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hand of friendship to them. It should facilitate expansion of their trade and foreign investment, the "recycling" of oil dollars.

Fourth, the Western nations must avoid like the plague the beggar-my-neighbor policies that helped destroy world trade in the thirties.

Such policies broke the world into hostile trading blocs, including the nations that joined in Nazi Germany's barter and rigged-exchange rate deals and Japan's Asian Co-Prosperity Sphere. The Western nations must reinforce their liberal trading policies, banning both import and export controls. They must hold their markets open to one another and seek particularly to create markets for the surplus and distress goods of nations that get into severe balance-of-payments trouble.

The nations should also forswear resorting to competitive devaluations of their currencies aimed at gaining a trading advantage over one another. They must coordinate their fiscal and monetary policies to avoid competitive deflations that could bring on world depression. The Organization for Economic Cooperation and Development (O.E.C.D.) provides a forum for the joint review of national policies; this process should be strengthened to ensure that world employment and trade are mutually sustained.

While the world monetary system remains chaotic, it would be madness to try to repeg exchanges rates; floating rates have reduced the massive money flows from one currency to another that propagated world inflation. In time, the reduction of those money flows should help to bring world inflation under control and enable exchange rates to stabilize. But the nations must work toward stability; a "great leap forward"—or backward—could be disastrous.

Fifth, nations must resolve to check their domestic inflations, controlling the excess claims of special-interest groups that are its root cause.

Inflation, while communicated internationally, originates basically from domestic sources. This is one reason why rates of inflation vary so much from country to country. There is no monetary formula or technical solution that will provide Governments with the political courage and the economic skills to reduce the exessive demands that propel domestic inflation. Governments must resist the multitude of special-interest pressures that distort or waste resources—as in the multibillion-dollar military programs which exacerbate inflation and, even more ominously, increase the danger of arms races and war itself.

Under the sway of Keynesian economic theory, inflation has been regarded by most contemporary economists as a "technical" problem resulting from a gap between the excess demand for all goods and services and what the economy is capable of producing at existing prices. The basic remedy has been to close that inflationary gap by reducing total demand, whether by tax increases, cuts in Government spending or by making less money and credit available to the private economy.

It has become clear that the problem of stopping inflation is not technical but *political* in the large, systemic sense. Inflation is a consequence of the way massive, organizational, pressure-group economies operate. The military-industrial complex is only the most celebrated example of the special interests which capture a huge share of national resources and give less productivity in exchange. Other groups that have won special benefits and protection from Government—whether in the form of subsidies, huge appropriations, tax breaks, tariffs, import quotas or other rules limiting foreign or domestic competition—include the oil industry, the maritime industry, civil aviation, the highway-building industry and its supporters, dairy producers, wheat farmers, cattlemen, steel producers and textile producers. Labor unions fight for a growing share of the national pie partly by backing the demands for special favors and protection of the industries that employ them and partly by waging side-contests with managements for a bigger slice of the take.

The pressure-group economy not only breeds inflation but biases national choices on *what* is produced and by whom, and how income is distributed. Political power shapes the national use of resources and has a major influence on who gets what. This may be the major long-run lesson of that political fiasco whose code name is Watergate.

An effective program against inflation must be one that faces up to the necessity of curbing the power of the special interests and removing their corrupting influence on Government or, the other side of the coin, curbing the efforts of Government officials to invite bribes in exchange for favors as a means of consolidating political power in a corporate state. The old-style, laissez-faire capitalism is dead. Yet the mixed economy—that is, the mixture of Government and private interests that has replaced it—needs better methods of harmonizing competing group pressures in a noninflationary way and of guiding the economy to serve broad social needs such as protection of the environment, development of crucially needed energy, and provision of medical care, education and other vital services.

Specifically, this nation and other capitalist democracies need an incomes policy, a means of regulating the growing income claims of contending groups, together with their access to money and credit through the banking system. In periods of monetary tightness and very high interest such as the present, the inequities of only general controls on money and credit become obvious, as the most powerful financial groups drain funds away from the least powerful.

Similarly, this nation and many others need more effective and democratic ways of planning their long-run social and economic development. Increasing the supply of resources, human and material, and in the proportions needed, is essential to curbing inflation in a way that will not require periodic bouts of recession, depression and high unemployment.

In an increasingly integrated world economy, such programs need to be international and not merely national in scope. Yet the time for supranational government is not yet. The fundamental decisions needed to get the world through the current economic crisis, which could become a world political crisis as well, still must be taken at the national level. Is such an effort to restore world economic order politically feasible and realistic? It had better be. The potential tragedy of the moment is that all the Governments of the major democracies are in a weakened state—weakened in large degree by the socially and politically debilitating effect of inflation itself. And the crisis of leadership and moral authority is perhaps greatest of all in the United States, on which any coordinated action program among the Atlantic nations and Japan must still depend. We know what we must do; the issue now is whether we have the will and the unity to do it.

TRADE REFORM

Mr. MONDALE. Mr. President, the Senate Finance Committee today resumes markup on one of the most vital measures before the 93d Congress, the Trade Reform Act. I am pleased by this action because I am deeply disturbed about the potential consequences of our failure to pass a trade bill.

At no time since the 1930's have we faced a greater peacetime economic crisis. The post-war world economic regime has broken down; our collective economic institutions have proven to be weak and outmoded in the face of recent events.

Widespread inflation, payments deficits and deceleration of growth threaten the economies of all the leading Western democracies.

Under mounting internal pressure to resort to protectionist policies, our major trading partners are clinging to the hope that multilateral negotiations on trade and monetary issues can bring us through the present crisis. Only if these negotiations proceed, will GATT member nations have a basis for resisting demands for trade restrictive measures to deal with their economic problems.

It is the United States that initially proposed and pressed for action on a new round of GATT negotiations in the Tokyo declaration signed last year. Ironically, it is the failure of the United States to pass a trade bill that has so far held up and now stands in the way of a meaningful negotiation—precisely at a time when closer cooperation is most desperately needed.

Some have charged that the responsibility for the delay in the trade bill lies with the amendment introduced by Senator JACKSON, which I have cosponsored, concerning emigration and most-favored-nation treatment for the Soviet Union. I believe this view is false.

It is perfectly proper that before granting the concession of most-favored-nation status we should ask the Soviet Union to live up to its international commitments in this area of human rights. This is not a question of being anti-Soviet or of seeking to interfere in internal affairs. The International Declaration on Human Rights makes clear that emigration is not merely an internal matter. The right of Soviet Jews to emigrate free of harassment is as important to Americans as any number of other concessions we have sought from the Soviets in negotiations such as the Conference on European Security and the Berlin negotiations.

Second, it was the strategy of the administration to tie together the most-favored-nation issue and other urgent aspects of the trade bill. Moreover, once the amendment was introduced, it was the administration that let the issue of emigration languish before taking serious steps to negotiate a solution.

I am encouraged by reports that the administration is making a serious effort in this regard and that progress is being made. I hope a satisfactory agreement on this point can be concluded promptly. It is my firm belief that a successful outcome will be most facilitated if we in the Congress steadfastly support the principle of the right to emigrate and the end to harassment.

Global inflation cannot be stopped by the policies of individual countries alone. During the first half of 1974 nearly all of the major industrialized and developing countries represented in the GATT suffered from catastrophic rates of inflation. The unprecedented 11 percent peacetime rate in the United States, considered horrifying by American citizens, must be viewed in the context of 25 percent inflation in Japan, 18 percent in Italy, 14 percent in Britain, and 13 percent in France.

A quadrupling in the cost of oil, forced upon consuming countries by the petroleum producers cartel, has contributed both to runaway inflation and to massive payments deficits throughout the world.

From a $3 billion balance-of-payments surplus in 1973, the United States has moved to a $2 billion deficit in the first half of 1974. Japan has moved from a $6 billion surplus to a $6 billion deficit; and Britain and Italy are both running at deficits of $8 billion or more.

The enormous shift of money into the hands of the oil producers places an unprecedented strain on the world's financial institutions. This year alone oil-consuming countries will have accumulated current account deficits with Arab nations of up to $60 billion. The result is uncertainty, speculation, and instability in importing countries. This tempts countries to try to restore their trade balances through nationalistic policies, to limit their imports, and artificially expand exports. The only way to head off such actions is through multilateral trade negotiations.

Thus the deeper consequences of the oil crisis last year are being felt in diverse and alarming ways, long after the initial shock of higher energy costs has passed.

That the boom experienced in the last 2 years will be replaced by a global bust—triggered by collapse of lenders, like the Herstatt Bank of Cologne or Franklin National in the United States, or by excessive restraints on growth by member nations—is still a serious danger.

Added to these problems, we face another threat resulting from the proliferation of cartels among raw materials suppliers.

Eight months ago, I warned of the danger that other commodity producers might seek to follow the example set by the Arabs by forming cartels to boost their prices. Since then, there has been disturbing evidence of the prediction's coming true.

Bauxite producers have combined to create the International Bauxite Association, setting the stage for Jamaica to press for a 600 per cent increase in its earnings.

Through the International Council of Copper Exporting Countries, copper exporters are now pressing for greater control of the market.

Phosphate producers have achieved a threefold increase in prices, and members of the International Tin Agreement are seeking a 50 per cent increase in the floor price for tin.

Coffee producers are starting to dominate markets, and other commodity producers may soon join the stampede toward cartelization.

In an era marked by spreading shortages of food and raw materials, there is a high likelihood for success of efforts to drive prices higher by limiting production of critical commodities.

And as Ambassador Eberle told the Joint Economic Committee the other day, the existing GATT articles are "virtually worthless" in attempting to deal with collusion among raw materials suppliers.

In view of the disarray within the world community, some observers in the United States have argued that we should be pleased that conditions are not worse and that our major trading partners have for the most part resisted the temptation toward isolationism.

They point toward the temporary standstill agreement signed by OECD members in July and the pledge signed by the Committee of Twenty of the IMF to refrain from trade-restrictive steps to illustrate the desire for cooperative solutions to the problems of inflation and recession.

Indeed the recent GATT XXIV–6 agreement to provide compensation for U.S. losses from expansion of the Common Market and the withdrawal of dairy export subsidies by the European Community offer tangible evidence of cooperation.

But I suggest that these actions reflect certain knowledge that without immediate action to permit full scale negotiations on trade, a dangerous retreat to protectionism cannot be avoided. There is thus an acute sense of desperation underlying the calls by the European and Japanese for progress on trade.

In the case of Italy, the strain brought about by the oil cost increases has already led to a tax on imports. Japan, Canada, and the Common Market as a whole have similarly imposed new barriers to trade. How many other countries may be tempted to restrict imports while aggressively pushing exports so that they can offset the high deficits created by oil imports?

Perhaps the best illustration of the frailty of cooperation was the reaction of consuming countries to the oil crisis. While France and Japan immediately rushed to conclude bilateral deals with the Arabs, the United States initially proposed multilateral cooperation on oil. In advocating collective solutions to energy problems, Secretary Kissinger warned that:

> The world is threatened with "a vicious cycle of competition, autarchy, rivalry and depression such as led to the collapse of the world order in the thirties."

Nevertheless, only a few months later the United States joined the scramble to negotiate bilateral arrangements with the Arabs.

Panic in reaction to the oil crisis, as Fred H. Sanderson recently warned, represents a danger to our entire multilateral trading system. Sanderson said:

> If not stopped in time, it may lead to a relapse into the beggar-thy-neighbor policies of the 1930's: barter deals, competitive devaluations, trade and exchange restrictions, export subsidies in various disguises—all in a desperate effort to balance the books on oil.

Last December I proposed a series of amendments to the Trade Reform Act. The amendments are designed to broaden the focus of the GATT negotiations to deal with the threat posed by the oil crisis. These amendments would direct the President to seek to negotiate new rules within GATT governing access to supplies of critical raw materials. Under such rules both producing and consuming countries would be bound by a code of fair conduct, and they would be subject to multilateral sanctions if the rules were violated.

Economic nationalism may offer countries short-term solutions to rising oil costs and to the attendant problems of inflation and payments deficits. But over the long term the inevitable result of such a course would be a contraction in trade and disaster for every industrialized country that depends on world markets for its products.

If strong and stable governments were in office in the Western democracies, the possibility would be greater that regimes could survive protectionist sentiment. But with either newly elected leaders or governments seriously weakened by recent events, it is more likely they cannot.

Time is running out. If this year ends without approval of a trade bill by the Congress, conditions will be ripe for the collapse of cooperative efforts for countries to deal with worldwide economic problems.

At stake is more than the question of import restrictions or accelerating use of subsidies to export unemployment or export controls to other countries.

The future of the Atlantic Alliance and the survival of democracy itself depend upon the maintenance of a stable and growing world economy.

In the 1930's the Congress was confronted with an economic crisis of a similar magnitude. Congress failed to act responsibly and has ever since borne the blame for a good part of the misery and hardship of the Great Depression.

Now in the 1970's our friends abroad and the American people at home are waiting for the Congress to act. We must take the initiative and pass a trade bill that will give our negotiators the tools they need to avoid any repetition of that global disaster.

AMERICA'S INTERNATIONAL AIRLINES IN TROUBLE

Mr. MATHIAS. Mr. President, for some time now, the Congress has been debating the question of the Nation's railroads. We all agree that the solution will prove costly. The Government is being forced to assume responsibilities that are unprecedented in the railroad industry. I have been concerned for some time that a similar future lies ahead for our airlines. This is particularly true of the international airlines. They face an immediate crisis which can only be resolved by the cooperative efforts of Government and private industry.

The Wall Street Journal of July 18, 1974, provided a most provocative review of this problem. I hope the Congress and the agencies involved can act expeditiously to provide needed relief to the international carriers. If we fail to do so at this point, our efforts will have to be much greater in the future. I ask unanimous consent that the "Review & Outlook" column entitled "Red Ink Over the Atlantic", be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows: