NOT FOR QUOTATION

BILDERBERG MEETINGS

BADEN CONFERENCE

27-29 April 1979

CONTENTS

LIST OF PARTICIPANTS

CHAIRMAN:
Lord Home of the Hirsel, K.T.

HONORARY SECRETARY GENERAL FOR EUROPE:
Ernst H. van der Beugel

HONORARY SECRETARY GENERAL FOR THE UNITED STATES:
William P. Bundy

Agnelli, Giovanni	Italy
Androsch, Hannes	Austria
Apfalter, Heribert	Austria
Avon, The Earl of	United Kingdom
Ball, George W.	U.S.A.
Barattieri, Vittorio	Italy
Bennett, Sir Frederic	United Kingdom
Bertram, Christoph	International
Beullac, Christian	France
Beyazit, Selahattin	Turkey
Breuel, Birgit	Fed. Rep. of Germany
Broesigke, Tassilo	Austria
Brown, L. Dean	U.S.A.
Carras, Costa	Greece
Chafee, John H.	U.S.A.
Christophersen, Henning	Denmark
Cittadini Cesi, Il Marchese	Italy
Constâncio, Vitor M. R.	Portugal
Dallinger, Alfred	Austria
Duisenberg, Willem F.	Netherlands
Eliot, Theodore L., Jr	U.S.A.
Esambert, Bernard	France
Finney, Paul B.	U.S.A.
Fischer, Heinz	Austria
Foltz, William J.	U.S.A.
Fredericks, Wayne J.	U.S.A.
Gerber, Fritz	Switzerland
Getz Wold, Knut	Norway
Halberstadt, Victor	Netherlands
Hartman, Arthur A.	U.S.A.
Haussmann, Helmut	Fed. Rep. of Germany
Heinz, Henry J., II	U.S.A.
Herrhausen, Alfred	Fed. Rep. of Germany
Igler, Hans	Austria

Janssen, Daniel E.	Belgium
Jordan Vernon E., Jr.	U.S.A.
Kind, Christian	Switzerland
Kohnstamm, Max	International
Kreisky, Bruno	Austria
Lambert, Baron	Belgium
Lanc, Erwin	Austria
Leibenfrost, Franz J.	Austria
Lennep, Jhr. Emile van	International
Levy, Walter J.	U.S.A.
Lewis, Bernard	United Kingdom
Lewis, Flora	U.S.A.
Lundvall, D. Björn H.	Sweden
Luns, Joseph M.A.H.	International
Macdonald, Donald S.	Canada
Macmillan, Maurice	United Kingdom
McGiffert, David E.	U.S.A.
Monod, M. Jérôme	France
Montbrial, Thierry de	France
Nelissen, Roelof J.	Netherlands
Neufeld, Edward P.	Canada
Newsom, David D.	U.S.A.
Nørlund, Niels	Denmark
Pahr, Willibald	Austria
Pitti-Ferrandi, Robert	France
Portisch, Hugo	Austria
Prinzhorn, Thomas	Austria
Rastoul, Jacques	Canada
Rockefeller, David	U.S.A.
Rohwedder, Detlev	Fed. Rep. of Germany
Roll of Ipsden, Lord	United Kingdom
Romero-Maura, Joaquin	Spain
Roosa, Robert V.	U.S.A.
Savory, Roger M.	Canada
Seillière, Ernest A.	France
Shackleton, Lord	United Kingdom
Sheinkman, Jacob	U.S.A.
Silvestri, Stefano	Italy
Simonet, Henri F.	Belgium
Sommer, Theo	Fed. Rep. of Germany
Steel, Sir David	United Kingdom
Steen, Reiulf	Norway
Steiner, Ludwig	Austria
Taus, Josef	Austria
Taylor, Arthur R.	U.S.A.
Thorn, Gaston	Luxembourg

Tidemand, Otto G.	Norway
Treichl, Heinrich	Austria
Tufarelli, Nicola	Italy
Ullsten, Ola	Sweden
Umbricht, Victor H.	Switzerland
Vranitzky, Franz	Austria
Wallenberg, Marcus	Sweden
Williams, Franklin H.	U.S.A.
Williams, Joseph H.	U.S.A.
Wohlin, Lars	Sweden
Wolff von Amerongen, Otto	Fed. Rep. of Germany
Ypersele de Strihou, Jacques van	Belgium

OBSERVERS:

Schoser, Franz	Fed. Rep. of Germany
Schwarzenberg, Erbprinz Karl	Austria
Zimmer-Lehmann, George	Austria

IN ATTENDANCE:

Cordt, Herbert	Austria
Getchell, Charles	U.S.A.
Heine-Geldern, Thomas	Austria

INTRODUCTION

The twenty-seventh Bilderberg Meeting was held at the Clubhotel Schloss Weikersdorf, Baden, Austria, on 27, 28 and 29 April 1979 under the chairmanship of Lord Home of the Hirsel, K.T.

There were 95 participants, drawn from a variety of fields: government and politics, diplomacy, industry, trade unions, shipping, banking, journalism, the law, education, and institutes specialized in international affairs. They came from 16 Western European countries, the United States, Canada and various international organizations.

In accordance with the rule adopted at each Meeting, all participants spoke in a purely personal capacity, without in any way committing the government or organization to which they belonged. To enable participants to speak frankly, the discussions were confidential with no reporters being admitted.

The agenda was as follows:

I. The present international monetary situation and its consequences for world economic cooperation;

II. The implications of instability in the Middle East and Africa for the Western world.

In addition to the above formal agenda, a half day's discussion was devoted to current worldwide problems.

In opening the meeting, the Chairman, Lord Home, read the text of a telegram of good wishes which he had sent to the President of the Federal Republic of Austria on behalf of all the Bilderberg participants.

I. THE PRESENT INTERNATIONAL MONETARY SITUATION AND ITS CONSEQUENCES FOR WORLD ECONOMIC COOPERATION

Two working papers, one by a British participant, the other by an American, provided the basis for discussion of this topic. Texts of the two papers, as well as introductory remarks by their authors, follow.

British Working Paper:

"A VIEW FROM LONDON"

This is not the first time that we have discussed monetary problems at our meetings. Only last year, at Princeton, according to the Report of the meeting:

> a British participant said that, while the alliance might be fairly strong militarily and politically, a look at our financial situation would lead the proverbial Martian to doubt the existence of any alliance at all. The single most lamentable demonstration of our failure to cooperate had been in our uncoordinated response to the oil price increase. The speaker did not favor confrontation, but some kind of unified reaction had been essential. One measure of our monetary chaos had been the ten-fold expansion of the Eurocurrency market over the last eight years, from $60 billion to an estimated $660 billion. (This "international short loan fund", as it had been called, had stood at only $1 billion in 1930!) The resolution of this monetary disorder was the single most important problem facing the alliance in the speaker's opinion. He was backed by Belgian and Swiss interventions, which referred to the unstabilizing effect on trade and investment of monetary instability.

Important developments have taken place in the twelve months that have passed, notably the November policy declarations by the U.S. administration (and at least some measures which followed) and the inauguration of the European Monetary System a month or so ago. But one would, in my view, have to be excessively optimistic to believe that the situation had fundamentally improved. Indeed, as I shall argue, in some respects there are a number of unfavorable tendencies to be set against the more reassuring developments which we have witnessed in the last few months.

I

It is increasingly being said nowadays, particularly in the intimate freemasonry of central banks, that there has been a considerable amount of "convergence" on the international economic and monetary scene, particularly among the advanced industrialized countries. I agree that there has been some degree of convergence of views and that the sad experiences through which we have passed, both nationally and internationally, have left a mark on opinion. There has been much less sharp difference of view at least among policy makers and national authorities. I take a number of problems to illustrate this point.

1. *Exchange rates*. The breakdown of the Bretton Woods system and the failure of subsequent attempts to reintroduce some order, be it on a worldwide basis — the system of Smithsonian parities — or a European regional basis — the snake — led to a situation of generalized floating of exchange rates with frequent, though hardly systematic and only imperfectly coordinated, intervention in exchange markets by the monetary authorities. This intervention did not succeed in avoiding very large and very disturbing fluctuations in exchange rates. At first, the adoption of generalized floating led some people to try to make a virtue of necessity and to regard a floating rate regime as — potentially at least — capable of providing an adequate (perhaps even superior) international monetary nexus. This is, of course, a view which has consistently been held by some schools of economic theorists, often associated with extreme free market and monetarist ideas, and I do not propose to argue with that view here. What is, I believe, significant is that the failure over a period of years to find a replacement for Bretton Woods had led even some, shall I say, practical men to flirt with the floating rate doctrine. It is an important major part of the process of convergence of views that this trend has been sharply reversed. Experience with floating in actuality (which practical men, as distinct from ideologues, have always recognized could not, in the world as we know it, be otherwise than "managed"), has shown the dangers of a floating rate system to be very considerable.

I quote two central bankers. Mr. Richardson said recently that changes in exchange rates tend to make a weaker and less rapid contribution to the adjustment than was at one time thought. Furthermore, the slow and weak response of trade flows to exchange rate changes has been accompanied by quicker and stronger price and cost effects, thus further delaying the adjustment process. And, finally, in practice exchange rate fluctuations have had asymmetrical effects: countries with depreciating currencies were forced sooner or later to deflate, while countries with appreciating currencies were understandably reluctant to respond with expansionary measures. Mr. Hoffmeyer has spoken in similar terms. He has pointed out that the impact of exchange rate changes on prices of goods and services may be different from their impact on the relative attractiveness of national and foreign assets, i.e., on portfolio compositions, thus making the classic adjustment process slower and more difficult. He has also drawn attention to the fact that there has been a dramatic increase in intervention amounting in the 18 months to last September alone to $50 billion; and that, nevertheless, there was no diminution in exchange rate fluctuations as a result.

So there has been a fairly widespread return to the simple view of ordinary businessmen that a system of stable parities is an essential ingredient of a

reasonable economic order, provided, of course, that it is accompanied not only by the provision that rates may be altered from time to time to reflect fundamental economic change, but also by the institution of support facilities to enable currencies in difficulty to be sustained during the period during which they adjust to the new situation by generally accepted policies. In short, the basic characteristics of the system instituted at Bretton Woods are still (or again) considered to be the most appropriate.

2. One important consequence of the generally shared doubt about the role of exchange rate movements in facilitating adjustment has related to its function in bringing about "convergence" in regard to the avoidance of inflationary (or deflationary) waves spreading throughout the system.

This brings me to another topic, one on which opinion appears now more united, namely *inflation*. Here again, experience has been an effective teacher. There is now no doubt anywhere on the following propositions:

a. for a number of reasons, including probably some deep-seated social ones, inflation is always latent in many, if not most, advanced industrialized countries.
b. there is a considerable probability of inflation being spread across national boundaries; and exchange rate fluctuations so far from counteracting this tendency can "overshoot the mark" and aggravate it.
c. the old, somewhat lighthearted, theory that there is a trade-off between inflation and unemployment and that it is better to live with a bit of the former rather than suffer a lot of the latter has not been proved in practice. Even if it were theoretically correct, it could not serve as a basis for policy unless one could find means of confining inflationary tendencies to relatively modest dimensions. No one has yet found a safe method of dosage of fiscal or monetary measures (or indeed other measures such as income and price policies) that could be relied upon to achieve such a result. Inflation has an unfortunate propensity to get out of hand and can then only be restrained — if at all — by measures of such a drastic nature that they invariably lead to that ugly situation well described by the ugly word "stagflation". For let me say at once that the dose of deflation is equally difficult to measure on an apothecary's scale.

3. On another subject there has been a certain convergence of opinion though here differences of view, or at least lack of complete clarity, are still present, if only because we are directly in the area of practical policy. I refer to the question of the *reserve currency* and particularly to the role of the dollar. I shall revert to this. At this stage let me say — though with some caution — that the November policy statements of the U.S. Administration mark an important turning point. For long — far too long — the authorities in the U.S. were suspected of being devoted, openly or secretly, to the doctrine of "benign neglect", that is of remaining essentially unconcerned about the position of the dollar in exchange markets and, indeed, of the course of the U.S. balance of payments. Let me say at once that I do not share the view that the so-called dollar problem is exclusively a problem for the U.S. authorities. Nevertheless an attitude — real or suspected — of unconcern on the part of authorities

whose national currency had evolved into the reserve currency was, at the very least, a major factor making for uncertainty, confusion and dissent in international policy-making on monetary matters. It helped to preserve the view held in some quarters (and which had been a powerful source of friction in regard to sterling when that currency still had a secondary reserve function) that a country somehow derives a benefit from having a reserve currency, since it is thereby able to "force other countries" to go on lending it money. It follows that a conviction that the U.S. is prepared to make an appropriate contribution to a general solution of the international monetary problem will at least politically and psychologically be helpful.

4. Another factor on which opinion seems to be clearer and more unified is the role of *private financial markets* in relation to international money flows and the stability of the monetary system. I will have more to say on this subject presently. What is noteworthy at this point is that both the positive and the potentially negative aspects of what private markets have been doing in the last five years are now better understood. Five years ago this subject was touched upon at our Megève meeting and I quote this passage from the Report:

> Other interventions dealt with the possible repercussions in world financial markets of this huge accumulation of "petrodollars". A British speaker observed that the Euromarket had so far absorbed these increased funds with relative efficiency, but as the volume grew there would be the risk of declining credit standards and an unhealthy reliance on a few dominant depositors. This might in turn threaten the continued availability of funds and the system of funding long-term credits with six-month roll-overs. Even if the market mechanism managed to work, which was not at all certain, the massive transfer of purchasing power to the Arab countries would constitute a genuine revolution, likely to touch the living standards of all of us.

The fears then expressed may now seem to have been exaggerated since these markets, both capital and money markets, have continued to perform remarkably well, a point which cannot be emphasized enough. Nevertheless, concern remains and there is now much greater and wider recognition both of possible dangers as well as of the limits of what can be done. In particular, there is a fairly general acceptance of the fact that the simple cry for "control" of that market is neither easy to fulfill nor certain to be beneficial if it were capable of fulfillment.

5. Finally, there is now a more general concern about the effects on the developing world of international monetary instability and the indirect consequences on the industrialized countries themselves. In particular, it is now recognized that official aid and loan flows would have been completely inadequate but for the far greater contribution made by funds raised in private markets, quite apart from the fact that the ability of industrialized countries to assist the less-developed with aid and loans was itself greatly enhanced by their ability to have recourse to private international markets to sustain their own balances of payments. To illustrate the extent to which developing countries

have had to rely on private markets, the following figures may be quoted from the World Bank's 1978 World Development Report. In 1970 the outstanding debt of the developing countries was divided as follows: private $17.3 billion, official $13.7 billion — already showing a preponderance of recourse to private markets. By 1975 the proportions had moved considerably further: private debt was now $90.6 billion and official $25.7 billion. The World Bank estimates that this tendency will continue. By 1985 private debt is estimated to be $385 billion and official debt $110 billion.

II

The first thing to be said about this list of points on which opinion seems to have converged to a substantial degree is that convergence of views on the nature of the problem does not necessarily carry with it agreement on what are the desirable objectives of policy; and even where such agreement exists or is approached, there is by no means common ground on the practical steps to be taken.

Still, so far so good. What I think it has meant is that since our last meeting the search for new solutions has been greatly intensified. The IMF has shown some signs of a new vitality. Inadequate though the steps taken, additional to the traditional (and conditional) support for member countries in balance of payment difficulties, may be, such innovations as the Witteveen Facility and the active discussions inside the Interim Committee must be given some credit, particularly when one bears in mind the painfully slow operation of this cumbersome machinery in which the many conflicting interests of individual countries or groups of countries have full sway.

But it must be recognized that a really worldwide solution within the ambit of the IMF is still a long way off; and this must be ascribed primarily to the unresolved question of the role of the dollar as well as to the inherent difficulty of devising an international system that answers to the criteria for a truly effective one. I draw again on Erik Hoffmeyer in this regard. To sum up and paraphrase him, he sets out the following three characteristics of an ideal monetary system. *First,* world financing (which includes not only available official credits, but the far larger private capital and banking markets) should be available, but should not be so easy to obtain as to remove pressures on countries via the balance of payments to accomplish any necessary adjustment process. *Second,* exchange rate movements should support the need for, and help to achieve, necessary adjustments, but should not be so powerful that they result in pressures for restriction in deficit countries and for inflation in surplus countries. And, *finally,* both exchange rate and reserve movements should bring some pressure to bear on domestic macroeconomic policies, but not to such an extent as to generate inflationary or deflationary impulses.

Merely to enumerate these desiderata is to show how difficult it is to achieve agreement on practical steps towards the institution of a system that would contain these characteristics, particularly when one recalls on the one hand the extremely wide movements in payments imbalances, reserve developments, exchange rate fluctuations, and on the other, the wide divergencies in inflation rates and the ups and downs of domestic policies in all our countries in the five years since the effects of the oil price revolution began to be felt.

III

It is not surprising, therefore, that attention should have been turned to the possibility of bringing some order into the present chaotic monetary situation, at least on a regional scale. Hence the revived impetus towards *European Monetary Union*. A careful study of Roy Jenkins' Monnet lecture on 27 October 1977, in which he took the initiative to re-launch the search for greater monetary integration within the European Community, shows this clearly. Of course, his major arguments in favor of this development are drawn from factors inherent within the accepted framework of the search for economic and, eventually, political integration. But some influence is also reserved for the disappointing absence of progress on a world scale. "The benefits of a European currency, as a joint and alternative pillar of the world monetary system," said Mr. Jenkins, "would be great and made still more necessary by the current problems of the dollar with its possible destabilizing effects. By such a development the Community would be relieved of many short-term balance of payments preoccupations." And he went on to outline in detail the characteristics of such a European system and the advantages which it would confer. To this I shall revert when considering the most recent developments and prospects.

But before going further I must just recall what has happened on this point since Roy Jenkins' speech — not to describe in detail the various ups and downs or sudden turns in the negotiations, but some of the major elements in the process by which an EMS, incomplete though it still is, was established.

Looking at the matter from London, it is perhaps appropriate to look first at the absence from the system of an important member of the Community, the United Kingdom. A good deal of speculation has been generated by the British Government's decision to be a member, but, in respect of the intervention mechanism an inactive member, of the EMS; and not many commentators have been content to accept the official explanation. One part, it is fair to suppose, of the reason for the British decision lies in the lingering doubt about the wisdom of membership as such which is to be found in both the major political parties, but particularly in the present governing party. This inevitably means that any major forward moves in the Community which can be represented as further important derogations from national sovereignty and particularly as substantial restrictions of autonomy in economic policy, are meticulously scrutinized in some quarters and thus oblige the government to treat them as politically ultrasensitive. When such proposals coincide, as they may do, with serious dissatisfaction on other matters (in this instance the make-up of the Community's budget and the operation of the Common Agricultural Policy) it is not surprising, even if it may be regarded as regrettable, that the British Government should have sought improvements in these other regards and in

the area of transfer of resources as a condition for taking a more favorable view of membership in the EMS. However unedifying such behavior may appear to the starry-eyed, it should be pointed out that it is, and has for a long time been, standard Community negotiating procedure. But there are other and, if I may so call them, more "respectable" reasons for hesitation. To some of these, particularly the relation between a monetary mechanism and economic harmonization on the one hand, and the relation between a regional and a worldwide monetary system on the other, which go the heart of the question of whether the EMS will succeed, I will return presently.

On a more technical level, the U.K.'s hesitation is shared by others, including some prominent members of the system. In the first place, there is the question whether the intervention system is likely to be more lasting than the old snake and whether it is in itself well founded. A complete answer to this question is not possible at this moment. For some time before the adoption of the system and the short time since, the member currencies have, through the coordinated intervention of their member central banks, been kept in reasonable stability within what have become the agreed intervention limits. What is not clear is whether this can be expected to continue when major divergencies occur and, in particular, when the relative stability of the dollar over the last few weeks were to give way to renewed fluctuation.

The intervention system itself is highly complicated. As a result of a political compromise two systems (which are based on rather different analytical considerations) have been combined. The intervention rates are based on permitted movements of plus or minus 2¼ per cent to each other member currency (with an exceptional 6 per cent for the Italian lira), thus forming a parity grid which operates much as the original snake and which has always been criticized by countries with weaker, or more likely to be weaker, currencies as putting a disproportionate burden of adjustment on them. To counter this criticism an additional mechanism, a so-called early warning system, has been created.

This is operated by so-called divergence indicators for each currency established by a complicated formula and expressed as a percentage departure, not from its parity to each other currency, but from its own central rate in the "basket" or cocktail of the ECU (the European Currency Unit). This unit is based on certain "weights" assigned to each currency, e.g., the D-mark 33 percent, and so on. When the indicator is reached, the government concerned is supposed to consult with its partners and to take action by intervention, changes in domestic monetary policy, devaluation or revaluation of its central rate, or other economic measures. Not only is it not at all clear how all this will work in practice — the computer will play an important part — but how the rate limits will be related to each other. It is, for example, amusing to note that the recent relative strength of sterling might conceivably have pushed it — were it part of the system — beyond the upper early warning limit, with somewhat paradoxical results.

Another, and perhaps even more fundamental question is the way in which disturbances coming from outside — essentially from the dollar — will affect the individual member currencies. The British hesitation arises from the fear that the terms-of-trade effects, for example, of a further depreciation of the dollar might be very different for the stronger currencies in the EMS as against the weaker, given the different structures of the member countries' exports and imports and their cost and price responsiveness. This is a point one also finds frequently mentioned in other countries, for example in French industrial circles. Related to these concerns about the external consequences are also some fears that the implications for ability to control domestic monetary policy might be adverse.

IV

At this point one can widen the discussion and ask in more general terms what the prospects for the EMS are, or put it in another way: "What are the conditions for its success?" And to this question is allied another one: "On what conditions will it make a contribution to the development of a new and better-functioning international monetary system?" Leaving aside the complicated problems of the technical aspects of the dual intervention criteria and the equally difficult problems of effectively acting in accordance with them and also leaving aside the all-important nexus between the intra-Community monetary movements and those coming — autonomously or at one remove — from the outside world, the answer to the first of these questions turns very much on the issue whether the underlying economic developments of the member countries can be expected to be sufficiently close to each other in direction and timing to make the exchange rate regime a reasonably stable one. This question was at the heart of much of the argument between the members before agreement on the EMS was reached and proved one of the main stumbling blocks to U.K. membership. For, whether conceived in its most abstract form, or whether related to one major specific issue already referred to such as the terms-of-trade effect of outside disturbances, the question of the relation between monetary and general economic unification is a fundamental one.

It can be argued that those who want monetary union first are putting the cart before the horse and are doomed to suffer the same sort of disappointment that was caused by the failure of the snake. On the other hand, it can be said that those who want to wait to put the coping stone of monetary union on an already achieved economic union are condemned to wait until the Greek Kalends. Or, put more simply, the question resolves itself into one relating to the power — in practice — of institutional arrangements in the monetary sphere producing enough discipline among members in regard to consequential economic policy measures. If one gives an affirmative answer, then one can expect the EMS to become a powerful engine for forcing a higher degree of general economic unification.

Mr. Jenkins, not unnaturally, takes a positive view on this issue. In his seminal lecture he lists four desiderata on the general economic front. These are important enough to be worth quoting *in extenso:*

> "There has to be confidence in steady and more uniform economic policies favoring investment and expansion;
>
> there has to be a strengthening of demand with a wide geographical base;
>
> if inflation is to continue, it must be at a lower and more even rate than Europe has known in recent years;
>
> we have to ensure that spasmodic, local economic difficulties will not be magnified by exchange rates and capital movements into general crises of confidence."

He goes on to say that "these four requirements may seem obvious enough. The challenge is how to change radically and for the better the institutional weaknesses that have been hindering our ability to restore high employment in conditions of price stability and a sound external payments position. I believe that monetary union can open perspectives of this kind."

In support of this view, those responsible in the Commission for these matters have rejected the view that the EMS, even in its present attenuated form, is no more than the snake writ large. They have pointed to the dual intervention mechanism with, in particular, its early warning system. They have emphasized the obligation on countries to consult when the indicator lights up and, more generally, to the continuous close consultation at a number of levels, inside the Community. This is described as something quite different from the IMF structure which, generally speaking, requires a country in difficulties to take the initiative in seeking assistance and thereby expose itself to investigation by the Fund and eventual imposition by the Fund of economic policy conditions. The Community system, it is argued, is less abrupt, puts the initiative both in the individual country and in the center and is, therefore, less "political" and sensitive. In short, it is said that it is — or will be — something closer to an embryonic Community Central Monetary Authority, rather of the kind Keynes would have had the IMF be but for American resistance. As it develops fully into that sort of institution, the EMS, it is argued, will provide a shining example and teach the world by its precept how to reform the wider monetary system.

Is this a pipe dream, or is it a fairly realistic assessment of what the EMS can become? It is impossible to be entirely confident about one's answer, though experience to-date in other areas is not wholly encouraging. That mechanisms and institutional obligations, arrangements and relationships can exercise a powerful influence on policies not directly and immediately involved, cannot be denied. Governments, particularly weak governments, have been known to welcome the pressure of outside commitments to force upon them policies which are politically highly sensitive. The traditional pre-1914 monetary system itself provides such an example; and it can be argued that the Bretton Woods system did so too, and that it did, after all, serve the world extremely well for nearly a quarter of a century.

But it is not clear whether these are proper analogies. Not only are the underlying circumstances different — one has to think of the preponderance in the 19th century of Britain, which virtually managed the "rules of the game" of the gold standard, or the many auxiliary mechanisms such as the Marshall Plan allied to the preponderance of the U.S. in the postwar period — but more generally, history does not give a clear-cut verdict as to the effective primacy of monetary mechanisms over economic fundamentals or vice versa. Indeed, the history of some of the postwar mechanisms, such as the Marshall Plan and the early OEEC or the short-lived International Materials Conference at the time of the Korean War, seem to suggest that an underlying political will in the face of recognized common problems and accepted common objectives is an essential precondition for the success of institutions.

V

When I mentioned at an earlier point the convergence of opinion and of official points of view, I left open the question of how far this had been accompanied by a real convergence of policies and of their implementation. In this regard, one can discern a few bright spots. In the official sector, as I have said, a greater coordination of exchange rate management has resulted in a degree of stability of the European currencies even before the formal institution of the EMS. The turn-round of attitudes in the U.S. last November has been followed by some action; and in particular the cooperation between the American authorities and the Bundesbank and the Swiss National Bank in regard to foreign currency-denominated bonds is a welcome sign of transatlantic cooperation.

However, in a larger sense the picture is still very disturbing. Some of the fundamental economic factors, not only in the member countries but also in the outside world, particularly in the U.S., have shown unfavorable or at best, uncertain, developments in recent months. The outlook for growth is very patchy and uneven. In a number of countries, unemployment is still high and showing no sign of declining significantly; indeed, in some there is a tendency for it to rise. I have already referred to the private financial markets, and to the doubts which, despite their continued active functioning, must necessarily surround their future, particularly in view of the heavy recourse to them of less-developed countries and the almost "cutthroat" type of competition between banks that seems to be developing. In many countries macroeconomic management has come up against considerable difficulties, particularly in regard to the effective use of fiscal and monetary measures to produce growth without inflation. Relations between the industrialized and developing countries, both in regard to trade and finance, are still uncertain; and the effectiveness of new devices such as the Common Fund has yet to be tested. The future of raw material prices is uncertain, and of oil prices highly precarious. The position of the dollar — to which I shall refer again in a moment — remains also insecure.

Above all, there is renewed concern about the future course of inflation. Only a short time ago it appeared that the convergence of opinion of which I

have spoken was accompanied at least by some convergence of inflation rates, a convergence of the high inflation countries towards the lower ones. Unfortunately, one cannot be at all certain about the continuation of this tendency now. Indeed, in some instances an unfavorable development seems to be taking place. This is particularly so in the U.S., where the 1978 rate of 7.7 per cent is already being exceeded, on an annualized basis, during the first few months of 1979. In the U.K., too, the rate is now nudging double figures and is expected by most observers to be above 10 per cent by the end of this year. This is particularly unfortunate after the substantial improvement that had been recorded in the preceding 18 months. Similar tendencies are at work in France and Italy; and even in Japan and Germany, as well as Switzerland, Holland and Belgium, the year 1979 has started badly. The only comforting factor is that the January figure was generally unfavorable, largely due to an exceptional rise in seasonal foods, as a result of worldwide poor weather as well as of OPEC price rises. However, this last factor may still continue to exert an upward pressure on price levels.

VI

The two related questions to which I referred remain open. The first is whether the EMS can succeed in the absence of any real convergence of economic policies and developments, and, *a fortiori,* whether it can still contribute towards bringing such convergence about. The other question is whether it can withstand shocks originating from the outside, i.e., the dollar, and whether it can therefore succeed as a regional monetary union in the absence of progress in the monetary sphere on a worldwide basis.

I find it difficult to give an answer to the first question. I have already indicated that I do not underestimate the power of institutions to produce gradual but irreversible developments outside the sphere for which they were specifically created — developments which are necessary in order to guarantee the survival of the institution itself. But there is no doubt that the task is in this instance a very formidable one. Real success of the EMS will, in my view, depend not only, or not so much, on whether the technical processes of the exchange rate mechanism work smoothly, but whether the far more difficult decisions of an economic-political character by the member countries will be taken as the need for them arises. These go the heart of sovereignty and are, therefore, in my view of a different order of magnitude from anything that has so far been attempted in the Community. As one who has always been in favor of European union, I naturally hope that the answer will be an affirmative one; but I cannot deny that this is far from certain, and, indeed, that experience to date must lead one to have considerable doubt about it.

The second question is also a basic one. If one takes the view, as I do, first, that the dollar problem, so called, is not an exclusively domestic American one (it is worth recalling that the far smaller and much more manageable problem of the sterling balances was not domestic either), then a broad solution of the dollar problem would seem to be an integral part of the requirements for setting up an effective international monetary system; and, second, that this, given the inevitable strains and stresses to which the EMS will be subjected by fluctuations in the dollar, must also be a precondition for the survival of the EMS.

Insofar as an international monetary system also requires a substantial convergence of economic policies and developments, it may be argued that this would be even more difficult to achieve on a worldwide level than on a European one. I am not at all sure that this is correct. In any event, even if true, it does not alter the necessity of finding a solution. I therefore conclude that, while one must hope and work for the perfection of the EMS, (including the adherence to it of the U.K.), and for much greater harmonization of economic policies in the Community, it is also vital that, concurrently, progress is made on the establishment of an effective international monetary system.

* *

*

In his introductory remarks, the author said that recent happenings had been far from reassuring. For example, M. Couve de Murville had made some rather unpleasant observations about handing over part of the French gold reserves in exchange for European Currency Units. And when the Belgian franc had dipped below the EMS indicator level, the monetary authorities of the European Community had managed to find a pretext for avoiding the prescribed action.

If the pound sterling had been not only a component in the calculation of the indicators, but actually part of the intervention mechanism, one could not help speculating about what might have happened. It would almost certainly have "gone through the ceiling," with paradoxical results for the British economy and monetary policy.

As this subject invariably broadened out, one could regard international monetary affairs and trade arrangements as a seamless garment, and the author suggested focussing the discussion on these questions:

(1) Was there indeed now a convergence of views that stable but adjustable exchange parities were a desirable objective — not simply in the abstract, but as an aim to work toward?

(2) If so, what were the consequential economic relationships (with regard to capital movements, interest rates, coordination of anti-inflation measures, etc.) which would make the maintenance of a system of stable parities reasonably achievable? Contrariwise, how much would a pre-existing system of stable parities help to induce — not to say force — countries into closer coordination of their economic policies?

(3) One could then go on to consider such questions as the capital and money markets, public and private, and their recycling of "petrodollars;" alternative methods of central bank intervention; the role of the dollar as the existing reserve currency; the Eurocurrency market; the future of the EMS; the

possible use of the substitution accounts; and the chances of moving from the present system — via some kind of bipolar system combining the EMS and the dollar — to a new form of reserve currency managed by the IMF.

Finally, despite what readers might have thought, the author assured them that there had been no collusion between himself and the author of the American paper, although the two appeared to share many concerns and conclusions.

* *

*

American Working Paper:

"THE INTERNATIONAL MONETARY SYSTEM: IMPLICATIONS FOR INTERNATIONAL ECONOMIC COOPERATION"

The past three decades have not only seen the greatest physical development of the world economy in all recorded time, they have also compressed within these years three strikingly different patterns of performance by the international monetary system. These three phases, within a broad framework nominally monitored by the International Monetary Fund, might be described through American lenses as: (1) dollar hegemony, 1948 to 1958; (2) dollar improvisation, 1958 to 1973; and (3) dollar neglect, 1973 to 1978. The same three periods might in IMF terms be called those of (1) pre-par values, (2) established par values, and (3) no par values.

The threshhold into a fourth phase has just been crossed, and I hesitatingly suggest that the corresponding captions for the years ahead might be, in U.S. terms, "dollar amalgamation into a multicurrency system," and in IMF terms, years of "managed exchange rate relationships." I am rather arbitrarily going to be discussing what has happened, and what may happen, largely in a context of the more developed countries, though nonetheless knowing, of course, that the less-developed countries (or LDCs), of all varieties, will have a further powerful impact of their own on the future shape of everything we will consider here.

As a starting premise for analyzing the fourth phase which the world's monetary system is just entering, I postulate that the world has outgrown the capacity of any one currency to serve alone as the international medium of exchange and standard of value through which all other currencies and countries could be linked together. In my view, if the monetary system of 1979 and beyond is to retain the resiliency but improve upon the instability of the floating currency experience of 1973 to 1978, concerted effort must be directed both toward a scaling back of the dollar's role to the less comprehensive scope that it may still usefully serve, and also toward filling the remaining void with something else.

The choice in filling that void will, in the broadest terms, ultimately have to lie between either a multipolar system of several key currencies, including the dollar, or a gradual merging of the dollar into one unified multinational system. Whether through mere drift or by design, the system as now poised can move either toward arrangements in which two or three or four more currencies separately accept increasing shares of what has been the dollar's international currency function, or toward more extended use of the SDR as a common unit of international account and settlement. The first embodies all the risks of instability inherent when the relative attractions of one key currency or another rise or fall, and holders tumble out of one into another. The second poses all the fundamental problems of reliance upon a multinational organization, not least among them the degree of surrendered sovereignty involved when individual nation states give up, in effect, some part of their power to control their own coinage.

Whichever the course, the implications for international cooperation must be profound, both for making the actual mechanics of the monetary arrangements themselves work well, and for developing the degree of underlying harmonization among national economic policies that such arrangements will require. Perhaps some clues as to the prospects can be turned up by taking a cursory look at where we have been.

The first phase, the dollar hegemony of 1948-58, contained one overriding lesson: world trade and development thrive when there is universal confidence in one common currency; when the credit and capital facilities identified with that currency are amply but not loosely available across the world; and when other countries aim to establish economic conditions at home which will support the objective of fixing and maintaining a par value for their own currencies in relation to the "marker" currency — a currency which central banks willingly hold as a reserve asset and which their nationals use as a principal vehicle for conducting international transactions. Whether or not that optimal state, with its presumption of reasonably uniform, or harmonized, economic development among nations, can ever be attained, or indeed whether approximations of it are the most desired objective, remains a fundamental question. It does imply, though perhaps not inherently, the virtual domination of one country in the monetary and economic affairs of the rest of the world.

The second phase began in 1958, when a number of leading countries reached the stage of formally establishing par values for their currencies in terms of dollars, and accepting the obligations of the IMF's Article VIII to keep their own currencies convertible into dollars within a narrow range around a par that could be changed only if a "fundamental disequilibrium" occurred. Once each country had established that interconvertibility between its own currency and the universal common denominator, the dollar, the determination of what it bought from or sold to the rest of the world was supposed to be the direct result of the relation between its costs, prices, and incomes and those outside. This linkage to the universal currency, coupled with adherence to IMF norms, was to assure a sort of one-world reflection of the real supply and demand for anything capable of moving across national

frontiers, with the GATT established alongside to guard against non-currency barriers.

The story of these fifteen years, from 1958 to 1973, became instead a succession of paradoxes. For one, the system initially succeeded too well. It released onto a world scale the managerial and productive capacities of the most advanced countries, precipitating not only unprecedentedly rapid but also unusually varied patterns of real economic expansion among countries of all stages of development. Those variations in pace and complexity made the maintenance of fixed par values among the expanding countries almost impossible for very long. The period was consequently peppered with a series of one-shot adjustments of par, almost always as devaluations in terms of the U.S. dollar by the countries running behind in the race.

The second paradox concerned the dollar itself. For the same processes of worldwide growth that were nourished by an orderly monetary system hinged to the dollar were, at the same time, eroding the dollar's own position. The devaluations were preceded, indeed usually triggered, by a loss of reserves — an outflow of dollars from the devaluing countries that usually flowed onward to countries with large export surplusses who retained the dollars in burgeoning reserves. Yet if the position of the reserve-losing countries were to be improved, and their growth promoted, within the context of a world in which the dimensions of real production and real trade everywhere were ballooning, additional reserves had to be created somewhere to finance these mounting country deficits. The cumulative need was much larger than the total of usable funds available either to the IMF or to other international institutions. As a result, and quite in conformity with the implied obligation that the country providing an international currency should also serve as a residual lender, the U.S. capital markets and banking system had begun gearing up even in the late 1950's to meet most of that need. U.S. dollar liabilities grew; the reserves of many leading countries mushroomed; and the strength of the dollar in the eyes of those with the largest external holdings gradually came into question.

The third paradox was that efforts to shore up the dollar by applying the conventional criteria for balance of payments adjustment to the U.S. only led to the creation of an extraterritorial supply of dollars. The needs that a growing world had developed for an international currency would not be denied. By 1973, there were more "stateless dollars" abroad than there were dollar liabilities on the books of American banks at home (and thereafter through 1978 the net total grew at a rate four times as rapid as the 6 per cent growth of the U.S. money supply).

A fourth, and more hopeful, paradox of the 1958 to 1973 period was, however, that the array of improvisations developed through those years left a heritage in organizational arrangements, in techniques, and in sheer understanding of the processes, that may now be finding some use as elements of the emerging new monetary order.

There is no space here for more than a list of the varied improvisations produced by the restless spirit of questioning, experimentation and exploration that characterized official efforts during these years. As seen from the U.S.

they were of three kinds: (1) unilateral action to "defend" the dollar; (2) bilateral arrangements with a number of other leading countries to buttress the dollar against new strains; and (3) multinational efforts to reinforce the dollar's capacity to serve as the primary reserve asset and transactions currency of the IMF "Bretton Woods" system.

Unilateral U.S. actions included a number of measures aimed at reconciling the need for external dollar strength with the need for reasonable growth and price stability, such as: a succession of major Presidential balance of payments programs to conserve Government's own expenditure of dollars abroad; an "operation twist" on interest rates to encourage both short-term capital inflows, and domestic investment; funding of the entire Government deficit until the Vietnam escalation of July 1965 outside the banks and from long-term savings, helping to maintain in those years a 1 to 2 per cent inflation rate; several modest promotive changes in tax rates applicable to foreign holders of dollars; and various controls over capital flows, ranging from the Interest Equalization Tax of 1963-74 to specific limitations on borrowing by U.S. companies for operations abroad. Not all of these, happily, need have relevance today, but their use did reflect a genuine intention by the American authorities during these years to respond to the battery of criticisms leveled at U.S. policies as the dollar — on which so many depended for so much — seemed to be losing strength under the weight of the burdens placed on it.

The *bilateral* arrangements began with an acceleration of debt repayments by countries that had borrowed during the Marshall Plan years or earlier. The resulting reflow of dollars was supplemented on a modest scale by payments in the borrower's currency, as the U.S. began to put small holdings of leading foreign currencies into its own reserves. These foreign currency holdings would provide a possible base for occasional intervention by the U.S. in the foreign exchange markets to provide temporary, technical support for the dollar — on the basis of consultation with the officials responsible for the other currency. The logical next step, once the U.S. had begun the acquisition of foreign currencies, was the initiation of currency swap facilities between the U.S. Treasury or the Federal Reserve and the official financial institutions of other leading countries. As these swaps came to be used — more often initially to assist other currencies rather than the dollar — the potential for an informal sort of "directorate" for coordinating currency stabilizing efforts became apparent, pointing toward one possible route through which the U.S. could share participation with others in guiding the dollar's performance in the international system. That progress was taken a step further when the U.S. began to issue to foreign monetary authorities bonds that were denominated in their currencies — at times when some U.S. uses of the currencies obtained through swap drawings could not readily be reversed, nor the swaps repaid, within a conventional one-year period.

The *multinational* actions included various forms of group participation in transactions to buttress the par value dollar system. From November 1961 to March 1968 a gold pool of leading countries attempted to keep the free market price for gold close enough to the dollar's own official gold price to preserve

that element of confidence in the system. Late in 1961, the so-called Group of Ten was formed to provide a supplemental source of strong currencies to the IMF, to be available at times when IMF drawings by one or more of the group might threaten to exhaust the Fund's usable resources. Earlier in 1961, Working Party Three was formed within the new OECD (which was just emerging from its incubation as the OEEC) in order to provide a special emphasis on balance of payments adjustment problems among the leading industrial countries.

By 1963, it was becoming clear that the focus on current adjustment was not enough, and that a special study of the current performance of the international monetary system as a whole was also needed. To do that, the Group of Ten established a consultative group of ministerial deputies whose critical analytical probing helped lead by 1967 to a broad-scale review on the part of the entire IMF. And it was from the resulting negotiations that the decision came in 1968 to establish a new, truly multinational reserve asset, the SDR.

The gestation period of the SDR had brought representatives of the entire IMF membership, acting through the Executive Directors and their ministers, to see the need for a further comprehensive analysis of the criteria and modalities that a par value system implied for adjustment of economic flows among nations. The IMF Executive Directors undertook such a study in 1969 and 1970, but their report was only completed in time to be overtaken by events. Successive reports on possible reforms within the par value framework were issued in 1972 and 1974. But the unsustainability of the old system as originally conceived had already been strikingly demonstrated by the U.S. suspension of the old gold parity in 1971, and the eventual outright abandonment of the par value system in the spring of 1973. Differences among countries in pace of development and in the composition of foreign trade and capital movements had become too great, and too varied, and at times too volatile, to be kept fenced in by a Bretton Woods form of par value commitment.

In March 1973, the third period began, that of "dollar neglect" and "no par values." But while U.S. policy then continued until the beginning of 1978 to rely on "market forces" to push exchange rates wherever active trade, or genuine capital movements, or precautionary or speculative shifts of currency holdings might send them, other leading countries realized by June 1973 that some degree of management of their exchange rates was inevitable if the new system were not to shake itself apart in intermittent violent gyrations. Most of the other leading countries, as they accepted the inevitability of giving up par values which could no longer be sustained (particularly if hinged to a depreciating dollar), also realized that they then ran the risk of creating a vacuum in which instability and inflation would flourish.

Over the next five years, the cumulative total of official interventions, on both sides of the market, exceeded $200 billion in dollar equivalents. Since the U.S. began intervening more explicitly to avert "disorderly" conditions at the beginning of 1978, and then more importantly to check a runaway decline of the dollar as of November 1, 1978, another $50 billion (in approximate gross equivalents) has been used. However, this is not the place to detail that fascinating record. What matters for our discussion is that the experience of these five or six years of "managed floating" have created a new imperative for international cooperation. Apart from that, surprisingly little of what had been basic in the original objectives of the Bretton Woods system has actually changed. The substance of the emerging system still involves a compelling need for:

- official action to assure an orderly interchangeability among currencies;
- identification of the elements in a country's own economic performance that strengthen or weaken the participation of its own currency in that interchangeability;
- appropriate corrective action by each country to follow up the identification of its own strengths or weaknesses;
- maintaining a capability within the system to expand the supply of internationally usable reserves and currencies to promote economic interdependence and growth; and finally,
- surveillance and lending by the IMF and other international bodies to bring the force of common international interests into the process, and thereby to avert either constricting strains or inflationary excesses for the system as a whole.

What is still missing is an effective capability for controlling the global growth of liquidity in the monetary system, through multinational means, without impairing the capacity of the system to serve the varied needs of diverging national economic performance, and without accentuating the potentialities for combative rivalry or chronic instability.

The fourth phase, 1979 and beyond, brings with it opportunities to move in that direction. I described this phase earlier, and hopefully, as "dollar amalgamation into a multicurrency system" under conditions of "managed exchange rate relationships." A halting start on an aspect of dollar amalgamation is just beginning as the IMF Executive Directors start serious examination of the proposed "substitution account," through which official holders of dollars might be able to convert them into SDR's. A framework for the managing of exchange rates was initiated when the IMF ratified its new Article IV in 1978. By an interesting coincidence, the long awaited European Monetary System is commencing at this same time, aimed at creating for the Common Market countries themselves a truncated facsimile of the old system — with its own central pool of reserves (including gold), but with a floating relationship to the dollar. And to add liveliness to the immediate situation, the world price of the basic energy, oil, is lurching upward again, sending shock waves through the balance of payments and reserve positions of virtually all countries.

What are the implications to be derived from the first three phases, as the world begins fashioning the system of the future? Without space to trace my own judgments syllogistically from the record which I have just described so briefly, I suggest these are at least seven sets of implications to ponder:

(1) The move from par values to floating has increased, not decreased, the need for monetary cooperation among the leading countries. Exchange rates must be managed; and management, if it is not to become chaotic conflict, means cooperation — not only in agreeing on the rules of the game, but also in the day-to-day play under those rules.

(2) Monetary cooperation will be futile if it does not extend into the harmonization of economic policies among these same countries (aiming not for identity nor for similarity but for compatibility). There should be iterative action and reaction between monetary efforts and the performance of the "real" economy — each conditioning the other, successively, as steps toward cooperation on one side help nudge along cooperation on the other.

(3) The emergence of the EMS, as the EEC continues coping with the real problems of trade relations among its members, is a symbolic demonstration of the inexorable force toward an approximation, within whatever framework seems possible, of those basic objectives (as distinct from the superficial forms) of the old Bretton Woods system which I have just mentioned.

(4) The route back toward that essence of Bretton Woods for the world economy may take many forms, including a variety of regional patterns ranging from the formally organized arrangements of the European Community to the purely informal or eclectic evolution of *ad hoc* attachments such as comprise the so-called "dollar bloc" of the Western hemisphere. Experiment and experience will test the scope for meaningful intervention in the foreign exchange markets, including the readiness of other leading countries to support the use of their currencies for that intervention. Meanwhile progress will continue toward defining in practice the way in which "flexibly stable" exchange rate relationships can help maintain the "balance of payments discipline" that is so essential if the economies of nation states are to fit into viable relations with each other.

(5) During the process, each opening that occurs for moving toward greater reliance upon the IMF should be used aggressively. Just as the period of hegemony for one currency has passed forever, the period for its replacement with a universal, multinational reserve asset is far ahead; but the course of change should be kept clearly in view as being en route from the one-currency extreme to the ultimate multicurrency objective. The opportunity for action now is in developing the terms and conditions under which a substitution account can absorb (and offer a useful alternative for) any dollars now restively held in the official reserves of other countries. The negotiations over those terms, and eventual use of the substitution account, offer the most promising means for determining in practice the appropriate limits for dollar holdings in the monetary reserves of others.

(6) Even if a substitution account can become operational, there will still be great potentialities for liquidity creation through additional supplies of dollars in the private sector, in that stateless area now largely outside official reach. This area is being illuminated by the studies of the BIS, and eventually means may be found for the monetary authorities of other countries, with those of the U.S., to effect some global limits on the growth of this liquidity. Should that

occur, care will still be needed to assure that the urge for more liquidity does not simply break through any dollar restraint by turning to increased creation of some other leading currency.

(7) Whatever the forms of monetary cooperation that may evolve, there will be no substitute over the years ahead for continuing and increasingly close collaboration among the leading industrial countries — including mutual criticism as well as mutual support — within and outside the IMF. But because the period of evolution toward an IMF hegemony will stretch far into the future, there will be continuing interim need for relying on the emergence of one, or two, or three other leading currencies alongside the dollar to do the world's work. If the inherent risks of instability in a multipolar system are to be averted, collaboration at all levels of national responsibility (including the highest) will be essential for establishing and maintaining the conditions for monetary and economic compatibility among the leading countries. Perhaps the era of summitry will also have to be a long one.

* *

*

In introducing his paper, the American author emphasized the relationship between (*a*) the harmonization of economic policies among the principal countries, and (*b*) the achievement of a regime of stable exchange rates. Progress on either one was likely to encourage and facilitate progress on the other. But we should not aim to give one priority over the other, or to lean in only one direction. Rather, it was a matter of a series of successive approximations nudging us along alternately toward more policy harmonization and greater exchange rate stability.

With respect to the two major areas of new experimentation:

(1) *The EMS*, by the very nature of its operation, held the potential for greater disarray and disjunction between the U.S. currency and economic performance on the one side, and that of Europe on the other. The EMS arrangements contemplated — as had the snake — that, short of the limits, intervention by the participating countries would still be conducted entirely in dollars. This suggested the need for close transatlantic collaboration among the monetary authorities. Over time, the EMS should lessen Europe's dependence on the dollar, and reduce the risk of the dollar's being whipsawed by changing conditions in countries where the economic performance of the U.S. was not at issue in any way.

(2) If the *substitution account* could be negotiated, it would provide an important way of relieving the burden of an excessive dollar overhang. But it would relate only to excessive holdings ("if any") on the part of official institutions, and would do nothing directly to take care of the enormous volume of dollars in the "stateless market." That vast supply was already beyond the control of any monetary authority, and was growing in volume four times as fast as the supply of domestically created dollars within the U.S. This

was a problem that unfortunately remained beyond the reach of any direct impact from a substitution account.

*

* *

DISCUSSION

A. *The Bretton Woods System and the Role of the Dollar.* Discussion of this agenda item was led off by an American participant, who observed that, in our interdependent world, trade, prosperity and growth all depended on the smooth working of international monetary relations. The Bretton Woods system had been developed with that in mind, and its fixed exchange rate arrangements, which had operated so successfully for nearly a quarter of a century, had broken down only because disparate inflation rates from country to country had put unbearable strains on the adjustment process. Several other participants endorsed this view about the disruptive effects of inflation.

A Portuguese speaker, on the other hand, contended that excess international liquidity — a problem never solved since the early 1960's — had been a major cause of the collapse of the old system. There had been a deep-rooted contradiction in the Bretton Woods arrangements between the creation of liquidity through the dollar and the need for confidence in the system. This had given rise to the possibility of one-way speculation, which in the end determined the collapse of the system and the inevitability of the managed float (which had not been a victory for its advocates, or even a matter of choice, but simply the result of circumstances, notably national differences in economic policies and performance). The continued absence of any overall control had permitted international liquidity to double from 1970 to 1973, and to double again from 1973 to 1977.

A very different diagnosis was made by a Dutchman, who had hoped to derive some comfort from the working papers, but had been left as pessimistic as ever. He paraphrased the thesis of the American author as follows: "The dollar did well for 25 years, but the world has grown too big for it; so let's try to include a couple of other currencies in the system. This will of course require greater cooperation among the countries in this 'gang', but maybe we can get along that way for another 25 years, and in the meantime try to strengthen the IMF."

The basis of the Bretton Woods system, the speaker said, had been the undertaking by the participating nations to abide by the agreed rules of the game. The system had worked for as long as it did, not because of confidence in the dollar, but because of confidence that nations were willing, in order to promote the orderly development of their interrelated economies, to adhere to the rules and thereby keep exchange rates stable. The system had come to an end when the U.S. refused to do so; it was, so to speak, American insubordination against this self-imposed discipline that had blown up Bretton Woods. Since then, until November 1978, the dollar's exchange rate had been treated by the U.S. with "benign neglect" (which some Europeans viewed as "malign," with an effect on confidence in American leadership that an International speaker called "impossible to overestimate"). It was ironic, just as the Americans had finally decided to give up this neglect and to engage actively in managing the external value of their currency, that the Europeans had decided to take care of the problem themselves through establishment of the EMS.

A Norwegian speaker agreed with the American author's conclusion that the overextended dollar, which had performed well in its heyday, could not continue its historical role. Yet no other country seemed eager to sponsor a reserve currency; in fact any sign of that developing was usually met with strong counter-measures. This suggested that the role of reserve currency did not have the advantages that were often implied, and that there were indeed many negative aspects.

Even after 1971-73, the dollar still had served as the most important reserve currency, partly because there was no alternative. The good record of growth in the U.S. had been one of the most important elements in the world economy in recent years, and one shuddered to think what the global effect of slower U.S. growth might have been. Europeans wished to see a stronger dollar, and they were encouraged by signs that America was at last developing a comprehensive energy policy. Other speakers agreed that the dollar would carry the burden of principal reserve asset for a long time to come, even though the trend was toward multicurrency reserves.

B. *Exchange Rates: Fixed or Floating?* An International participant reviewed the predictions — made by many experts when we had moved from fixed to floating rates — that this would open up a better monetary world. It would lead, they had said, to much less intervention in the exchange markets, with an attendant saving of reserves; to smoother changes in exchange rates, which would be decided in the marketplace and not by politicians; to the end of the exchange crises we had seen in the 1960's; and to a resolution of the external effects of countries' "doing their own thing" in their national policies toward inflation and growth, relieving them of the negative implications of balance of payments constraints.

Our experience under floating rates had not borne out these forecasts. We had seen about the same level of intervention; more volatile rate changes, both nominal and real; increased inflationary expectations, with adverse effects on inflation and growth; recurrent exchange crises; and a demonstration that countries could not in fact pursue their own policies with impunity.

The speaker drew these lessons from the disappointing performance of the floating rate system:

(1) The high rate of inflation prevailing during this period had been a negative factor. The higher the general inflation rate, the more divergencies in

inflation rates developed, with an unsettling effect on the exchange markets.

(2) The increased volume and volatility of capital movements had hampered the smoothness of exchange rate changes.

(3) It had been wrong to assume that, under floating rates, a nation could independently choose its economic objectives so long as its balance of payments was properly arranged and its exchange rate changed according to developments. This notion ignored the complex dynamic relationship between (a) exchange rates and their impact on prices, and (b) flows of trade. The transmission of price effects between countries had been greatly reduced while the transmission of demand effects had been hardly affected.

(4) Divergencies in economic performance among countries had aggravated the situation by increasing inflation and making it harder to achieve sustainable economic growth. The prospect of continued divergencies was worrisome.

Whether we stayed with a generalized float or moved to an adjustable parity system of fixed rates, the speaker thought that the most important priority was to move economic policy-making away from the purely national basis, where it had been these past few years, back into an international setting. Our objectives regarding growth, employment and inflation had to be seen in the context of an interdependent system.

An Austrian participant said that the post-Bretton Woods system had neither succeeded in stabilizing the balance of payments disequilibria nor in containing global inflation. The floating rate system had not improved stability, and it had become increasingly difficult to calculate the costs and risks of international — and even domestic — business transactions. Moreover, the present monetary system had an unfavorable influence on the structure of our economies, in that only the large companies were able to tap the international capital markets, from which smaller firms were excluded. Flexible exchange rates also fostered huge capital movements, which developed a momentum of their own and intensified the instability. All of this might lead to policies of renationalization of the world economy, with the drawbacks which that entailed. The speaker therefore endorsed the conclusion of the British author that a system of stable parities was an essential ingredient of a reasonable economic order. That was why the dollar stabilization plan and the new EMS were so important.

A Portuguese participant said that he also favored stable exchange rates, but that there was a lot of wishful thinking about the possibility of getting back to them, and some superficial criticism of how the managed float had worked so far. Without solving the problems of excess international liquidity and the divergence in performance and policies among countries, it would be hard to avoid a system of flexible exchange rates. However, that system had worked fairly well so far; there were negative aspects, to be sure, but major exchange crises had been avoided, and a decrease in inflation rates had not been made more difficult or impossible. In the medium term, variations in exchange rates had been more or less equal to the differential in inflation rates, although in the short run there had been fluctuations which had overshot the inflation rate differences. One could also say that the contribution of exchange rates to better balance of payments adjustments had not been significant, and that the effect on internal prices had been bigger than expected.

A Greek speaker commented that the unavailability of forward exchange cover — for, say, seven or eight years — under the present system was having a negative effect on manufacturing and trade. This in turn affected the process of the creation of wealth, on which currency issue was founded. Nevertheless, the speaker agreed with those who could not see a return to absolute fixed rates, partly because of the volume of free international money. The best one could hope for was something like the crawling peg, which might offer traders and industrialists a workable combination of stability and flexibility.

A Canadian speaker professed an "addiction" to floating rates. He drew the analogy of a canoe in a rapid river, where the steersman could do little to check the general momentum and could only try to smooth out the passage. Under a fixed rate system, the river became a series of cataracts which could do damage to the canoe, its passengers, and others as well. As awkward as floating rates were — with their occasional overcompensation — they had at least provided an effective mechanism for bringing about necessary adjustments. Perhaps a compromise could be found, he said, between the managed float and a flexible fixed parity system.

A compatriot said that he would be reluctant to support a move back to a Bretton Woods-type system of fixed rates until fundamental conditions were right; otherwise we might have to go through another period of serious disruptions. The disparity in current annual inflation rates — 13 per cent in the U.S. *vs.* two per cent in Austria, for instance — showed how far we were from that element of common experience that would be compatible with the maintenance of fixed rates. In the meantime, we would have to make the float work, and the speaker saw grounds for optimism. The floating rate system, it was true, had not solved the problems created by excessive domestic monetary expansion, budget deficits, and oil price increases. But it had — in a period beset by those problems — kept trade and payments flowing in a way that might not have been possible under the Bretton Woods system.

The speaker did not believe that setting up institutions of relatively fixed rates would, in itself, give the needed impetus to individual countries to adopt domestic policies that would sustain such a system, i.e., by controlling inflation. There was little historical evidence to nourish such a hope.

A British participant, carrying forward the analogy of the canoe, said that "when the stream flowed back uphill" it had a distorting effect on the market, and undermined rational business decision-making. The instability of exchange rates — in whatever direction they moved — could be most destructive to investment plans. A Norwegian speaker agreed that the price of this instability on the exchanges was very high.

The author of the American working paper intervened to say that the preceding Canadian speakers were "too sensitive about their key role as representatives of the floating rate school" if they had read into either of the working papers the conclusion that we ought to go back to the mechanical features of the Bretton Woods system. What the authors had meant to emphasize was a return to its principles. The overlay of arrangements that had emerged under Bretton Woods had been simply the result of a certain period in the evolution of a monetary system, translating a reflection of those principles into workable form. The principles were still valid, but we had learned that they could not be achieved merely through the imposition of a monetary tool.

The British author added that he had not meant to suggest that we would have been better off in recent years with fixed parities and Bretton Woods mechanisms. What he had meant was that we should not make a virtue of this necessity, elevating the floating rate expedient to the rank of a desirable permanent international monetary system. No one would deny that a stable system of fixed parities, with all its accompanying paraphernalia, would be a good thing for world trade and political cohesion — *if* we could get it.

An American speaker contended that there was not much difference between (*a*) a fixed rate system with considerably more flexibility than that envisaged by Bretton Woods, and (*b*) a flexible rate system allowing for enough intervention to moderate excessive fluctuations. So perhaps in the end it would not matter greatly which alternative we chose, so long as we somehow got back closer to Bretton Woods.

If that were true, said an Austrian participant, then the basic question was not fixed *vs.* flexible rates, but rather: How much autonomy in economic matters could a nation state surrender, or How much transfer of national sovereignty was needed to make the international monetary system work? Both of the working papers had alluded to this delicate question in speaking of "derogations from national sovereignty" and "substantial restrictions of autonomy in economic policy."

A Frenchman observed that many of the participants had been speaking of the monetary system as if it were something more than a tool, which was not so. A good tool could make the job easier, but it would not change or even conceal fundamental truths (*les vérités profondes*). And the truth here was that no country could live forever beyond its means, or the product of its work. If exchange rates were flexible, then variations in them had to operate to bring the revenues of each country to the level of the effort it made to support its standard of living. If rates were fixed, then each country had to subject itself to the discipline implied by the fixed parities.

Whether rates were fixed or flexible, every nation had to make the necessary adjustments. One's American friends might be shocked to hear this, but as long as the U.S. continued to have large balance of payments deficits, it would add to the mass of dollars in which the world was awash. This was a disturbing element which was bound to hamper any exchange policy — fixed or floating. It was essential, the speaker concluded, (*a*) to stop the growth of this floating mass of money, and (*b*) to try to find a way of tying it down securely.

C. *"Stateless Currency" and the Euromarkets.* Another Frenchman deplored the existence of billions of dollars outside of any national control. This had created enormous liquidity, for which a solution had to be found. International and U.S. speakers found it puzzling that control of the money supply at the national level should be deemed "indispensable," while control of this vast international liquidity was considered unimportant — at least by some participants. Did not something need to be done about the mass of "stateless currency," as Professor Triffin was warning?

One American reply to this question was that the evolution of the Eurocurrency markets had been one of the most constructive developments on the international monetary scene during the past couple of decades. The fact that these markets were not regulated had given the banking system the flexibility to use the "stateless currencies" most beneficially — for economic development and for the recycling of petrodollars. We needed less, not more, regulation in the market place, and it was to be hoped that the Eurocurrency market would be left free to function effectively without regulation.

The author of the American working paper asked rhetorically whether the same sort of argument had not been defended by U.S. bankers prior to the establishment of the Federal Reserve System. But he went on to say that the current international monetary problem — and its solution — was not so simple. How indeed could a world economy function with a literally uncontrolled source of international money? This was the problem that bedevilled all our efforts.

We would unfortunately have to pass through a long transition period, but it was heartening to see that a degree of self-limiting control was emerging from the judgments and practices of the major banks themselves. Broadly speaking, the credit-creation relationship between the dollars liquid in the U.S. and the dollar liabilities on the books of foreign banking institutions was tending to fall into a pattern of about 2½ to 1. It was hard to imagine, though, that any such kind of reserve ratio would be imposed, since few banks required such ratios even to limit their domestic expansion. But voluntary self-restraint was appearing, as international bankers had to take into account the potential withdrawal of deposits.

The author of the British working paper contended that we had got through the recent years of turmoil thanks not to the floating rate system and its management by the monetary authorities but to the international financial markets. They admittedly carried great dangers, but the Eurocurrency and Eurobond markets had kept the worst from happening to both industrialized and underdeveloped countries in a time of great difficulty for their balance of payments.

On the subject of international investment financing, a British participant alluded to the fact that $90 billion of such debt was now being carried by private lenders (as opposed to public institutions). This enormous indebtedness was persuading bankers to intervene in what might be called industrial policy in the international field in an alarming way. It was this trend which, according to the speaker, had led the U.S. — "rather hesitantly and disastrously" — to advocate setting up a buffer stock of copper. This had presumably been done under pressure from those providing the financing. He called this a dangerous proposal which would not work. (A Dutchman agreed: "Why would they succeed with copper when they failed with gold?") The Briton went on to express his concern about UNCTAD's Manila "shopping list," and how far we

were from agreeing on rules for the Common Fund. We could not achieve stability by purely monetary means, and, unless some commodity agreements came into being, all the talk about various forms of international monetary management would be in vain.

D. *The European Monetary System.* A Danish speaker who had participated in the establishment of the EMS outlined some of its salient features:

(1) It had been created as a necessary mechanism to protect cooperation among the European countries, who had always been vulnerable to monetary disturbances from the outside world. It was an initiative to bring some kind of order into the present chaotic monetary system.

(2) It aimed to achieve essentially stable exchange rates between important trading partners, which would enhance opportunities for economic growth.

(3) It would in effect provide strong support for the U.S. dollar by damping the flow of "hot money." (One could not avoid comparing the current situation with that of the late 1920's, when enormous increases in international liquidity had produced disastrous consequences for the world economy.)

(4) It had a special European Community aspect: it was not just an instrument for greater monetary stability, but could also be seen as a tool to promote a convergence of the economic performance of the member countries and better harmonization of their policies. It could be a significant step toward greater economic and monetary integration and toward progress in other fields of cooperation. Stable exchange rates were a sine qua non for the success of the Common Agricultural Policy. They were also a precondition for more efficient regional and industrial policies, and a safeguard against protectionism via artificial currency depreciations.

If the industrialized countries were to fulfill the obligations they had placed upon one another in the arduous multilateral trade negotiations just concluded in Geneva, the Europeans would have to establish a more stable monetary system. Specific transitional measures would help strengthen the economies of the less prosperous members of the EEC, but it was essential that the U.K. eventually be a fully active participant in the EMS. This new system was only a beginning, and one might hope that it would one day come to embrace countries outside the Community.

The speaker mentioned four ways in which the EMS was distinguishable from the "snake":

(1) It was a European Community arrangement, and Community decisions were required to alter the exchange parities.

(2) Its objective with the European Currency Unit (ECU) was to create a new kind of reserve asset, not in competition with the dollar but as a supplement to it.

(3) It was very strongly linked to European agricultural prices.

(4) Its monetary fund, for intervention on foreign exchange markets, was a resource that could only be used by Community decision.

Would such decisions in fact be taken as the need arose? That was the question raised by an Austrian. The ultimate success of the EMS would depend on the resolve of the member states to take those hard political and economic decisions. Memories of the interwar depression years, when monetary disorder had destroyed trade and employment, would certainly be a motivating factor.

The psychological element in the EMS was also emphasized in other remarks. A Dutchman — who was skeptical about political will in the monetary sphere — said that the EMS would work only if the countries adhered to the disciplinary rules of the game (which had not yet been agreed upon, apart from some technical devices governing intervention). Messrs. Schmidt and Giscard, two former finance ministers, had both concluded that "they had to do it their own way." It was imperative that the political momentum generated by the EMS agreement be maintained, and used to develop machinery to bring the European economies in line with one another (inflation, productivity increases, etc.). If the EMS failed, it would amount to a big step backward. An International speaker agreed, predicting that the breakdown of the EMS would be read as a "profound signal of a lack of political will for European cooperation."

A Belgian saw great promise in EMS, if there were enough political will to maintain it. Especially within a Community most of whose trade was now internal, greater monetary stability was vital, and to return to fixed but adjustable parities was an immense achievement. Some lessons of the snake, though, should not be forgotten: smaller and more frequent adjustments were preferable to larger ones made after long intervals and upheavals. That would reduce the incentive for hedging operations, which were destabilizing.

In the long run, fuller European economic union might be necessary to maintain monetary union. Nevertheless one should proceed toward that long and difficult undertaking by monetary steps. If the EMS succeeded, not only would European integration have been advanced, but the way would have been shown for countries in regional blocs — based on Bretton Woods lines — to "float less painfully and dramatically" among one another, while preparing the way for tomorrow's world system.

In the shorter run, said this speaker and others, we would be in a transitional period of multicurrency reserves — a multipolar system with a widened ECU, it was hoped, as one of the poles.

Two French interventions dealt with the EMS. One expressed the hope that it would lead eventually to a "parallel evolution" of the currencies of the several member countries, if it could withstand the peril of divergent inflation rates. The other began with the point that the EMS was based on wide public agreement about the need to build a new international monetary system by commencing at the European level without further delay.

Whatever the uncertainties, politicians, experts and citizens seemed to feel that the EMS was a realistic experiment that should be undertaken, with the necessary safeguards and with national responsibility remaining paramount in the final analysis, as always with monetary matters. If disagreeable things had been said in the French National Assembly about what had been labelled — perhaps improperly — "the transfer of gold from the Bank of France to the European Monetary Fund," this had been done with the purpose of criticizing,

not the EMS, but the procedure used by the French government, which had not relied on due legislative deliberation and approval. Even in monetary discussions, the speaker said, political interpretations were sometimes as important as the economic aspects. An issue at the forefront of current French politics was how best to associate the institutions of the nation-state to the definition and application of concrete policies at the European level, when such policies were necessary and urgent.

An Austrian participant felt that some of the skepticism about the EMS and other developments had been couched in "very elegant language." He quoted Talleyrand's observation that "we must use language to hide our thoughts." He then raised these blunt questions:

(1) Might not the strength of the EMS-ECU mean additional weakness for the dollar? Americans did not like to hear this, but as a European one had to point out that the weak dollar was reducing enormously the profitability of many export industries in European hard-currency countries. This was bound to lead to reduced investment, unemployment and increased government intervention, which was certainly in contrast to the American belief in free enterprise.

(2) Would the EMS be able to cope with the erratic capital movements that its success would create or enforce?

(3) Would the EMS, with its early warning system, offer a certain contradiction to the consequences of the existing system of wide interest rate differentials? Would it not frankly encourage currency speculation within the EMS?

E. *What Future for the I.M.F.?* While the EMS was thus off to a good start, and the dollar was expected to retain much of its role for some time to come, Europe and the U.S. should be careful not to turn their backs on the I.M.F., a Dutch speaker warned. That might be tempting, but could have very adverse results politically.

A Frenchman was guardedly optimistic about new signs of vitality in the I.M.F., and an American foresaw a bigger role for Special Drawing Rights concurrently with the trend toward multicurrency reserves. The proposed Substitution Account offered a promising means of stimulating the use of SDR's, he said. Somewhere down the road, the I.M.F. might ultimately turn into something comparable to a world central bank.

The significance of the Substitution Account was also appreciated by a Portuguese participant, who saw an enhanced SDR as a substitute for existing forms of liquidity, of which there was a great excess. (Since it was not just *official* liquidity that counted, but the liquidity in private hands as well, some control over the international money markets was overdue.)

The author of the American working paper thought it would be important to find a consensus that it would be desirable, over the next generation, for the I.M.F. — however imperfect and inadequately staffed — to develop a closer resemblance to an international central bank. That role, as he saw it, would not be to destroy freedom of — or impair the adjustment of — exchange rates, but to put some limit on international liquidity creation.

A strong dissent was registered by a Canadian who had participated in meetings of the Interim Committee. He said that his view was not based on national pique nor on personal judgments of the I.M.F. staff. It was simply that it was a bureaucracy politically responsible to no one. In the long run, international organizations were effective only when founded on political consent, and one should hesitate to endow the I.M.F. staff with broader responsibilities withour prior political agreement about how currency changes should be managed. (A comparison with the EMS was instructive: there the adjustment mechanism would be controlled by the decision of member governments themselves, not by a bureaucratic staff.)

A Turkish participant thought that, in any case, the future effectiveness of the I.M.F. would be much improved if we could all manage our national economies more ably. But he could not help feeling pessimistic about this, as no one had yet devised a model to show sensible and acceptable priorities in that field. An American agreed that there was no substitute for the sound management of domestic economies. Until we achieved that, techniques of international monetary arrangements would never be entirely effective. Nevertheless he held some hope that a strong I.M.F. might one day serve to control domestic inflationary problems and to encourage international economic discipline.

F. *Multilateral Cooperation and Harmonization.* One theme recurred in a number of interventions. As one Austrian put it: a monetary system could not function without close international cooperation; cooperation was futile if it did not extend to harmonization of economic policies among countries; but harmonization was difficult to achieve in the face of divergent stages of development.

A Norwegian speaker saw a fundamental need for the coordination of national economic policies. Our trouble in getting it was not due to our not wanting the same things (low rates of inflation, high rates of employment and growth), but to differences in priorities. He was encouraged, however, by recent developments: the more expansive steps taken by Germany and Japan, which went beyond what they probably considered ideal; U.S. measures including credit, interest rate and foreign exchange policy; the remarkable stability of the exchange markets during the preceding six months, despite Iran and the oil price increase; the launching of the EMS; and the repayment of swaps. The borrowing by American authorities in foreign markets had been especially noteworthy — politically and psychologically — inasmuch as the U.S. must have been naturally reluctant to resort to that device for the first time.

Improved day-to-day cooperation among central banks was also mentioned, particularly the coordination of large exchange operations. (An Austrian speaker, however, was moved to compare central bankers in general with the chorus in a Greek tragedy, "lamenting without seemingly acting." But, he complained, they were usually among the main actors, and the suppliers of the market which they liked to criticize so heavily.)

An International participant was worried that divergencies in economic performance, which had been so marked since 1973, would continue. This was the sort of problem that could be dealt with through the traditional forms of multilateral cooperation, but a new effort of political will would be required. Just as individual decisions within the nation had to be taken in light of an overall economic policy, so the individual policies of nations had to be put into a general context of international cooperation. It was not enough to announce that every country ought to have the same low inflation rate; specific policies had to be coordinated to achieve that objective.

A Canadian speaker argued that it was not an absence of political will that explained our monetary disorder. It was hard to think of another international institutional arrangement of the past half century that had been supported by as much political will as the system of exchange rates: first, in Bretton Woods with its single-minded objective of exchange rate stability; and second, in the marshalling and channelling over the last three decades of billions of dollars and other currencies to rescue members of the community of nations. This represented a record of political will which stood almost unparalleled in the history of international cooperation. It looked therefore as if it would be easy to enlist the necessary political will if a system were proposed that appeared to have a chance of success.

The absence of adequate harmonization of policies was due to the fact that ministers of finance were not getting clear signals from their experts and officials as to what constituted appropriate policy. So long as there were fundamental differences in the perception of problems, harmonization of policies would only exist at the highest level of generality. The speaker concluded by saying that our efforts toward international monetary cooperation had to start with a campaign to control inflation.

Several other interventions stressed the importance of arresting inflation. One American described it as "the most disruptive economic force in the world today." A Greek participant said that people in most countries were more concerned about inflation than anything else. Under those circumstances, perhaps the will could be found — not just in the political superstructure, but throughout society — to accept the discipline of common economic policies. But how well, he wondered, would that political will stand up to the first major downturn, with its widespread unemployment and pressure to reflate?

A French speaker feared that rates of inflation would remain widely divergent, with perhaps even bigger gaps between European and non-European rates. The consequent adjustments ("devaluations in disguise") unfortunately no longer had the corrective character of devaluations under the old system, which meant that efforts toward parallel European economic regimes were less of a motivating force for the countries of the EEC.

Finally, an American participant confessed that he would be extremely worried if it appeared that the solution to our monetary problems depended on a convergence of the economic systems or policies of our various countries, "because it's just not on." He was even more worried when he considered these expert proposals for convergence of policies against the background of the hurricane that was brewing for us out of the latest OPEC price decisions.

G. *Monetary Implications of the Oil Situation.* The stupendous increase in our energy costs since 1973 was inextricably bound up with our monetary problems. The foregoing speaker presented an analysis of this subject which is summarized in section II below. In addition, other participants alluded to monetary complications related to the oil crisis.

An Austrian speaker observed that the recent OPEC price increases and the formal beginning of the EMS were in fact closely related. The oil price increase held a threat of both inflation and deflation. One had to differentiate between "homemade inflation," on the one hand, and, on the other, price increases stemming from changes in the terms of trade, which indicated a different distribution of real income. It might be painful to realize that the oil price increase of 1974 had not been inflationary per se, in the narrow sense of the word. Rather, it had been deflationary, as income had been shifted from oil consuming to oil producing countries.

The recent and prospective price increases should have brought home to our citizens a deeper understanding of the energy problem. If we did not soon come to a more efficient and comprehensive energy policy, our energy consumption problems might be solved simply by deflation and unemployment.

According to a Turkish participant, the crude oil price increases had caused a short-run effect in favor of the producing countries, but little change for them in the long run. The terms of trade still favored the industrialized world. One could not yet describe the economies of the oil-producing countries as "healthy," because they lacked much in the way of basic institutions and infrastructure. Because crude oil was priced in U.S. dollars — the exchange value of which had steadily declined under America's "benign neglect" — a British speaker contended that the *real* price of oil had not in fact increased since 1973.

An Austrian participant said that he had listened nostalgically for some reference to the gold standard, but in vain. An American observed that this would not have been the case a decade or two ago. The fact that gold was now usually mentioned only as a commodity, or as a historical reference point, indicated that it was not a major factor any longer as a reserve asset in the monetary system.

In summing up, the American working paper author emphasized especially the need to control both the U.S. domestic inflation and the balance of payments deficit. One message which he had heard from a number of participants was "discipline begins at home."

The British author concluded by remarking that there were two levels on which one could think about these matters: the practical and the theoretical. Putting aside the theories, one could say that on the practical level we had "muddled through" so far, but that some severe shocks lay ahead. In the same way that the relative peace of the 19th and early 20th centuries had rested on

the power of the British Navy and the "Old Lady of Threadneedle," so we had all depended since World War II largely on the power of the U.S. dollar. Alas, that phase would soon be over (if it was not already), and we would have to look for something entirely new. To find it would be the great task of the next decade — if indeed we had that long.

*

* *

II. THE IMPLICATIONS OF INSTABILITY IN THE MIDDLE EAST AND AFRICA FOR THE WESTERN WORLD

Groundwork for discussion of this subject consisted of the following three working papers — one by a French author and two by Americans.

French Working Paper:

1. *Instability in the Middle East and Africa*

Instability in the Middle East and Africa is not a new phenomenon. The evolution of the Israel-Arab conflict since October 1973, the quintupling of the price of oil, the weakening and subsequent fall of the imperial regime in Iran, on the one hand, and the growing isolation of Rhodesia and South Africa combined with open, large-scale Soviet involvement in Africa since 1974, on the other, have changed the nature of the problem over the last five years.

As regards the Middle East, a preliminary comment is called for: the almost exclusive attention given by "Westerners" to the Israeli-Arab conflict accounts in part for the failure to forestall and react to OPEC's seizure of power in October 1973, and perhaps also for the fall of the Shah, in whom exaggerated hopes had been placed. The first lesson of these events, therefore, is perhaps the importance of taking a broader, less distorted view of the Middle East.

Revolutions can always be explained afterwards. The causes of the Iranian revolt are now perfectly clear: a modernization drive that went against the grain and created injustices that were exacerbated by the wealth derived from oil; a sick, increasingly isolated monarch, incapable of stemming the universal corruption or controlling the Savak; and a combination of a resurgence of Shiism (as happens periodically, the last time being in 1963) and of Communism (Tudeh party) among the oilfield workers and even in the army. In conditions such as these, a belated, bungled "liberalization" merely weakened the régime and facilitated its overthrow. With the Shah, a myth collapsed — that of the Iranian army, of which nothing remains but a mass of useless equipment.

So far, nothing has been settled. Irrespective of the charisma of the 78-year-old ayatollah, power is still there for the taking. The government does not govern. Certain provinces are threatening to secede (Kurdistan, Arabistan). The Koran is not an adequate basis for a new order. The political vacuum created by the Shah's departure will not be filled very soon.

For this political vacuum, the West is partly to blame — a West which refused to consider playing any other card than the Shah's until it was forced to abandon him to his fate. This dropping of the Shah by those who had hitherto supported him unconditionally is also liable to have certain repercussions, by affecting the attitudes towards the West of those who feel threatened and do not wish to suffer the same fate.

In Africa, destabilization has quickened its pace since 1974. It is true that during the sixties, the USSR began to pursue a systematic policy of making its presence felt on the African continent, and in doing so, found itself competing with China. But it was from 1974 onwards, with the revolution in Portugal and the fall of Haile Selassie, that Soviet policy expanded in scope. It was from that year onwards that allies of the USSR, and above all of course, Cuban soldiers, began to intervene. Soviet policy in Africa seeks first and foremost to exploit — here as elsewhere — all the weaknesses and errors of the West by encouraging "liberation" movements, an elastic form of intervention, wherever possible. In Southern Africa, the USSR is pursuing the simple, rewarding policy of systematically throwing oil on the flames. In two places, she appears to be trying to set up peoples' republics on a durable basis: in Angola and Ethiopia. In other parts of Africa, more particularly the Maghreb and West Africa, she displays considerable circumspection.

Although geopolitics are often treated with scepticism, Soviet intentions in Ethiopia can be understood more readily if one thinks in terms of the Indian Ocean rather than Africa. Ethiopia, the Horn of Africa, South Yemen, Afghanistan — for some observers the encirclement policy is obvious. Iran might soon join the collection, but that of course is far from certain.

In any event, while it is plain that in both the Middle East and Africa, the imbalances are essentially due to local causes, power politics are an aggravating factor. It is quite common in Africa, for example, to encounter situations characterized by some of the following features: frontier disputes, tribal warfare, a split between an Islamic "North" and animist or Christian "South", and an unpopular, corrupt régime. The case of Chad is typical. All the above factors are at work, coupled with external interference (Libya, France) and economic ulterior motives (uranium). The case of Zaire is fairly simple: a revolt in one province, and opposition to the rule and conduct of a head of state who is otherwise astute and courageous.

Sometimes, small-scale, well-conducted operations (such as the French intervention in Kolwezi in 1978) are sufficient to prevent the imbalance from getting any worse. But a large-scale incursion by a new participant (in Angola and Ethiopia) changes the whole nature of the problem.

2. *The consequences of the Iranian crisis*

(a) The direct economic consequences of the Iranian crisis fall into two groups. In the first place, the virtually complete failure to fulfill existing contracts and the non-existence of new contracts will have a detrimental effect on overall demand in the Western countries, creating, through the "Keynesian multiplier effect", deflationary pressures which are difficult to gauge at present. And in the second place, the restrictions on oil output in Iran, which have not been fully offset by the other producing countries, have resulted in a price increase far higher than that decided upon by OPEC in December 1978; as in 1973, this rise will have deflationary and inflationary effects which will be aggravated by some countries' need to correct their balance of payments. As a result, the worldwide recession will receive a new lease of life and may well follow the scenario I described in my report to the Club of Rome on energy, i.e., energy regulation through inflation and unemployment.

In the medium term, the prospects are even more alarming. For one thing, certain producing countries — not necessarily belonging to OPEC (such as Mexico) — may be tempted to limit their output in order to damp down the risk of social unrest caused by a sudden influx of new wealth, while at the same time preserving their oil assets. This temptation existed before the fall of the Shah; it is certainly much stronger today. For another, and despite a certain amount of controversy over the past two years, it would seem that the COMECON countries are bound to become net importers of oil within the next few years. Already, the Soviet Union is increasingly behaving towards its satellites in the same way that OPEC does towards its customers, thereby putting them in an awkward situation. These energy shortages in the East European countries are an additional reason for the Soviet Union to seek closer relations with Iran. A major shift in the oil exports of these countries should not be ruled out.

(b) In terms of the regional balance, the fall of the imperial régime introduces two destabilizing factors which, from the standpoint of the Arab countries, operate in opposing directions.

— First, as regards the Israeli-Arab conflict, the hard-liners will be strengthened by the support of Iran. More particularly, the PLO has been to some extent freed from control by Saudi Arabia, since it now has two major sources of finance. The Palestinians are the main winners in all this. Now that they are more confident of support, they may among other things, restart the fighting in southern Lebanon. With Khomeini on one side and Qaddafi on the other, a resumption of international terrorism cannot be ruled out.

— Second, some countries in the region are justified in fearing Iranian-type revolutions. Islam appears to be strong enough to cause or sustain revolutions. For example, the internal situation in Iraq, with 55 per cent of Shiites, 20 per cent of Kurds and an active Communist party, well entrenched among the Kurds and the oil workers, has certain analogies with Iran. It is true that the Baath rulers of Iraq, being better informed and more clearsighted than the Westerners, realized long ago the significance of events in Iran and appear to have set their house in order over the past two years (by curbing the Kurds and the Communists). The attitude of Iraq and Syria in the conflict between the two Yemens is also revealing evidence of the concerns of these two countries, both of which are close to the Soviet Union. The recent rapprochement between Iran and Syria, which have hitherto been divided by personal differences, is also a major consequence of the Iranian affair. In more general terms, this development and the Israeli-Egyptian treaty are important factors in the renewal of the Islamic alliance.

There are also certain signs which suggest that the Saudi government is not as stable as the West would often like to believe. Is this surprising in a country where the bulk of the working population, from the oil workers to the President of the Central Bank, is composed of foreigners?

There is some doubt about Turkey as well. Of course the Turkish government is completely different from the Shah's dictatorship, and the majority of the population are Sunnite. But deep down, have Ataturk's reforms

been any better assimilated than those of Reza Shah? In any event, the U.S. was well advised to lift its embargo on military aid to Turkey, and the West would do well to consider giving economic aid.

In Afghanistan, the current counterrevolution, aided by China, is certainly connected with the events in Iran. From the Western point of view, this is the most satisfactory outcome of these events. It remains to be seen whether the Soviets will intervene on a large scale to crush it.

History demonstrates the importance of transnational relations, especially in the case of revolutions. It is possible that this self-propagating tendency is even stronger within Islam than elsewhere. The prospect of an explosion throughout the whole Middle East, involving the elimination of Sadat, refusal of the treaty, a fresh war with Israel and a drastic cut in oil supplies cannot be completely ruled out.

(c) It is more difficult to assess the effects of the Iranian crisis in strategic terms. One thing is certain: the idea, derived from the "Nixon doctrine", that Iran would act as the policeman of the Persian Gulf, is now obsolete. Has the Soviet Union's envelopment policy, referred to earlier, any chance of success? Are our supply routes across the Indian Ocean threatened? These questions were being asked even before the fall of the Shah, and must be considered against the background of overall Soviet strategy. As regards the strictly Iranian aspect, the important question is the nature of the relations between the Iranian revolution and the Soviet Union, both now and in the future. It is still an open question.

In the immediate future, the East-West strategic balance has been affected by the withdrawal of the American military advisers and their equipment. Even though the disappearance of the listening posts is offset by satellites and arrangements with Turkey, this is true only to some extent. The Soviet gain here is obvious.

3. *The African quagmire*

While the stakes in the Middle East are relatively easy to define, the opposite is true of Africa. In 1973, Mao Tse-tung explained to a Western visitor that the Soviet Union would intervene in Africa for five reasons: it is an empty continent (some 300 million inhabitants); its resources are largely untapped and even unexplored; it has no well-established ideology; control of three sea routes (the Suez Canal, the Indian Ocean and the Cape of Good Hope) is tempting; and lastly, said Mao, the post-Vietnam trauma in the U.S. might foster the illusion that the field was clear. And it is true that the U.S. does not seem to be convinced that it has any role to play in Africa. The interventionist policy advocated by Henry Kissinger has been discarded. For Mr. Young's brand of non-intervention policy (do not give the Russians and Cubans any opportunity to criticize or intervene, let them get drawn in, cut the grass under their feet by supporting the nationalist movements) is obviously more to the Americans' taste.

Moreover, U.S. policy towards Africa is framed in an atmosphere dominated by a feeling of guilt towards the Negroes and a "fixation" on the apartheid question. The other Western countries are often less concerned with overall strategy than with preserving narrowly defined economic interests (for example, those of Great Britain in the Republic of South Africa, and the close attention being paid by Western Germany to Namibia, which is unquestionably one of the richest countries in the continent).

The case of France is often singled out because of its military position (in a recent article*, James Goldsborough began by making a comparison between the 15,000 French and 34,000 Cuban soldiers in Africa — his figures). But the interests of France in Africa, strictly defined, relate to its overseas territories (Mayotte, La Réunion . . .), the protection of its nationals, and the discharge of its commitments towards the countries with which it has concluded defense or cooperation treaties.

In broader terms, should one take seriously Lenin's famous phrase that "the master of Africa is the master of Europe"? Is Africa to Europe what Latin America is to the U.S.? What exactly is the relevance nowadays of arguments about the control of sea routes?

In actual fact, Europe's economic dependence on Africa today is not very great, even where raw materials are concerned. Africa does not present any immediate danger comparable, for example, to an interruption in our oil supplies. It is presumably the lack of any feeling of urgency that accounts for the West's failure to react. It follows that the Soviets have some prospects of succeeding in establishing themselves, by pursuing power politics in the most traditional sense of the term. The consequences of destabilization in Africa are not apparent to the Westerners for the obvious reason that they do not know what they want. Hence the need for a far more searching analysis of their long-term economic and strategic interests.

Two questions are particularly urgent. While it is true that the terrain in Africa is constantly shifting and therefore only very flexible strategies have any hope of success, is that a reason for remaining inactive if a power — in this case the Soviet Union, with or without Cuba — intervenes on a large scale, as in Ethiopia? The likelihood that it will get bogged down is of course considerable, but are we entitled to rule out the possibility of success, i.e., the creation of a stable satellite? Should we not then take the line that détente is indivisible and act accordingly, or should we play the Soviet game by agreeing to disconnect East-West relations from North-South relations, meaning in practice the East-West-South triangle?

The second question: is not the "Andrew Young strategy" in Southern Africa extremely dangerous? In the immediate future, it may seem plausible by reducing Soviet influence over the liberation movements. But is it not aggravating the risk of a bloodbath in South Africa? The moral arguments in this case are largely unconvincing. Apartheid is certainly an intolerable régime from the standpoint of Western civilization, but no more so than many other

*James O. Goldsborough: "Dateline Paris: Africa's Policeman", *Foreign Policy*, No. 33, Winter 1978-1979.

régimes in many parts of the world. Nor should it be forgotten that, after all, the "White tribe" of South Africa also belongs to Africa. If we take up a moral stance, we must also try to put ourselves in their place. In any event, would their elimination be in the interests of the West?

All these problems are posed in the form of questions, because the first step towards clear thinking is to raise the right issues.

The Western countries must coordinate their policies in Africa. This does not mean that they should work out a "common strategy", which would obviously be quite beyond them in view of the diversity of their interests and outlooks. But a joint approach is essential.

On one point, at least, there should be a consensus. The destabilization of Africa is the logical outcome of decolonization. The Western countries, far more than the Socialist countries, are the natural economic partners of the African countries. The search for a new world economic order, towards which we have been groping since 1974, is a political as well as an economic imperative. We must make it progress without waiting for circumstances to force our hand, and we must try at the same time to give it an African regional component.

* *

*

After summarizing the main points in his paper, the author made some general observations about Middle Eastern and African developments. He felt, first of all, that the fall of the Shah had not been inevitable, and could well have been avoided. We were just at the beginning, not the end, of the Iranian revolution, and it would probably be several years before a new stable regime could be established. One heard a variety of opinions about the strategic consequences of the Iranian crisis, but if, as some argued, nothing had changed, then what had been the use of all that valuable U.S. surveillance equipment based in Iran?

In Africa, our problems had intensified dramatically since 1974, as the process of decolonization drew to a close. The marked asymmetry between Russian and Western attitudes toward Africa derived from the fact that the Soviets seemed to know what they wanted to achieve on that continent, whereas we did not. For one thing, we had made no systematic analysis of how dependent we really were on African raw materials. (One rough figure one heard quoted was about 12 per cent.) For another thing, we were being imprudent, not to say irresponsible, not to envisage what our response should be if the Soviets succeeded in creating a permanent implantation in Africa. (Some, such as Senator Edward Kennedy, seemed to think this was not a big worry, as the Africans had a way of eventually rejecting foreigners.)

In any case, we could not hope to shape a better African policy without first having a clearer notion of what our interests there were, both in the short and the long run.

American Working Paper (I):

"IMPLICATIONS FOR THE WEST OF INSTABILITY IN THE MIDDLE EAST"

In the past 30 years, Western interests in the area stretching from the Mediterranean to Afghanistan and Pakistan, hereafter referred to as western Asia, have been more or less constant. They have involved three considerations: oil, the Soviet Union and Israel.

With respect to oil, the West has been interested in obtaining a reliable supply at reasonable prices. With respect to the Soviet Union, the West has been interested in avoiding a confrontation which could lead to nuclear war while at the same time denying a strategic advantage in the area to the Soviets and maintaining its own strategic advantages in terms of transit rights, both on the sea and in the air, and intelligence facilities. With respect to Israel, the West has felt a moral imperative to support the existence of Israel while at the same time sustaining good relations with Israel's Arab neighbors.

While being clear-eyed in perceiving its interests in the region, the West has been less clear-eyed in perceiving how those interests are regarded by the people of the region or how conditions in the region affect Western interests. As a result, the West has not always been as flexible as it might have been in adapting policies to protect its interests, for it has not always understood the shifting nature of the sands on which its interests and policies have been based. This paper will therefore concentrate first on the conditions in the region. What is striking about these conditions is how little they have changed. Most of the features of the western Asian political, social and economic scene which existed 30 years ago exist in much the same measure today. Change has not been as drastic as it might sometimes seem to have been.

Instability

Instability itself is hardly a new phenomenon in western Asia. Its causes lie deeply imbedded in history and in the political and social fabric woven by that history.

Among the sources of instability is ethnic tension. Kurds in Turkey, Iran and Iraq. Baluchis in Iran, Afghanistan and Pakistan. Pushtuns in Afghanistan and Pakistan. Turkic peoples in northern Iran and Afghanistan. Arabs in southwestern Iran. South Asians seeking jobs in oil-rich OPEC countries. Palestinians in the Arabian peninsula. Egyptians in Iraq. All of these groups represent minorities in the countries in which they live. Most of them have grievances against the dominant ethnic groups. Many of them seek autonomy for themselves. Most of them are targets of discrimination in political, economic and social terms. Many of them are more industrious and hence are seen as threats by the dominant groups. It is not surprising that so much of the instability of the area is caused by these ethnic tensions.

Similarly much of the instability in western Asia stems from religious tension. Some of this tension, notably in Lebanon, arises from Moslem-Christian conflicts. There are also pockets of other non-Moslem peoples in the area, such as the Zoroastrians and Bahais in Iran, who, like ethnic minorities, are often targets of repression. But the major areas of religious tension are between Moslems and Jews in Palestine and between the two major Islamic sects, Sunni and Shi'a, in many of the countries of the region. The Moslem-Jewish conflict is at least as old as Zionism, and tensions often leading to conflict between Sunni and Shi'a have existed since the split in Islam shortly after the Prophet's death in the seventh century A.D. This paper will not attempt to deal in any depth with the Arab-Israeli problem. It is perceived by many of those directly involved as not only a religious but also an ethnic dispute. As for Sunni *vs.* Shi'a, their conflict plays a major role in the internal politics of a number of the countries of western Asia, notably Iran, Iraq and Afghanistan.

Longstanding political disputes between nations also give rise to instability. Aside from the Arab-Israeli dispute, these include the Afghan-Pakistani dispute over their border, the conflict between the two Yemens, Iraqi-Kuwaiti hostility and problems only recently and possibly only temporarily put to rest between Iran and Iraq.

Other important causes of instability in the region arise from economic factors. Despite spectacular riches pouring into some of the OPEC countries, both within those countries and in the non-oil countries, poverty and subsistence living remain the way of life for the vast majority of the people. Low rates of literacy, high infant mortality, poor nutrition and inadequate housing are the norm in most countries. For example, infant mortality in Egypt is over 100 per 1,000 births, as compared with a U.S. figure of 15. Life expectancy in the region is seldom much over 50 years as compared with over 70 in the West. And in some of the countries of the region these conditions are steadily worsening as a result of rapidly increasing population, bringing pressures on already limited amounts of arable land and forcing migration to already crowded cities. Iran's population grew 17 per cent from 1970 to 1976, Egypt's 16.5 per cent, and Iraq's almost 30 per cent. Rapidly increasing populations have meant that the average age of populations has been declining, causing new pressures on already inadequate educational facilities and on already limited job markets. Those young people who do receive an education find meaningful employment difficult to obtain when they finish their education. Governments have created vast make-work bureaucracies where little is accomplished.

Some of these economic tensions are described in the West as the results of "modernization". To some extent they do derive from the desire of peoples and governments to modernize along Western lines, to bring modern industries and social services to their countries. In many instances, this desire has led to major mistakes in economic decisions which have compounded existing economic dislocations. Emphasis on capital-intensive projects rather than on agriculture or on labor-intensive industry is one example. Another is the tendency in most countries of the region to fail to give adequate incentives to private sector development. But the root causes of economic difficulties are not the efforts at modernization but the inability to cope with rural poverty, with its urban counterpart and with population growth. In political terms, frustrated youth and the increasing gap between rich and poor are major sources of instability.

In the region itself, "modernization" has often a different meaning than industrialization and improved social services. To many of the region's inhabitants, modernization means the introduction of Western attitudes and mores which threaten their traditional values. Western attitudes toward women, toward liquor and toward other matters have been introduced and appear to the traditionalist majority as fundamental threats. The majority, which is poor, also notes that it is generally the rich in their societies who are attracted to Western ways. Tensions derived from economic disparities, therefore, feed on tensions arising from "modernization".

Yet another enduring cause of instability in the area is the fact that virtually all of the governments are authoritarian. Some have more ideological trappings than others. The military plays a critical political role in virtually all countries of the region. In some countries, there are more efficient methods than in others for the presenting and redress of grievances. But the bulk of the population in almost every country has little or no say in governmental decisions. Opposition is represeed. Basic political and legal rights are seldom observed.

There is ample historical evidence, which need not be recounted here, to support the view that authoritarian regimes are by their very nature unstable. Where there exists no generally accepted system for succession to power and where there are no established mechanisms for popular participation in government or for the protection of human rights, people deprived of political choices or rights store up grievances and in due course turn to violent means to redress them. If one major or colonel can seize power today, another is tempted to do so tomorrow. Authoritarian regimes also more often than not use corruption as a means to win loyalty and hence weaken their moral base in the population as a whole. On top of all the other ethnic, religious, social and economic tensions of the region, the existence of authoritarian governments reinforces the tendencies toward instability.

Soviet ambitions

Another condition of the western Asian region which has been present since Tsarist Russia penetrated the Caucasus and Central Asia in the nineteenth century has been Russian or Soviet imperialism. In its pre-1917 form, this was a form of imperialism familiar to the West: an acquiring of colonial areas to build the economic and political power and prestige of imperial Russia. Turkey, Iran and Afghanistan all lost territory as Russia expanded southward, and many Islamic peoples whose cultural ties were to their fellow Moslems and not to Christian Russia were absorbed in the Russian Empire.

Flying new ideological banners, the Bolshevik leaders of Russia in the early 1920's succeeded in reestablishing imperial sway over the Moslem peoples of the Caucasus and Central Asia who had been part of the Tsarist Empire. And like the Tsars, the new Russian leaders attempted to expand their borders further to the South at the expense of Turkey, Iran and Afghanistan. These attempts failed immediately after the Second World War in the cases of Turkey and Iran, but gained an important success with the installation of a pro-Soviet, Marxist-Leninist regime in Afghanistan in April, 1978. The Soviets also went beyond the traditional aggressive Russian policy in neighboring countries by attempting to bring within the Soviet orbit other regional countries. Here again they have seen both success and failure, but they have made some net gains, notably in South Yemen with the installation of a pro-Soviet, Communist regime there in June, 1978.

The Soviet government has been more adept than its Tsarist predecessor in working to expand the Russian Empire and to increase its influence in western Asia. The Soviets have used ideology, subversion, military and economic assistance, cultural programs and local tensions to promote their aims. But the difference is really one of degree; the reality confronting the West in the region for some 150 years has been an expansionist, aggressive Russia.

Culture: religion and family

Of all the constants with which the West has to deal in this region, the most enduring one is culture. With the exception of Israel and pockets of non-Islamic peoples in the area, the West is dealing with a culture which is rooted in Islam. Western ignorance and arrogance about Islam are appalling. Whatever the reasons — and the decline of Islamic political power and the resurgence of the West beginning with the Renaissance had a great deal to do with shaping Western attitudes — this arrogance and ignorance has blinded many in the West to the reality that Islam is absolutely fundamental to the daily lives and thinking of the vast majority of western Asia. Islam, unlike Christianity as it has developed in the West, is deeply entwined with all aspects of life — personal and public — for a Moslem. Separation of church and state is an unfamiliar concept. A call to defend Islam is a call to defend the essence of life itself.

This is not to say that the hold of Islam has not weakened in the last few generations. As Westernization has proceeded, the attraction of Islam has receded somewhat, especially among the middle and upper income groups. But Islam remains the glue that binds the diverse peoples of the region together. It is one of the two pillars of the culture of western Asia.

The other pillar is the family. Given the instabilities, tensions and insecurities of life, the family assumes the role of provider of stability and security for an individual. Much of the politics and economics of western Asia can be explained through family ties, sometimes expanded to extended family or tribal ties.

In this context, it is not difficult to understand why many people in western Asia regard threats to Islam and to the family as fundamental threats to their way of life. These threats are usually perceived as coming from the West, through "modernization" and secularization which appear to be basic parts of Western culture. This cultural antipathy toward the West was stimulated by Western colonialism which affected virtually every country of the region and left in its wake feelings of resentment and inferiority, hurt pride and desire for revenge. The experience with Western colonialism was reinforced and is still being reinforced in some countries by experience with hordes of Westerners imported in connection with economic and military assistance and commercial contracts. In short, the West is an easy excuse and whipping boy for the ills of the area.

The Soviet Union and its "Godless Communism" are also seen as threats to their culture by the peoples of the region. But in countries, such as Afghanistan and South Yemen, where Soviet protégés have seized power, the governments have striven to convince their peoples that Communism and Islam are compatible. Such claims are greeted with attitudes ranging from skepticism to outright disbelief by most Moslems of western Asia, but it remains to be seen whether Islam can be a successful barrier against Soviet-supported Communism in the absence of cures for the political, social and economic ills of the region.

New directions

What have been summarized so far in this paper are the constants in the western Asian scene as they affect Western interests: instability, Soviet-Russian expansionism, and a culture rooted in Islam and the family. There have, however, appeared in the past few years some elements in the picture which represent a radical change from the past.

The first of these new elements is the dependence of the West, of the very existence of the industrialized West, on the oil resources of western Asia, meaning to all extents and purposes the oil resources of the littoral countries of the Persian Gulf. As recently as 1950, Western Europe, Japan and the U.S. together depended on the region for only about 8 per cent of their oil. In 1977, the latest year for which figures are available, they depended on the region for 57 per cent of their oil. Even this figure can be misleading because it is an average. The figure for Italy is 83 per cent, for France 80 per cent, for the United Kingdom 76 per cent, for Japan 72 per cent, for Germany 67 per cent and the U.S. 46 per cent.

This situation increases the importance of the region to the West enormously and therefore greatly increases the leverage regional oil-producing countries have on the West in economic and political terms. The 1973 oil embargo was a demonstration of this fundamental change in the power equation between the West and the oil-producing states of the region. At the same time, Western leverage, in the form of economic and financial aid, has become less important to an area that has spawned its own fellow-Islamic aid givers. Pressures on the

West to export goods and services to the region and to attract OPEC capital have increased literally by leaps and bounds. Oil price increases have had a major effect on Western economics, greatly slowing projected rates of growth and creating severe inflationary pressures. All of this is an entirely new situation in the world, one which is far from fully understood either in the West or in the region. It is also a situation not likely to change soon in any significant way. Other sources of oil cannot substitute for Persian Gulf supplies, and other sources of energy are not going to be available in sufficient quantity for some time to come.

Another entirely new element in western Asia in recent years has been the decline in Western military power. With the exception of the facility on Diego Garcia and occasional visits to the area of elements of the U.S. Pacific Fleet, the West has not replaced the sizable British and smaller French military presence which existed in the area at the end of the Second World War and which was gradually withdrawn in the ensuing years until the final British withdrawal from the Persian Gulf in 1971. The small American flotilla berthed in Bahrein since shortly after the Second World War has generally consisted of three ships, although it has occasionally, such as at the present time, been augmented by two or three additional ships.

The ability of the West to use its own military forces to protect its interests has therefore greatly eroded in the post-war period. The days when American Marines might land in Lebanon as they did in 1958 or when a brigade of American troops might participate in a military exercise in southern Iran as happened in 1963 seem to belong to a far-distant past, although recent American moves to bolster North Yemen may indicate a renewed willingness by the U.S. to deploy its own military forces to protect its interests in the area. Western military weakness, when combined with the erosion of economic leverage resulting from its dependence on the region's oil, quite naturally is seen in the region as a decline in Western power, influence and purpose. The result is less heeding in the region of Western interests and new temptations for the Soviet Union.

Finally, another major change in the region has been the shifting of Iran from a pro-Western to a non-aligned position and the shifting of Afghanistan and South Yemen from non-aligned to pro-Soviet positions. It is always possible that these shifts will be reversed. In the case of Iran, the threat of Soviet power and needed economic and military supply links with the West may well move it back into a more aligned position unless internal instability gives an opportunity to pro-Soviet elements to seize power. In the case of Afghanistan, it is difficult to see how the Soviets and their protégés will be dislodged from power; the regime's opposition is fragmented and poorly armed. In the case of South Yemen, its distance from the USSR makes the staying power of its pro-Soviet regime somewhat more problematic than is the case with the new Afghan regime. Whatever happens, however, the Soviets have new opportunities for subversion in the region, and the position of the West has been further weakened for the immediate future if not for the longer term.

Given the conditions that prevail in Western Asia, what options does the West have for preserving and promoting its interests?

The first priority for the West would appear to be the lessening of its dependence on the oil of the region. Involving as it does the development of alternative energy supplies, this will be a lengthy process. But it seems clear that the pursuit of alternative energy sources and alternative sources of petroleum and of conservation measures is not being carried out with sufficient urgency or zeal.

Secondly, the West should do what it can to assist in the settlement of regional disputes and thus promote greater stability. First among these disputes is the Arab-Israeli problem. Strenuous efforts will be required to keep the Egyptian-Israeli settlement on track. These efforts will have to involve as they have in the past the top level of the U.S. government as the only outside power that has the full confidence of both parties. As for the other remaining issues involving Israel and Syria, Israel and Jordan, the Palestinians and Jerusalem, the task of mediation and negotiation will not be an easy one, to put it mildly. But the rewards of peace must continually be held in front of all the parties, and not just the U.S. but the West as a whole must use its influence to keep the negotiations moving in the right direction. In particular, moderate Arab nations that are interested in keeping the door open for negotiations, such as Saudi Arabia and Jordan, need to receive moral and tangible support from the West.

Other regional disputes also require Western attention. As they have been less involved than the U.S. in the Arab-Israeli problems, Western European governments and Japan may be better able than the U.S. to encourage regional cooperation in the Persian Gulf. Given the past history of antagonism between Arabs and Iranians and among Arabs, especially vis-à-vis Iraq, on the Gulf littoral, the development or regional cooperation will not come about easily or quickly. But it would appear to be in the Western interest to support moves in this direction if only to erect further barriers against the extension of Soviet influence.

Likewise, although CENTO appears dead, Turkish-Iranian-Pakistani cooperation in the organization known as Regional Cooperation for Development might still provide useful links between these three countries and deserves Western encouragement. Given the present internal problems in all three countries and the fact that their economies are not complementary, it is not possible to be very optimistic about the future of the RCD. Its past has not been brilliant. But it still exists and could serve useful purposes politically as well as economically.

Regarding the disputes between Afghanistan and Pakistan and between the two Yemens, involving a pro-Soviet regime on one side of each dispute, it would appear to be clearly in the West's interest to make it plain to Afghanistan and to South Yemen that it will not countenance aggression against their neighbors, to provide appropriate support to Pakistan and to North Yemen and to counsel the Soviet Union against direct military involvement.

Throughout the area, the West has the opportunity to support its friends with economic and military assistance. Such assistance is of major importance in promoting peace between Israel and Egypt and in keeping open Western relations with Syria. It is also of great importance in assisting Pakistan and North Yemen against the inroads of the Soviet surrogates on their borders. Western countries providing assistance should, however, be careful not to repeat the American mistake in Iran of building up so great a presence of Western personnel that the cultural sensibilities of their hosts become aroused. This consideration should be borne in mine not only with respect to military and economic assistance programs in the more needy countries but also with respect to burgeoning military and commercial ties with the oil-rich countries of the region. Given the widespread latent antagonism toward the West in the region, too many Westerners on the scene have been self-defeating, notably in Iran, and could be so again.

With respect to the Soviets, a number of options are available. One is to increase the Western military presence in the area, making it clear that Western military forces will, if necessary, act to protect vital Western interests, such as in the oil fields. Another option is to make it plain to the Soviets in private diplomatic exchanges, but also in public when appropriate, when important Western interests are involved and to indicate to the Soviets what cost they will have to pay in overall relations with the West if they persist in expansionist activity in the region. We should recognize in this connection that the Soviets have been pursuing a patient and cautious policy in the region. The coups in Afghanistan and South Yemen came about more as a result of local events than of Soviet urgings. So far the Soviets have been cautious in dealing with the turmoil in Iran. But their actions in all of these countries, ranging from rapid military and economic support to the new governments in Afghanistan and South Yemen to clandestine encouragement of the left in Iran, provide sufficient evidence of long-range Soviet intentions to cause the West to keep its guard up.

It will be harder for the West to influence internal political events in any of the countries of the region. While the West can encourage observance of human rights and a lessening of corruption, the internal dynamics of the countries of the region are sufficiently obscure to Westerners, as has been seen in Iran, that it is extremely difficult for the West to have much influence on the internal stability of regional nations.

There are, however, some things which can be done. One is to stay in touch more systematically than in the past with opposition groups. If this cannot be done overtly, it can and should be done covertly. Secondly, all Western countries should pay more attention to the well-being of students from the area attending educational institutions in Western countries. The experiences of these students in the West often has led in the past to their alienation from the West. Some of that alienation can be avoided by greater attention to the needs of these students during their stay in the West.

Another need is for Western nations to do a better job of educating and informing their own citizens about the conditions of the region. Certainly in the United States, and possibly in other Western countries as well, the level of ignorance about western Asia is abysmal, and educational institutions lack the resources for correcting this situation. Moreover, the quality of journalistic coverage of the region in the Western press is spotty at best. The West cannot deal intelligently with its problems in western Asia without a sufficient cadre of specialists and well-informed publics. The West needs to see the peoples of western Asia in the mirrors of their past, not in its own.

Finally, there is a crying need for more coordination among Western countries across the whole spectrum of their common interests in the region — economic, oil, military, political, cultural. If there is a single conclusion that emerges from the Bilderberg Conference's discussion of these problems, it should be the encouragement in all fora — academic, governmental, business and financial, journalistic, military — of discussions of common Western interests and policies in western Asia. The commonality exists beyond question. The spirit of cooperation needs to be energized.

* *

*

In presenting his paper, the author emphasized these points:

(1) The ambivalence of the attitude of the people of western Asia toward the West: While many of them welcomed the rise in the standard of living that had accompanied Western-style modernization, many more viewed modernization as a threat to their own values.

(2) The Soviets, albeit with prudent regard for their global interests, would do what they could to subvert and control governments in the region. The West might thus be faced one day with the challenge which the Chinese had recently faced in Vietnam: whether to use force to protect one's vital interests.

(3) The West had to reduce its dependence on Middle East oil, by developing some realistic alternatives as quickly as possible.

(4) Above all, we needed greater coordination of our national policies toward the region. If we hung together — to use the old Revolutionary War line — we could avoid the fate of hanging separately.

*

* *

American Working Paper (II):

"UNITED STATES POLICY PERSPECTIVES ON AFRICA AND THE SOUTHERN AFRICA CONFLICTS"

In the last three years Africa has enjoyed greater prominence in U.S. foreign involvements than at any time since the U.S. army joined the British in fighting Rommel's tanks in the Libyan desert. Even President Kennedy's enthusiastic plunge into the turmoil of Congolese politics did not produce quite the sustained attention that Washington has been paying Africa in recent years. Africa's prominence is all the more striking by comparison to its benign neglect during the previous decade when the Vietnam war occupied America's attention to the third world.

This prominence has in part been forced by events in Africa and elsewhere in the world that no administration could ignore, but the policy response has been given shape by powerful and sometimes conflicting forces within American society and within the Carter Administration. To understand what American policy toward Africa, and particularly toward the conflicts of southern Africa, is likely to be over the next few years, it is essential to understand the clash of policy perspectives within the executive branch of government and their interaction with opinions and pressures from American society as a whole. At present, policy toward Africa is caught up in a wide-ranging debate whose terms extend well beyond the African continent. Reflecting the fact that for most Americans, including most American foreign policy-makers, Africa has been only a peripheral concern, and that no tradition of political cleavage over African issues exists in American politics, the debate's outlines have often been obscure. It has taken the form of a series of skirmishes whose location and subject matter are determined by the events of the moment, including the congressional legislative calendar and the increasing momentum of the 1980 presidential campaign in which a large field of hopefuls probe for issues capable of arousing the response of key sectors of the voting (and contributing) public.

No debate about policy toward a particular region can be separated from the broader context of American foreign policy and America's position in the world. A number of secular trends affect the debate, although its participants may not consciously acknowledge their impact. Among them are:

(1) the overall decline of American political and economic power relative to that of many other international actors, particularly the Western European nations, the petroleum exporting nations, and on many issues the third world as a whole. There are few major issues on which America can go it alone any more.

(2) the Soviet Union's acquisition of the ability to project military power sufficient to play a determining role in third world conflicts where it is not opposed by substantial modern forces.

(3) the collapse of the cold-war consensus within the U.S. which united liberals and conservatives in a reflexive anticommunism.

(4) the increasing interpenetration of domestic and foreign policy issues and attitudes; domestic ideological position increasingly influences attitudes toward foreign affairs.

(5) the increased role of Congress in making and executing foreign policy; some 67 Congressional committees, many of them staffed by foreign policy specialists, attempt to play a role in foreign policy.

(6) the rise to middle and a few senior leadership positions in the private and especially public sector of significant numbers of black Americans, together with an increasing awareness of black voting strength.

All of these influence discussion of policy toward Africa.

II

Within Africa, and especially southern Africa, the period from 1973 to 1976 produced fundamental changes which forced reexamination of American policy. 1973 was the first year in which a black-ruled African state passed South Africa as America's principal trading partner, with Nigeria becoming the U.S.'s second largest supplier of petroleum, and a source which kept pumping even as the Arab boycott drove home to American motorists some elemental facts about international interdependence. The Portuguese coup of April 1974 undid a major presumption of prevailing policy, set forth in National Security Study Memorandum 39 in 1969, that white rule in southern Africa was "here to stay." It also brought eventually to power in Angola and Mozambique leaders whom U.S. officials had earlier been forbidden to contact, much less to aid, lest such contact upset the Portuguese, whose continued cooperation on leasing the Azores base had been deemed of far greater moment than any long-term African concern.

The 1975-76 Angolan civil war, from any perspective a policy fiasco for the U.S., at last drove home to policy makers the simple lesson that no enterprise undertaken openly in concert with the Republic of South Africa could have a chance of receiving the support of black Africa, most especially in Nigeria. A policy undertaken largely without concern for broad African support foundered in practice even before it was rejected by the Congress, and even the 20,000 Cubans in Angola could not provoke either popular or congressional support for direct American intervention. Finally, partly as a result of the changes on their peripheries, but even more in response to domestic factors, the two principal white redoubts were severely shaken. Guerrilla attacks began to do what sanctions had never accomplished, seriously to disrupt Rhodesian social and economic life. By the end of 1976 the cost of defense rose to $1 million a day, and passed the level that the economy could sustain without outside help. The upheavals that began in Soweto in June 1976 marked the public resurgence of African nationalism in the Republic of South Africa for the first time since the early 1960's. The revolts shattered illusions inside and outside South Africa that the black population was prepared to acquiesce in governmental racial policies, provoked a brusque halt in new capital flows from foreign public and private sources, and sent the South African government into a hushed political paralysis from which it has not yet emerged.

The effects of these events were felt in Washington through the distractions of Watergate and the lingering recriminations over the Vietnam war. Henry Kissinger, previously disdainful of black African concerns, rebounded from his Angolan debacle by announcing "a new era in American policy" in a Lusaka speech on April 27, 1976. He followed this with an initiative to negotiate a transfer of power to a black Zimbabwean regime. The attempt failed for several reasons, among them Kissinger's inability to establish fully a relationship of influence based either on trust or terror with the black and white African leaders whose cooperation would be necessary to force the Smith regime and the guerrillas to accept a compromise means of transition to black rule in Rhodesia/Zimbabwe.

III

By the time the new Administration took office in January 1977, changes in America's Africa policy were clearly in process. As so commonly happens, the advent of a new administration, with new leaders seeking to distinguish their policies from those of their predecessors, brought explicit recognition to trends which previously had been felt only dimly in policy formulation. Despite the usual American penchant for proclaiming any policy change as a "bold new departure," the substance of the new African policy has been derived principally, albeit selectively, from past themes, but their selection has been dominated by a different vision of the present. Two policy perspectives, informally baptized the "regionalist" and the "globalist," have vied with each other, differing marginally in their ideological underpinnings, but most markedly in the bureaucraftic positions occupied by their proponents.

The regionalist perspective has dominated the Carter Administration's African policy. Solidly grounded in the experience and thinking of the Department of State's Bureau of African Affairs and the Mission to the United Nations, it has been solidly supported by Secretary Vance and other senior Departmental officials. Key Congressional staffers and a few Congressmen provide outside support, and on specific issues much wider executive branch coalitions have been built. The principal propositions underlying this policy perspective are as follows:

(1) Black nationalism is the dominent historical force on the continent and one which is, in the long run, congruent with American ideals and interests, however trying it may prove to be in the short run. This nationalism may take a variety of rhetorical and organizational forms across the continent, but the differences are less important than the similarities. While one regrets those cases where regimes discriminate against American businesses, one must accept that a certain degree of economic nationalism is likely to accompany political nationalism.

(2) Stability of a regime is more important than its degree of democracy or its particular political form. Without stability, little else is likely to be accomplished. When a regime is manifestly unstable, one prepares to swing

with the changes and establish good relations with whomever the successor may be. One avoids investing too much in any particular leader, since he may be gone tomorrow. Also, one may pressure a leader who seriously menaces his neighbors' stability (e.g., Nkrumah).

(3) Territorial integrity, as enshrined in the OAU Charter, is a major good. However bizarre the old colonial borders, they should be respected. This was the cornerstone of American policy in the Congo crisis, and the State Department held to it despite formidable congressional and public opposition in the Nigerian civil war. Territorial integrity is probably the one purely African issue for which the U.S. should contemplate military intervention in some form.

(4) Economic development is an important goal and should be supported by public and private assistance. Development depends more on governmental competence than on ideology, but most competent leaders will leave a major role for private enterprise. Although there will be occasional short-term setbacks and much obfuscatory rhetoric, most African leaders will come eventually to concentrate on developing their country's economy, and for this they will inevitably seek to maintain close links with the U.S. and other Western industrialized nations.

(5) Cold war competition is not of fundamental importance in Africa. One avoids getting drawn into competitive giving of aid just to keep up with the Russians. "Communist subversion" is not a major threat in Africa; most leaders know how to take care of themselves and to exploit communist nations' assistance for their own purposes. The limiting case is the actual presence of Soviet or Cuban forces in a country, though even in such cases one continues dealing with the country in as routine a manner as possible.

(6) On international issues directly affecting Africa, one should encourage the African nations to develop their own consensus, either through the OAU or through informal channels. Patient diplomacy, however exasperating, can usually assure that this consensus does not seriously contravene important American goals. Unilateral action against such a consensus will probably be counterproductive.

The regionalist policy perspective underlies the Secretary of State's July 1977 address to the National Association for the Advancement of Colored People, still the principal statement of African policy by the Carter Administration, and the various policy recommendations emanating from the Department of State. These have emphasized a policy of cooperation with established black African governments, particularly Nigeria and Tanzania; they have paid particular attention to multilateral diplomacy and attempted to make creative use of international organizations, like the United Nations, in which Africans have a strong voice. Regionalists have argued the proposition that, in the long run, American economic power would outweigh the Soviet Union's advantage in providing military support. There has been great antipathy to purely military responses to Soviet moves and a reluctance to interpret threatening events in terms of a broader Soviet challenge or to see Soviet actions as resulting from a carefully considered master plan of conquest. The regionalists have counselled restraint in the face of Soviet actions in the Horn of Africa (where the Soviet Union and Cuba, whatever else they did, acted to defend Ethiopian territorial integrity) and only reluctantly acceded to American participation in the French-led rescue operations in Zaire.

Central to the regionalist approach has been the maintenance of pressure on the white regimes in southern Africa. This approach has been able to draw on a long history of American official condemnation of the National Party government's racial policies, which on several occasions were more strongly expressed than comparable statements from the U.S.'s principal Western allies. With the single exception of Washington's unilateral refusal, beginning in 1963, to sell South Africa military equipment (a refusal partially relaxed by the Nixon Administration), American opposition to apartheid had been more rhetorical than real, however, and laid itself open to the charge that the rhetoric had served principally to salve American consciences and to head off proposals for more effective international action. In the case of Rhodesia, American verbal support for international sanctions provided a rhetorical precedent, whose force had, however, been undercut in practice by Congressional legislation authorizing continued importation of chrome from the Smith regime.

The task for the new Administration was to give some substance to past statements of noble principles. Restrictions on military and police equipment sales to South Africa were quietly tightened, and in 1977 the U.S. strongly supported a United Nations mandatory embargo on all arms sales. Unspecified future deprivations were threatened by the Secretary of Stae and by Vice President Mondale if South Africa did not take steps toward social and political equality. Although the gap between rhetorical and other action has not diminished, the escalation of rhetoric has clearly made a deep impression within South Africa and probably has contributed to the American business community's reluctance to invest further in South Africa. In the case of Rhodesia, the Carter Administration successfully convinced Congress to repeal the Byrd amendment and thereby halt the importation of Rhodesian chrome. (The victory was made somewhat easier by the development of a new refining process which allowed lower grade South African chrome to replace Rhodesian chrome in American stainless steel manufacturing.)

Two motives underlie the regionalist policy of increased pressure on the white regimes. The first derives from East-West competition: to block Soviet influence in southern Africa by interposing the U.S. and its Western allies as the midwives of black nationalist regimes in Namibia and Zimbabwe. As Under Secretary of State Newsom recently put it, "Soviet gains have come only in those areas where — because we have failed to do so — they have benefited from identity with African objectives." The presumption is that in the absence of "positive action" by the West, black regimes utterly beholden to Soviet arms and Cuban manpower will come to power, certainly in Zimbabwe and eventually in Namibia, and that they will have no incentive to cooperate either economically or politically with the West.

The second motive derives from North-South relations: to establish American *bona fides* with the principal black African regimes further to the north by espousing their principal common political goal, the elimination of white rule in southern Africa, which unlike many of their common economic goals the U.S. can advance with comparatively little cost to itself. Such *bona fides* cannot be established, it is argued, by concentrating narrowly on Rhodesia and Namibia and ignoring the major case of white domination, South Africa itself. In addition to facilitating the usual bilateral relationships, cordial relationships with the black African states are considered important because of Africa's voting weight in the United Nations and also in the various bodies in which the long-term relations between industrialized and primary-producing nations are being negotiated. Perhaps most crucially, it is felt that without the close cooperation of neighboring states and of those farther north which exercise influence within the OAU, no pressure to accept a peaceful compromise solution can be brought to bear on the various liberation movements.

These motivations are basically those of *realpolitik*. However, for tactical purposes of building greater support within the executive branch and within the country as a whole, policy statements on southern Africa have usually been couched in human rights terms. (In other parts of the continent, human rights issues usually get in the way of regionalist policy goals and are evoked much more rarely.)

The globalist perspective on African policy can be briefly outlined, as it descends, with minor modifications, directly from the policy line followed by administrations from Eisenhower through Nixon. In bureaucratic terms its principal spokesmen within the government are in the National Security Council, buttressed by support from some policy generalists and Soviet specialists within the State Department, the Central Intelligence Agency, and the Department of Defense. The dominant concern of the globalists has been the overall power relationship between the U.S. and the Soviet Union, and from this perspective Africa is viewed principally as a troublesome periphery filled with unpredictable and unreliable states. Its events should be assessed and handled primarily from the standpoint of how they affect the central East-West rivalry directly, or affect some major international actor or group of actors which plays a role in the greater international balance. (No African state, except Egypt, is in that category.) Under ordinary circumstances American policy ought to keep its distance from most African quarrels and most African regimes, and lend more than polite levels of support only to those few islands of stability where the U.S. has important economic interests or where a country might make a strategic difference in a conflict with the Soviet Union.

Under present circumstances, the globalists are particularly concerned with the extra-African repercussions of Soviet and Cuban successes and despair of the regionalists' failure to take these into account. Whereas, *pace* Andrew Young, no one in government seriously applauds the presence of Cuban troops in Angola, the regionalists see mostly that these troops are helping stabilize a shaky regime which has cooperated on economic issues with the U.S. and played an essential role in bringing SWAPO to the Namibia bargaining table; the globalists see the Cubans as highly visible agents and symbols of a Soviet

triumph. The globalists are willing to pay a price in terms of African good will and cooperation in order to oppose the Cuban presence, for even the appearance of America's acquiescence in its continuation are seen as costly to American credibility elsewhere in the world.

The globalist codeword has been "linkage," the idea that critical aspects of Soviet-American relations are interrelated, and that America should be prepared to retaliate for Soviet "misbehavior" anywhere in the world by using whatever pressures come most easily to hand. Thus, Soviet or Cuban military activities in southern Africa might be countered by delaying wheat shipments to Russia or by opening talks with the Chinese about arms sales. Regionalists would prefer such extra-African pressures to a hasty cold-war response on the African continent that might undo all their patient diplomacy; still, conscious of how in the past great powers have settled bilateral quarrels on the backs of Africans, they fear that linkage might work in reverse and that frustrations over an Afghanistan coup or SALT negotiations might lead to imprudent policies in Africa.

The globalists, perhaps predictably, are less enthusiastic than the regionalists about the policy of bringing pressure to bear on South Africa. Their reticence stems not, for the most part, from any sympathy for the white regimes — nor from any conviction that reform is imminent — but from the concern that such pressure takes domestic attention and political resources away from the more pressing issues elsewhere. This concern is reinforced by sensitivity to Britain's greater economic involvement in South Africa and to the potential effects that concerted action against South Africa might have on an ally's economy. With these interests in mind, the globalists tend to warn that continued pressure on the Afrikaners is only likely to make things worse by driving them into a defiant *laager*.

Elsewhere in Africa, the differences between the two policy perspectives were evident in their views of the conflicts on the Horn of Africa. Whereas the regionalists have seen the issue principally as an African problem, in which the issue of legitimate defense of internationally recognized boundaries was paramount, the globalists have seen it principally in the context of Middle East politics, and of course U.S.-Soviet rivalry. Globalists have been particularly sensitive to pressures from the Saudi Arabians that the U.S. should "do something" to stand up to the Soviets on the Horn, and only with some argument did the regionalists succeed in halting delivery of arms to the Somalis. The major public confrontation between the two perspectives occurred during the second invasion of Shaba. The globalists stretched limited intelligence reports to portray the invasion as an East-West confrontation hatched in Moscow (or at least in Havana) so as to present a situation where the U.S. and its allies would be seen as standing firm against Soviet-backed aggression. The regionalists challenged this interpretation and argued that the origins of the conflict — and ultimately the solution — had to be sought in the distrubed internal politics of Zaire and Angola. The policy that emerged blended both perspectives; the U.S. provided essential logistical support for French and Belgian armed intervention to secure the area, then fostered a reconciliation between the leaders of Zaire and Angola which may, conceivably, prevent yet a third invasion.

On the periphery of the policy debate are two policy perspectives which are perhaps most noteworthy for their absence from the center of the bureaucratic battle. The "economists" (in State, and of course Treasury and Commerce) have been themselves split between long-run and short-run interests, and between black American and white African clients. They have mostly set limits to policy considerations, e.g., that anything undertaken should not be too costly to the U.S. or to the British and should not seriously disrupt American business practices or profits. So far the Administration's policy toward South Africa has avoided what could be a major confrontation with economic interests by putting only the mildest of pressures on business to adhere to nondiscriminatory employment practices in their South African operations and by arguing at the highest level that enlightened capitalism is the greatest hope for peaceful change in that troubled land.

Those concerned with military power per se have likewise not been a major factor in African policy debates, though they are disturbed by developments in the Horn of Africa, which they, too, see as a Middle Eastern issue rather than an African one. They are particularly concerned about the establishment of Soviet bases capable of strangling sea lanes of communication in the Red Sea and Persian Gulf areas, but do not judge that the Soviet presence in Ethiopia or Aden yet constitutes such a threat. Soviet use of Angola for southern Atlantic surveillance is viewed as a major nuisance, but not significantly greater than their similar use of bases in Guinea, now restricted. Despite ritual pronouncements of retired American admirals on South African tours, the Defense Department does not view defense of the Cape Sea route as a major strategic issue — certainly not one that would require assuming the political liabilities of close cooperation with South Africa. On southern African issues the military and the globalists have a tenuous alliance at best. However much they may share one another's concerns about the Soviet presence, the military is not anxiously looking for a chance to intervene, certainly not in a situation where racially integrated American ground troops might be called upon to defend whites on a black continent.

IV

For all the occasional sharpness of the confrontations over African policy, much unites the two perspectives and many issues cut across bureaucratic coalitions. In contrast to the 1960's, concern with fighting communist ideology — and the attendant McCarthyite emotions and John Foster Dulles rhetoric — is conspicuous by its absence. The issue under discussion is how to deal with Soviet-backed aggression, not "subversion" or the imposition of socialist economic systems. This is a power debate, not a theological one, and no group is impugning the other's motives. Virtually all parties agree that the top priority in southern Africa is to bring about a transition to black rule without provoking extreme bloodshed. They argue over means, timing, and cost, not ends.

Behind the immediate circumstances of any policy argument, the two dominant perspectives differ most in their appreciation of the time factor. The globalists will accept the longer term anti-Soviet logic of most regionalist policy, but argue that present crises must be confronted directly and the Soviets and their surrogates stopped now lest the U.S. face a long Soviet presence in Africa which will undercut American prestige in other, more vital parts of the world. Globalists similarly emphasize the short-term dimension of assuring the supply of strategic minerals from Africa; regionalists stress the importance of taking political risks now to assure that the West does not alienate those groups which will control access to these same minerals in the future.

In any particular policy confrontation, debate between the two policy perspectives is likely to be settled by how the situation is defined by senior policy makers and the country at large. If it is defined in terms of African considerations, the regionalist perspective has the advantage; if extra-African factors are considered dominant, the globalists have the upper hand. How such situations are defined may become considerably more problematic as time goes on and the hard issues remain to be solved. Peaceful transition in Namibia is far from assured; in Rhodesia it seems virtually excluded. Zaire may well collapse from within and tempt adventurers from without. Capitalist development may perhaps have helped resolve racial problems in Atlanta, Georgia; it is unlikely to have such an effect — at least not soon — in Johannesburg. Any highly visible long-term policy of the U.S. requires support from more than a handful of specialists and decision makers if it is to survive long enough to produce results, particularly since any American politician in search of an issue — or a president in search of support in the opinion polls — can find at least short-term comfort by appearing to stand up against the Soviets somewhere in the world. In such a problematic situation, public opinion may have considereable impact on policy, as that opinion is reflected in Congress, in the electoral campaigns which have just started, and through direct impact on the most senior decision-makers themselves.

V

The most important thing to note about American public opinion on Africa is that there is fairly little of it. Africa remains a low salience issue for most Americans. A national poll taken in late 1978 asked Americans, "What are the two or three biggest foreign policy problems facing the U.S. today?" Only four per cent spontaneously mentioned any African issue, as opposed to 20 per cent who mentioned the Middle East. Consistently on national polls some 20-25 per cent of the American people have no opinion whatsoever on African issues, and some 10 per cent are hopelessly confused (e.g., think that South Africa has a black government). In such a situation of little information and low salience, Americans classically form their opinions with the aid of some basic stereotyped images, by following the lead of respected opinion leaders, and by reference to general principles drawn from other policy contexts.

The root images of black Africa that most Americans carry in their heads still contain racial stereotypes of backwardness. The vulgarity of this racism has been attenuated, however, by the heightened status of blacks in American society, and by Americans' increasing contacts with Africa and Africans. Whatever the Peace Corps may have done for (or to) African countries, it at least increased the number of Americans who through their own or their children's experience came to think of Africans as real people facing real problems. Archaic racial images are most strongly evoked by southern African contexts, but they take a somewhat sophisticated form. The basic assumption that "the whites are like us" is expressed most often in terms of appreciation of the whites as the creators of a high technology society. When southern African blacks are presented as participants in the high technology tradition, they make a more positive impact on ordinary Americans' prejudices.

At present, there is no one in the U.S. who stands as a generally respected opinion leader on African issues. Andrew Young is generally perceived as the chief public spokesman on African issues, but his interventions — however accurate and however effective in other contexts — have too often been counterproductive to his credibility at home to allow him to shape opinion. Only the President of the United States could massively affect American opinion by himself, and at present he has neither the personal standing nor, it would seem, the inclination to spend his political resources to do so. Thus, the most powerful constituents of American opinion on African issues are a set of general principles, drawn from personal experience and from other policy contexts, which are likely to prove contradictory guides to policy when applied to Africa.

The first of these is the concern with human rights as seen, with respect to southern Africa in particular, through an idealized image of America's own success in advancing its black community's civil rights. When Americans are asked a question which provokes a human rights stimulus, they line up behind their moral principles in African policy. For example, a November 1977 poll asked if people thought the U.S. should bring pressure on the South African government to grant the blacks "more freedom and political participation"; by 46 per cent to 26 per cent, they endorsed such pressure and significant majorities endorsed various specific actions including (42 per cent to 33 per cent) preventing new American business investment in South Africa, something the Carter Administration has never proposed. This same concern with human rights would have made it politically perilous for the U.S. to have supported the Mengistu regime in Ethiopia in 1977, even had it been possible, and may marginally affect policy toward Zaire.

A second principle is anti-Soviet and particularly anti-Cuban action, and this may cut across the first. For example, when Americans are asked in the abstract about selling arms to South Africa, two-thirds of them oppose it. If they are told that the arms are to be used against Soviet and Cuban intervention, one-third approve, one-third disapprove, and one-third cannot make up their minds. Popular concern with the Soviet and Cuban presence in Africa seems likely to have been augmented by the events in Iran, however

remote the logical connection may be. Like government decision-makers, however, ordinary Americans are anti-Soviet rather than anticommunist. The strident South African propaganda depicting the white regime as a bastion against international communism appeals only to those already disposed to support Pretoria's cause.

The third principle has come to be known as the "Lessons of Vietnam." The immediate application to Africa is the message, "Don't get drawn in and bogged down in the jungle." It is an anti-interventionist principle which also militates against foreign aid, as both a waste of money and potential enticement to greater involvement. By more than a ten-to-one margin (and blacks nearly as strongly as whites) Americans agree with the statement: "The U.S. does not have the right to tell South Africa how it should run its country any more than South Africans have a right to tell us how to run our country." The idea that American troops might be sent to Africa, for *any* purpose, is opposed overwhelmingly, though one has to question the permanence and strength of this attitude if a direct Soviet threat is posited. From the available evidence and experience, one may venture the conclusion that logistical support for some clearly limited operation to save the lives of Western European or American nationals (the three conditions that applied in the case of the May 1978 invasion of Shaba) is about as much as the American public would support. Absent a direct Soviet (not merely Cuban) presence, Congress and the public would staunchly object to providing military assistance, even confined to the provision of arms, in support of any southern African state or group, black or white, no matter what its ideological coloration. (As Angola showed conclusively, no substantial assistance effort could be kept covert or free from immediate political debate.)

The fourth principle is intense antipathy to "terrorism" and "instability," two code words which have become increasingly prominent and which link attitudes toward Africa to both American domestic and other foreign policy concerns. In their strongest conjunction they raise the fear of "a racial bloodbath" in southern Africa, but also reinforce any pre-existing antipathy toward Africans, particularly those carrying rifles, on any part of the continent. When the "terrorism" stimulus is not present, Americans can take a remarkably sophisticated view of the causes of "instability." In reacting to the Soweto revolt, Americans by and large saw the South African apartheid system as being responsible for the instability, not the black youths involved — an appreciation of the systemic causes of racial violence that has eluded most white Americans in thinking about their own racial conflicts. In Rhodesia, the general appreciation, while still fluid, seems much more to pin the blame on the black "terrorists," while Ian Smith has to some extent succeeded in portraying the internal settlement regime as a source of stability under attack from the forces of chaos. The conjunction of terrorism and instability taps troubled emotions within Americans: 59 per cent of Americans queried are prepared to condone other countries' abrogation of civil liberties to fight terrorism, while less than half as many demur. The terrorism theme, moreover, links the African situations with concerns about the Middle East and arouses strong reactions among those American Jews and others who strongly support Israeli action against PLO "terrorism." The prospect of massive white flight from Rhodesia, accompanied by well-embroidered stories of terrorist atrocities, will hardly be conducive to public understanding of supportive relations with a new black regime.

The opinions of ordinary Americans, of course, do not determine foreign policy, though few policy-makers who survive for long do so by ignoring intensely held public preferences. More likely to have an immediate impact on policy are the preferences of articulate social and economic elites and those of special interest groups. On African issues at least, American elite opinion, though better informed and more sophisticated as to rationales than public opinion generally, demonstrates the same contradictory preferences and impulses as the population as a whole. These are well demonstrated in the confusion of Congressional debates.

Three special interest groups are worthy of particular note. The Committee on the Present Danger, which includes many prestigious names from past administrations, would seem at first glance a natural ally of the globalists, but its concentration on sustaining (or rebuilding) American nuclear superiority relegates Africa to such a peripheral position as to end up ignoring it completely, or at best to treat Soviet activities in Africa as derivatively entirely from the U.S.S.R.'s newly acquired strategic parity with (or emerging superiority over) the U.S. In this extreme version of linkage, the proper response to Cubans in Angola and Ethiopia is for the U.S. to reject the SALT treaty and to embark on a major program to rectify the strategic balance. The Committee's direct impact on African issues is thus minimal.

The second is the business community. They, too, have not had a decisive impact on policy discussions, partly because the American business stake in South Africa is small (about one percent of foreign investment), partly because they, like the regionalists, are eyeing future ties with black governments in southern Africa and present ties with mineral-rich governments further north, and partly because the investment prospects in South Africa are so uncertain as to arouse little enthusiasm for a major commitment. Additionally, most businesses with operations in South Africa are under very substantial pressure at home from activist groups to reduce or eliminate their South African operations. While these groups produce more noise than votes at stockholder meetings, few chief executive officers enjoy spending half these meetings defending themselves against charges that they are abetting *apartheid*. Churches, universities, and some pension funds are under increasing pressure to divest themselves of what are sometimes significant blocks of stock in corporations and banks doing business with South Africa, and a few have already done so. Most major corporations have now subscribed to a code of conduct (the so-called Sullivan principles) requiring them to integrate their South African operations and to advance African workers into jobs from which they have in the past been barred. While the degree of compliance with this code is not yet certain, sensitivity to pressure is such that the business

community as a whole is not likely to wage a public campaign against American government policies.

The final special interest group is that of American blacks, whose concern for African policy — never absent — has been encouraged by the Administration both directly through the appointment of Andrew Young and through symbolic acts such as the choice of the NAACP as the locus for Secretary Vance's major speech on Africa. While little is reliably known about the nuances of black American attitudes toward African policy, even less about the salience of African issues for large numbers of black Americans, there is no doubt that black American *leaders* are increasingly speaking out on African issues and that their voices are being heard. Most black political action is likely to concentrate on southern African issues and to make it extremely painful for any administration to pursue policies which appear to have the effect of supporting or prolonging white domination in the area.

VI

American policy toward Africa, as we have seen, is the product of a complex bureaucratic and political process rather than an elaborated vision of specific goals and the means required to achieve them. In the absence of a strong Presidential commitment, of the sort displayed in the Camp David negotiations, this complex and uncertain process will continue to set African policy in a way that more often responds to events than controls them.

Nevertheless, one can distinguish clear limits to the range of policy disagreement. It now seems impossible to visualize any American administration, no matter how conservative, that would accept as permanent — or even viable "for the foreseeable future" — a state of affairs which does not provide for black governments in Zimbabwe and Namibia or which excludes full participation for blacks in the government of South Africa. (No version of a "homeland" partition of South Africa would be acceptable unless it were designed by black South Africans themselves.) Conversely, barring a major change in the direction of further repression within South Africa, no administration is likely to approve comprehensive economic sanctions against South Africa or to provide overt military assistance to black groups seeking to overthrow that government. The march of events both in Africa and within the U.S. has steadily moved the central tendency of the policy debate in the direction of greater association with a black Africa and greater pressure on white South Africa. This movement is likely to continue, but not to the point of changing these judgments.

As we look to the future, it seems likely that American policies toward Africa, and particularly southern Africa, will increasingly be intertwined with the policies of the major Western nations and that the ability of the West to devise common approaches to African issues will largely determine whether any policy succeeds. Such coordination will not be easy. On the Namibian question, the activities of the Western contact group (or the Gang of Five as they are known at the United Nations) demonstrate how much can be accomplished when policies are concerted. Even if it is premature to judge the ultimate success of that joint venture, it stands as one of the most innovative Western diplomatic efforts of recent years, which has already paid dividends in terms of relations between the West and black Africa, isolated the Soviet Union, and also sent an effective message to Pretoria that the Winds of Change are blowing harder than ever. The Gang of Five's work has also demonstrated just how difficult it is to concert Western policy, how much continued high-level attention is required if any progress is to be made. Final success of the Namibian negotiations may help entrench a habit of cooperation; failure could lead to painful recriminations.

The Rhodesian situation, barring a short-term miracle, sets a less happy precedent. The U.S. and Britain have worked vigorously to concert their diplomacy, but neither country has been able to make sanctions effective on a sustained basis, nor have the two been able to engage their principal allies in the necessary commitment to the joint task. At root of the difficulty in the U.S. is the inability of the Administration to build strong understanding of what it is after. It has not led either Congress or the public to accept the regionalist perspective that the best way of heading off Soviet influence in the region is to bring the guerilla groups into a Zimbabwean government. Neither have the globalists — in or out of government — produced a compelling alternative policy. The American public has responded principally to stories of guerrilla atrocities, rather than to any comprehensive vision of what is to come next if sanctions are lifted after the April 20 elections.

The weak American popular commitment to the Administration's policy, and the ineffective interdiction of Western military and petroleum supplies to Rhodesia have permitted the internal settlement regime to hold on by continually finding rays of hope in the lack of Western resolve. At the same time the inescapable reality that ZIRRA and ZANLA forces, aided by Soviet and Chinese arms, are making steady progress in their guerrilla war on the ground has led the Patriotic Front Leaders to be equally intransigent.

Whatever Congress mandates following the Rhodesian election or whatever the British government decides to do after the May 3 election, Rhodesia, in the absence of a negotiated settlement, seems fated to undergo heightened conflict leading to massive white flight, a collapse of the internal settlement and a fight for power between black armies. The American government's response to such eventualities would probably be one of damage limitation: to keep South African forces out of Rhodesia altogether or to confine them to localized rescue missions. Heavy diplomatic pressure would likely be mounted on the Frontline States, as well as on the principals, to keep the Soviets and Cubans out. Whether the U.S. itself would participate directly in any effort to rescue whites would be a difficult political decision. Through all of this, great potential would exist for misunderstanding and even recrimination between British and American officials whose governments would be responding to quite different domestic political pressures.

South Africa provides the long-term challenge to American policy and to the policy of all the Western nations. No serious analyst argues that there is any

quick solution to the dilemmas of that country, and few in the U.S. argue that it will be possible simply to continue business as usual with Pretoria. Rhetorical pressure on the South African government has gone about as far as it can go. Increasingly, the American Administration is likely to consider actions that will entail at least some minor sacrifices for some American interests. Most immediately vulnerable are the interests of American corporations doing business in South Africa, who represent an investment stake of about $1.3 billion, or some 15 per cent of total foreign investment. These are likely to be under steadily increasing pressure from concerned segments of American society and perhaps from government as well to change the nature of their operations in South Africa as the price of continuing to do business there — to become increasingly engines of social change within South Africa rather than the supports for the system that they have been, for the most part, up to now.

Such pressure is likely to have implications for America's principal allies as well. American corporations have in the past defended themselves by arguing that any change in their accommodating practices, certainly any withdrawal, would only redound to the benefit of businesses based in some other capitalist nations which would happily rush in to fill the gap. This linkage may now start to work in reverse, with American business reacting to domestic pressures by supporting coordinated Western economic policy toward South Africa, so as to be sure that the Europeans (and Japanese) operate under constraints similar to their own. Harmonization of the EEC investment code and the Sullivan code to which American businesses have subscribed, and the effective monitoring of compliance with these codes, will be a challenge to Western business leaders as well as to their governments.

Whatever policy perspective dominates Washington's approach to Africa, it seems certain that America will be obliged to pay increasing attention to that continent. African policy will be one factor among many — but not a negligible factor — in America's relations with its principal European allies which have traditionally taken the lead in the West's relations with Africa. As American society, in its own confused manner, reacts to African events, it seems most likely to move U.S. policy in southern Africa toward the positions taken by the Nordic countries and the Netherlands, rather than toward the positions historically taken by Britain and France. How that will affect Western cooperation remains to be seen.

* *

*

In his introductory remarks, the author observed that the lack of a long-standing tradition of American policy toward Southern Africa made current policy-making particularly unsettled. U.S. bureaucratic processes were now perhaps more open than before, which led outsiders (e.g., South Africans and Rhodesians) to read into various American policy statements just what they wanted to hear. Domestic pressures probably affected African policy formation more in the U.S. than in Europe, and now upheavals could be expected, especially from the Congress. The underlying trend, however, was working against continued open support for white regimes in Southern Africa.

In contrasting "regionalists" with "globalists", the author had not meant to imply contrasts such as hawk/dove, hardliner/softliner, realist/romantic. More often than not, though, the globalists now tended to be the Don Quixotes, the romantics, harking back to a "glorious past where a supreme effort of national will could make the rest of the world behave."

"Africa for the Africans" might be a reasonable policy objective, he said, but "American-African policy for the Africans" was not. It was necessary to look at African events realistically as they happened on the ground, and not to see them in terms of our own slogans and clichés. We ought to pay particular attention to the potential effect of our short-term actions on long-term relationships. As important as African minerals were to us now, for example, our access to them in ten or fifteen years' time might be even more important, and our policies had to look beyond what was immediately convenient for us.

Finally, we had to beware of the romantic notion that "the only thing the African understands is power." We should not be afraid of using our power in a direct, controlled and limited way, but Africans were complicated people who were capable too of other perceptions.

*

* *

DISCUSSION

A. *The Iranian Revolution.* In reviewing recent events in the Middle East, an American participant said that, if Iran had been lost, it had been lost by the Iranians and not the Americans. There had been no lack of awareness in the U.S. of what was going on in Iran, he said, but any American president would have faced an equal dilemma in weighing intelligence he might receive against the consequences of withdrawing support from a friendly and significant ruler. President Carter had chosen not to do so; others might well have made the same decision. The die was not yet cast, he concluded, in this arc of instability — either in our favor or against us. We should not conclude that internal upheavals automatically had to be counted as gains for our adversaries.

A Canadian called this "a washing of the hands indeed". Not only had the U.S. lost Iran, he claimed, but it had lost much of the Middle East as a result, including some of the OPEC countries. Having contributed to the downfall of the Shah by creating myths about his regime, we were now apparently in the process of creating new myths about the present situation in Iran — some of them "of breathtaking ingenuity". Some members of the U.S. State Department, most journalists and many American academicians believed in the existence of what the speaker described as the "democratic option" in the Third World. Their theory was that the Shah had been the only obstacle to the establishment of democracy in Iràn, and that the West ought to have supported the politicians of the National Front. One of the American now being suggested as ambassador to Teheran had written that Khomeini was "a man of impeccable integrity and honesty". Now, after the overthrow of the Shah, Western liberals were mystified by the failure of democracy to spring into instant life.

In the speaker's view, the "democratic option" did not exist in Iran, nor in most Third World countries. Iran had been unique in that the West had had a different option: that of supporting, not a dictatorship, but a "relatively soft authoritarian regime" (to use Joseph Kraft's phrase), a regime steering a middle course toward economic progress. That option had been lost, thanks to Marxist propagandists, Iranian student organizations abroad (supported by liberal and left-wing intellectuals), much of the Western media, and the Carter administration. It was heartbreaking to see a country which, in Lord Chalfont's words, "in spite of all its faults, inequalities and injustices, was a few months ago struggling toward industrial prosperity, now (facing) a precipitate return to Third World poverty."

The speaker had been disturbed to find traces of the "democratic option" theory in the American working paper(I), which advocated "staying in touch" more systematically than in the past with opposition groups. That idea was impractical in Third World countries, since it invariably weakened the existing regime by fostering the impression that the opposition had Western support. As authoritarian regimes were usually overturned by violent means, the opposition often thought it had a mandate from the West to do just that. Even if some semblance of a democratic regime were to evolve in a Third World country, it would inevitably fall prey to extremist forces of the left or right. "There is no democratic way of developing an underdeveloped nation," according to Robert Neumann, a former U.S. Ambassador to Afghanistan.

Democratic institutions were unlikely to emerge in Iran in the near future for another reason, the speaker said. In such Shi'i Muslim states, sovereignty belonged to the Hidden Imam, a messianic figure whose return to earth had been expected since 873 A.D. In his continuing absence, the *ayatollahs* acted as his agents on earth, and all other forms of government — whether monarchy, liberal democracy, or whatever — were illegitimate. So when Khomeini said that there had been no legitimate government in Iran since the year 661, he meant exactly that. The aims of the religious leaders and those of the Westernized intellectuals were thus poles apart. Western liberals had also been misled by Khomeini's use of the term "republic", by which he meant an Islamic state with sovereignty vested not in the people but in God. The religious law of Islam did not provide for democracy, or the emancipation of women, or equality before the law of Muslim and non-Muslim citizens.

Furthermore, it was naive to conclude that Islam and the West shared the same strategic goals: alliances between Muslim and Marxists had frequently occurred in pursuit of some common goal. There was a 1,400-year history of conflict between Christendom and Islam, and if Muslims thought that their holy war against the West would be furthered by an alliance with the Communists they would not hesitate to make it.

Finally, this speaker took issue with the statement in the French working paper — which he had found otherwise stimulating and realistic — that we had been "forced to abandon the Shah to his fate." In fact the West had not been forced, but had done so "with an appalling cynicism for which we are going to pay dearly in political, economic and strategic terms". Iran's revolution might not spread in the same form, but Islamic militancy and anti-Westernism had everywhere been encouraged, and the credibility of the U.S. as an effective ally had probably been damaged beyond repair.

An American participant disagreed strongly with what he called the "fashionable thesis" espoused by the preceding Canadian speaker and by the author of the French working paper: namely, that any adverse disturbance anywhere in the world was somehow the result of America's failure to use its power. It was particularly ironic to hear this criticism coming from France, where sanctuary had been provided to the Ayatollah Khomeini. In any case, this view was profoundly wrong. It bore a heavy overlay of *schadenfreude*, which seemed to be almost a conditioned reflex these days.

If the U.S. had made any major mistake in Iran, it had been in May 1972, when President Nixon and Secretary Kissinger had paid a visit to the Shah and "started him on the road to megalomania" by telling him he was to be the guardian of that part of the world and offering him access to sophisticated American weaponry. This was like "giving a confirmed alcoholic a key to the liquor store." From then until 1979, U.S. arms sales to Iran had amounted to $22.5 billion, whereas they had totalled only $1.2 billion for the entire period 1950-72. This American support had not only given the Shah an unrealistic sense of his own power, but had contributed to the country's economic and financial difficulties.

It was a mistake to think that the U.S., through some magical exercise of power, could have kept in power a dictator with dynastic pretensions who was cruel, oppressive and corrupt. He had totally disassociated himself from his people, and by a series of actions over the years had disenchanted all segments of the population. The pervasiveness of their hatred had not been realized until Khomeini had "provided the convenient flag of Islam, enabling the Iranians to unite in a respectable way." At the end, the Shah had found himself with almost no support and no army. Had he imagined that he could succeed in using the army oppressively against the people, he would no doubt have tried it.

The author of the French working paper intervened to say that he had intended no such simplistic accusation as that the U.S. had been responsible for "losing the Shah". As for France's having given sanctuary to Khomeini, this had been done — although the speaker himself could not understand why — only after explicit consent from the Shah.

The inevitability and foreseeability of the Shah's downfall were debated by several participants. One American thought that a prime cause had simply been

disgust with the regime, particularly among the middle and upper middle classes who had profited most from the country's economic progress. It was not that there had been too much modernization, or that it had come too fast, but that it had been done so badly. The bad side had been the most apparent: waste, corruption, disorganization, inefficiency, ugliness. The benefits were almost invisible. The speaker rejected the idea that Western representatives should avoid contact with the opposition in Third World countries. That would be deliberately to blind ourselves to the possibilities of change, which would put us in a sorry situation when it happened. Those who had not foreseen the Iranian revolution were precisely the people who had not wanted to know anything that was going on except what the Shah told them.

A Turkish participant said that it had been obvious two years ago that the Shah's future was limited. This was because the Western allies always supported individuals instead of nations or systems. We now referred too often, for example, to "Sadat" rather than to "Egypt". If we concentrated less on personalities, there might be fewer "Persian repetitions".

A British speaker thought we had also concentrated too much on the Arab-Israeli conflict, to the neglect of other areas. The Iranian crisis had pointed up our positive refusal to find out what was going on there, as exemplified by the treatment of the Ayatollah Khomeini in Paris. Khomeini had published a number of books, which were only now being belatedly discovered. Whatever faults he had, insincerity was not one of them. The consistent whitewashing of Khomeini by the media and academia was remarkable. The general line was: "Khomeini didn't say it . . . Well, if he said it, he didn't mean it . . . Well, if he meant it, he was right." These Western apologists could not have failed to leave the impression in Iranian quarters that this was a cause favored to succeed the Shah. We could argue about whether it was desirable to save the Shah, and at what date that had ceased to be possible, but there might still have been some choice about the nature of his successor.

The Western position was now turning about abruptly. Before the revolution, Khomeini and Islam had been all but invisible to us; since then we had tended to see everything in the Middle East in terms of Islamic attitudes. But Muslims after all did not react much differently from other people when subjected to economic strains and political repression. They too developed resentments and grievances, and these had been important elements in the Iranian revolution. Islam had not been the cause of the troubles, but had provided a form of expression at a time when imported institutions had manifestly failed to work and were collapsing. One of Khomeini's strongest points had been public dissatisfaction with the Shah's attempt to replace Islamic loyalty with patriotic loyalty.

The author of American working paper(I) believed that it would not have been possible for the Shah to stay in power. In the final months, the only remaining chance had depended on his using the army against mobs in the streets, which would have led to a bloodbath. Americans had unfortunately not listened to the views of Iranian students in the U.S., and had established no direct official contact with Khomeini. It was to be hoped that the special

French relationship with him would eventually benefit the interests of all of us. In the future, one might see the emergence of another strong military leader like the Shah's father, but there was also the possibility of ethnic disintegration. As long as the present anarchy prevailed, there would be opportunities for disciplined political movements, such as one sponsored by Moscow.

Another American said that it was hard to defend Khomeini, and that he would not do so. At the same time, it had to be emphasized that nothing was settled in Iran. The violent dissolution of monarchies in the Middle East had led historically to long periods of chaos, with coups and countercoups. (In Iraq, for instance, it had been ten years after the destruction of the monarchy when the country had finally settled down in its very leftist manner.) In the meantime, our aim ought to be the maintenance of national cohesion, and not necessarily the installation of Western-type parliamentary procedures. The breakup of Iran into a series of autonomous areas might not harm us in theory, but a dangerous related possibility was the collapse of the oil-producing areas into the hands of radicalized Arabs or PLO-controlled elements.

A Belgian speaker counseled against blaming the fall of the Shah on liberals, Communists or the intelligentsia. We should cure ourselves of that tendency once and for all. He supported an International participant who said that we should stop "crying over spilt milk" in Iran and resolve to do better next time in other places.

The Canadian who had analyzed the Iranian situation at length sought to rebut some of the arguments advanced during the discussion: (1) Large segments of the economy *had* been efficiently run, he said, including the national oil company, the ministry of water and power, and the planning organization. In any developing country, there was a shortage of expertise to overcome. (2) Although democracy might be desired in Iran, one was not going to get it under Khomeini, if his style of running elections with "goon squads" watching different colored ballots was any indication. (3) As to the criticism that we dealt too much with individuals, that was all there was in Iran. An old Persian proverb said: "I and my tribe against the nation; I and my cousins against the tribe; I and my brothers against my cousins; I against my brothers."

B. *The Arab-Israeli Conflict*. A British participant called the Egyptian-Israeli treat — despite its defects and dangers — "the most hopeful thing that has happened in 60 years of this conflict." It marked an "almost seismic change" in the nature of the conflict. So long as the very existence of Israel had been in question, there could be no negotiation; there was nothing to talk about. That was no longer an issue; the question now had to do with Israel's size. This was not an easy question either, but it was the kind that could be formulated and discussed at the level of intergovernmental negotiations. One aspect of the "normalization" referred to by the parties was that this conflict was now capable of being approached, discussed and resolved, like other conflicts. There were a number of reasons for this change. One was the growing realization in Egypt and elsewhere in the region that Israel was not the

only, or even the most important, danger. It offered a trivial threat, compared with those looming from north and south.

While the treaty itself had been rejected by the great majority of Arab states, there were significant differences among the rejectionists. Some were still opposed to the existence of Israel. Others accepted Egypt's basic position, but disagreed with Sadat's method of proceeding to achieve it.

If the treaty held, and autonomy plans got underway, one might hope that the rejectionists would divide into just two groups: (a) those willing to accept Israel's existence and concerned only with its size, and (b) the "total rejectionists" calling for Israel's elimination. Among the latter we would have to include the PLO. The tactics of that organization had already attracted imitators; with success they would attract even more.

There was still a real possibility that the treaty would succeed, and the support of all of us was needed. For President Sadat, that support would mean the difference between success and failure, survival and extinction.

American interventions stressed the importance of the treaty, despite its deficiencies, and expressed the hope that wider European support for this most significant development would be forthcoming, in the same spirit as had been shown in the European contribution to UN peacekeeping in southern Lebanon. One speaker urged the Europeans, even if they could not lend their total support, not to stand on the sidelines saying to the Arabs and others, "Look, the Americans have messed it up again!"

Another American wondered why Europeans seemed bent on stressing the treaty's shortcomings, saying continuously that it did not look as if it would work, while professing mildly the hope that it would. No one would deny its imperfections, but would it not be preferable to take a more constructive attitude toward the treaty rather than to sabotage it with criticism?

Various European responses were given to that question. A Briton, first of all, regretted that Europe could not yet speak with one strong voice. The communiqué from the Nine about the treaty had been lukewarm, which was not a great help to the American peace efforts. A Belgian then remarked that no one in the West would benefit if the President of the U.S. — whoever he might be — took a risk for peace and "lost his bet". At the same time, the speaker feared that Israel — with or without the conplicity of the U.S. — might settle in for a "peace of attrition," now that the Arab camp was divided and Egypt effectively neutralized for the time being. To do that would be to misapprehend fundamentally the conditions of Middle Eastern stability, for as long as the radicalizing factor of Islam existed there could be no enduring peace.

A Frenchman said that all Europeans, including his countrymen, could not help but rejoice that there was a beginning of peace in the Middle East, but it was no more than a beginning. Until the Palestinian problem was settled, it would indeed be what the previous speaker had called a "peace of attrition".

An American agreed with the conclusion of previous speakers that the core problem was a Palestinian-Israeli one, and that whatever might be done on the periphery by Egypt and Israel would not in itself bring about peace, and might in fact produce more violence. But he did not foresee the Palestinians and Israelis settling the matter themselves without a great deal of external pressure. The Israelis were incapable of making a reasonable gesture about either the West Bank or the Gaza Strip because of the dynamics of their complicated politics. For every eight members of the Knesset there were nine opinions, so that policy tended to get settled at the lowest common denominator, and nothing affirmative was done without a strong push from the outside.

The situation of the Palestinians was also marked by a kind of futility. They felt that no one was paying attention to them, and that they were not being permitted to settle their own fate. To make the commitments necessary to assure negotiations would be to give away their only bargaining counter. And one foresaw the difficult feelings being exacerbated by Israel's putting more and more settlements in the West Bank. There was no serious chance that the resulting stalemate would be relieved without outside pressure, and the speaker hoped that Europeans would support the continuing American efforts to bring the Palestinians into the dialogue.

Two other U.S. participants mentioned the issue of the West Bank settlements. One felt that cessation of the settlement policy was absolutely necessary to keep the situation from deteriorating. Otherwise, there was no hope of any progress. The other argued that the establishment of West Bank settlements was not a major obstacle. Agreement on Israeli withdrawal from the Sinai had been reached in spite of the settlements there. One had to bear in mind, he went on, that Israel was a democratic country. It had taken a big first step forward, which had engendered a feeling of confidence within Israeli society. If we sought to force the next step — establishment of some sort of Palestinian identity — by pressure at this particular juncture, the speaker thought it would be counterproductive.

Another American said that, to break the Israeli-Palestinian stalemate, outside pressure was needed now just as it had been for the creation of Israel in the first place. But a precondition was some unity of conviction and purpose between the leading European nations and the U.S. If we presented a unified front on the issue, it might be possible to activate the Palestinians in the West Bank and Gaza — as individuals, not as an organization.

A Canadian participant thought that would be a dangerous course to follow. Instead of putting all its eggs in one basket, the West should keep some national options open to allow for flexibility in negotiations if necessary. That did not mean, though, that we should not try at a Western summit to define our common goal and point of view. It was important to educate public opinion in the Western countries, especially in North America, where ignorance about the Arab side had been lamentable before the opening of President Sadat's public relations campaign. This had been because Israel was so much better recognized and defined in the minds of our people. As a result, the idea of negotiating with the PLO was unacceptable to American public opinion.

The speaker asked whether a continuation of our unconditional support was really healthy for Israel in the long run. Security no longer resided in indefensible frontiers. A better comprehension of this by our Jewish communities would promote our dialogue with the Arabs. Then contact between leaders of the diaspora in North America and leaders of the Palestinian diaspora might help to further talks between governments.

An American participant pointed out that the strong Congressional tilt toward Israel was due to the public's perception that U.S. and Israeli policies had been on a parallel course for the last 30 years. Israel, viewed always as the aggrieved party, had captured the American imagination. There was now an increasing divergence, though, between Israel's interests and wishes and those of the U.S., as seen in Israel's West Bank settlements, intransigence concerning Jerusalem, and attitude toward the Palestinians.

When the American public came to recognize that its interests were contrary in many ways to those of Israel, then more freedom in U.S. Middle East policy would be possible. Finally to convince the voters to change course would still take a big effort by the administration, and especially the President, but the winds of change were blowing in that direction. For example, last year's Congressional vote in favor of arms sales to the Arabs had been fought vigorously by the Israeli lobby. But there was growing awareness of the enormous importance to the U.S. of Saudi Arabia and the other oil nations, which had been intensified by the chaos in Iran.

A reply to the two previous interventions was offered by an American speaker. If there was strong support for Israel in the American Jewish community, it was directed at the survival of Israel and of a people who had suffered as no others had. American Jews were not unmindful of the Holocaust, which had destroyed six million of their coreligionists while the nations of the world, including the U.S., had stood silent.

Prior to 1967, the Palestinian issue had been raised for one purpose only: to make clear the Arab determination that Israel was to be eliminated. Only after Israel's acquisition of territory in the six-day war had the issue of Palestinian nationalism been emphasized. The first concrete step taken by an Arab nation to recognize Israel's right of existence as a state in that region had come with President Sadat's historic mission to Jerusalem in November 1977. As a previous speaker had asked, why had not the European Community given stronger support to this vital first step toward peace? When Israel's survival had been at stake in 1973, very few Western European countries had allowed American planes airlifting supplies to refuel on their territory. In contrast, many U.S. Jewish leaders and community organizations had supported the supply of arms to Egypt even before Sadat's initiative. These Jewish leaders had continued — even in public advertisements — to urge Israel to follow that initiative to its conclusion with a peace treaty. It was unfortunate that some people were espousing the proposition that there was a divergence between U.S. national interests and those of the American Jewish community.

Another American made the point that, in his country, the security of Israel was not an international problem, but an intensely domestic political issue. American decisions were thus calculated in terms of what could be "sold" at home. What was more difficult to understand was the relative inaction on this issue in Europe, whose reliance on Middle Eastern oil had a longer history and was more compelling than America's. Europe had deferred — sometimes uneasily — to the U.S. and its policies ever since the early days in office of Henry Kissinger, who had said, in essence, that the U.S. had the best access to the parties concerned and would mediate the dispute at its own pace and in its own ways. As a British observer had put it: "In the Middle East, American paternalism has replaced British colonialism."

Now Western Europe and the U.S. were at a crossroads in the Middle East. It was more probable than not that they would diverge. For instance, the EEC communiqué of March 26 — after faintly praising the Washington talks — had called for a comprehensive settlement based on UN Resolution 242, and a translating into fact of the right of the Palestinian people to a homeland. As we moved into the autonomy talks, we would probably come up against unbridgeable differences between Israeli and Arab ideas of what should take place in the West Bank and Gaza.

The creation of new settlements would sharpen the differences. President Carter would find himself in the unenviable position of a mediator with little ability to move the parties to any agreement, much less to an agreement that would lead to the creation of the homeland cited by the EEC. Moreover, he had deliberately cut himself off as a mediator from one of the key parties: the Palestinians. He had shown courage, but not necessarily wisdom, when he had committed himself publicly to moving toward a comprehensive settlement which would satisfy the aspirations of those Palestinians. There was an odd paradox in the U.S. government's attitude toward the Palestinians: they were saying that there could be no settlement if the guerillas were involved, while they were saying just the opposite about Rhodesia. (Another American thought it was unjust to compare in effect Israel — a legal, Western-supported, democratic state — with Rhodesia — an illegal, non-Western-supported, undemocratic, racist state.)

The speaker went on to warn that failure of the autonomy talks would undoubtedly contribute to the instability in the Middle East. Saudi Arabia and Jordan, historically close to the U.S., were moving away a deliberate distance. In Saudi Arabia, that movement was being led by young members of the cabinet, most of them U.S.-educated, who had spent many years in America. And one heard American journalists, senators and anonymous White House spokesmen already belittling or blaming King Khalid and King Hussein for the anticipated failure of the talks between the U.S., Israel and Egypt. There was a growing anti-Arab tone in the American media, where Islam was being treated with disdain. This drift apart from some of America's traditional friends would not redound to anyone's benefit.

A U.S. participant observed that the only representatives of the Palestinians visible to American eyes were the PLO, who seemed quite intractable in view of their refusal to alter Article 15, which rejected the existence of Israel and in fact implied its elimination. Was there any sign of a PLO willingness to abandon that as one of their basic objectives? Another American intervention indicated that the U.S. had, through indirect contacts, given the PLO ample opportunity to suggest the basis on which they could be brought into the

discussions. But American public opinion in general — not just among supporters of Israel — was so negative about the PLO that a major concession by the Palestinians would be necessary *at the outset*.

A Frenchman, on the other hand, thought that negotiations with the Palestinians ought to begin with the PLO in any case. Their recognition of Israel and Resolution 242 should be seen as the *end* of the dialogue, not the departure point. Otherwise things might be blocked where they were now indefinitely.

An American participant, taking an overview of the discussion so far, said that every question raised under this agenda topic touched in one way or another on the central problem of the continuing differences between the Arab nations and Israel. Even Iran and Pakistan were affected, as was the U.S. security capability (overflights, home-porting of vessels, etc.). While there was some dispute about the uniqueness of America's role in dealing with the problem, its close links with Israel were clearly an advantage. The U.S. sought no hegemony in the Middle East, and its peace efforts were costing the American taxpayers several hundreds of millions of dollars. Americans could understand how their different perspective could occasionally confuse Europeans and seem to get in the way of practical politics. But in the end we all had common interests which required us to work together. There was no real alternative to continued negotiations — however difficult — (*a*) between Egypt and Israel, and then (*b*) between Israel and the adjoining Arab states and the PLO. Another Geneva conference offered no hope, nor did a direct dialogue between Israel and the PLO without some major changes in both of their positions. The speaker did not believe that pressure exerted on Israel by the U.S. or other countries would help achieve what was being sought through negotiations.

An Austrian participant spoke from the vantage point of one who had travelled extensively in the Middle East as a member of an international fact-finding mission exploring possible peaceful solutions.

As Egypt was the most important Arab state, the peace agreement was a significant event in itself, provided there would continue to be political forces in the two countries willing to implement it. But the agreement would not alone constitute a solution to the problems of the Middle East until a satisfactory answer had been found for the Palestinians. Although it was a genuine treaty, it was — with respect to the West Bank and the Palestinians — only a chronological compilation of intentions, which said nothing about their implementation.

UN Resolution 242 was a useful working hypothesis, but no more than that. The Palestinians did not recognize it, and the Israelis would not implement it in its present wording. On the other hand, the demand for a Palestinian state could not easily be given effect. Neither the U.S. nor the USSR could provide a solution, nor would the Arab countries be able to do so in the foreseeable future. Therefore the problem had to be solved by the Israelis and the Palestinians themselves — even though it might look like wishful thinking to hope for that.

The speaker went on to suggest that the final solution might be a confederation of two states, an idea which was close to the proposal of Shimon Peres for a confederation of Israel and Jordan. Such a solution would, on the one hand, respond to the Palestinians' need for a state of their own, while, on the other hand, providing that limited autonomy and sovereignty which were the hallmarks of confederation.

If one decided to pursue such a goal, the negotiations could be carried out in stages, so that the graduality of the implementation would play an important role. It would be difficult, though, to find the partners for such a negotiation, given the uncertainty as to what the final objective should be. The lack of a definition of a final objective would lead to attempts to introduce a specific objective, or to block one. That would make any kind of negotiation extremely difficult. Any sort of formal autonomy would have to be tested as to what the final result would be.

This rather daring solution would only become realistic when public opinion in Israel had evolved so that it would recognize the necessity of it, and when the Palestinian leadership had come to realize that terrorism would ultimately fail and that only limited help would be received from the Arab states. What would the other, more radical Arab states do? In the end, they would accept what the Palestinians, after heavy internal strife, were willing to accept. (One problem with the Palestinians was that their more moderate wing had trouble convincing the others that their ideas were realistic.)

For the Arabs, the confederation would, in a way, come close to their idea of restoring and preserving the old Palestine. For the Israelis, the important thing would be that the West Bank could not again become hostile territory. These two factors would militate strongly in favor of the confederation solution.

It had been said that representatives of the Palestinians could not be found who were not explicitly identified with the PLO. The speaker did not believe that. It was the task of the Palestinians to tell us who their spokesmen were, and the more sensitive among them would soon recognize that the present situation promised no solution. As for the Israelis, exerting more pressure on them now — except moral pressure — was not the best way of getting them to understand what had to be done.

A Greek participant thought that the foregoing proposal for a confederation was one of the most hopeful lines of approach — and perhaps the only one that would make sense of autonomy as an intermediate step. Would it not be possible for the U.S. to bring the Palestinians into the talks informally? They were fundamentally a secular, nationalist movement which was prepared to use any means to secure their goal of national independence — and that included both Arab nationalism and Islamic feelings. If they could be brought in gradually, there was at least a hope that they would find a modus vivendi with the Israelis — who this year, for the first time, had begun to talk in terms of the Palestinians' existence *as* Palestinians (something which in the past their leaders had resolutely refused to do).

A British participant referred to the confusion between the Palestinians — a real people with a real problem — and the PLO — a specific political organization with its own program and methods. At the moment, the PLO had preempted the use of the term "Palestinian,' but that would not necessarily remain so. The terms "Palestine" and "Jordan" had had no more than an administrative meaning in former times. "Palestine" now had no firm geographical significance, but an ideological and programmatic one. The terms "Palestine" and "Jordan" had been applied to both banks. If we considered this problem within the context of the area west of the Jordan, simply using the name "Palestinian," we would get into a vicious circle of confusion. There was also the Jordanian Kingdom east of the river, and while the King and his government were obviously not anxious at the moment to participate in this process, that too did not necessarily need to remain so. One would have thought that chances of devising an acceptable solution were far greater within the larger area comprising both banks, than within the West bank alone.

The idea of a confederation between Israel and a Palestinian state — which at the present time could only be a PLO state — seemed somewhat unrealistic to this speaker. In other parts of the world — including Europe and North America — one could witness the difficulty of having people with different cultural backgrounds living together within the same political framework. There were enormous disparities between the Palestinians and the Israelis, to which one had to add a record of 30 years of conflict. A better possibility of success might be offered by some kind of intermediate arrangement or condominium. It would not be acceptable just yet to either Israelis or Jordanians, but it ought to be explored. To some extent, the Israeli military administration of the West Bank had been a sort of condominium; the degree of Jordanian participation had been much greater than commonly realized.

The Austrian participant who had proposed the idea of a confederation intervened to say that he had not specified the PLO as a party. If one wanted a formula, why not say simply "representatives of the Palestinian people?" Shimon Peres had found that acceptable as had, curiously enough, leaders of the PLO.

C. *Turkey: Again the Sick Man.* While the U.S. was acting as the principal mediator in the Arab-Israeli conflict, it had been agreed at the Guadeloupe meeting that the Federal Republic of Germany would play the principal role in trying to resolve Turkey's economic crisis. An American speaker said that the urgency of the Turkish situation was shown by the fact that more and more provinces were falling under military control, as extremes of right and left sought to destroy the center. He wondered whether more austerity was indeed the best prescription for Turkey's ills, and observed that nothing much seemed to be happening to improve things. Had all the steam gone out of the "rescue" effort?

Certainly not, replied an International participant. Since Guadeloupe, a comprehensive program was being actively developed. The first part involved IMF help for the balance of payments for the remainder of the year, with an appropriate accompanying program. The Turks had been waiting to renew contact with the IMF until they had mapped out their own plan. The talks between them were now ready to be resumed, and neither the Turks nor the IMF were to blame if this process had taken longer than expected.

Beyond the IMF's limited help, a program of solidarity assistance would be mounted by a large majority of the OECD member countries. The aim would be effective cooperation on medium-term economic policies, without this leading to government control of the Turkish economy. These matters were now being negotiated in a rather confidential sphere. It was to be hoped that the program would involve not only the IMF and intergovernmental aid, but also the IBRD, institutions of the EEC, and the banking community.

Interventions from two International speakers underlined the gravity of the situation. One said that it would be "a disaster" if Turkey fell to pieces economically because of tardy or insufficient help from the West. The other described Turkey as "the most important task for the Western alliance". If the alliance wanted to preserve any credibility at all about supporting regimes in non-allied countries, it should not hesitate to help one of its own get back on its feet. But we would have to act quickly: 1978 had been too late for Iran; 1979 might be too late for Turkey.

A Briton emphasized the difficult balance to be struck between what would be right for Turkey on traditional economic grounds and what was now feasible without producing contrary results. The Turks were aiming at a domestic economic program which would in the long run produce the necessary stability, but in the meantime enormous sums were necessary to achieve reasonable external financing, which made the situation extremely delicate.

A Turkish participant likened his country's plight to that of a man stricken with a heart attack, for whom the oxygen tank might come too late. He went on to explain that Turkey differed from Iran, Pakistan and Afghanistan in that its problem was — at least superficially — an economic one, whereas the others had to do with the resurrection of Islam as a political power. Contrary to the general belief, Islam shared no responsibility in the Turkish situation. (In the last election the religious party had received only one per cent of the vote.)

Turkey was suffering from "the malpractice of the democratic system," its politicians and labor leaders having given the most irresponsible promises. This was part of the country's active war of extreme ideologies.

Turkey — along with Israel — was one of the two democratic states in that part of the world. Its government and political leaders were not corrupt. Its press was free. As the "soft belly of Russia," it had 600,000 men under arms, fully committed to NATO.

Turkey's present economic difficulties were based on an acute shortage of foreign exchange, caused by the oil price increases. All of its export earnings had to be earmarked to cover oil imports and external debt service. A democratic system was not the ideal framework in which to take the radical but realistic measures necessary. The Turks recognized that this was their problem, but they suffered — as did all underdeveloped countries — from a paucity of trained managers. As a consequence, the country was "most unprofessional" in its approach to international organizations such as the IMF and the OECD.

Furthermore, the Turks did not appreciate the subtleties of American politics. The speaker concluded with a plea to Turkey's friends to be patient. If his country could not find some solutions fairly soon, their democratic system would collapse, leaving a vacuum in a society of 45 million people.

A Greek participant said that his compatriots would prefer, and hope, that the energies of the Turkish people would be engaged in economic progress rather than in the "forward foreign policy" that had characterized the last few years. Greeks admired the way in which Turkish political leaders had held up against recent waves of violence. Yet there were 30,000 Turkish troops on Cyprus, many of the beaches of the eastern Aegean islands were mined, and 80,000 men and landing craft were based, outside NATO, opposite those islands.

The West, by and large, seemed to consider those facts irrelevant to the issue of aid to Turkey, and the Greek government had rightly been careful not to take any stand in the matter. This did not mean, though, that informed Greek opinion was not aroused and concerned. One result was widespread political disenchantment in Greece about the West, reflected in the fact that the neutralist, anti-NATO parties, which had scored only 25 per cent of the votes in the first election after the dictatorship, had been able to score 35 per cent by 1977 and were considered capable of mustering 40 per cent today. In this country where a third of the voters thought foreign policy was the most important issue, a bitter conviction was emerging that the West suffered from moral paralysis and was unable to stand on principles.

The Greek mood was worsened by large arms expenditures, leading to budget deficits and more inflation. (Greece and Turkey had the highest rate of growth of defense expenditure of all the NATO countries.) If this process put a heavy burden on the Greek economy, it was ruinous for Turkey. Western aid could relieve the pain indefinitely, but was that the solution? Iran had shown the futility of money where structural problems remained unsolved.

Greeks and Turks usually got on well personally. Their two nations could provide a solid base for the West in the Middle East. But until their differences were resolved, they constituted a "time bomb, ignored at one's peril".

D. *The Oil Imbroglio.* Discussion of this subject was led off by an American participant, whose comprehensive review of the current oil situation is summarized below:

OPEC's new system of setting prices confronted the oil-importing nations with an unprecedented threat. By setting a base price for crude, while permitting each individual oil producer to add its own surcharges to that, OPEC had laid the groundwork for a continuing escalation in prices. If the importing countries sat idly by, as if hypnotized into inaction, shortages would lead to unrestrained bidding for scarce supplies. There would be no end to the merry-go-round if we did not take coordinated action to cope with it.

Only a few months ago, it had seemed that there would be enough oil available to meet world consumption until perhaps the second half of the 1980's. But Iran's current policy of limiting production to 3 or 4 million barrels a day would hold its output at some 2 million barrels below the pre-revolution level. Other OPEC members had committed themselves to limiting their output so as not to create a surplus in the market. We were thus heading rapidly into a sustained period of shortages, or at best a precarious balance between supply and demand.

This year's consumption in the non-Communist world might outrun production by 1.5 million to 2 million barrels a day, or by 3 to 4 percent. The shortfall would have to be made up through conservation and out of inventories. Accordingly, we would enter 1980 in a very tight and vulnerable supply position.

As of April 1979, OPEC had increased the floor price of the Saudi Arabian "marker crude" to $14.55 a barrel, a 14.5 per cent increase over the previous year's price. Besides this adjustment, OPEC had given its members the right "to add to its price market surcharges which they deem justifiable in the light of their own circumstances." With the exception of Saudi Arabia, practically all the producing countries had already announced surcharges. The political and economic pressures on the Saudis to adjust their prices upward might become irresistible.

The oil markets were likely to remain tight. Saudi Arabia, Kuwait, Iraq, the Emirates, and Venezuela, among others, had expressed intentions of lowering production as Iran expanded output from the meager amounts pumped during the revolution. Saudi Arabia, which currently could sustain production of perhaps 10-11 million ballels a day, had previously been counted upon to expand capacity by the mid-1980's to some 16 million barrels. Now it appeared that the Saudis had cut back on those plans and that their capacity target was unlikely to exceed 12 million barrels by 1987. In the short term, neither Mexico nor other non-OPEC suppliers could increase their production significantly and there was no new Saudi Arabia in sight.

By 1985 the OECD countries, with a projected 3½ per cent annual GNP growth, would need another 8 million b/d from OPEC, which was unlikely to be available. One half could perhaps be made up by effective conservation; the rest would have to come from restrictions on growth. This was likely to happen long before 1985. And this assumed continued progress on nuclear energy, which after the Harrisburg nuclear accident was more doubtful.

In addition, there were further threats to the world's oil supplies. The Iranian revolution had certainly not run its course, and there were secessionist movements threatening the stability of the country. So one could not predict when and how the country would settle down again to a reasonably dependable production of perhaps 3 to 4 million barrels a day.

The effect of Camp David even on moderate Arab states, including Saudi Arabia, might well detrimentally affect the influence and special relationship of the U.S. and other Western powers in that area. There was also the contingency of a political upheaval in some of the producing nations, or an oil workers' strike, or an accident or sabotage that would put oil facilities out of operation. The Soviets had achieved positions of power in Afghanistan, South Yemen and in key areas controlling the Horn of Africa. Turkey, a key country

in the area, was threatened with economic chaos and political instability. And the attempts of the U.S. to establish a power base in the Persian Gulf did not appear to be too promising. The energy outlook, and thus the economic prospects for the oil importing countries, was thus at best severely clouded if not miserable.

In tight markets, international traders would be able to extract additional premiums over the official OPEC price and the surcharges. If these premiums persisted, producing countries would raise the surcharges to "capture" the additional premium for themselves. An increase in the surcharges would bring pressures to jack up the floor price, and the spiral of escalation would start all over again.

The world's oil import bill would grow immensely from the April price increase alone. Based solely on the OPEC floor price and individual surcharges, and ignoring the spot trade, the volumes of oil imported last year would increase in value by nearly $35 billion, from about $40 billion to an annual rate of around $175 billion. For the U.S. alone, import costs would increase by $10 billion. The less-developed countries would face an increase of about $5 billion on top of their previously anticipated current account deficit of $38 billion. The inflationary impact would be even more severe than the the rise in crude price implied. Prices for refined products would, whenever price controls did not prevent it, increase even more than crude prices. The harmful consequences on the U.S. balance of payments and the value of the dollar were obvious. All the oil-importing nations would have to devote a larger proportion of their foreign exchange earnings to bringing in the same quantity of oil, and there would be less left over to pay for other goods.

The Saudi oil minister, Ahmed Zaki Yamani, had warned that the surcharges might turn into a "free for all" if the tight supply of oil continued. In the end, he had tossed the ball to the industrialized countries, calling on them, and especially the U.S., to cut consumption quickly and sharply or risk further price increases.

The major reaction by importing nations had been a resolution, adopted by the International Energy Agency shortly before the most recent price increase, to reduce oil demand on the part of its 20 member nations by about 5 per cent. But the resolution had a number of weaknesses: it served only as a non-binding guide, leaving to each member the means of achieving the goal; the measures taken to lower consumption were not supposed to depress any nation's economic activity; and the only mechanism the IEA had in place was an old one, born of the 1973 embargo, for reallocating oil among members if there were a supply reduction of 7 per cent or more.

West Germany hoped to achieve the desired conservation by exhorting consumers and counting on higher market prices to reduce demand. This raised the question whether a market-price approach could be effective in resolving the problems we faced. In the short run, oil demand was only moderately price elastic, and supply was no longer determined predominantly by economic considerations. In the absence of a system of fair distribution, those nations that followed the market approach might force other countries to match their higher prices.

The upward pressure on prices was further aggravated by the need for major international oil companies, which were now themselves short of crude, to reduce or phase out existing third-party sales to non-affiliated customers. It was hard to reconcile IEA's statement that all the measures suggested should contribute to the maintenance of reasonable oil supplies to all countries with the reality of the situation.

We were thus confronted by a vicious circle of high prices, with dangerous economic and financial consequences, leading to a lower level of economic growth. The importing countries had not created the necessary framework to cope with the multifaceted problems posed by their continued dependence on large-scale oil imports. This was not just a temporary problem triggered by the Iranian revolution, but was likely to stay with us for some time. We faced a serious threat to our future well-being. A divided approach and timid half-measures would not only prove useless, but would contribute to a further deterioration of the Western world's power position.

The time was long overdue for the importing countries to coordinate both their oil supplies and all policy problems related to energy. France had proposed a dialogue among European, Arab, and African nations, implying disassociation from the U.S. and an emphasis on a medium-power grouping. This was playing a futile game that would lead to the consuming countries' being divided and conquered. A coordinated effort had to include all the major importing countries and encompass political approaches, strategic considerations, and economic and financial measures designed to cope with the world oil supply. These nations had to agree to abstain from outbidding one another for crude supplies, which would push prices even higher. To prevent this, a process should be designed to discourage any country or company from paying unreasonable premiums for added marginal supplies, with a system where the purchasers would not benefit from making premium-priced transactions.

Such a system could take any number of forms, but the following example was illustrative: The oil-importing nations could agree on what would constitute an equitable distribution of supplies in case of a shortage. Any country obtaining more than its "fair share" would be required to transfer the excess to those having less than their fair share, at a predetermined price not exceeding the OPEC floor price plus reasonable differentials reflecting special circumstances such as transportation and quality factors. Nations that obtained an extra supply by paying premiums would be required to give it up for less than they had actually paid for it. Each nation would treat its own oil companies in a similar fashion, deciding what constituted an equitable distribution among them and requiring those with overages to sell to those with shortages at the predetermined price.

We should adopt this system in a spirit of cooperation, not confrontation, with OPEC. The effort should not be limited to discouraging price premiums, but should also address other matters of mutual interest: precautionary measures for the financial support of the most vulnerable countries; and protection of the oil facilities in the producing countries and the security of the shipping lanes, to be shared by consuming and producing nations alike.

In the final analysis, OPEC depended as much on our economic and strategic capabilities as we depended on their oil. But this interdependent relationship would become a credible factor only if the importers had first agreed to place our common welfare above any shortsighted attempts to act exclusively in our individual interests. Such a unity of purpose had to precede any joint discussions with OPEC.

We had been reluctant to try to cope as a group with oil and related problems out of fear that OPEC might characterize this as confrontation. Instead, importing countries had pursued their selfish interests to save their own skin by attempting to make special deals at the expense, if necessary, of all other consumers even though such an approach would prove futile in the end. But OPEC had never questioned its own right to act as a group on oil prices. And it was OPEC itself that had expressed in its most recent resolution a deep concern "for the lack of necessary measures that should be taken by the industrialized developed countries with a view to controlling the market situation."

The importing countries had to reassess their joint position, have confidence in their combined economic, political, and strategic strength, and handle themselves accordingly. What was at stake was the economic well-being, the political stability, and the strategic capabilities of us all. The effective protection of these interests through a cooperative effort was not confrontation; instead, it was the only policy that could provide for the prosperity and security of oil-importing and exporting countries alike. The time available was short, if not already passed. Should we remain disunited or passive, and thus inevitably fail, we would have nobody to blame but ourselves.

Several speakers found the foregoing analysis realistic and not overly pessimistic, although some took issue with one or another of its conclusions. The discussion by other participants was extremely wide ranging and touched on the following aspects of the energy situation:

– *Conservation, pricing and new production.* A German speaker said that the oil price increases of 1973-74 had had an enormous impact on Western economies, slowing growth and boosting inflationary potentials. But we had only stayed shocked for a short time, and had soon learned to live with the new OPEC policies, with no thought for the future. There was little evidence that we were serious about conservation. It would probably take some more energy blackouts to start us working at it. The speaker wondered whether a different price policy might not lead to less energy waste, particularly in the U.S. (The American analyst replied that pricing would have a sizable effect on industrial production — in fact, it already had. In 1978, the U.S. had got a greater incremental growth in GNP than other OECD countries out of a given energy input. Automobile gasoline consumption, however, was growing in both Europe and America despite price increases.)

A Belgian believed that our main emphasis should be on restricting consumption, and that exhorting the public would probably not be sufficient. Direct intervention by the authorities might be needed, at least in the short term. It was expected in his country that some sort of rationing would be introduced soon.

A Canadian participant referred to the difficulty of convincing the public that we indeed faced the prospect of short oil supplies. The shortages of the coming winter would provide a good political opportunity to put in place policy changes to shape spending plans. This would promote the development of alternative energy sources and achieve better international cooperation. In the U.S. — faced with adjustments in Mexican relations — the time was propitious for the Congress to bring about changes sought by the Carter administration energy policy. It was also time for us to get going — after two years of waiting — on the northern natural gas pipeline. As another Canadian had pointed out, many appeals had been issued for the political will to carry out policies which had yet to be identified. Perhaps another cold winter would help to form those policies and that will.

An American said that Westerners — especially his people — were used to cheap energy, and would have to realize that they would never have it again. At the risk of being called a laissez-faire industrialist, he wanted to defend pricing as one of the elements necessary in the array of solutions for the energy crisis and our Western Asian problems. Price controls imposed on natural gas in the U.S. in 1954 had held the price in the range of five cents to 15 cents per 1,000 cubic feet for 20 years. That had crippled the coal industry, which had dropped from a 35 per cent share of American energy usage to around 18 per cent.

The U.S. held the free world's largest supply of coal, largely unexploited. Now that the natural gas price had been allowed to rise to $2.15, coal was competitive but there was a shortage of capacity to burn it. It was essential to let energy prices rise to the level of the cost of developing alternate fuels — which were not that far out of sight. Coal gas and liquefaction were in the range of $25-35 a barrel, a price which would be brought down with economies of scale after initial development costs.

With only five per cent of the world's population, the U.S. consumed 30 per cent of its energy. Half of America's oil supply was imported, so any appreciable switch there to alternative sources would take a lot of pressure off the Middle East, facilitating the solution of its regional problems. The best way to develop those alternative sources was to let the pricing mechanism work.

A Briton spoke from the vantage point of one in the petroleum industry. The Iranian shortage had accentuated a problem we would have had to face in five years anyway. Demand was now hitting the ceiling of supply, as we moved into the era of marginal supplies. A shortage of even one or two million barrels a day gave OPEC the scope it needed to control both production and price, leading us to more inflation, unemployment and a weaker dollar — all of which tended to encourage the spiral with further oil price increases.

Our dependence on Middle Eastern oil was nothing new, but we were now aware that it was not limitless. Japan relied for 90 per cent of its energy needs

on Middle Eastern oil, Europe 40 to 50 per cent, and the U.S. only 10 to 15 per cent. (That did not mean, though, that in case of a shortage the U.S. would not, as the most powerful country, be able to take advantage of any supplies there were.)

The supply of oil was not "running out," as one sometimes heard. About 50 million barrels a day were being produced for the non-Communist world, which equalled roughly the consumption. This was predicted to move up to 60 million barrels over the next decade, then back again to around 50 million by the end of the century. We would probably be producing as much oil 20 years hence as we were today. The problem was that oil production might not keep pace with the growth of the economy.

Profits were essential to finance new production. If the experience of one international oil company was not atypical, the industry was spending half again as much as its earnings in the search for new oil. Even so, one did not foresee the discovery of any considerable quantities that were going to solve the problem.

An American hoped that the pricing mechanism would not be the sole basis of solving the energy crisis. It had worked imperfectly in the U.S. petroleum industry, and the two-tier system was blamed for producing inadequate oil supplies. Not all American oil companies, he said, had been reinvesting their profits in exploration; many had gone in for industrial diversification instead of concentrating on developing new sources of energy.

– *Growing East bloc requirements.* The supply-demand equation was complicated by the growing energy needs of the East bloc countries. Because of the high development and transport costs of new Soviet oil production, and the pricing of intra-Comecon trade, the East bloc was greatly dependent for its growth on the price of non-bloc oil. Recent and future OPEC price increases would prove to be an "unmitigated catastrophe" for the Comecon countries, according to a Spanish participant. Two significant trends in those countries were (*a*) that their rates of capitalization had reached maximum levels, and (*b*) that their productivity, in both industry and agriculture, was either declining or increasing at a reduced rate. There was thus little room for repression in those systems, and it was doubtful if leaders could impose a further reduction in living standards. Soviet growth plans had already been slowed, and the other East bloc countries were either reducing living standards indirectly by retail price increases or achieving growth by transferring investment from agriculture to industry, where productivity was higher.

In terms of economic interests (as opposed to military or purely political interests), the Comecon countries, like the underdeveloped countries, were with us in being opposed to OPEC. Perhaps the West could turn that situation to its advantage, given the fact that Comecon's economic needs seemed more pressing at the moment than Soviet expansive military aims.

A Briton referred to the dependence of a country like Hungary on the USSR, not just for power but for the development of its raw materials.

– *Alternative sources of energy* were discussed by a number of participants. *Shale oil production* involved huge mining operations (requiring water, little of which was on site) and the disposal of vast amounts of waste. The production of one million barrels a day of shale oil (less than two per cent of our needs five to 10 years hence) would require the mining of 500 million tons of shale (80 per cent of our present coal production). That would obviously require impractically expensive materials handling; the only hope was on site combustion to avoid the mining, but even that would take 15-20 years to develop. *Tar sands* in North and South America contained enormous reserves, but that involved a similarly large mining proposition.

Coal was abundant in the U.S., the USSR, Australia and perhaps South Africa. Even for them — but above all for coal-poor countries — large scale use would necessitate immense investments in production, transport, and coal-burning facilities. There was also the unknown danger of the "hothouse effect," in which the rise of a few degrees in the temperature of the earth's atmosphere might cause melting of the polar ice cap. *Oil from coal* would be another huge industrial project. The production of a million barrels of oil a day needed 170 million tons of coal (25-30 per cent of present production). We would gain very little from that process.

Alaskan and U.S. offshore crude production had so far been disappointing. Decontrol in the U.S. might lead to a saving in imports of 800,000 barrels by 1985. During the past four years exploration in the U.S. had increased enormously, as the price of new oil was attractive. But in spite of that, production and proven reserves had declined. *Solar energy* for heating might in due course cover two to four per cent of our needs (mainly residential).

Nuclear energy was the most promising alternative in sight. If we did *not* have it now, two million barrels a day of additional oil would be needed. But it was anybody's guess what delays would now be encountered in expanding nuclear capacity — partly because of the ecologists and partly because of the Three Mile Island accident. A German speaker said that with reserves down, a petrol shortage and a cold winter ahead, one might expect the public to be more receptive to nuclear energy. But the reverse seemed to be the case. Opposition groups were growing fast, particularly on the reprocessing question. In Germany, 15 nuclear plants were in operation; four of those had been stopped because of technical problems. Of the 11 under construction, most had been stopped by legal intervention. The 11 more on the drawing board were not likely to be built in the foreseeable future. There was no chance to resolve our energy problems, she said, within the framework of short-sighted political needs.

In sum, concluded an American analyst, it would take us 20 years in the best of circumstances to add, say, 10 to 15 or 20 per cent in the form of substitutes for what was presently covered by oil. To the speaker who had blamed natural gas pricing for decimating the coal industry, he said it had more probably been much cheaper Middle Eastern oil.

– *International Energy Agency.* A German recalled that the IEA had been created in 1974 for the very oil policy purposes that were being discussed here. It should be revitalized, he said, to serve as the suitable instrument to bring about concerted action. It might have to be adjusted to the widest scope of problems foreseeable, but a number of elements were already in existence within the IEA framework which were binding on the energy policies of participating countries. Those included conservation programs, renewed on a country-by-country basis; commitment to a group target of 26 million barrels a day by 1985; the crisis management system, and in particular the oil allocation system in case of shortages. In none of these programs had the IEA taken a "confrontational" approach to OPEC.

The IEA's potential had not been used because a number of participating governments, feeling no imminent danger for their oil supplies, had felt it was increasingly difficult to accept the IEA's authority and controls. This was not surprising, since supplies had been abundant until a few months ago, prices had not increased in real terms, and the public had no longer sensed a latent crisis. As a consequence, the IEA had lost substance and political weight, and support from the capitals. It had been transformed from an important endeavor in international cooperation into a series of gatherings of experts following the narrow and sometimes barren and unconstructive instructions they received from their governments.

The original spirit of IEA needed to be restored, as a place where the vast majority of industrialized countries could develop a coherent energy policy. A French decision not to stay apart from the group any longer would be welcome, the speaker said. (Both French and American participants agreed with that suggestion, but a Belgian pointed out that the French had in fact, at the European summit, undertaken commitments that were virtually the same as the IEA's.)

– *The need for a broader united front* was emphasized in several interventions. An American said that we needed a union of oil-consuming nations. He used the word "union" in the same sense as a trade union, as much of our employment and productivity went to pay the oil-producing states. One oligopoly required another in opposition. Such a union ought to be used not simply for negotiations, but as a useful tool on the supply side. The U.S. had a number of important energy resources which were awaiting technological breakthroughs to be properly exploited. It made sense for America's allies to buy into that technological development now rather than later.

A Canadian speaker agreed that the Western countries ought to coordinate their efforts in "playing the OPEC game". National interests, especially commercial ones, should be put aside to make way for a common approach.

A Frenchman defended his country's recent proposal in this regard, which some other participants had feared might create a split in the Western world. He agreed that it was important for the consuming countries to negotiate together with OPEC, but the French government had felt that a "third element" would add a presence that might facilitate compromise. Involving the African countries in that way would make sense, as they had no interest in the confrontation between OPEC and the West. The absence of Japan would make it possible to limit this "third element" to the African continent. Otherwise, it would logically have to include the Third World as a whole. That would globalize the conversations in such a way as virtually to assure their failure. If that point were widely understood, perhaps some of the uneasiness which the French proposal had caused — particularly among the Japanese — would be dispelled.

The French government believed that our solidarity (including the Japanese) should be close and comprehensive, including conservation research. Although France was not a part of the IEA, it was making a considerable effort on energy, especially in the nuclear field.

A Belgian speaker remarked that the union of oil consumers would be in the long historical tradition of leagues and crusades. This sort of saber rattling was sometimes effective, but he was skeptical about rattling a "wooden saber". It was more to the point for each country to get down to business developing its own program of production and conservation to lessen its dependence on the Middle East. (Such a program had been talked about by successive U.S. administrations ever since 1974.) These comments were endorsed by a Frenchman, who thought that little could be expected from international cooperation unless it was preceded by much more intensive national efforts. With regard to the American analyst's suggestion for a "fair sharing" system, this speaker cautioned against wishful thinking about forms of cooperation that would never be achievable. That proposal might be all right technically, but it raised all kinds of the most difficult political questions.

– *The human element* in all this was touched on by a few participants. One American said that some of the oil nations (e.g., Saudi Arabia, Mexico) were bound to start thinking through their development plans, and wondering how they could avoid inflation, rural depopulation, urban slum growth and the discontent that sprang from too rapid modernization. What effect would that have on their production and development policies?

Another U.S. participant noted that in the past personal contacts had played an important part in Middle Eastern policy development, particularly in Saudi Arabia. It would help to restore some of our neglected "back channels of communication."

A French speaker asked the meeting what right we Westerners had to regular deliveries of oil from the Middle East. Absolutely none, in his opinion. The Islamic crowds were chanting the praises of God, and it seemed that all we were doing was lining up our democratic crowds shouting, "fill up our jerry cans!" If one could subject the Western world to a psychoanalysis of its collective subconscious, one might produce what the Jesuits called a "*délectation morose*". We seemed more and more wrapped up in material concerns, at a time when most of the world was still hungry.

From now on, the West would be consuming in a "heavy atmosphère of penitence". There was no moral support for our petroleum aspirations, and in our Western civilization in search of justification, this was embarrassing. Did

we really mean to tie the defense of the fundamental values of our civilization to the number of barrels of oil available from Kuwait?

What we had to do was to work frantically on conservation and substitution. God helped those who helped themselves. Even if we did not entirely succeed, we should not let it be said that we thought the values of our democratic societies were endangered just because the growth of our economies was temporarily slowed down. That would be unnecessarily to add humiliation to discomfort.

An American replied that one had after all a moral right to fight for one's survival. "That's the issue."

E. *Islam, the Third World, and the West.* Were attitudes and values in Islam, and in the Third World in general, so different from those in the West as to perpetually bedevil our relations and our mutual understanding? The remark of a Canadian — in the discussion of Iran — that the "democratic option" was virtually nonexistent in the Third World drew comments from several speakers. One International participant agreed fully. Democracy in the Third World, he said, was an "unknown, unwanted and almost unworkable concept, which left-wing liberals often choose to ignore."

A Briton argued, on the contrary, that there were areas of the world where Islam was cooperating satisfactorily with Western ideas of democracy. For example, Malaysia, with a multiracial society, was very much a functioning democracy. The Islamic courts imposed only fines in cases of adultery, and school teachers were not allowed to veil up on the job.

A Greek participant rejected the notion that democracy was not appropriate for the Third World as a whole. It might be the case in Iran, but India was the largest democracy in the world and had proven its attachment to that form of government in a most dramatic manner. Our struggle should be aimed at seeing our Western ideals prevail wherever in the world the social/moral/political structure made it possible.

A British speaker made the point that Islam was not a cause of grievances. It was rather an effective symbol, a form of consensus and mobilization for political leaders. Islam was not necessarily on one side or the other in the larger geopolitical picture. When the Soviets had opened their embassy in Teheran during the war, one of their first acts had been to establish close links with the Muslims.

To gauge the effect of Islamic attitudes and current leadership on East-West relations, it was helpful to understand the Islamic concept of power. Mohammed had been not only a spiritual leader, but a head of state who commanded armies, dispensed justice and collected taxes. So religion and power had been intimately associated from the very beginning of Moslem scriptural history.

The specific Islamic attitude toward government had no parallel in Christianity. This involved an acute perception of the realities of power and an apparent willingness to use it. The recent Islamic foreign ministers' conference had remained remarkably silent on the question of the 50 to 60 million Muslims in the USSR, whose position was "not entirely happy from the Islamic point of view." When a Turkish leader had been asked about that, he had replied that the Russians were simply too strong to oppose on this issue. The direction of the Islamic revival would, in the speaker's view, be determined largely by that way of assessing power. In any case, it seemed unlikely that the effect of the revival would be limited just to Iran and one or two other countries.

An International speaker drew attention to this paradox: We Westerners tended to believe that our influence over events in other countries was limited, whereas politicians and public opinion in the Third World judged our influence to be extremely powerful. A recent case involved protests by Pakistanis, blaming President Carter for the hanging of President Bhutto. To surmount this sort of misunderstanding, it was important to coordinate Western contacts with the Third World within a regular framework, such as an expanded Lomé Convention.

F. *Security Considerations.* The protection of our oil supplies and our situation vis-à-vis the Soviet Union in the Middle East were discussed by a number of speakers. An American participant said that some of the interventions added up to a sort of "chamber of horrors", with the implication that the worst was yet to come. He conceded that the West's interests had been set back by (*a*) the removal of the Shah, and (*b*) the subtle change of attitude in the Persian Gulf states, who would henceforth charge all that the traffic would bear for their oil, whereas they had previously refrained from "pushing the West to the wall" economically. But we could make things darker than they needed to be. The Soviet Union, our principal protagonist, had not moved forward in the Middle East. It would be wrong to think of the various conflicts as a zero sum game, in which a defeat for the West was necessarily a gain for the USSR. As far as we knew, Soviet interests had not been advanced by the Iranian revolution. In the Gulf states, fear of the USSR was greater than ever. It would be a mistake to take Saudi and Kuwaiti gestures toward the USSR as a sign of accommodation. On the contrary, they were an effort to dull the Soviet appetite for further penetration in the area by establishing a more normal interchange.

Another American pointed out that the King of Jordan and the Saudi princes had repeatedly said that their main problem was not the Soviet Union but the Palestinians and Jerusalem. Even without the Russian threat, instability in this area was inevitable; all the governments were fragile, the institutions incomplete. As power there was concentrated, not diffuse, change was bound to be violent. The old intra-Arab rivalries were only disguised by hostility toward Israel, and now Egypt.

The traditional Middle Eastern friends of the U.S. and its allies were uneasy about the implications of what had happened in Taiwan and Iran. Stationing more troops in the Middle East would not be enough. We had to move the parties there toward a real peace, and the U.S. could not do that alone. In the meantime, the Soviets were sure to draw what advantage they could from the instability in the region, and the threat to our security was obvious.

A Briton described the increase in Soviet influence on the southern shore of the Mediterranean — not only their political influence but, through Libya, their revolutionary influence, which was supporting terrorists around the world. Moreover, Soviet naval strength was growing in the Indian Ocean and the Mediterranean. It was foolish to consider the security problems of the Middle East as separate from those of Southern Africa or the Horn of Africa. They all went together. An International participant had wondered whether we could make it more attractive for the USSR in these areas to "play a responsible role, rather than a wrecking one." This speaker thought that was an illusory hope; the Soviets' aim was to foster instability wherever Western interests were effected. On the other hand, one should not assume that "stability" was always the most desirable goal; it might lead to "stable" Soviet satellites.

One had hoped that we might help Somalia, after they had got rid of the Russians. They had originally been the aggressors, but then so had Egypt in invading Yemen. A minimal Western commitment could have helped Eritrea. The time to act was before a threat developed fully. "Little and early" was better than over-reacting too late. If the timing was right, not much was required, as it would take hostile force to remove it. The speaker cited the examples of Oman and South Yemen, and the French in Djibouti. The Soviet threat was to some extent a "paper" one, in that they were opportunistic, exploiting weaknesses, probing rather than attacking. Détente was a seamless fabric, as was defense. It had been not far from the site of this conference, at what was now Wiener-Neustadt, that the Mongols had been stopped in the 13th century — not by united European forces, but by a need to return east to secure their positions at home.

Another Briton intervened to point out that the Third World countries almost invariably sided with the USSR *vs.* the U.S. in the United Nations. To vote against the U.S. entailed no risk, while it pleased the Soviets, academia, the media and a large part of the American public. But when the USSR was opposed by China, a quite different situation arose. A good example of this had been the admission of the Vietnam-sponsored Cambodian delegation. For once, the nonaligned countries had been really nonaligned, sensing that it might also be dangerous to displease the Chinese. The only Third World states which had voted with the USSR on that occasion, despite severe Soviet "arm-twisting", had been Angola, Mozambique, Ethiopia, South Yemen and Afghanistan.

A Frenchman suggested looking at a world map and reflecting on recent history. It was obvious that the USSR — in acting from the Horn of Africa to Vietnam, passing through Afghanistan and Pakistan — was seeking to kill two birds with one stone: (*a*) to strengthen their hand against the West across the zone of oil production, and (*b*) to weaken China. One should have no illusions about Russia's unrelenting drive.

As for the reaction of the Middle Eastern countries, though, one had a reason to be optimistic. Almost all oil producing states, whatever their political regime, needed maximum receipts in foreign exchange. But the Saudis and other people of the Arab peninsula were less in need and therefore had more liberty. The Saudis for several years past had shown an extraordinary sense of their world responsibilities, which was a hopeful sign for the future. The Soviet encirclement of Saudi Arabia was a grave threat which deserved to be skillfully combatted by the Western nations — who should not, said the speaker, feel impelled to "push their defense of human rights to the point of masochism".

An American participant said that the Saudi princes considered the Russians* to be as much their enemies as the Israelis. They were paranoid about being squeezed by a Soviet pincer movement. Whether or not recent events had provided new temptations for the Soviets in the Middle East, one could imagine other risks to our oil supplies. Some of the "scary scenarios" circulating around Washington were: a shutoff by the Saudis themselves, or the Kuwaitis; the scuttling of ships in the Strait of Hormuz; a terrorist coup d'état in Riyadh; an Iraqui invasion of Kuwait. Given the will to act, the U.S. could respond to any of those eventualities by airlifting troops to the Middle East, although this would involve an immense logistical problem.

If there were a cutoff of Middle Eastern oil and we lacked adequate supplies, the two primary questions would be: (*a*) would the Carter Administration act militarily, or still feel inhibited by the so-called "Vietnam syndrome"? (The speaker's guess was that the U.S. would act, the shutoff of oil being more important than the Shah's downfall); and (*b*) would the U.S. be supported in this by the Europeans, who were even more dependent on Middle East oil? More attention needed to be given to transatlantic consultation/cooperation against military threats in the Middle East.

A fellow American agreed with the conclusion of the previous speaker that, if a crisis in the Middle East seriously threatened Western security, the "Vietnam syndrome" would not deter U.S. action. If one had regarded the Shah's Iran as a Western-oriented pillar of military security, then the decline of our military presence in the Middle East had recently been vicariously precipitate. But, as another speaker had noted, Soviet gains had not been as impressive as they might have hoped. They had lost their position in Egypt and Somalia and were less predominant in their military supply relationship with Iraq. On the other hand, in the past 18 months they had substantially improved their position in Ethiopia, South Yemen and Afghanistan, and had a putative opportunity in Iran. These events had been at least as disturbing to Saudi Arabia as had been Camp David, and had led the Saudis to seek special U.S. token commitments to their security. One result had been substantial U.S.-Saudi cooperation in North Yemen.

Should the Western military presence in the Middle East be increased? If so, how? The establishment of U.S. bases was an unlikely answer. The Israelis would welcome a base, but that would not serve to reassure the Arabs. The moderate Arab states, surrounded by radical neighbors, tended to consider U.S. bases on their territory as more of a political liability than a security blanket. More bilateral military assistance was advisable, but there were limits to how much the recipient countries could absorb. There were genuine questions about the relevance of greater military power to the most likely threats, and whether the recipients could not better use these resources for economic rather than military purposes.

Should the modest U.S. fleet in the Indian Ocean be augmented? The speaker personally thought so, but this could not be achieved without political costs to offset the benefits. (Some of the littoral states, especially India, would be very much opposed.)

By force of circumstances, the U.S. would continue to bear the major security burden in the Middle East. Yet Europe's stake there was surely as great, and it was natural that the American public should expect the Europeans and Canadians to provide concrete contributions, in addition to political support. As a practical matter, though, the concrete contributions might not be feasible on a substantial scale. If that was a problem, we ought to explore some form of indirect burden-sharing. Perhaps the European members of NATO, for example, could provide a relatively greater contribution to increases in NATO expenditures. This was an issue of increasing political importance that needed closer attention.

A British speaker hoped that America and its allies would not allow the syndrome created by the tragic experience of Vietnam to compel them to give up the possibility of military intervention on a small scale. Recent examples had shown that this could be highly effective in limited areas and ways (e.g., British Honduras, the French and Belgian intervention in Zaire). It was important in the Middle East to be selective about those areas where it was still possible to exercise effective influence. A single squadron plus some contract officers, for instance, had managed to hold Oman within the Western sphere.

An International speaker said that the moment might come when the use of force by the West would be unavoidable in some part of the world. He was pessimistic about the likelihood of our taking the course that would be in our obvious interest. The Vietnam syndrome had led to an erosion of the credibility of the U.S., especially in Africa and Asia. A kind of paralysis was evident, as where the Congress had refused to give the guarantees sought by the Administration in connection with the Portuguese withdrawal from Angola. But this "non-intervention complex" fortunately did not affect the American commitment to NATO, which appeared undoubted. A Frenchman confirmed that Europeans were worried, not only about America's tending toward foreign disengagement after Vietnam, but also about the effects of her rather unrealistic idealism.

An American replied that U.S. foreign policy failures were usually the result of not having defined where the national interest lay. The lesson we had apparently learned in Vietnam was to withdraw, whereas what we should have learned was to identify our interest and to pursue it vigorously. It had not lain in Vietnam, according to the speaker, but it did lie in the Persian Gulf. The vitality of our Atlantic economies, as well as the very existence of our political systems, depended on the independence of those Gulf states.

Another American participant, who described himself as a veteran of the Vietnam experience, recalled how the U.S. had been reproached, first silently and then explicitly and vocally, by almost every chancellery in Europe for having got so hopelessly embroiled in a conflict for which it was so unsuited. Why were the Americans not now being congratulated, he asked ironically, for not making a similar mistake elsewhere, in Angola, Ethiopia or Somalia? Was this not a sign of a new maturity? One could not help being confused about what exactly America's allies wanted it to do.

In closing the discussion of this phase of the agenda, the author of American working paper(I) reminded the meeting that the Middle Eastern countries needed us at least as much as we needed them. We should not be overly concerned about their internal evolution. There was a deep-rooted opposition to Soviet designs in that area, based not only on Islam but also on the nationalism of those countries. The Soviets were themselves paying a price for their activities there. Russians were being killed in Afghanistan, and their resources were being used in battling guerilla warfare. One could not count on the imminent success of the poorly-armed, badly-led tribesmen, because the USSR had apparently decided to do all within reason to keep the government in power; but this was not without cost for them. They had experienced reverses too in Egypt and Iraq, and Iranian gas supplies for their Caucasus area were endangered. So recent events had been far from a one-sided strategic disaster for the West.

G. *The Republic of South Africa and Namibia*. An American participant reported impressions gathered during a recent trip to South Africa — his sixth visit there in the past 18 months. He had spoken with government ministers, opposition leaders, black leaders, businessmen and others. Domestic headlines were dominated by the information scandal and the spy story, which were having a notable impact on white South Africans and especially the leadership of the Nationalist party. A lot of the "noise" in South Africa now was related to the rebuilding of unity within that party. Events in recent months would have an important effect on the black population:

— The difficult problem of Crossroads, a black community in Capetown, had been settled by a group made up of a government minister, the new Urban Foundation, three key Afrikaner civilians and black leaders. This was a rare example in South Africa of a genuinely negotiated settlement of an explosive problem.

— A new framework for black labor in South Africa would be created imminently with the release of a special commission's report, which was expected to give status to black unions and to eliminate many or all job restrictions. This would remove real or imagined impediments to greater equality in the work place and enable managements to do things they should have done on their own initiative years ago.

— A thorough investigation and reassessment of the country's security laws had been called for by the Nationalist press boss, with the warning that deviations from the rule of law could lead to corruption and decay, assisting the very subversion they were meant to restrain. The significance of this was that it had been the body of restrictive personal legislation that had affected the lives of Africans more than almost anything else.

— The recently-created Urban Foundation — working on housing, education and the quality of life among urban blacks — was receiving increasing support from its constituency, who had viewed it suspiciously at first.

If one could generalize about black attitudes (which were harder to elicit than whites'): they had no participation within the system, but that did not mean there was no political conversation among them; they had little or no communication with authorities on the issues affecting their lives (humiliations and frustrations with pass laws, security rules, bureaucratic delays and harrassment, inferior education and housing). A government minister described a certain person as the real leader of Soweto, but he was found to be virtually unknown there, which illustrated the communication problem.

Disinvestment was widely discussed within South Africa, where some 20 to 30 codes — domestic and foreign — sought to govern corporate behavior. The EEC code was viewed by blacks as superior to the U.S. Sullivan code, but in practice more progress in the work place was being achieved by those following the U.S. code. (Adverse comments were made by South African blacks about the Japanese operations in the Republic.)

Attempts to evaluate developments in the business community were being made by church groups, urban Africans, and journalists. Companies were being widely known and judged by their practices, although open discussion of the disinvestment issue was arguably treasonable and therefore risky. Students were generally more opposed to foreign investment than adults, who supported it if it followed one code of conduct or another.

The issue most in the press and in the minds of government officials was Namibia. The lack of confidence in the several parties to that negotiation was a real impediment to agreement. This might be a lost opportunity for a genuinely constructive step for South Africa, the rest of the continent, and the West. A cloud of distrust hovered over the attempts to achieve an internationally acceptable solution to the Namibian problem. One found people in South Africa asking themselves whether "going it alone" would solve anything, or lead to long-term solutions in Southern Africa. To an outsider, the differences with respect to Namibia seemed very small compared to the value of a solution.

An International speaker noted a toughening in recent weeks of the South African government's position on Namibia. If that line was confirmed, it would be increasingly difficult to stave off the call for sanctions against South Africa. If the UN voted for sanctions, we could expect the Soviet Union to offer itself as one of the monitoring powers. The strategic implications of that were not agreeable to contemplate — quite apart from the moral, ethical and political implications for the specific countries concerned. This made the Western effort on Namibia doubly important.

A Briton agreed that any attempt to impose sanctions on South Africa could do great harm to the West and achieve very little. In Namibia, apartheid was largely on the way out; a class system was replacing the race system. There was a choice, even if one was not keen about the alternatives. One of the most successful Western undertakings had been the efforts of the Five on Namibia. One could still hope to see an independent country there under black rule, although the exact identity of those who would ultimately emerge in power was still to be determined.

Another British speaker was "appalled" at the pessimism expressed by some about the future of Namibia, and he said that any pressures on South Africa would ignore the help that country was already giving to Zambia and Mozambique. Decolonization had not normally been accompanied by an immediately peaceful situation, and events in Southern Africa did not suggest it would be an exception to the rule. It seemed sometimes as if the West were determined to see the downfall of the whites in Africa, and almost to connive in the violence.

An Italian alluded to the unique importance of South Africa in controlling the sea lanes around Africa. It was the only state below West Africa with a harbor large enough to accommodate supertankers. Moreover, it had the ships and aircraft needed to protect the sea lanes. At the same time, it was under embargo from oil producing states. (Egypt was in a similar situation, controlling the supply route through Suez.) This suggested the possibility of a serious crisis for which contingency management plans should be ready. An American also raised the question of the implication of the Iranian embargo on oil shipments to South Africa and Israel. The response of another American was that "if you pay, you can get everything, even from those countries who say they won't supply you."

On the subject of human relations, a U.S. speaker identified himself as the president of a foundation which had participated in the founding of the South African Race Relations Institute, which had worked there for half a centurv maintaining communications between whites and blacks. The Institute was now preparing to observe its fiftieth anniversary, and it was ironic that the speaker himself had not received a visa enabling him to attend.

The author of American working paper(II) thought that the expansion of trade unions in South Africa — although a welcome advance — would not solve the problem because it was not a free society. What the blacks there needed above all was some legitimate above-ground organizations to complement the extensive underground network that had produced upheavals like Soweto. It would be especially useful if foreign companies operating in South Africa would put pressure on the government to allow those trade unions to function.

Another American agreed that even slight changes in the status quo could be cause for encouragement, but he saw little reason for optimism about the South African situation. As had been reported, there was political conversation among blacks there, but no real political participation, no discussion of real issues.

H. *Rhodesia-Zimbabwe.* An American speaker said that the war in Rhodesia-Zimbabwe was not going to disappear overnight; it was in fact likely to heat up. Thousands of people were being threatened daily, hundreds were being killed. It was important that the West retain some flexibility to bring the warring parties together. Present U.S. policy objectives there seemed to be reasonable, logical and appropriate. The speaker prayed that America's allies would not bring pressure to bear on the U.S. to try to change that policy. Americans wanted to see a peaceful transition from what was now an illegal

minority government to a democratic majority government — which meant a predominantly black one. Ian Smith had consistently outmaneuvered the West and the blacks in his own country and seemed to be on the verge of outmaneuvering the world. The recent so-called election did not constitute at all a transition from white minority government to black majority government. The constitution had not received an affiramtive vote from any single black citizen of that state. So this process had simply concretized the segregated white minority state with the trappings of some constitutional legality. There had been no opportunity for any part of the black population — 95 per cent of the nation — to express themselves on the question.

At base, this "transitional" constitution established apartheid in the formal government structure. Whites voted for whites, blacks for blacks. The elements that had been used to stifle black aspirations — police, army, judiciary — were left beyond the reach of the black population. In a parliament of 100, 28 would be white and only 22 were needed to block any change in the white-dominated structure. At the end of 10 years, a commission would review whether the structure should be continued.

It was dangerous to insist that this new government should be recognized by the U.S., which was the only great power that had the legitimacy to try to bring the parties to the conference table some time in the future. By recognizing the new government, the U.S. would lose that flexibility and acceptability.

Much of what the preceding speaker had said simply did "not accord with the facts," according to a Briton. Besides differences between blacks and whites, there were enormous differences among blacks throughout Africa. A major misunderstanding in the West resulted from use of the term "tribe." Nkomo was a member of a tribe that comprised only 20 per cent of the population. At the moment various factions were working together, but their differences would eventually emerge. Eighty per cent of the Rhodesian army was black — including officers — so it was wrong to think of a "panoply of naked white power."

The speaker pointed out that the situation of sanctions was different in Britain from elsewhere. To end them required no positive act, but simply a failure to renew them. It was unthinkable that the probable next Conservative government would not let them lapse, and it was likely that it would move to de facto recognition if it were satisfied that the election had been fairly conducted under the circumstances. (A U.S. participant pointed out that in his country the implementation of sanctions was a legislative prerogative, while the recognition of a regime was an executive prerogative.)

An American participant intervened to say that the issue was not the population of the army but its control, and control resided in those white seats in the parliament. Another American reported that the highest black officer was a first lieutenant, and that there were only 14 or 15 second lieutenants. He made a comparison with the police force carrying out the evictions in Ireland in the 19th century, who had been overwhelmingly Catholic but under Protestant command.

In response to a suggestion that Rhodesia's woes would have been avoided had Britain sent in special forces at the time of the unilateral declaration of independence, a Briton said that one could not have risked war in that way without a clear mandate from the British public. The speaker agreed with the analysis that the new constitution was defective, but that did not mean that it might not produce a government, however imperfect, and that this transition was not preferable to a terrible civil war. It was open for men of good will to differ about this. One did need to include Mugabe in the arrangements. Perhaps Muzorewa was not of a caliber to sustain the government over a long period, but that was for the future. We might have to live with the transitional arrangements because anything else would be worse. One of the tragedies of Rhodesia was that the whites there had been infinitely more multiracially-minded than the whites of South Africa.

While recognizing the defects of the new constitution, one American said that he still favored recognition and the lifting of sanctions. This might risk a rupture with some members of the O.A.U., but how many of them really cared much what black ran Zimbabwe? More important, recognition would bolster the new government — legitimate or not — and give the blacks something to fight for, and a better chance to deal with the Patriotic Front from strength. If Western recognition was not forthcoming, there would be a continuing deterioration of both black and white morale, in a protracted struggle which would destroy the existing political and economic structure. In the end, the Patriotic Front would win, but what would be left to work with?

A Portuguese argument challenged the wisdom of recognizing the new government. It was difficult to see how the recent elections could produce a workable solution; Sithole had insisted that they had been stage-managed. This speaker agreed with a previous intervention that it was important for Western countries not to jeopardize now by recognition their capacity to effect an eventual settlement. He also warned against more intensive military intervention in Africa. It was best to maintain a cautious attitude and not to react too strongly, intervening only when invited or when directly safeguarding the lives of European citizens.

Since the settlement process had begun, Western policies toward Rhodesia-Zimbabwe risked damaging both our interests and those of the Africans, in the view of a British participant. By not backing Bishop Muzorewa, we appeared to support the guerrillas. A peaceful transition was not possible under any circumstances, but one could contain the degree of damage. Counter-guerrilla activity did not require massive forces or sophisticated weaponry. The Patriotic Front did not exist within the country; they were united only outside. Nkomo and Mugabe would continue to fight each other unless an interim settlement were suggested after a successful election. We should aim for such a solution, trying to reduce the transition period to less than 10 years. If Britain acted quickly, reinforcing its proposal with substantial economic aid, black acquiescence could be obtained.

If no compromise were reached, and the U.S. could not bring the parties together, an International participant foresaw "fearful consequences" for the whole region, not just Rhodesia.

An American sought to explain the apparent contradiction between U.S. policy in the Arab-Israeli struggle and in Rhodesia. In the Middle East, the Americans were prepared to go against the will of the most powerful states in the area, while in Rhodesia U.S. policy was justified partly on the ground that one had to follow the will of neighboring states. In each case, U.S. policy was heavily motivated by guilt — about the Holocaust and about the treatment of blacks. Those feelings lay beneath the surface and had a great deal to do with American reactions.

The author of the American working paper(II) said that the Rhodesian election had done nothing to resolve the armed struggle because it had not involved any of the principal nationalist guerrilla groups. Recognition of the election results and the Muzorewa-headed government would remove the West's ability to act as a broker, stiffen the internal settlement, prolong the war, assure that Mugabe would be supplied by the Soviets (which he had not been up to now in any appreciable way), and account for the deaths of additional thousands of Africans and hundreds of whites. (Contrary to what had been said by a previous speaker, this guerrilla war was highly technological, modelled very much on Vietnam.)

Our best course was to encourage the quiet and intermittent contacts now going on between Muzorewa and Mugabe (or, less likely, Nkomo). If a settlement bringing in at least one of the principal guerrilla groups would entail the overthrow of the present "quite unacceptable" constitutional arrangements, we should work for that. If we did not cave in now, some sort of solution was bound to be found within a year. The stakes were high, not just in terms of immediate loss of life, but for the long-term relations between all of our countries and the African continent and the whole Third World.

I. *Economic Considerations.* A Swiss participant referred to the point in American working paper(II) that U.S. government economists in various departments had recommended that no action should be taken which would seriously disrupt American business practices or profits. That was a poor basis for defining a long-term policy toward Africa, in the speaker's opinion. Then the French working paper had suggested that Europe's dependence on African raw materials was not very great. The speaker did not agree, and went on to cite statistics from a recent World Bank report showing the extent of the industrial world's dependence on the Third World, in which Africa held a large share. If the African countries stopped or reduced their supplies, we would be faced with problems very much like the oil crisis. Were we aware of our vulnerability?

We also needed to have a better sense of history. A great many conferences had been held recently about the "new international economic order." The Third World, including Africa, *was* that new order. The developed countries — who counted for only about a quarter of the world's people, and were shrinking proportionately — had to start thinking of fashioning economic policies with Asia and Africa. The Western world now had a wonderful chance to get on a new economic footing with the African countries for the next 50 years, a chance which the Communists were not in a position to take advantage of. It was a common fallacy among rich countries to think that the poor nations had little bargaining power. That was a great mistake. The instruments of collective bargaining were not limited to oil, and the Third World was well aware of that. We had too long underestimated the Asians and black Africans, and it was time for us to take a more positive approach.

*

* *

III. OTHER CURRENT ISSUES BEARING ON EUROPEAN-AMERICAN RELATIONS

(During the half day devoted to other current international issues, the discussion occasionally overlapped the two formal agenda items. Remarks on those topics have been incorporated in the two preceding sections of this report.)

A. *Relations with the Communist Powers.* An Austrian participant began the discussion of this topic by reminding his American friends that the world power which stretched to the Amur had also extended its influence to the Danube, to the Austrian border and the Bavarian forests. Therefore any conflict in the Far East could not be viewed by Central Europeans as simply a conflict between two Communist powers.

We knew from our Cold War experience that it was the practice of the Soviet Union to attack wherever it could be effective, including Central Europe. The speaker therefore considered the attitude displayed by Chancellor Schmidt, President Giscard and President Carter concerning the Chinese invasion as very reasonable. The distrust within the Soviet Union — based on the inherent Soviet outlook, and probably intensified by the age of its present leadership — had been assuaged to a certain extent by the attitude displayed by Messrs. Schmidt, Giscard and Carter.

Occasionally one heard the opinion that any sort of commitment by the USSR in the Far East ought to be made use of to engage in some kind of policy of pressure to be exerted by the West on the Soviet Union. The speaker feared that such a policy would have negative consequences for détente.

It was for the experts to judge whether SALT II was desirable militarily. But it was important to remember that the policy of détente was the result of a state of equilibrium, and could continue only so long as that equilibrium was maintained. That was why it had to involve the U.S. as well as the USSR. But unilateral disarmament would be the most dangerous thing of all. SALT II was desirable from the point of view of détente, but it was likely that the restrictions on conventional armaments would be very much limited in the first stage.

The policy of détente would not succeed in the long run unless we had some partial success in disarmament, too. Détente had now entered into a phase which required concretization in the fields which had been agreed upon in the various "baskets". It had been said that a democracy was stabilized by keeping it on the move; one might say the same thing about détente. Unless it was kept moving, it would ossify and decay. It had now entered upon a crucial phase.

The Austrian experience provided an argument for détente. The capital of this Western-type democracy was only a few kilometers from the Iron Curtain. From it, each night, radio and television stations beamed a fascinating picture of a living democracy to hundreds of thousands of Czechs, Hungarians and Yugoslavs. Since the conclusion of the state treaty a quarter century ago, there had not been a single day on which the Austrians had feared for their independence and freedom. In that time, there had been the Hungarian uprising, in which Austria had given asylum to some 200,000 Hungarians, as well as the Czech uprising, when Austria had again provided political refuge. From time to time, the Soviet Union questioned whether something the Austrians were doing was consistent with the state treaty, but the Austrians had been able to take closer steps to the Western European groupings. (Austria, Switzerland and Sweden had decided against joining the EEC, but were carrying out their European associations in other ways.)

In the 25 years *before* the state treaty, Austria had faced two dictatorships (the German one and their own), a world economic crisis, empires that had broken apart — a great world revolution. The most recent quarter century had also brought changes, but most of them positive. The speaker was optimistic that the Western democracies could solve the problems which confronted them.

An American reported that the U.S. wanted satisfactory and useful relations with the USSR. But the American public's acceptance of the nation's policy toward the USSR could not be detached from its perception of Russia's policies. The U.S. was seeking, however imperfectly, to express in its foreign policy the support for human rights and democracy that were positive aspects of Western society. The fact that the American thrust in the human rights field was often tempered by considerations of strategy, security or trade was not unique to the U.S. There was a division on *both* sides of the Atlantic about détente. Some in the U.S. saw it in terms of total Soviet activity around the world. Others saw it in terms of specific bilateral Soviet-American issues.

An International speaker was worried about the danger of two détente policies emerging: one European, the other American. The U.S. might feel that SALT II was so complicated and controversial that it ought to be delayed, while Europeans might be pressured to accede to Russian proposals that they not do it in tandem with the U.S. (Europeans were already getting overtures from the Russians to the effect that the Americans were not to be depended on, and that détente was more important to Europe and the USSR than to the U.S.) Rejection or postponement of SALT II ratification by the Senate could produce a bifurcation of détente that would be dangerous to our common interests.

Another International participant warned that — if détente was only possible with a certain military equilibrium between East and West — that equilibrium was now being eroded to the advantage of the Soviet Union. Both this speaker and a Briton warned of the dangers of divergent Atlantic attitudes about détente. The continued existence of free independent states such as Austria depended on a continuing role by the U.S., not just in Europe but on the sea lanes over which the Europeans were supplied.

A British participant alluded to the erosion of the Vietnam treaties by the continuing rearmament of North Vietnam by the Soviet Union. Ought one to assume that the Russians would be relentlessly expansive? They had recently handed a terrible dilemma to the Chinese, who had had either to acquiesce in

Russia's domination of the governments of Southeast Asia or to give warning to North Vietnam to lay off its expansion. They had decided to give that warning by force. (It had been no coincidence that North Vietnam had moved when the Iranian government was falling.) Might the same sort of dilemma confront the West one day in, say, Saudi Arabia or another oil-producing country?

A Frenchman detected "a certain atmosphere of neutralism" in the West. We congratulated ourselves for not being involved directly in any conflict, and limited our efforts to lending our good offices to help solve problems. So the lives of our people were not being sacrificed, which was something to be thankful for — but détente was taking on so many different faces that it was hard to define it any more. The speaker was worried that the West was deluding itself and losing its sense of responsibility. We needed — under U.S. leadership — to define with more precision the real frontiers of our security.

A German speaker agreed that fearful consequences might result from the "mismanagement of détente" in Washington, such as the Senate's rejecting SALT II or attaching riders which forced the Administration to renegotiate it. For the Europeans, and especially the Germans, détente was not just a figure of speech but something that had yielded palpable results. They did not want to see those results jeopardized, especially at a moment when the Brezhnev era was drawing to a close and a momentary breakdown could grow into a long hiatus in East-West relations.

B. *"The German Question."* An Austrian speaker said that one thing which détente could not achieve was the reunification of Germany, or the overthrow of Communism. Those high-flung hopes could not be fulfilled without an entirely different set of processes. There was, of course, a "German question", but Austria was not involved in it. The question existed not only for the Germans, but for the Soviets as well. The speaker recalled a conversation he had had with a Soviet leader, who had remarked that Germany was divided into four parts: West Germany, East Germany, beyond the Oder-Neisse Line, and Austria. To the speaker's protestation that Austria had been part of Germany for only seven years under Hitler, the Russian had replied that an axiom of Soviet policy was to prevent a reunification of those four parts. As for Austria, the state treaty might be a sufficient guarantee for the Russians against another *Anchluss* (which they knew was opposed by the majority of Austrians anyway). But, the Soviet leader had said, for a large country (like Germany) a "piece of paper" was never enough to guarantee neutrality.

A German participant reported that a debate was going on in his country — somewhat artificial but nonetheless spirited — about this German question. If a solution was to be found to it, the Austrian experience had shown that it would have to be one which far transcended the old concept of the nation state.

The so-called "Wehner initiative" had nothing to do with the realities of German politics; it was the "outburst of an aging politician." The German people had made their choice under Adenauer to put freedom above unity and Europe above national identity. That basic choice had not been revised by any one. West Germans had found their military security within the alliance, where they were pulling their weight. They had found their economic security within the EEC and the other Western trade and monetary organizations. And they had found their emotional security in the ideal of European unity.

The basic point of the *Ostpolitik* of eight or nine years ago had been to put "the German question", if not to rest, at least away where it was no longer an integral part of operational policy. Most Germans probably still felt that unity was perhaps the natural destiny of the nation, but they also recognized that they had taken the wrong decision about their own self-determination a generation ago, for which there were inevitable consequences. The question of unity had therefore to be left to the tides of history, "which might run against us." If unity ever became possible in an environment in which the two halves of Europe grew together again, then in fact it might not be necessary. Most Germans viewed this matter in much less nationalistic or patriotic terms than Herr Wehner's vocabulary seemed to suggest.

Despite the reassuring tone of this speaker's remarks, other participants were uneasy about this new debate on the German question. A Norwegian said that it had caused disquiet in Scandinavia. Another German wondered if it heralded the separate détente which had been mentioned. And a widely-travelled International participant reported that he had recently been questioned intensively in both allied and non-allied countries about what the Germans were thinking. The mere fact that the question had come to the fore was what was making people nervous. But the speaker was personally convinced that Chancellor Schmidt's government was determined to remain in the Western alliance and not to "indulge in Utopian thoughts."

C. *The Austrian Example.* A Briton paid tribute to the courage and achievements of the Austrian political leaders just after the war, when their country had been divided and threatened by Communism. We had much to learn from the Austrians, he said, and we tended to underrate the contribution they had made, both in establishing the postwar coalition and then in maintaining an effective democracy just beyond the Iron Curtain, in spite of intense Soviet pressure. It was appropriate that this meeting was being held in a country which had made great contributions to democratic freedom.

D. *Transatlantic Moods and Attitudes.* A German participant found transatlantic relations today to be characterized by a "surprisingly high degree of tranquility." Europe and America had settled down to each other's strange ways, and a number of topics had disappeared from the front pages since the early days of the Carter Administration. The feeling in Europe was that the Americans — with SALT II for instance — were making a serious and sophisticated effort, compared with what had been seen before as a rather impetuous and crude effort.

Both America and Europe were in transition, and were unsure where they were headed. But the issues left between them were ones about which serious people anywhere might differ (e.g., the peaceful uses of nuclear energy).

An American described the transitional mood in his country. The scars and inhibitions of Vietnam were still there. In foreign policy, this was expressed by a suspicion of further involvement. Yet there was a growing realization that the nation could not be uninvolved. Americans were being pressed not only by the challenge of events, but by the activity of their adversaries. This mood had been illustrated by the applause of many in the Congress to President Carter's recent rapid response to what had been seen as the Soviet-backed challeng to North Yemen and Saudi Arabia. Yet some of the same legislators were now objecting to the President's having taken the waiver authority that had made that rapid response possible.

America was troubled by internal problems (inflation, resource allocation, the conflicts of public interest advocates), but despite the mood of debate on many of those issues, the country was as active in world affairs as it had ever been. Cooperation with Europe remained fundamental to U.S. policy. The addition of emphasis on Japan did not diminish the strong belief that the U.S. had a fundamental interest in the security and health of Europe. One no longer heard talk about the withdrawal of American troops. Seldom had there been a more dramatic example of transatlantic cooperation than in the Contact Group which has been seeking to resolve the Namibian problem.

In the Middle East, the only alternative seemed to be the hard, frustrating route of negotiation. One had to deal not only with the Arab nations, but with a "resolute, inward-looking, emotional and effusively democratic Israel". It was easy to talk about putting more pressure on one side or the other, but political realities were not so simple. The U.S. remained in contact with the key Arab leaders, who had made assurances that they would give the peace process a chance (although it had admittedly brought serious disarray to their world). The Carter Administration, it was claimed, had done more than its predecessors to acknowledge the role of the Palestinians. But no dialogue with the PLO would be acceptable to the American public without an unequivocal acceptance by the Palestinians of the existence of Israel and of UN Resolution 242 as the basis for a solution.

The tremendous responsibility of making this peace process succeed now lay mainly with the U.S., the speaker concluded, but America wanted Europe to share that responsibility. The energy crisis affected Europe as much as the U.S., and the Europeans had an equal interest in seeing the end of conflict in the Middle East. Those who were negotiating there, he said, felt a little like soldiers in the trenches. They "appreciated it when roses were tossed in, but they would prefer the ammo."

A Frenchman was shocked by the tone of these last comments. It sounded to him as if the American speaker had been appealing to Europeans for a commitment in the face of the Middle Eastern situation, as if he believed that the Europeans could possibly *not* be interested in the outcome of the negotiations there. The fact was that most European countries — and France in particular — were much more dependent on Middle Eastern oil than the U.S. and consequently felt much more implicated. If they criticized U.S. policy from time to time, it was certainly not as uninterested outsiders, but as people very much involved who were seeking a constructive solution.

An International speaker wondered whether the U.S., when it emerged from its transitional mood, would continue to belong to that community of common concerns. Or would it "become more like the rest of us" — emphasizing national interests — and leave Europe to adjust?

A Belgian participant detected in some of the American remarks the old but mistaken notion that a nation could be both powerful and widely beloved. The British during their imperial days had learned to give up that illusion. Why could not the Americans do so too?

There really was no feeling of *schadenfreude* about the U.S., he went on, but Europeans sometimes felt that all the U.S. wanted from them was applause, and exclamations of "hear! hear!," When Europeans behaved as equal partners, they were likely to be looked on as disturbers who were rocking the boat. Consultations were frequently contradictory. Europeans would be given a proposal in a first consultation and, before they had had time to react, the Americans changed policy and convoked a second consultation. This unfortunate habit was not without significance for our future strategic consultations; it would take on a sharp significance when negotiations for SALT III were launched.

In other areas, such as monetary and commercial affairs, the European-American consultation had improved since Secretary Kissinger's frank proposal for a division of labor in April 1973, under which the U.S. would take the lead on questions with global implications, while Europe's responsibilities would be primarily regional and local. There had been real progress in consultative procedures and the harmonization of points of view. Serious discord had been eliminated, and consultations had improved in frequency, breadth and cordiality — if not always in coherence.

A French participant recalled Raymond Aron's observation that Europe was becoming "a voyeur of history". If that was so, it was partly because the Europeans had been progressively assigned that role. They had been left out of a role in the Middle East since 1956. They needed to learn to become actors again, not voyeurs. This would require a change of reflexes, a re-education, which would take time. The French remembered that, when they had criticized the U.S. involvement in Vietnam 12 years ago, which seemed reasonable enough now, they had been accused of acting against American interests.

The tendency to look for a culprit behind every unfortunate event was condemned by an American participant. It had the effect of blocking constructive solutions, especially when blame could be assigned to the U.S. Unfortunate things just happened, often due to stupidity or misjudgment.

What had we learned from recent events? One thing was that, once the "unravelling process" had begun, there was little we could do about it, particularly because of domestic political constraints. The unravelling process was encouraged whenever the general atmosphere of confidence in the West declined. Another thing was that we should not indulge ourselves in the rhetoric of impotence, even if we believed that we had to prepare our peoples

for the policy failures to come. That sort of rhetoric tended to be self-fulfilling and encouraged the forces of instability.

* *

*

In closing the meeting, Lord Home gave thanks to all those whose help had assured the success of the conference: to the Austrian Federal Chancellor for his presence; the Austrian hosts, led by Mr. Treichl and Mr. Igler; the authors of the working papers; the secretariat and interpreters; and the hotel staff. An American spokesman for all the participants expressed their appreciation to Lord Home for having acted as Chairman of the meeting.