
The Search for Adjustment

The break with the past in international relations, noted in the last two editions of the *External Affairs Annual Review*, became more pronounced during 1974. The process of détente continued to reduce the old confrontation between East and West, while a new kind of confrontation threatened between the producers and consumers of essential basic commodities. Old political problems continued and new ones appeared, but they were put in a different context by world-wide inflation and economic uncertainties. The nature and consequences of the interdependence of which many of the world's leaders spoke began to make themselves known amid confusion and problems never faced before. Most governments recognized that these new problems were of global proportions and that new kinds of international co-operation offered the only hope of finding solutions, but there were few ready answers to the questions posed.

Major economic problems

During 1974 a deterioration of the economies of industrial countries became increasingly evident. Among members of the OECD (Organization for Economic Co-operation and Development) real growth stopped, unemployment rose, the rate of inflation remained high and exceptionally large changes in foreign trade prices and volume, particularly in the price of oil, brought substantial shifts in international payments balances.

There was no simple explanation of this situation, which involved many factors. For years industrial countries had been following expansionary fiscal and monetary policies. Many of them had experienced an economic slowdown early in the 1970s and were anxious to restore high levels of economic activity and employment; as a result, industrial production surged ahead in almost all the major countries at the same time. By 1973 the strength of this general economic expansion had begun to put

pressure on world supplies of industrial materials, and the prices of many commodities started to climb rapidly. There were also problems on the supply side; world supplies of food grains and animal feed were substantially reduced by poor harvests; supply shortfalls soon led to steeply rising food prices. In this context the international petroleum situation of late 1973, with a quadrupling of oil prices, added a crisis atmosphere.

The upsurge in international prices had followed a long period during which the prices of food, energy and many primary commodities had been remarkably stable, lagging well behind the rise in prices generally. This period was marked by substantial gains in agricultural productivity and major discoveries of low-cost mineral resources. Many primary producers claimed, however, that they were unable to obtain a fair price for their output, particularly in view of the erosion of their purchasing power as a result of inflationary pressures brought about by the expansive trend of the monetary policies of some major industrial countries. The change when it came was dramatic, and throughout the world the days of cheap food, energy and industrial materials appeared to have come to an end.

The war in the Middle East in October 1973 triggered a crisis in the supply and then also in the price of oil. During 1974 the supply situation eased and there was no shortage of oil, but the power of its producers had been demonstrated. To reduce their vulnerability, industrial countries including Canada established, under the auspices of the OECD, the International Energy Agency to help deal with questions of energy supply and future development. The vast sums of money being paid to oil producers posed a serious threat to the international monetary system and to several industrial economies.

The "petrodollars" (dollars owned by oil exporting countries) would eventually find their way back to the capital markets of the world, but there was no assurance that they