Europe, and can without central-bank or government control be moved back and forth over the frontiers at short notice. This adds the biggest threat to our economy: the feeling of insecurity.

The argument about fixed exchange rates or fluctuating rates has been going on for the last 20 years.

Economists have been arguing that the large post-war gains in world trade, income and living standards had to be attributed to the system of fixed exchange rates. But experience with both fixed and fluctuating exchange rates shows the contrary. World trade and standards of living rose under both fixed and fluctuating rate systems. The past few years have shown the relatively minor importance of exchange rate systems as compared to the removal of trade barriers over the growth of world trade.

On this background, it is very important to get an effective start to the multilateral trade negotiations which will and can maintain the momentum towards further liberal world trade.

The forthcoming multilateral trade negotiations offer the opportunity for a more open trading system giving developing countries improved access to export markets for their agricultural and manufactured products. Substantially lowering the high level of effective tariff protection maintained by the industrial countries would give the developing countries a fuller opportunity to realize their potential gains from primary production.

The true international division of labor will, in my view, be a free-trading world in which the highly-developed countries are moving towards less and less labor-intensive and more and more service and know-how-intensive production. The present developing countries would move up the industrial ladder from primary production via simple industrial production.

In dealing with solutions for all these problems -- from inflation to recession and energy -- it is all right to see what will work in the eighties, but we must not forget that we have to survive in the first couple of years.