BILDERBERG
MEETINGS

BÜRGENSTOCK CONFERENCE

15 - 17 MAY 1981

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NOT FOR QUOTATION

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INTRODUCTION

The twenty-ninth Bilderberg Meeting was held at the Palace Hotel, Bürgenstock, Switzerland, on 15, 16 and 17 May 1981 under the chairmanship of Mr. Walter Scheel.

There were 98 participants, drawn from a variety of fields: government and politics, banking, industry, diplomacy, the armed services, journalism, trade unions, transport, education, and institutes specialized in national and international affairs. They came from 18 Western European countries, Canada, the United States, and various international organizations.

All participants spoke in a personal capacity, without in any way committing the organization or government to which they belonged. To allow participants to speak frankly, the discussions were confidential with no reporters being admitted.

At the opening of the meeting, the Chairman read the text of a telegram of good wishes which he had sent to the Swiss Federal Council. During the conference, the Council was the host at a gala dinner presided over by Mr. Kurt Furgler, President of the Swiss Confederation.

The agenda was a follows:

I. What Should Western Policy Be Toward the Soviet Union in the 1980's?

II. Obstacles to Effective Coordination of Western Policies

III. How Can the Western Economies Put Their House in Order?

In addition, one morning was devoted to a panel discussion of international economic issues and another to current events.

I. WHAT SHOULD WESTERN POLICY BE TOWARD THE SOVIET UNION IN THE 1980's?

* * * *

"Dealing with the Soviet Union in the 1980's"

Working Paper Prepared by the Hon. Malcolm Toon,
Former U.S. Ambassador to the USSR, Israel, Yugoslavia and Czechoslovakia

Parity on the strategic level between the U.S. and the Soviet Union has radically altered the strategic environment in which the Western Alliance must operate now and as far ahead as we can see.

For twenty years after the birth of NATO, the superior strategic power of the U.S. compensated for the Soviet Union's superior conventional strength on the European continent. This, however, is no longer the case. Today, strategic power cannot serve as a reliable shield for the defense of Western Europe; and thus some way must be devised for bringing about parity between NATO's regional forces and those under Soviet control on the European continent. Recognition of this, of course, lay behind the decision taken at the ministerial meeting in Brussels last December to strengthen NATO's theatre nuclear arsenal. It is also an essential backdrop to the wearisome negotiations on Mutual Balanced Force Reduction (MBFR), which have been a feature of the international scene for almost a decade.

Despite the problems that beset these courses of action—*inter alia,* Western public opinion, Brezhnev's chicanery, and our impatience for agreement—we must continue to pursue both tracks in an effort to narrow the dangerous gap between NATO's and the Warsaw Pact's capabilities, both nuclear and conventional. This is necessary for two fundamental reasons: the Soviet threat will not evaporate; and, despite the rhetoric of the 1980 electoral campaigns, it is highly doubtful that the U.S. will ever again be strategically superior to the Soviet Union.

While we should give top priority to this objective of coping with the weakened strategic umbrella and narrowing the gap on the European continent, there is another problem—also not envisaged at NATO's birth—that requires our most urgent attention. That problem is the Soviet global threat arising from several parallel developments: a growing and disturbing contempt for the West's will and ability to defend its vital interests; and the development of a significant global reach—with the formidable Soviet blue-water fleet, a strengthened and improved long-range nuclear arsenal, acquisition of bases and pliant allies on several continents, and the willingness to use Cuban and other proxy forces where they can effectively and safely advance Soviet aims. This is the more difficult of the two problems confronting NATO, for it forces us as NATO partners to lift our sights above and beyond the European continent, to revise our perception of the nature and geographic compass of long-range Soviet strategy, and to arrive at an alliance consensus on how we should deal with the threats to our vital interests beyond traditional NATO terrain posed by Soviet expansionism.

Since my return from Moscow in late 1979, I have given much thought to the nature of the Soviet challenge and how we should deal with it. While disclaiming any real expertise—since I feel strongly that only those who sit on the Politburo in Moscow can really fathom Soviet motivations or predict Soviet behavior—let me set forth some thoughts which apply primarily to the U.S.-Soviet equation but which may provide a useful input to the development of a NATO consensus.

First, I believe—in the words of the late President Kennedy voiced at the time of the Cuban missile crisis—that the Soviets do not wish us well. I have no doubt that the

Soviets would do us in if they thought they could with acceptable damage to themselves. This is simply because they regard the U.S. as the principal barrier to the achievement of their long-range political goal which, frankly, has not changed much since 1917. That goal is to recast the world in the Soviet image—not necessarily a totally Communist world, since even Moscow probably no longer regards this as a viable goal, but at least a world responsive to Moscow's will.

Second, I believe the Soviets regard detente not as a mechanism for cooperation and getting along with the capitalist world but as a device for hastening the achievement of their long-range aims. For them, detente is a device for lulling the free world into a false sense of security. It is a way of bringing about a degree of relaxation on their Western flank because of their concern about China and their desire to avoid hostility on two fronts. And it is a scheme for getting their clutches on Western technology to shore up and modernize their creaking economy and thus strengthen their military arsenal.

Third, I feel strongly that the Soviets will continue to seize opportunities in the Third World to extend their political influence and power even at the risk of jeopardizing detente and undermining stability and peace, at least on a regional basis. And once they have established a power center abroad, they will not retreat, as we have seen in Eastern Europe, in Africa, and now in Afghanistan. If the war between Baghdad and Teheran continues, the Soviets might find it convenient and safe to intervene. And they might also make major military moves in Poland if the workers persist in their demands—demands which by our standards are legitimate and defensible, but heretical and dangerous by theirs. If the Soviets believe the primacy of the Communist Party is threatened and their lines of communication with East Germany imperiled, they will directly intervene.

Finally, it is my strongly held view that despite the dangerously aggressive behavior of the Soviets abroad and the highly repressive treatment of their citizens at home, we cannot ignore them. We cannot refuse to deal with them—difficult and uncompromising as they may be. The nuclear world, in my view, is much too dangerous a place for such a negative attitude.

But the fundamental problem—which has bedevilled us since World War II and which now is of greater urgency as we face the increased threats to our vital interests engendered by Moscow's adventurism and reach—is how to deal with this brutal power without violating our fundamental principles and beliefs and, more important, without jeopardizing the security of the Western alliance. This is not an easy question, and none of us, even those of us who are acclaimed as Soviet experts, has a precise formula. But while we do not claim to be experts on Soviet motivations or behavior, those of us who have dealt with the Soviets—not just on an intellectual plane, but operationally in Moscow and over the negotiating table—have fixed on some parameters and guidelines which, if understood and heeded, could make it possible for us to engage in an effective and safe dialogue with the Soviet Union:

(1) We should have no illusions as to what the Soviets are up to, what their long-range political aims are, and what their basic attitude toward the NATO alliance is. That attitude, frankly, is one of implacable hostility.

(2) We should recognize that the Soviet view of the ideal world order, its concept of the proper relationship of man to state—its basic principles and values—is totally incompatible with everything we believe in and everything we stand for. This means that on most issues, either in negotiations or simply in diplomatic exchanges, we will find ourselves at opposite poles from the Soviet Union. And we will see the Soviets trying ruthlessly to take advantage of the handicaps that traditionally hamper Western negotiators, including the inexperience of our political appointees, their unabashed eagerness to curry favor with our adversary, our dedication to principle, and our passionate and impatient desire for agreement.

But we in the West should have enough confidence in ourselves to carry on a dialogue with the Soviets. We should have the courage and the wisdom to forego reasonable solutions to the issues that divide us and, if they remain unsolved, will surely undermine world peace and stability. But our proposed solutions to these problems—if they are to be viable subjects for negotiation—must be seen by the Soviets as not being to their disadvantage.

It is vital that we recognize that we cannot negotiate a position of superiority over the Soviets. And let me say that for our nation's safety and well-being I would hope that President Reagan and the people around him who are concerned with foreign and national security policy understand this clearly. We can negotiate only a position of equality. This particularly applies, of course, to our appraoch to SALT. Those who now recommend that we return to the negotiating table, work out a new SALT Treaty clearly to our advantage, and then ram it down the Soviets' throats simply do not understand the Soviet Union. I cannot conceive of any circumstances in which a rational Soviet leader would accept any agreement heavily weighted in our favor and against their interests.

(3) We should bear in mind that the Soviets pay little attention to what we say. They pay attention to and heed only what we do. That is why we must have adequate and properly deployed military strength as an essential underpinning for our foreign policies and doctrines. This applies with particular force to the Gulf Region. I am encouraged to note from statements by the people around Mr. Reagan that the present administration has a clear understanding of this fundamental point—that a foreign policy without assured popular support and without the military underpinning to make it credible is worse than useless. It is downright dangerous.

(4) We should avoid bluff or idle threats in dealing with the Soviets. This simply will not work with the Soviet Union, as we know from our humiliating experience in the fall of 1979 over the issue of the Soviet combat brigade in Cuba.

(5) We should studiously avoid joining with the Soviets in making statements or agreements based on broad principles and pious expressions of purpose. Not only do these mean different things to different people, but—given the way we operate—they bind us to promises. Considering *their* cynical attitude toward promises, the Soviets have ignored them and will continue to do so when they feel it is in their interest, while accusing us of welching on our obligations, whether or not this is the case. Any agreements that we conclude with the Soviet Union should be specific, self-enforcing, and verifiable.

Now, finally, a few words on alliance behavior, which, as we all know, has on occasion permitted the Soviets to drive wedges among its members and thus to inch toward achievement of its political aims in Europe. Each of us must constantly be aware of the vital concerns of others in the alliance, and in negotiations with adversaries, an alliance member should never reflect a willingness to abandon its allies just to reach bilateral agreement with the Soviets. We should bury the suspicions, the recriminations, the readiness to indict others for ulterior motives that have weakened the alliance structure in the past and, in the process, have advanced Soviet aims.

In addition, we must arrive at a consensus on the alliance's vital interests—and frankly, these go far beyond the views of the founding fathers of NATO—making clear to the Soviets that any encroachment on those interests will trigger a unified alliance response. For we cannot expect to succeed in convincing the Soviet Union of the need for restraint if we fail to respond firmly to Soviet challenges. Such a posture is an essential ingredient to an effective and safe dialogue with the Soviet Union, without which we cannot hope to preserve stability and peace in the world.

* * *

"Russia and the West in the Eighties"

Working Paper Prepared by the Rt. Hon. Denis W. Healey, M.P.

(1) *Changes in the Soviet Bloc.* Some time in this decade there will be a change of leadership in the Soviet Union. The new leaders may be only a year or two younger than Brezhnev and his team, or they may be ten or even twenty years younger. Unfortunately we know little about the views even of Brezhnev's contemporaries like Kirilenko, and almost nothing about the leading personalities in younger generations. Some experts think they can detect three groups—the neo-Stalinists, the technocrats, and the "little Russians"—though they find difficulties in fitting names to these groups. It may be that the younger the new leaders, the more conscious they will be of their responsibilities for safeguarding their inheritance against external threats, and the more concerned to modernize the decaying economic and political structure of the Soviet Union; this is a common view in Eastern Europe. But we simply do not know. When the change takes place the West will be wise to seek to get to know the new leaders as soon as possible.

Even Brezhnev has admitted that Russia's recent economic performance has been disappointing. Agriculture is still a disaster area, and industrial growth has been as poor as in the countries of OECD. There are signs that Russia may be short of energy in this decade. But it is as difficult as ever to decide whether the West has an interest in easing Russia's economic problems by supplying new technologies and helping to develop Russia's oil resources, and whether various forms of economic sanction will simply lead Russia to become less dependent on the West and more liable to use military means for obtaining oil from the Gulf. Experience of the so-called grain embargo suggests that unless sanctions are loyally applied by all potential suppliers, they may do more damage to Western unity than to the Soviet economy.

However the Russians ultimately react to current events in Poland, Russia's political control of Eastern Europe is likely to become increasingly precarious, and her ideological influence on Communist parties outside the bloc vestigial. Khrushchev's ex cathedra denunciation of the doctrine of Kremlin infallibility has dissolved the cement of international Communism for good.

(2) *Europe and the Strategic Balance.* Ever since Russia obtained the possibility of inflicting intolerable nuclear destruction on the U.S. a quarter of a century ago, Europe has been unable to rely absolutely on American nuclear retaliation in case of a conventional attack by Russia—as Secretary Herter pointed out in 1960. The security of Western Europe has always depended, not on the certainty of American retaliation, but on its probability if Russia launched a major invasion in which thousands of American troops were killed. The function of NATO's conventional forces is to ensure that they can defend Western Europe against anything but a major invasion, as they have long been able to do.

Unfortunately, although it may take only a five per cent probability of nuclear retaliation to deter an aggressor, it takes more like 95 per cent probability to reassure an ally, while from time to time America would like to reduce the need for retaliation to one per cent or less. The strategic argument inside NATO has largely revolved round these transatlantic differences of psychology within the alliance. But Russia has never indicated the slightest readiness to test America's resolve in Western Europe, despite the fantasies of strategic theorists. I remember, for example, Mr. Paul Nitze's conviction that the Russians had confected the second Berlin crisis in 1958 in order to inflict a demonstrative defeat on NATO with conventional weapons, after which the alliance would disintegrate. In fact they were much more careful to avoid a military confrontation than in the Berlin blockade a decade earlier, when they had practically no strategic

nuclear forces at all. The stability of the strategic nuclear balance has proved insensitive to large variations in the relative striking power of the two world powers.

At present, as the International Institute of Strategic Studies has estimated in "The Strategic Balance in 1980," the Warsaw Pact has superiority in Europe by some measures and NATO by others, but the overall balance is still such as to make military aggression appear unattractive; if Poseidon is included, the Warsaw Pact overall advantage in arriving nuclear warheads is about one and a half to one. But the growing Soviet improvement in the quality of its forces and equipment, and the accelerating deployment of SS-20 missiles, will give Russia a significant edge in some fields by 1983. Even this advantage is unlikely to shake dangerously the stability of European balance. But NATO is bound to try to restore a situation of parity. The question is whether this will lead Russia into accelerating the arms race further, or into meaningful arms negotiations. The latter seems more likely if NATO is willing.

(3) *Russia and the West Outside Europe.* While, thanks to NATO, Europe has enjoyed over 30 years of uninterrupted peace, six million people have been killed in 35 wars outside Europe, and many more have lost their homes. The main cause of these wars has been the instability of the post-imperial settlements, which left a myriad of national and tribal conflicts unresolved. Russia initially played little or no role in the great majority of these wars, although she took advantage of some, and assumed a large part in Korea and Vietnam once the U.S. was involved. But she has derived no lasting gain from most of her interventions in the Third World. The only dominoes which fell after America's defeat in Vietnam were Communist dominoes. It is difficult to see her making lasting gains in Afghanistan which are commensurate with her political and military losses there.

Nevertheless Russia has substantially increased her capacity for military intervention outside Europe, initially perhaps because her humiliation in the Cuban missile crisis gave Admiral Gorshkov the chance of lifting Khushchev's ban on building up the Red Navy. It is obviously desirable for the West to maintain a comparable intervention capability. The main problem is to decide when its use would do more good than harm. In most of the situations which might threaten Western interests, in the Middle East in particular, Western military intervention would be either impossible or counter-productive. Indeed even to talk of it has damaged Western influence in the Gulf.

There is a strong case for warning Russia off any military adventures in the Gulf, as President Carter did. But that warning derives little additional credibility from the noisy publicity given to a Rapid Deployment Force which is to be based on Diego Garcia, 4,000 miles away from Kuwait, and which would take up to eight years to become fully operational. The biggest single threat to world peace in the Middle East would be the disintegration of Iran as a state, leading to intervention by all the surrounding countries. Such a situation would require agreement between Russia and the U.S. on how to regulate their competition there. But when Mr. Brzezinski casually suggested such a condominium he sowed a suspicion of America's intentions in other parts of the Gulf which it will take more than a decade to remove.

The main problem which must be overcome before the European governments will seriously consider contributing to a Western intervention force beyond the Atlantic-Mediterranean is the yawning gap which separates their belief that local or regional factors are the root cause of instability in the Third World, from the apparent conviction of the present American Administration that the root cause is Soviet intervention. Thus Europe sees a solution of the Palestine problem involving the participation of the PLO as a precondition of better relations between the West and the Arab world, and a solution of the Namibian problem along the lines previously agreed with the front-line states as a precondition of better relations with black Africa as a whole.

Similarly, the initial handling of El Salvador by the new U.S. Administration seemed to Europe symptomatic of a dangerous misunderstanding by Washington not just of Central America, but of the Third World in general, a misunderstanding underlined by savage cuts in American development aid. In gingerly associating himself with Mr. Carlucci's demand in Munich for European military cooperation in the Third World, the British Under-Secretary for the RAF felt it necessary to warn: "Western countries must avoid falling into the trap which the Russians have fallen into of reviving imperialist attitudes and practices in their relations towards the developing world."

(4) *Can the West Cooperate with Russia?* Detente has always been an inadequate word for the sort of cooperation which Western governments have sought with Russia in areas where they believed a mutual interest existed even though political hostility remained. By directing attention to what is sometimes the psychological consequence of cooperation, or even of the search for it—i.e., a relaxation of tension—detente is too easily derided as a means by which Russia may take the West off guard. Yet in the Second World War the existence of a common enemy produced five year's cooperation between America and the Soviet Union to the advantage of both. Are there any common interests which would justify the search for cooperation now? Of course there are—above all the risks and costs of continuing an arms race which neither side can win. There is also an obvious common interest in regulating the political competition between the two alliances so as to minimize the risk that through misunderstanding it may lead to a military conflict which neither side wants.

The European countries sometimes have an unappealing ambivalence on these issues, born of the fear that cooperation between America and Russia might be at their expense. Memories of Yalta die hard even West of the Iron Curtain. But there is reason in the widespread popular feeling in Europe that NATO's attempt to improve its military position relative to the Warsaw Pact will make sense only as the basis for a renewed attempt to control the arms race. Mr. Weinberger's argument that detente was the cause of Russia's increased arms spending in the seventies finds little echo in Europe. President Reagan's formal rejection of SALT II in its present form, and the long delay in developing an American negotiating position for talks on theatre nuclear weapons, could compel the European governments to abandon current plans for deploying Cruise missiles and Pershing 2's. If NATO is not seen also as an instrument of detente, it could cease to be an effective instrument of defense.

European countries have derived much greater benefits from trade with Russia and the Helsinki Agreements than has the U.S. Germany in particular has until the Polish crisis enjoyed human advantages from increased freedom to visit Eastern Europe, and greater freedom to emigrate from Eastern Europe, which any democratic alliance should value highly. The case to seek cooperation from Russia in the pursuit of common interests is compelling.

None of this is to imply that the West should assume that Russia will always enter negotiations with the desire to reach a fair agreement, or that it should expect negotiations to be swift or easy. But there are many signs that Russia is worried, even frightened, by the unresolved conflict between pragmatists and ideologues in Washington, and looks back on the days of the last Republican Administration as a golden age which she desperately hopes will come again.

If the West could now show some of the vision—and vigilance—of those days it might be possible to re-establish a healthier relationship while the veterans Brezhnev, Gromyko and Ustinov are still in power. To have begun such a relationship could prove of inestimable value when the change of leadership in the Kremlin finally takes place.

* * *

"The Soviet Union and East Europe: Their Problems, Contradictions and Perspectives"

Working Paper Prepared by Professor Wolfgang Leonhard,
Professor, Yale University

Soviet Party Congresses, which take place only once every five years, represent key events in Kremlin policy. They are the forum in which new guidelines are announced and potential successors presented. However, the keenly anticipated 26th Party Conference in February 1981 did not provide any answers to those questions, which are now acquiring ever greater urgency. The Party Congress did not generate any new guidelines either on economic reforms, nationality policies, social affairs, culture or ideology. Moreover, the problem of naming successors to the present leaders remained unresolved. No changes were announced among the current leaders.

(1) *The Internal Problems and Contradictions of the Present Soviet System.* In terms of domestic policy, the Soviet Union of today is marked by the striking incongruity between the outdated, hierarchically graded and dictatorially bureaucratic system on the one hand, and the fresh needs, social forces and objectives of an emerging industrial society on the other. The existing structures of bureaucratic and centralist domination serve to thwart economic, technological and cultural advancement and reveal themselves more and more as a hindrance and obstruction. The urgently necessary reforms have been recognized and elaborated, but their implementation has been prevented by the bureaucrats and their powerful apparatus out of fear that they might lose their power of control and their privileges. The decisive problems faced by the Soviet Union in domestic policy are as follows:

— The completely inefficient *kolkhoz* system in agriculture is incapable of safeguarding the *supply of food to the population.* On repeated occasions in recent years, millions of tons of cereals have had to be imported from abroad and, in particular, from the U.S. Following the appalling crop failure of 1980, the harvest for 1981 shows every sign of being a bad one, too. The food-supply situation is more difficult than ever. Even the cities suffer shortages of the major foodstuffs and people have to stand in never-ending queues in front of virtually empty shops.

— The gap between the economic objectives announced in the Party Program of October 1961 and the given realities is becoming wider and wider. The present state of the *Soviet economy* is characterized by a lack of economic incentives, the shackling of the ecomony by an overpowerful bureaucracy, the forced pace of development in heavy industry and arms production at the expense of light industry and consumer goods, and the hindrance of technological innovatoin by small-minded bureaucratic interference. Even though 36 years have passed since the end of the War, the outcome of all this is a prevailing lack of consumer goods—a phenomenon which has led to dissatisfaction in wide circles of the population.

— The *russification policy* pursued by the Brezhnev regime in a State whose population includes nearly 49 per cent non-Russian nationalities is encountering more and more resistance. The insistence on the teaching of Russian (even in kindergartens), the emphasis placed upon an allegedly "uniform Soviet nation" under clear-cut Russian domination, and the appointment of Russians to key positions in the non-Russian Republics of the Union have engendered a mounting degree of opposition from the non-Russian nationalities. The opposition to russification is particularly strong in the Ukraine, in Protestant Estonia, in Catholic Lithuania, in Georgia and Armenia, and to a growing extent in the five Islamic central Asiatic republics of the Union.

— In the *social sphere,* the problems surrounding the supply of food and the increasingly flaunted privileges of the functionaries are producing a mounting tide of

discontent. The existing level of social inequity and the wide differentials in wages and salaries are no longer simply accepted without further ado. The increasingly self-assured Soviet workers can no longer be treated like spineless subordinates. They are now giving more explicit expression to their demands by strikes and frequent attempts to found free independent trade unions—moves which are met by arresting the initiators. There is every likelihood that industrial workers will gain greater influence in Soviet society in future.

— The *ideological influence* of the official state doctrine, Marxism-Leninism, has declined drastically during the last two decades. Whereas millions of people believed in this doctrine in the thirties and forties, proved willing to accept sufferings and privations in its name, and saw in Marxism-Leninism a source of inspiration and an instrument for standardizing the regime, this stance is now a thing of the past. The decline in ideological influence since Khrushchev's overthrow in October 1964 in particular has been so drastic that one is now forced to speak of an ideological and psychological vacuum in Soviet society. This finds expression in the growing resignation (inter alia in a dangerous increase in alcoholism, too) as well as in the search for ideological and philosophical alternatives: Christianity, national traditions, ideological-political alternatives for reform movements including liberalism and democratic socialism.

— Although the gigantic *machinery* of the bureaucratic and dictatorial system is still very powerful, it is by no means as efficient and as energetic as it used to be. Within the apparatus, there has been a spread of cynicism, corruption, nepotism, egoism and careerism which has assumed dangerous proportions for the leadership.

The above-mentioned inconsistencies and problems in the internal political system of the USSR thus impinge upon the most varied spheres: trade and industry, farming and food supplies, technological innovations, relations between the nationalities, loss of ideological impetus, growing social differences and the degeneration of the regime. Under these circumstances, it is certainly not exaggerated to speak of a *crisis in Soviet Communism.*

At the same time, one should not underestimate or deny the many economic, social, political and—in part—national contradictions in Western democratic systems. Nevertheless, it is clear that the problems of the Soviet Union are much more difficult, serious and profound. In addition, there is no mechanism in the USSR for enforcing the requisite solutions. As a rule, there is not even any possibility of openly discussing the evident problems and contradictions.

(2) *The Soviet Union and the East European States.* The problems, inconsistencies and contrasts listed above for the Soviet Union also apply to the countries in the East European bloc as these are controlled by the same system (apart from a few unimportant details) and are therefore confronted by the same consequences. The following points should also be borne in mind in regard to the East European countries, albeit on a varying scale:

— Internal contradictions and differences are felt more keenly in most East European nations because the system was forced upon them from outside and because it discharges its functions with the support of the Soviet leadership. It is therefore deemed to be an alien domination. The quest for internal reforms in the countries of Eastern Europe is in most cases inseparably linked with the demand for autonomy and nondependence. As a rule, the national aspect in the countries of East Europe is stronger than among the non-Russian nationalities vis-à-vis the "ruling Russian people" in the USSR.

— The traditions of the East European countries, which differ from those in Russia, continue to exercise a strong influence. Some East European countries are noted for their tradition of a multiparty system. In others (notably Poland, but also Hungary to

certain extent), there is no denying the great influence exercised by the Catholic Church. To this must be added liberal and social democratic traditions. All these factors strengthen the aspirations to pluralism and the yearning for reform.

— Finally, there prevails in wide sections of the population in East European states the feeling of belonging to Europe. The firm relations and links with West Europe are by no means only of significance in the economic sphere, but also in cultural and political affairs. This also exercises an influence in linking democratic reforms with national independence.

These special features have already found expression in three major attempts to overcome bureaucratic dictatorship and to bring about a democratization of the system with a greater measure of independence: the Hungarian Revolution (October-November 1956); the Prague Spring in Czechoslovakia (January-August 1968); and, since July 1980, the renewal movement (Odnowa) in Poland. However different the manifestations and the methods of combat or the influence waged by the various trends and socio-political forces in these movements, certain common fundamentals ought not to be overlooked or denied.

(3) *The Latest Developments in Poland.* The causes of the Polish renewal movement since the summer of 1980 are to be found in the economic and the socio-political sphere. In economic terms, the crisis was brought about by: the unilateral investment in heavy industry, above all in huge prestige building projects which yielded few benefits for the economy; the neglect of farming and consumer goods production; and the over-hasty recourse to immense Western loans, whose redemption and interest service ruin the balance of payments.

In the socio-political sphere, the factors behind the crisis lay above all in: the luxurious life-style of the prvileged functionaries and the gigantic scale of corruption; the crisis of confidence among the population in regard to the Party and the government; the discrediting of the state trade unions; and the discrepancy between the soothing success stories offered in the press and the realities of everyday life in Poland.

The interaction between economic, political and social factors explains why the sporadic local strikes, confined to current issues, rapidly grew into a powerful mass movement expressing a long list of desired reforms covering all the important spheres of life. The 21-point program drawn up by the strikers in Danzig—the decisive program of the whole Polish renewal movement—not only refers to current economic-social issues but also puts forward the demand for political reforms: the introduction of free, self-administering trade unions; the release of political prisoners; the ending of censorship; access to the mass media for the views of all ideological movements; and the ending of privileges for functionaries in the state security service and party machine.

The Polish renewal movement spearheaded by the new independent trade unions known as Solidarity (which soon united 10 million out of a total of 13 million workers) is noted for the following features:

a. *Militancy and resolution.* This was demonstrated by Solidarity's refusal to believe empty promises and by its recourse to further combat measures in reply to all the regime's attempts to undermine the realization of their demands by dint of tricks and maneuvers.

b. *Realism.* Everything that might have generated complications in foreign policy was waived. Poland's membership of the Warsaw Pact was never queried; the basic Socialist system was recognized; and no mention was made of the Soviet Union.

c. *Self-discipline.* This may be seen in the absence of any clashes with the police (apart from the Bydgosz incident instigated by the police themselves), riots or outrages, attacks or looting. No alcohol was consumed on the premises of plants where strikes were taking place.

d. *A mass movement.* Although industrial workers are the driving force behind Solidarity, this movement embraces the whole population and enjoys the support of the farmers, the intellectuals and the youth of the country. This mass movement is influenced by the representatives of the most widely differing ideologies. Although the Catholic Church plays a decisive role, there is no denying the presence of social-democratic and liberal currents of thought.

Under the pressure of a genuine mass movement among the population providing a wide measure of support for the independent trade unions "Solidarity", wide-ranging changes took place in Poland between the summer of 1980 and May of 1981—changes which no one, either in the East bloc or in the West, would have deemed possible only a year ago. These changes were as follows:

— The Polish Communist leaders had to stop issuing orders from above and, instead, to take into consideration the moods and demands of the population.

— Hundreds of discredited functionaries—including Gierek himself in early September 1980—were replaced.

— The independent trade unions "Solidarity" not only achieved legal recognition, but also became an important negotiating partner for the Party and government leaders with negotations (at least hitherto) usually resulting in a compromise between these two forces.

— Instead of the one-sided presentation of propagandist success stories in the mass media, the population were increasingly informed about the real situation existing in the country.

— The Polish Parliament witnessed serious, critical and frank debates for the very first time.

— The Catholic Church not only won access to the mass media, but also gained more and more recognition from the Party and government leaders as an equal partner, sometimes even being directly wooed.

— In addition to industrial workers, other sections of the population (including farmers, intellectuals and youth) began to organize themselves as self-reliant and independent forces. In the long run, it will probably prove impossible to withhold offical recognition from an independent farmers' union or association.

— Clear-cut differences have emerged within the ruling State Party, the Polish United Workers Party (with a membership of three million). Today, about one million members support the independent trade unions "Solidarity" and take part in their campaigns. There is a growing demand among Party members for democratizing the structure of the Party. This current of opinion became so strong that the Party leaders decided to postpone the Party Conference. Despite the relatively major successes achieved in Poland, it is a striking fact that this powerful movement has largely remained confined to that country even though the contradictions of the system and the quest for reforms and non-dependence are without doubt latently present in the other East European countries, too.

— The confinement of this phenomenon to Poland is primarily due to the success of Communist Party leaders—particularly in the German Democratic Republic and Czechoslovakia—in cleverly exploiting national prejudices, presenting one-sided accounts of events, voicing threats and intimidations, and (following the renewed jamming of Western radio stations since October 1980) drastically curtailing the dissemination of true information and thus preventing a spread of the Polish renewal to the other East bloc states.

(4) *Moscow and Poland: Military Intervention or "Cold Strangulation"?* The final word on Polish renewal has not yet been spoken. Hopefully, the achievements to date will be preserved, developed and strengthened. This would produce a pluralism, though restricted in nature, in Poland. The old distrust would dwindle while resignation would give way to fresh confidence. New hope would be awakened and fresh inititatives created so as to lay the foundation stone for a gradual economic recovery in the country. However, these hopes are limited by two dangers from the Eastern bloc designed, albeit with different means, to terminate and reverse the Polish process of democratization.

a. *The danger of military intervention.* The suspicion has often been expressed that the leaders of the Soviet Union and a number of East bloc states are planning a military intervention similar to the one in Czechoslovakia in August 1968. Although the massing of troops came to an end in December 1980, the Soviet leaders have hitherto waived the possibility of a direct military intervention in Poland, because the risk apparently seemed too great.

Unlike the situation in Czechoslovakia in August 1968, a military invasion of Poland by Soviet troops would meet with stiff resistance from the entire Polish population, and would also have to reckon with the possibility that large sections or perhaps even the bulk of the Polish armed forces might join the population in opposing the intervention.

A military intervention in Poland in the spring of 1981 would take place at a much more unfavorable juncture in international affairs for the Soviet government than was the case with the occupation of Czechoslovakia in August 1968. The leaders in the Kremlin would have to face not only the most violent reactions in the U.S. and East Europe, but also the discontinuance of (or at least a drastic cut in) trade relations with the West, which are so essential for the Soviet leadership. These relations also embrace the deliveries of grain and the transfer of technology, on which the Soviet Union has to rely more than ever because of the difficult economic and technological situation. In these circumstances although the danger of a direct Soviet military intervention cannot be fully ruled out, it probably does not constitute at present the main danger to the Polish renewal.

b. *The process of "cold strangulation".* In my opinion, the main danger to the Polish renewal lies in a process which may be designated as "cold strangulation". The strategy pursued by the Soviet leaders (and the governments in Prague and East Berlin) rests on the hope that the Polish people's will to fight will gradually decline—above all because of the increasing supply difficulties. The process of "cold strangulation" would take place as follows:

— The massing of troops, which already ended in December 1980, was intended to strengthen the position of the bureaucratic-dictatorial forces. The Party and government functionaries thus gain an opportunity to intimidate the population and to retard the attempts at democratization by constant references to a possible Soviet intervention.

— Provocations (such as false reports, the dissemination of leaflets in German by the alleged former owners of large country estates, etc.) help to bring about situations in which the Polish state security forces could be called upon to take rigorous action.

— Unsettling and intimidating the Polish population by means of a political and psychological war of nerves.

— Sowing discord among the various lines of approach within the renewal movement, keeping the more moderate forces in check by means of promises and isolating the sytematic fighters for "renewal" by virtue of threats and slanders depicting them as "irresponsible."

— As soon as the situation has calmed down and a favorable point in time has been reached for the Kremlin, the Polish dictatorial forces (including above all the security services) will be ordered to eliminate the most active members of the renewal movement by means of mass arrests and to intimidate the population more than ever.

With the help of this "cold strangulation," the leaders in the USSR, Czechoslovakia and the GDR intend to put on the screw, cautiously but systematically, with the aim of halting and reversing the incipient democratization process and restoring the bureau-

cratic, centralist dictatorship. East bloc leaders will only indulge in a military intervention—following careful consideration of the pros and cons—if the strategy of "cold strangulation" does not yield the hoped-for results.

The struggle between reformers and dictatorial forces in Poland has not yet been decided. The outcome of this struggle will hinge not only on the pattern of forces in Poland itself, but also on future developments in the Soviet Union with the problems of Brezhnev's successor playing an important role.

(5) *The Successors in the Kremlin and the Perspectives of Soviet Developments.* The change of power now imminent in the Kremlin will take place amid conditions which are extremely unfavorable for the Soviet leaders: a downturn in the economy, great difficulties in maintaining supplies, increasing disputes between the various nationalities in the Soviet Union, the decline in ideological influence, the growth in social tension and manifestations of degeneration in the regime itself. Furthermore, the developments in Poland might also cause the Kremlin further difficulties in its East bloc policy. The *current problems of a succession in the Kremlin* are marked by the following characteristics:

— *No institutional arrangements* exist for a change of power in the Politburo. Neither the Soviet Constitution nor (and this is more important) the statutes of the Communist Party of the Soviet Union define the function of the Politburo and its members. There are no binding provisions on a Politburo member's tenure of office or on the crucial questions as to when, where, how, by whom and in what manner the top men in the Kremlin are to be replaced by younger members.

— The average age of the *Kremlin leaders* was never as high as it is today. (The 14 members of the Politburo have an average age of nearly 70.) The four principal leaders at present are between 74 and 78 years old! Secretary-General *Brezhnev* is 74; Michael *Suslov,* No. 2 among the Kremlin leaders, chief ideologist and Brezhnev's deputy in the Politburo, is 78; the new, recently appointed Prime Minister Nicolay *Tichonov* will be 76 in May; and Andrei *Kirilenko*, responsible in the Politburo for decisive issues of Soviet internal policy (including Party questions and heavy industry) is 74. Hence, it is not simply a question—as is sometimes supposed—of finding a successor to Brezhnev, but of replacing the *four top leaders* in the Kremlin. This situation has hitherto never occurred in the history of Soviet Communism.

— Even though the situation has long since been acute, the present leaders have failed to take timely steps to "build up" strong successors, to demonstrate their position to the Party and to the people as future leaders, and to draw the attention of Party functionaries and members as well as of the general population in good time to the changes in leadership.

— Finally, the 26th Party Congress itself (held at the end of February 1981) did not appoint any younger members nor did it refer to the problems of succession. All 14 members of the Politburo, the eight Politburo candidates and the 10 members of the Central Committee Secretariat (of whom five are simultaneously members of the Politburo) were reaffirmed in their previous positions. As the next (i.e., the 27th) Party Congress does not take place until the spring of 1986 according to the statutes, the *change of power in the Kremlin will probably have to take place between two conferences* and this is likely to enhance the uncertainty.

In these circumstances, we shall probably face a fairly long period of succession before a new post-Brezhnev leadership acquires sufficient authority to take control of the country's destiny. Under the conditions prevailing during a long period of succession, *various trends and groupings with different objectives* could emerge. Special mention may be made of three movements in particular:

a. *The hawks and neo-Stalinists,* who are dominated by the exclusive wish to maintain and strengthen their own power. In their view, detente policy has not helped to

make up the leeway in technology nor rendered it possible to develop West Siberia as desired. In economic terms, it produced a mountain of debts and in political terms—at least indirectly—it allowed the events in Poland to take place. Hence, the time has come to replace this policy by a drastically intensified course of action. In domestic policy, the neo-Stalinists advocate an unrestricted rehabilitation of Stalin, vigilance campaigns and purges, rigid controls in the economy, a tightening of working discipline and, if necessary, even an expansion of forced labor. They advocate vigorous measures (possibly including military means) to strengthen the unity of the Soviet bloc. In foreign policy, they favor a sharpening of demarcation, a clear image of the "enemy," and a more offensive policy towards the West. Although there is no denying the danger of a neo-Stalinist setback, there is much to indicate that these forces will not determine Soviet policy in the long run. Neither the mounting economic problems nor the increasing social and national tensions can be overcome by neo-Stalinist methods.

b. It could thus happen, especially in the course of a fairly long period of succession, that the *"economic modernizers"* will prevail. They emphasize not only power-political interests but also economic necessities. In their opinion, the catastrophic economic situation—notably the difficulties of supplies and the lagging behind in modern technology—can only be overcome by a departure from the outmoded centralist planning system and a series of controlled and limited economic reforms. They advocate the delegating of responsibility, the strengthening of individual initiative and greater material inducements as well as a relaxing of the *kolkhoz* system in order to overcome economic backwardness. The strengthening of consumer goods production is designed to bring about a gradual increase in living standards. The "modernizers" also favor an elastic, modern and more flexible policy so as to defuse internal political disputes—including, above all, nationality policy and the problems of the social sector.

In the field of foreign policy, the "modernizers" support a return to—or even a deepening of—detente policy and an expansion of East-West relations. In their view, Western computers are more important than Afghanistan mountain tribes. They believe that an expansion of East-West relations is indispensable for the Soviet Union if the economy is to recover and the leeway to be overcome. The political price for this is one which can be afforded.

c. *The "Russian nationalists"* advocate a changeover from the past and present Party dictatorship to an authoritarian Russian nation state based on old traditions. Under the heading of "homeland, tradition, people and nation," they advocate a concentration of effort on the traditional pillars of power—the state and the army and a simultaneous reduction in the size of the Party machinery. Nor should the possibility of an approach towards the Orthodox Church with far-ranging concessions to Christianity be excluded. There is reason to believe that a hard line (with a different kind of justification) will be taken in cultural policy and against the reform-conscious intelligentsia. The nationalists reject both the modernization reforms on the one hand and a rehabilitation of Stalin and ideological vigilance campaigns on the other.

In foreign policy, they are in favor of retreating from the international scene, abandoning Soviet commitments in Africa, Asia and Latin America and curbing the Communist world movement, which is becoming more and more difficult to control. The present global foreign policy should be replaced by a continental policy in the traditional Russian spheres of influence, i.e., including predominance in East Europe, albeit with other means and arguments.

Although the influence of this movement should not be underestimated, it seems to be weakened by the resistance of decisive elements in the Party apparatus and by the inevitable aggravation of the nationality problems which would ensue from an unrestricted Russian national policy.

A long succession period might well be marked by the struggle between the above-mentioned three forces. It is also conceivable that there will be transitional stages and mixed forms or even coalitions. If the succession is relatively stable, this would take place behind the scenes. If it assumes sharper forms, the struggles might evolve on an increasing scale in public.

During the succession period, one would have to reckon with a strong and perhaps even increasing influence of the Soviet armed forces. The army leadership, at present represented in the Politburo by the 72-year-old Minister of Defense Ustinov, will hardly make any direct demand in regard to the total assumption of power. The officers and the army leaders are keen to strengthen their decreased influence, but not to take over complete power—which would include the burden of responsibility for all economic, national and social problems.

In the period of succession, the army leaders would probably act as conservative and authoritarian forces and warn against any "experiments." They would therefore check the neo-Stalinists if they "were going too far" in their opinion (especially by a public rehabilitation of Stalin) and also curb the "economic modernizers" if they felt that the reforms were exceeding a certain level and might introduce a liberalization of the system. In these circumstance, the army leaders do not make any direct claim to an assumption of power during the period of succession. However, they will play an important role as "king-makers" behind the scenes and as a powerful factor influencing the line of policy to be adopted (perhaps even as an "umpire" between the three above-mentioned movements).

Irrespective of the pattern which the period of succession assumes, i.e., whether the leadership succeeds in implementing this with a certain degree of stability or whether open disputes break out, there is much to indicate that both the population of the Soviet Union and the East bloc states as well as the West will have to face the probability of a struggle between the various movements and theories. In domestic policy, the struggle will probably revolve around economic reforms, the distribution of investments, a strengthening or weakening of russification, the decision about a stronger neo-Stalinist line, a Russian authoritarian change or a more flexible and modern economy-oriented policy. In foreign policy, there will probably be a clear struggle between the continuation of a global power policy and a concentration upon traditional Russian zones of influence or else a return to detente and perhaps even a deepening of the latter if the "economic modernizers" win through.

In these circumstances, the problem of finding successors to the current Soviet leaders goes beyond inner-Soviet affiars and it may well exercise a deep influence upon the further development of East-West relations.

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DISCUSSION

Two fundamental elements of Western policy toward the Soviet Union lay at the heart of the morning's discussion: the nature of the Soviet threat and NATO's response to it. It was generally agreed that the Soviet Union continued to pose a threat to the interests of NATO and the West and that a "dual track" strategy of military preparedness on the one hand and arms control negotiations on the other was the best way of dealing with that threat. But many questions provided grist for debate. How much emphasis ought to be put on one side of the "dual track" at the expense of the other? How great was the Soviet threat? Had the nature of that threat changed? Had the strategic balance between NATO and the Warsaw Pact moved in favor of the latter, and, if so, by how much? What was the role of the Soviet Union in Third World crises, and what should NATO's response be? What were the differing interests of the U.S. and Europe and how could these be reconciled?

Changes in the Soviet Union. The American working paper set the stage for debate with its assertion that the nature of Soviet aims had not really changed since 1917; it was still "to recast the world in a Soviet image." That claim conflicted with extensive evidence presented by several participants that sweeping, unprecedented changes were going on within the Soviet Union that promised to alter the nature of the Soviet threat.

These changes were summarized succinctly in the German working paper, which argued that the Soviet Union was no longer a stable system. There were clear signs of a degeneration of the current regime: food shortages unprecedented since World War II, social disputes, and rumblings among ethnic groups. On top of the internal difficulties was the greatest challenge ever to Moscow's stewardwhip of the Communist bloc: the simmering situation in Poland. Against this turbulent backdrop, the Soviet Union faced the prospect of having to replace its aging quartet of leaders. The prospect of new leadership in the Kremlin presented both a hope and a danger. One of two leading groups might emerge—the "neo-Stalinists" committed to aggressively furthering the ideological struggle, or the "economic modernizers," more concerned with remedying the catastrophic economic situation by departing from the old centralist system and adopting limited economic reforms.

Other participants expressed similar views of Soviet developments. Some saw signs of a weakening in Soviet ideology, a diminution of "theological zeal." The Polish situation was viewed as an indication of Moscow's weakening grasp on East Europe. An American felt that what was happening in Poland was comparable to what had happened in Russia in 1905. The Soviet Union was in a "crisis of Stalinism," marked by a growing incompatibility between the needs of society and those of the state, as represented by a dictatorial bureaucracy. A Russian dissident philosopher's phrase, "The people want and the government can't," best characterized what was going in Soviet society today.

One participant noted that the Soviet "arrogance of power" exhibited at the time of the Afghanistan incursion had disappeared. With so many internal problems, he asked, would the Soviets not be ready to accept some degree of restraint?

How should NATO respond to these developments within the Soviet Union? The consensus was that we could best discredit the neo-Stalinists by maintaining military strength; at the same time we should use negotiations to bolster the position of the economic modernizers. One speaker felt that we should not help the current regime out of its economic hole by extending credit and providing for technology transfers. Another stressed the importance of aiding Soviet dissidents. We should make full use of the Voice of America, BBC, and other means of penetrating the Iron Curtain to speak directly to the people.

But there were others whose view of events in the Soviet Union was less sanguine. An American predicted "more of the same" after Brezhnev. The Soviets had faced hard times before and had survived intact. What was important was their vast and powerful military arsenal. Several participants were concerned that new leaders in the Soviet Union would be less experienced and would know little about the outside world. This might make them harder to deal with; "better the devil you know than the one you don't."

Others worried that internal problems might make the Soviet Union harder to deal with. A Briton asked if increasing worry on the part of the Soviet Union might not create a more implacable foe. An American suggested we should not bank too much on a change in leadership bringing about a change in policy; instead we should be concentrating on getting our own house in order. In dealing with a weakened Soviet Union, said another American, we should be subtle and careful not to push them to "exhibit their manhood."

Assessing Soviet intentions. While it was relatively easy to agree that the Soviet Union was in a period of transition, it was not so easy to agree upon the significance of the changes going on. Nor was it any easier to find consensus on Soviet intentions and attitudes toward the NATO alliance and areas outside it, especially the Third World.

An American said bluntly that the Soviet Union "does not wish us well." Its real intentions had not changed. It had exploited detente to further its political goals, and it had exhibited a growing contempt for the West's will to act.

A Briton had a different opinion on the Soviet attitude toward the West, and particularly toward the U.S. will to use its nuclear arsenal. There had been doubt for over 20 years about the U.S. willingness to use the nuclear shield in defense of Europe. Indeed, there was evidence today that the Soviet Union was no more ready to risk war now that she was far stronger militarily than ever before. The Soviet Union was more impressed with the increase in U.S. capacity than in any putative decline in the U.S. will to use it. Soviet intentions were hard to estimate. There had been repeated false predictions about Soviet behavior. Contrary to many expectations, it had stayed out of Iran, out of post-Tito Yugoslavia, and, so far, out of Poland.

A Canadian struck a middle ground, arguing that, while the Soviets were not "suicidally-minded" and wished as much as we to avoid a confrontation, the nature of the West's relationship with the Soviet Union would always remain confrontational. Even in periods of relatively good relations with the West, Soviet actions would always seem aggressive and hostile. It would be impossible for the Kremlin to refuse help to leftist or pro-Soviet movements. But the Soviets were obsessed with the U.S.—with its power, prosperity, and technical skill. They wanted very much to reestablish their special relationship with Washington.

Nowhere was the debate on Soviet intentions and Western interests more sharply focused than on the issue of Third World conflicts. An American participant's call for the West to defend vital interests wherever they might be encroached upon prompted some criticism of the alliance, and especially of the U.S., for seeing all global problems in the context of East-West conflict. Local and regional factors were important and should be considered. A separate Third World interest needed to be demonstrated. To see East-West confrontation in each conflict was a disturbing tendency in the new American Administration.

The counter-argument was that because the Soviets saw all global problems in terms of East-West relations, the U.S. was forced to do the same. An American argued that, while the U.S. did not see "the Soviet bogeyman" in all conflicts, there were certain conflicts going on in Third World areas which clearly and demonstrably had been importantly shaped and influenced by Soviet expansionism.

Some participants thought there was a lessening in Third World competition, that there was a disinclination on the part of many Third World leaders to become pawns of the Soviet Union. This was a situation of which NATO should take advantage. A Briton argued that the alliance and the Soviet Union had a common interest in agreeing to lessen competition in the Third World. But others saw no tendency on the part of the Soviet Union to become less active in the Third World.

Arms negotiations and the military balance. Several participants agreed with the contention in the British working paper that the strategic balance between NATO and Warsaw Pact forces was still more or less intact. True, the Soviet Union would soon have a significant edge in some areas if the current pace of military build-up continued. But even this advantage was not likely to shake the stability of the Western alliance. Of greater urgency than any NATO effort to redress a military imbalance was the need to resume arms limitation negotiations.

Several speakers from smaller nations strongly echoed the call for immediate resumption of talks. A Dutch participant expressed "deep disappointment" in the U.S. failure to ratify SALT II. He worried that nuclear superiority was, after all, what NATO was striving for. There was a concern widely held in smaller nations that the U.S. was not ready to engage in negotiations. If this was so, then the U.S. risked the alienation of the smaller countries and the possibility of growing neutralism and pacificism in them.

An American wished that his country's Administration would speak with more clarity and force concerning its commitment to negotiations. While the West had to match Soviet forces or suffer a profound loss of viability and strength, the people of Europe had to be reassured that the other side of the dual track was being pursued. Either SALT II should be ratified, or negotiations toward a revised treaty be initiated.

Some participants felt there was too much emphasis on arms control. A Dutchman criticized the "total priority of domestic economic and political considerations over defense requirements." A Briton argued that the alliance must take the necessary steps to defend itself, to deploy the necessary defensive weapons. An International participant expressed doubt that NATO could adequately defend itself. The Soviet arms build-up would continue despite its internal problems. Warsaw Pact capabilities already exceeded those of NATO in all categories. The ability of NATO to counter the Soviet threat was declining, the gap was widening, the credibility of the deterrent diminishing. Commitments from NATO partners were becoming overdue promissory notes.

Many speakers spoke of the need to educate the people of the NATO nations about the severity of the Soviet threat. The difficulty in rallying public opinion in support of NATO goals was great. The lack of synchronization of public opinion on both sides of the Atlantic, a British speaker argued, could frustrate NATO's progress down the dual track. People were influenced by "attractive new voices expressing old illusions." More should be done to defend NATO's positions publicly. But there was a tendency for NATO to keep secrets from the public; this arose in part from the needs of the intelligence community. Still, there was a great need for public evidence of the risk NATO faced in not maintaining strong defenses.

An American speaker saw a "state of confusion" in the West. If we were to be serious about negotiations, we had to define what it was we wanted to negotiate for. On the one hand we had to stop Soviet expansionism; on the other, we had to offer some form of negotiation which clearly illustrated our idea of a peaceful world. Looking at the Soviet Union and the West, the speaker saw two systems "in a state of disintegration." But the Soviet disintegration was in structure; ours was a disintegration of will, which was therefore much more easily remedied.

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II. OBSTACLES TO EFFECTIVE COORDINATION OF WESTERN POLICIES

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Working Paper Prepared by the Hon. George W. Ball, Senior Managing Director, Lehman Brothers Kuhn Loeb, Inc.

The first Bilderberg Conference which met at the end of May 1954, at the Bilderberg Hotel in Oosterbeek, Holland, concentrated on trying to reconcile the views of Europeans and Americans with regard to four issues: Communism and the Soviet Union; dependent areas and peoples overseas; economic policies and problems; and European integration and the European Defense Community. The participants quickly discovered that most of their differences resulted from the disparity in conditions prevailing on the two sides of the Atlantic. The war had been over less than a decade and, compared to Europe, the U.S. was overwhelmingly rich, militarily powerful and prepared to engage its might and influence almost anywhere in the world. The European nations were poor, militarily weak, and, rather than extending their world involvement, several were still engaged in shedding their vestiges of empire.

Although everyone in attendance worried about Soviet expansionism, there were sharp differences in assessing the nature of the threat. The Americans spoke of Communism as a foreign conspiracy, alien to all American national traditions and traitorous in nature. Europeans tended to regard Soviet Communism, though dangerous, as merely an ugly perversion of certain left-wing movements with long historical backgrounds. Views were divided on the issue of coexistence. Many of the Americans seemed to share John Foster Dulles' conviction that coexistence was impossible so long as the Soviets continued their present aggressive policies. But the Europeans seemed generally to believe that, with a sufficiently long period of coexistence, the internal contradictions of the Soviet world were bound to turn in favor of the West.

Both groups saw the military danger primarily in terms of a Soviet threat to extend its power across the face of Europe; they had far less concern for other potential trouble spots. In addition, the Americans still suffered from the shocking revelation that, with Moscow's possession of nuclear weapons, the U.S. was, for the first time in 150 years, vulnerable to attack from abroad.

On this twenty-seventh anniversary of Bilderberg—or, if you prefer, the first meeting of Bilderberg II—we are still preoccupied with Western cohesion and are, I think, still agreed on the centrality of the bipolar conflict. But there has been a sweeping change in the underlying conditions—and hence of the problems involved—in maintaining cohesion.

We continue to take it for granted that the U.S. will indefinitely carry the burden of responsibility in strategic nuclear matters. But can we be so sure, as in 1954, that, without some European assistance, America will always be ready and willing to resist Soviet power wherever it may obtrude beyond the containment lines worked out in the immediate postwar period?

Today the certitudes of a quarter-century ago are vulnerable to challenge. Though three decades have wiped out some of the differences in approach and attitude between Europe and America, they have widened and deepened others; and countries on opposite sides of the Atlantic no longer have the same degree of congruence either in interests or attitudes that once existed. Relative circumstances have greatly changed. Rather than being incomparably richer, Americans now have little, if any, advantage in per capita income as compared with the people of several Western European countries. Where in the early 1950's economists regarded the dollar as good as gold and described the intractable dollar gap as structural and permanent, we are now confronted by a weakened dollar and an equally troubling dollar surfeit. The U.S. no longer leads in the rate of increase of productivity; indeed, the American productivity curve is almost flat, while in many sectors American technology has been equalled if not surpassed by Japan and some European nations.

In principle, this movement toward economic equality on the two sides of the Atlantic should contribute to a greatly strengthened West. But the shift in the balance of wealth and income has not been accompanied by any commensurate redistribution of political or military responsibilities outside the European theater. Europeans continue to expect the U.S. to stand guard against Soviet expansion wherever it may occur in the world—and many Europeans seem quite cross when America fails to do so. Though economically strong, European nations feel inhibited by their limited size and resources, disabled from playing more than a regional role. Europe, in other words, is far less than the sum of its parts, and the hopes many of us once entertained that Europe would evolve a political structure enabling its peoples to focus their politics, and mobilize their energies and resources, toward a common purpose have not been realized. In spite of the progress made toward economic collaboration, Europe's political and security relations with the rest of the world are conceived almost entirely in national terms.

As time goes on that will inevitably result in an increase in resentment and misunderstanding; yet neither side has found an adequate way to deal with the problem. American governments find it irksome to consult with European nations in response to Soviet threats, and tend toward an absent-minded unilateralism. European governments constantly complain about a failure of consultation, and chide the U.S. for moving precipitately and sometimes reacting excessively. Yet it seems likely that European governments often welcome Washington's failure to consult since that exonerates them from responsibility. So we live with a succession of recriminations—from Europe because America has failed to consult, from America because Europe has failed to join in an effective response to Soviet provocations.

So long as the U.S. maintained its postwar resilience and confidence the issue was less important; Washington found it easier and less complicated to go it alone. But that feeling was weakened by America's nine years of self-destructive and irrelevant embroilment in Southeast Asia followed by the squalid events of Watergate. Feeling less strong in will and capability and threatened by economic competition, more and more Americans are beginning to resent having to carry a lonely burden; yet, at the same time, U.S. governments—particularly when the leadership is inexperienced—are often insensitive to the need to organize a common effort with Europeans who prefer advising and scolding to common action. So American presidents act first, consult later, and are surprised when the troops do not follow.

Paralleling these fundamental changes on the Western side have been at least three changes worth noting in the Soviets' situation. Moscow can no longer conceal from the Soviet people that its command economy does not work, and that discouraging fact is increasingly apparent to the peoples of Eastern Europe. Accompanying that realization is a progressive secularization of Soviet society. The gas has largely escaped from the ideological balloon; the Soviet hierarchy no longer provides the infallible Vatican for a world Communist system. No longer an effective evangelical power, the USSR looks more and more like a czarist empire of the past, strongly influenced by the cultural residue of the Mongol invaders—boorish in manner, expansionist in ambition, cruel and repressive in its methods of ruling. Though that point has, I think, been increasingly understood in Europe, not all Americans fully comprehend it. One can still detect in the pronouncements of America's new Secretary of State a suggestion that the Soviet Union is still ideologically driven rather than merely a ruthless totalitarian power with excessive world ambitions.

Any comfort we might derive from the economic failure and the secularization of the Soviet Union is largely offset by the phenomenal extension of the Soviets' military reach, not merely in strategic weapons and the missiles to propel them, but also in conventional power. Walter Lippmann used to tell me that we could deal with the Soviet Union effectively so long as it remained an elephant capable of trampling across the European land mass, but we would be gravely menaced were it to develop the additional attributes of a fish and a bird. That, indeed, is what has happened. Though the Soviet Union has lost much of its ideological attraction for Third World countries, its extended military reach provides a formidable offset.

That causes proper concern, particularly for a U.S. expected to neutralize the Soviets' sea and air power wherever it may be employed. At the moment, the new American Administration is making a long overdue effort to increase America's conventional military power, but it is concentrating on the wrong deficiency—buying new hardware while ignoring the lack of competent manpower. Its defense exertions will yield major results only when it faces up to the need for some system of national service.

Another element of potential division in the West results from the divergence of individual Western interests in developing economic and political relations with the COMECON nations. That is reflected in disparate definitions of detente.

The American people do not have a monolithic view about detente and the related issue of East-West trade. Some, in the upper reaches of the new Reagan Administration, would appear to prefer the simplicities of a direct cold war struggle to the more complex task of finding areas of common interest with Moscow. To other Americans—and this, I think is the majority view—detente is simply a condition in which superpower relations can be maintained at a state of relative civility and tension short of the immediate threat of armed conflict. In contrast, detente for the West Germans is not merely theoretical but operational. Under its conceptual umbrella Berlin has been relatively free of harassment; Bonn has been able to arrange the return of thousands of Germans from Poland and has developed procedures to ease the agonies of separation between members of families in East and West Germany.

Europeans are primarily interested in detente as contributing to the stability in Europe, and they shy away from such concepts as linkage. America, on the other hand, is preoccupied with a broader range of Soviet activities such as proxy intervention in Africa and—at the moment—in the U.S. sphere of influence in Latin America.

Trade between Eastern and Western Europe has a long history. The U.S., on the other hand, never had much commerce with Russia, and ever since the beginning of the cold war it has regarded East-West trade as more a political tool than an economic asset. This disparity of factual situations was clearly revealed when the Soviets invaded Afghanistan. The U S. was quite willing to impose sanctions in the form of trade embargoes against the Soviet Union, though even Washington found it more difficult to cut off wheat sales. That reflected a curious evolution of attitude. As recently as 20 years ago, vocal opinion in the conservative American wheat-growing states regarded the idea of selling grain to the Soviet Union as supping with the devil. Last year, those same states were outraged when Washington halted Soviet grain sales.

America's greatest fear today is the spreading of Soviet influence in the Middle East. Once the Middle East was important as the nexus of trade routes; today its strategic value depends on its oil production. Though oil became a subject of urgent world concern only seven years ago, it is now the greatest potential menace to Western cohesion. The simple fact that the U.S. per capita consumption of a vital but potentially scarce commodity is double that of Europe is a built-in source of resentment should shortfalls occur. Once again, one can note odd contradictions. For many years there was an imbalance between producers and consumers; American enterprises, together with the British, controlled the production of Middle Eastern oil, yet continental Western Europe provided their principal market. Today, that imbalance is of a different kind; Persian Gulf oil is far more important to Western Europe and Japan than to America, yet America has preempted the Middle East diplomacy essential to keep the oil flowing. That, in itself, might not be objectionable to Europeans were the U.S. free to shape its diplomacy to serve American and European interests. But American diplomacy suffers domestic constraints and disabilities that could at some time provoke Arab—and particularly Persian Gulf—producing states to reduce the flow of oil to the jeopardy of the whole Western economy. Logically America should encourage a European diplomatic initiative, and try to work with European nations in shaping a common diplomatic approach, but I doubt that will happen. So long as American diplomacy remains stifled in the narrow bilateral Camp David framework, it cannot adequately deal with the issues of the Palestinians or Jerusalem which are central to any ultimate peace. Egyptian-Israeli relations only marginally relate to oil and the security of the Gulf.

If the Persian Gulf oil flow should ever be curtailed—whether through the political decision of Arab oil-producing countries, political upheavals in key oil-producing states, additional wars between nations in the area, or (most dangerous of all) the extension of Soviet influence into Iran or some other littoral state that would enable Moscow to control Gulf traffic—it could have shattering consequences for European-American solidarity. Were the Soviet Union ever to obtain a mastery of Gulf traffic, individual nations of Europe would be greatly tempted, one by one, to seek accommodation with Moscow.

These are some of the longer-range trends that could undercut Western cohesion—the disparity in the distribution of responsibilities, the extension of the Soviets' military reach, a differing appreciation as to the meaning and necessity of detente, and the potential dangers surrounding the high dependence on, and uncertain availability of, oil, particularly in relation to the U.S. monopoly of Middle East diplomacy. In addition, more immediate sources of division derive from contrasting views as to the requirements for effective deterrence and defense. These have been given special urgency by the Soviets' rapid progress in expanding its strategic arsenal and diminishing America's qualitative lead. The strategic balance can be rectified by the U.S. and it is essential that it be done promptly but, at the same time, Washington must promptly renew discussion of strategic arms limitation.The assured survivability of America's second strike capability is essential to the maintenance of confidence in its nuclear umbrella.

Meanwhile, the Soviets' possession of SS-20's, and their huge advantage in tanks and manpower, pose problems of direct and immediate concern to the NATO countries. The implications of Soviet superiority in Europe emphasize not only the need for cruise missiles and theater nuclear weapons capable of reaching Soviet targets but also of neutron bombs for tactical battlefield deployment. These are subjects with heavy political overtones on both sides of the Atlantic but primarily in Europe. They deserve far quieter and more rational discussion than has been the case so far, including a better mutual understanding as to their relation, if any, to the issue of "decoupling," which, as presently posed, verges on the theological. In addition, we face an immediate question as to how and by whom the Gulf is to be protected as well as much clearer agreement on the dangers of nuclear proliferation and how to deal with it.

Europe's confidence in America has unquestionably suffered during the last few years from the jerky and erratic conduct of American policy and its lack of focus. If America is to regain the world's confidence it must never again negotiate for seven or eight years, then, as in the case of SALT II or the Law of the Sea Treaty, suddenly repudiate all that has been achieved.

The issues mentioned so far relate primarily to political and security matters, but Atlantic relations also are endangered by ill-conceived economic policies. Nothing could do more harm to Atlantic harmony than a resurgence of protectionism either in the U.S. or Europe. During recent years massive American balance of payments deficits have undoubtedly contributed to inflationary forces in Europe, while at the same time, American efforts to restore the value of the dollar and to halt inflation evoke cries of anguish from European financial centers. If the dollar is too high, Europeans complain that they must pay too much for the oil OPEC quotes in dollars; if the dollar is too low, Europeans fear that it may inspire OPEC to raise prices. If interest rates are high, Europe is troubled by capital flows to the U.S.; if interest rates are low, increased American balance of payment deficits can result in excess liquidity.

Europe and America also need a better common approach to economic relations with the Third World. With America infected by a budget-cutting fever, foreign aid may be an early victim—even to the point of weakening our multinational institutions. In addition to jeopardizing foreign aid's larger purposes, the U.S. Congress is currently threatening to deprive America of two necessary political instruments: ample and flexible economic aid and foreign military assistance. That trend must be reversed or we shall find ourselves with sticks but no carrots.

Many Europeans were worried when the U.S. ceased to play an assiduous role as world policeman and equally upset when America became the world's nanny. The Carter Administration was, they declared, injecting human rights into American policy far too rigidly and sanctimoniously. Today, I sense a similar apprehension regarding the current trendy antiterrorism campaign, and I confess to sharing that concern. It is not at all clear why antiterrorism and a concern for human rights should seem mutually exclusive elements of policy.

The ties between the Atlantic nations have a rich foundation of common culture and history. Our political systems are based on common democratic principles. Our economic systems all reflect—to greater or lesser degree—a heavy dependence on market forces. We have gone far to liberalize our trade relations and to establish common rules for our economic and financial activities. Yet during three decades of cold (moderating to chilly) war, the force that has given common purpose and definition to the imperative of solidarity is primarily a fear of Soviet expansionism. Today that fear, though still a reality, is offset and deflected by other trends and forces which tend to reduce its cohesive effect, and, though we can count on recurrent Soviet bloody-mindedness to renew it periodically, that prospect is not very attractive. Sooner or later—if we continue to hold together—we are going to have to develop far more effective institutional arrangements—which, in turn, depend on changing our habits of thought and approach. How soon or even whether that will occur is by no means certain.

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Working Paper Prepared by the Hon. Gaston E. Thorn,
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Mirroring George Ball's excellent contribution to these proceedings, I would like to submit a succinct analysis of the reasons behind the misunderstandings hampering relations between Western partners which are unfortunately becoming more and more frequent. I will try to explore ways in which these difficulties could be tackled, or at least indicate possible improvements to the machinery of coordination between the industrialized powers of the West.

First, one or two preliminary remarks. When we talk about Western policy, we are naturally considering the West as a whole, that small group of countries bound in alliance and solidarity by a common faith in democracy and a particular pattern of civilization, and by an awareness of the international responsibilities conferred upon them by their highly industrialized, technologically advanced and affluent status.

At a time like the present, when a new Administration has taken over in Washington, it is undoubtedly essential to concentrate our attention on transatlantic relations, but I feel also that it is exceedingly important not to overlook the fact that the Western world centers on three major economic blocs: the U.S., Japan and the European Community. I will, like George Ball, focus on America and Europe, but I wish to emphasize that there is this wider dimension to the "West".

For a number of years now, relations between Europe and America have been suffering from a high degree of mutual misunderstanding. The strain and friction between the U.S. and Europe is partly due simply to accidents, to unfortunate coincidences, but there are also deep-rooted historical and geopolitical causes. The frequent vacillation, mistakes or fumblings of recent U.S. administrations have undermined the European leader's confidence in them, while on the American side there has been a failure or an unwillingness to understand the less categorical European position on various issues (Iran and the Middle East in particular), leading to accusations of wavering loyalty or weakness.

But over and above incidents such as these we have the consequences of the structural changes in Western society and the rise of a new generation. In Europe and the U.S. the younger generation are increasingly turning in on themselves and moving towards nationalist sentiments and parochial concerns. (I use these terms in the objective rather than the pejorative sense; the concern for ecology, for example, is in itself wholly justifiable, but it often reflects this inward-looking tendency.)

After the War, and throughout the fifties, the Western camp was held together by the common reconstruction effort and the need to face up to a huge and formidable enemy—the Soviet Union and the bloc it had formed. Economic success, the affluence of the sixties and the rise of a new generation led—in Europe, at least—to a less confrontational view of the world situation, and perhaps slackened the bonds of the Western alliance. Narrower issues came to the fore again, and the differences which had been smoothed over in the desire to stand together against totalitarianism once again loomed large.

The geopolitical situation has also changed, altering the issues at stake in foreign policy. While America, after the Vietnamese tragedy, is showing signs of impatience with the Third World, Europe has become fully aware of the need for understanding between the industrialized and developing nations, between the countries with the know-how and those with the raw materials. Europe has taken on the role of protagonist in the North-South dialogue, while America is tending to hold back.

This shift is actually a reflection of the profound alteration in the internal balance within the free world. For centuries, Europe's history was a catalogue of invariably vain attempts by one kingdom, nation or state to gain dominance over the others. Internecine wars—civil wars, indeed—succeeded one another without ever enabling any leader, any nation or state, to establish a lasting, stable hegemony.

It is a depressing sight for the philosopher or historian today to witness the states of Western Europe still at odds, still squabbling for captaincy of the second eleven. The goal of European union, the dream of a European political coalition propounded after the Second World War by statesmen endowed with vision and dogged courage were inspired by the very thing that gives the U.S. its strength, the forging of a union which transcends differences.

While on this point, I should like to make two comments. The first is that European unification is still after all in its infancy and naturally subject to teething troubles. Ironically enough, today it is the European Community which is the New Continent insofar as it is young and lacking in experience, in contrast to a U.S. whose institutions date back over more than 200 years. The second is that it shows clumsiness on the part of the U.S. to try to tell us which of the cousins in Europe it wants as principal interlocutor.

Admittedly, the American public shows little interest in what is going on in Europe, especially Western Europe. The lobbies representing immigrants from Eastern Europe (and Israel as well) do not have equivalents putting the French, British or EEC case. What is more, America has the impression that Europe as a partner is failing to take on its full responsibilities, indeed that it is both thankless and disinclined to shoulder its share of the burden of defending the West.

As regards the operation of the political institutions in the U.S., Congress and the lobbies are interfering more and more in the running of affairs, especially in the formulation of foreign policy. This in itself breeds uncertainty and misgivings. Over on this side of the Atlantic chaos also reigns. As a club of sovereign states greatly attracted to their traditions and history, the Community can speak for Western Europe with one voice on only a very limited number of subjects. Mr. Kissinger's anguished "Who do I ring when I want to talk to Europe?" has lost none of its poignancy.

But we feel it is of prime importance that the dangers inherent in the principal-nation approach should be highlighted. The dialogue between the two sides of the Atlantic must not be restricted to a privileged relationship between the U.S. and two or three traditional European powers. Such an approach would engender indifference, and subsequently nonalignment, among the countries left out, and this would act as a kind of insidious gangrene which would soon eat away at the whole continent.

It may be difficult for America as a superpower to envisage close relations based on a true partnership with all its Western allies, but this is the only way in which all free nations, from the North Cape to the Mediterranean, can be inspired with a sense of Western solidarity.

And for goodness' sake let us stress the importance of being partners and allies, rather than satellites, even if admittedly the partners are not all equal.

The assertion of a new strength, of a new dignity, has led the U.S. Administration to make some questionable moves, such as representations to the EEC on food aid to El Salvador, or the affair of the grain embargo. In response to the U.S. ban on grain sales to the Soviets, Europe took tremendous trouble to ensure that the embargo would be effective by refusing to make up for the lost American supplies by sales of their own. The U-turn in America's position for domestic policy reasons inevitably put up the backs of those in Europe who had gone to great lengths to preserve a united front on the embargo despite real commercial loss and sacrifice caused to our farmers and traders. It is essential that genuine trust should be restored as quickly as possible between the leaders of the West, so that coordinated stands can be taken on the major issues on which the welfare of our countries and world peace and stability depend.

We in Europe are confident that by reason of their history and cultural affinities, our American allies are ideally placed to grasp our particular situation and understand our sensitive points. And yet we still have to protest against attitudes often dictated by hasty oversimplifictions. For example, there sometimes seems to be a tendency to gloss over the fact that the Iron Curtain—and the Wall—cruelly divides one of the major nations of Europe into two. We must beware lest the raw scar admit the germs of neutralism or become inflamed by the fevered ache of illusory hopes.

There is a danger that America's ambitions to restore and strengthen its hegemony in the world may have the effect of placing every incident, every crisis, in an exclusively

East-West light, with the more or less implicit rider that solutions are to be found in the East-West balance of power alone. Against such a background, European attitudes, which in any event are seen in simplistic terms, irritate the Americans and lead to talk of the neutralization or "Finlandization" of Europe. There is no doubt that the breakdown of detente has caused considerable disappointment in Europe. The hopes of peace in Europe and a relaxation in East-West tensions raised in the early seventies have been cruelly dashed. But it would be a mistake to underestimate the attractions for some of continuing with detente without regard to the real danger of the Soviet threat, while playing down the importance of Soviet intervention in the Third World. Nor should it be hard to appreciate how difficult it is to put over to the European man in the street the Western position regarding the Soviet invasion of Afghanistan in the light of the way the grain embargo against the USSR was applied and then lifted.

The important thing is to restore the credibility of the Western Alliance. America often reproaches Europe for not being more enthusiastic about NATO or willing to bear a larger share of the costs, while being quite happy to take shelter under the American nuclear umbrella.

I am not about to launch into the vexing question of the effectiveness of the alliance, its military effectiveness in particular, but undeniably one of the reasons mentioned for France's departure from NATO was that there were no plans to share the nuclear responsibility. France has since equipped itself with a nuclear capability and strengthened its conventional forces, and is now probably a more sought-after partner for the U.S. than it was while within the military wing of the alliance.

Faced with the complaint that Europe is reluctant to shoulder its share of the burden of defending the West, we must consider the military provision afresh on the basis of a sounder understanding. In my view this calls, among other things, for better cooperation on the matter of equipment. Is it really right that U.S. industry should be supplying over 80 per cent of the European armies' military hardware, particularly in the field of heavy equipment and advanced technology? Would it not be wiser to give a bigger share to European research and industry and spread the contracts on both sides of the Atlantic? One possibility would be to share the task of equipping the Western forces and divide the development and production of weapons systems between firms and research facilities on both sides of the Atlantic. Public opinion is undoubtedly more sensitive to this type of political and military issue than to any latent or overt misunderstandings affecting trade or economic relations between the U.S. and the Community.

We are in the midst of the most deeply-rooted economic crisis since the dawn of the industrial era, and it is jeopardizing our whole society and civilization. In this climate of recession and unemployment, giving rise to insecurity and suspicion, withdrawal into autarky and xenophobia is a very real danger to Western solidarity and cohesion. In this connection, I think it is important to set aside emotional responses and uphold the laws which govern relations between us. We must see that international trade agreements are honored, and extend this approach to all the major Western trade powers. We must see that the Tokyo Round GATT agreements are fully and fairly implemented and act with all speed to stop the present deterioration in the situation. Protectionism is no solution at all. By taking refuge behind artificial barriers we may for a time be able to claim that we are saving our threatened industries, but the respite is only temporary; in the end the axe will fall. Protectionism keeps inefficient, costly industries alive, disturbs the balance of the markets, fuels inflation and discourages innovation and new investment, while its external effect is to invite reprisals and deprive us of markets.

Looking back over trade relations between the U.S. and the rest of the world since the Second World War, one is struck by the fact that whenever a new president moves into the White House, the press and political circles in Washington complain that the

outgoing administration was too soft on foreigners and campaign for the new team to adopt a harder line, bang its fist on the table and reaffirm Uncle Sam's virility. The fact that the Western world is in the throes of the most serious recession since the thirties lends strength to this phenomenon today. We dare to hope that despite the pressures from its own public, the new U.S. Administration will not pay too much attention to this old refrain. The fact is that over the past decade it has been possible to work with the different U.S. administrations to find solutions to particularly prickly problems in the field of foreign trade. The Tokyo Round negotiations started under a Republican Administration. We were able to conclude them with the help of a Democrat Administration. These were the most important trade negotiations ever proposed and they took place at a time and in an economic climate which could not have been more unfavorable. Their success was not only reflected in an ambitious program of tariff cuts over the next ten years but also has to do with the fact that a new impetus was given to the control and dismantling of nontariff barriers.

The success of these tough and complex negotiations demonstrated the full importance of cooperation between the U.S. and the European Community and what that cooperation can achieve. We must now go further along that path. I shall not conceal our great alarm at a number of difficulties which threaten to dangerously compromise the whole system of world trade. Thus, while I do not wish to discuss in detail the consequences of the very large increase in motor vehicle imports from Japan—for the American and European industries alike—I should like to tell you what I think of the recent agreement between Japan and the U.S. whereby Japan has undertaken to restrict voluntarily its motor vehicle exports to the American market. From Brussels, the American attitude looks ambiguous in the extreme. Did not Washington, a few weeks earlier, warn her European friends against seeking such an arrangement with the Japanese unilaterally? Now we find that the U.S. Administration has itself taken this path, without any kind of prior consultation with Europe. And yet our interests in this matter are closely interwoven. Do I need to stress this at a time when one of the big U.S. motor manufacturers is able to offset the losses sustained by its Detroit plants with the profits made by its European subsidiaries? And where will these Japanese cars end up? They will naturally seek entry to our markets, or compete with us on Third World markets, where their share of sales is already often higher than 80 per cent. Now the Community must take the necessary precautions against any harmful or unfair consequences for our industries and markets of the arrangement concluded in Tokyo at our expense, as it were. This is the thin end of the wedge which could jeopardize the whole system of world trade.

And what about our other points of concern? Take, for instance, petrochemicals and synthetic fibers. Last year we were very worried about cheap American exports in this sector, which were only possible because of the artificially low oil and natural gas prices in the U.S. We very much appreciated the decision of the new U.S. Administration to abolish controls for petroleum products and propose the decontrol of natural gas prices as well in the near future, but we hope that these measures will be applied in full.

Here I should like to point out that Europe, particularly the European Community, is fully prepared to engage in discussions and negotiations in order to find solutions to our difficulties. Whether we are talking about ruinous competition in the export credits field, or the difficulties of adjustment in the iron and steel trade, to give only two examples, in our view there is no subject on which a compromise to serve our mutual interests and preserve the Western trading system could not be reached.

I should like to add, particularly in the light of the current economic crisis, and now that some economists claim to see signs of recovery, that it is also essential that Americans and Europeans understand each other on macroeconomic matters. The Maastricht European Council stressed the need to come to an arrangement on interest-

rates policy. It is not so much the high interest rates in the U.S. as their volatile nature, their sudden fluctuations, and consequential repercussions which are the problem and frustrate investment opportunities in Europe. I should like to see contacts for the formulation of economic policy objectives stepped up, and our cooperation should likewise be strengthened in all areas (science, research, new technologies, energy) on which the future of our way of life and our society essentially depend. This cooperation must be structured so that maximum benefit is derived from each partner's specific capacities and resources and everyone profits from the exercise.

The European position on the North-South dialogue, which I referred to earlier, a subject on which the U.S. is making increasingly unenthusiastic noises, must be seen as part of this same strategy for the future. It is true that the developing countries denounce the cold egotism of the industrial powers. It is also true that the industrial powers are not as rich as those in the Third World sometimes tend to believe, but they are incredibly rich compared with certain Third World states. There are, I know, many aspects of the American view of which the Europeans are also perfectly well aware, which could curb our enthusiasm and our generosity. The disarray among the developing countries at the negotiating table, the jumbled presentation of their problems, the occasionally overambitious nature of their requests, their Manichaean approach and the ring of propaganda which often characterizes their utterances, all these are traits which we recognize. The fact remains, however, that the destinies of the industrialized and developing countries are inextricably linked. A third of the OECD's total exports go to the developing countries. Our investment in the Third World is something on which their prosperity as well as our own depends. We do not only need their resources and their raw materials; we also need their markets. Equipping the developing countries and providing them with the wherewithal to ensure the well-being of their populations provide the Western industrialized nations with considerable opportunities for the transfer of technology, export of capital goods and so on. This must form a major part of economic recovery. For these reasons, we believe that it is in the interest of both America and Europe to enter into a rational, intelligent North-South dialogue based on a mutual understanding of the needs of rich and poor nations alike. In view of the complexity of the obstacles to effective political coordination between the Western partners, it would be pointless to try to propose immediate solutions. The important thing is first of all for us to be aware—sincerely and without ulterior motives—of our differences and also of each partner's right to differ. Then, we must coordinate our positions. In particular, the new U.S. Administration and its Western partners must get together.

One of the most obvious conclusions to be drawn from my remarks is the need to update and make full use of the consultation procedures existing in the West. The Atlantic alliance should be given back its full importance. A climate of trust and cooperation must be created between the leaders of the West. We must discuss our analyses and evaluations as allies. The major challenges which threaten the free world are viewed in the same way by all the Western nations—whether it be the economic crisis, the recession and resurgence of protectionism, changes in industrial society, our vulnerability in terms of dependence on energy and resources, or Soviet imperialism. All these challenges support the objective reasons for Western cohesion and solidarity. The Western economic summits must, in this context, make it possible to strengthen Western solidarity. Initially, the role of the summits was primarily economic. They were originally aimed at establishing the West's economic policy guidelines. But of course economics and politics cannot be separated. It was therefore only natural that matters such as the balance between East and West, disarmament, China's role, and our relations with the Third World countries should be brought up at the summits. I believe that the summits must remain forums for discussion rather than decision-making

occasions. It is also important that the leaders who take part in the summits should take the initiative in informing and consulting the smaller Western partners so as to maintain full-blown Western cohesion.

At the European level, the international role of the European Community should rapidly be developed. We cannot criticize the Americans when we are unable to offer them a clear and credible negotiating partner. The development of the European Economic Community means, in foreign policy terms, the strengthening and intensification of political cooperation. It is the operational side of that cooperation which must be improved.

I believe that progress on political cooperation between member states of the Community is beneficial for all of the West. It is in the light of this strengthening of the Community that the possibilities offered by the principal-nations approach must be assessed. That approach has the drawback of being divisive for the Community and of progressively diminishing the responsibilities of the other European states currently in the Western orbit. It is precisely the role of meetings such as ours today to take full measure of that danger. We should encourage the creation and development of a European Community lobby in the U.S.

Lastly, effective coordination of Western policy requires in my view that greater account be taken than in the past of the U.S./Japan/European Economic Community triangle, not only in economic but also in political matters. This may call for a change in attitudes not only in Europe and Washington, but also in Tokyo. Through its industry, its economy, and its trade, Japan has become a world power. It should also assume its share of the political responsibility deriving from the fact that its economy can only be successful within the Western camp. Here too, American hegemony must be prevented from "neutralizing" the Western ally.

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DISCUSSION

There was no disagreement that without some degree of consultation and cooperation among the partners in NATO there could be little hope for effective coordination of Western policies. But to what extent did the U.S. and Europe consult and cooperate, and to what extent should they? Consultation and cooperation were especially important, participants felt, in economic policy, military burden-sharing, and dealings with areas outside NATO, particularly the Middle East. The American working paper suggested that "more effective institutional arrangements" were necessary. The International working paper called for an "updating" of the alliance. Did this mean new groups within the alliance, such as principal nations' groups, or summits? Reaction from speakers from most smaller countries and several larger ones was overwhelmingly unfavorable to the idea of a directorate. This was a reflection that, apart from U.S.—European tensions, there are also tensions between big and small countries.

Internal stresses and strains. An American felt that, as a starting point, there was one set of obstacles to coordination between the U.S. and Europe that stemmed from fundamental, immutable differences between the two. The U.S. was a single nation organized on a continent-wide basis, while Europe was a "congerie of nations," each with its own traditional policies and each jealous of its own sovereignty. Europe, from the point of view of power, was not equal to the sum of its parts. This gave rise to the current division of labor in the NATO alliance. The U.S., as the main nuclear power, had historically undertaken the fundamental strategic defense of the West, while sharing with Europe the defense of the European theater with conventional weapons. Outside the European theater, the European nations were largely in the role of observers. This

was an irksome situation from the point of view of many Americans, and promised to become more so as the strength of the European economy and standard of living approached that of the U.S. There was a feeling that Europe was not doing its share.

There was also a geographical difference between the U.S. and Europe. Europe was on the front lines, while the U.S. was separated by 3,000 miles of ocean. Europe had a real stake in East-West trade; the U.S. did not. Thus it was far easier for the U.S. to declare an embargo against the Soviet Union than it was for Europe. There was a certain tendency in the U.S. toward "careless unilateralism," as evidenced by the U.S. actions against the Soviet Union after the invasion of Afghanistan. The U.S. acted alone and then "waited for the troops to follow." Often it was simply easier to act unilaterally than to consult. This was particularly a tendency of new U.S. administrations.

Another American argued that the feeling in the U.S. that Europe was not doing its share was especially keen with respect to the Middle East. There, although Europe had more at stake in terms of energy dependence, the U.S. was taking the lead in mounting a deterrent to Soviet pressures and in creating a mechanism for dealing with crises that could interfere with the flow of oil. A significant portion of the planned increase in U.S. military spending was for the development of the so-called Rapid Deployment Force. Europe could assist in this effort either directly, or by taking on more of the burden in the NATO area so that U.S. resources could be reallocated to the Middle East. This was an area where the U.S. and Europe were far apart and getting farther apart.

As to the Rapid Deployment Force, a British speaker argued that it was true Europe had a more powerful interest in the Middle East than did the U.S. So if the U.S. wanted Europe to support the R.D.F., then Europe should be given a say on how it was to be used. This was an example of the lack of consultation on issues where the U.S. was asking for European support, but was unwilling to recognize that European views were just as legitimate as its own.

An International participant contended that a major obstacle to coordination was the American tendency to view cooperation on security matters, political cooperation, and economic cooperation as distinct from one another. In Europe, these were viewed collectively, as forming a whole. While it was true that per capita income in Europe was about equal to that of the U.S., there was still a major difference between the U.S. and Europe in terms of energy dependence and the influence of the dollar. Some nations were more fragile than others, more "prone to difficulties." It was also important to include Japan when talking about relations between industrialized nations. The U.S. exercised a "preferential influence" over Japan. Was it fair for the U.S. to ask Europe to play a larger role in defense and to take a certain political leadership but at the same time to declare "every man for himself" in economic matters?

Another participant felt that it was to be expected that there would be differences between the U.S. and Europe, but their importance tended to be exaggerated. The common interests overrode the diverse ones. Nations could have differences but still remain compatible within the alliance, which was "not a rigid, but a flexible framework, not a bloc, but a coalition." More significant than differences in interests were uncertainties in U.S. policies. There was "an absence of any real clarity" in Washington about what the positive direction of U.S. policy toward the Soviet Union should be.

The need for consultation. Several speakers criticized the U.S. for its failure to consult properly. The U.S. tended to consult after the fact, to conduct information briefings rather real consultations. An International participant reported that four U.S. officials had met with him recently to ask what Europe thought about certain actions the U.S. had taken. What they should have asked was what Europe thought about actions that were being contemplated.

But one speaker said that there had been extensive consultation on the issue of a response to the Soviet invasion of Afghanistan, and there had been no great conflicts over the matter. There had, he admitted, been "some differences on the application of measures." (This view prompted a Briton to ask why, if there had been "such happy agreement" in the NATO family, the Soviets were still in Afghanistan.)

It was a Canadian's opinion that much of the criticism of the U.S. was misdirected. Only the U.S. had legitimate worldwide strategic interests. Only the U.S. could make certain decisions and determine its military needs. In fact, the U.S. record on consultation was not so bad. Rather, some of the European irritation on this matter was "rooted in the lingering European fear and dislike of Americanization." The onus was on Europe to strengthen itself. As long as it lacked military self-sufficiency, there would be a status of dependency on the U.S. that was bound to be irritating.

While the majority of participants, especially Europeans, believed that consultation among NATO partners needed to be improved, concrete suggestions for doing so seemed elusive. The concept of a directorate would, many speakers argued, mean the end of NATO and of the European Community. Smaller countries would turn away from the alliance and opt out of the common responsibility. One participant warned that creation of a directorate would eventually result in a neutral band going through Scandinavia, the Benelux countries, and, eventually, Italy, Greece, and Turkey.

An American expressed skepticism about the effectiveness of consultation among a large number of countries on a systematic basis. It had been tried before, he observed, and it had not worked. There was a historical tendency for Europe not to want to get too involved as long as things were going well, to let the U.S. proceed alone. An International speaker said that the NATO system, while not ideal for all situations, was adequate. The most urgent need was that, while it was understandable for the U.S. to consult more often with larger nations, all NATO partners get the same information simultaneously. All should have a say. Indeed, the classifications "large" and "small" for NATO partners should be done away with.

Yet, as a Frenchman observed, there would always be some groups, like the neo-Gaullists in France, who would be opposed to consultation for fear of compromising their own independence. Normal diplomatic channels were sufficient in non-crisis situations. But in a crisis was Europe not really impotent to act? Was it not in a "fright-induced alignment" behind the U.S., too quick to criticize when the U.S. acted, and to criticize when it did not? The nations of Europe were not in a position to take unified action. When action became necessary, it would be taken not by NATO as a whole but by individual nations. There was a large gap between what was said by NATO and what was done.

Consultation alone, said an International speaker, was not enough. More effective procedures for contingency planning were necessary. The alliance had to act faster than it had after the Afghanistan invasion, and after the taking of the U.S. hostages in Iran. What was also needed was a new consensus with NATO. Indeed, the European nations had less to complain about today than at times in the past. The old consensus depended on economic good times. Now that Europe did not have it quite so good, it was drifting into a new period of controversy and political polarization. Meanwhile, in the U.S., public opinion was becoming "increasingly nationalistic, impatient, and unilateralist in inclination." We faced a growing domestic political challenge to effective coordination.

The Middle East. Here was the greatest test of consultation and cooperation between the U.S. and Europe. In the view of some, it was an area where the U.S. expected Europe to follow its lead blindly; others felt that Europe did not understand the U.S. approach in the Middle East. Few participants saw the two sides' policies as compatible. Many believed it was critical that the U.S. and Europe, regardless of the merits of their respective positions, get together and work out a common approach to this troubled area.

It was widely felt that without a solution to the Palestinian problem there could be no comprehensive settlement in the Middle East. Current U.S. policy was going nowhere and indeed had reached a dead end. To assist or encourage Israel in a self-destructive policy was to do it a disservice. But the U.S. seemed impotent to do anything but let things drift.

The prevalent European view was that the U.S. effort, as embodied in the Camp David accords, was fine and laudable as far as it went. A Briton saw Camp David as an "important triumph," but a necessarily limited one. The Palestinian problem could not be settled within the limited bilateral framework of Camp David. This was one major reason why the European initiative had come into existence. States vital to the peace process had elected to stay out of the Camp David framework. The European initiative had given these states some hope, had kept them quiet. The current direction of U.S. policy could result in the undoing of all that had been accomplished. It was unreasonable to expect Egypt to stay in a special relationship with the U.S. and Israel and remain isolated from the Arab world.

A Greek speaker said that there was a widespread feeling in Europe that the Palestinians had good reason to complain. He believed that an important reason for a settlement in the Middle East acceptable to all was that in the long run the countries of NATO would have to enter strategic and economic alliances with many Arab states.

But an American warned that it would be wrong to forget inner-Arab conflicts. If Israel did not exist, it would almost have to be invented.

Most American participants viewed the European initiative, with its insistence on P.L.O. participation in the peace process, as incompatible with U.S. policy. The important thing was the moderate-radical balance in the Middle East. A Palestinian state governed by the P.L.O. would be a radical state. In one American's view, Europe was "mesmerized" by the Palestinian issue. It was neither the exclusive nor even the central issue. It had nothing to do with many of the conflicts going on in the Middle East. It was folly to think that, with the Palestinian problem solved, the oil routes would then be safe.

There was general argeement on the sobering warning made by one participant that the failure of the U.S. and Europe to work out a common approach to the Middle East boded ill for the general issue of coordination of Western policies.

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III. HOW CAN THE WESTERN ECONOMIES PUT THEIR HOUSE IN ORDER?

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"Economic Problems of the Industrial Democracies: A View from the United States"

Working Paper Prepared by Dr. Herbert Stein of the American Enterprise Institute

There is no need to approach the present economic problems of the industrial democracies in a mood of despair or crisis. Our generation lived through an economic miracle, which went on for almost 25 years after World War II. Now we are in an age of reality, and the contrast with the period of the miracle is naturally disappointing. But the reality is, after all, not so bad. In most of our countries real output per capita rises year by year, and the exceptions result from short-run cyclical conditions. Real per capita incomes are in all of our countries significantly higher than they were ten years ago—to say nothing of being at a level that would have been undreamed of 50 years ago. Within our countries the incidence of poverty has been greatly reduced and economic security increased. Steps have been taken to protect our environments against the side-effects of industrialization. We have left behind the concern which worried many 20 years ago that our adversaries of the Soviet bloc would outstrip us economically and present an appealing model of economic organization to the developing world. We are adapting to the shock of a big increase in the relative price of oil and see evidence that our vulnerability to the political use of the oil weapon is declining.

This is not said to deny the existence of problems, which, of course, is what this essay is all about. But we are not in a situation which by its nature demands extreme remedies, or policies whose chief advantage is that they are different from those followed in the past. Moreover, we should recognize that some of our present problems are in part the cost of our achievements, and that although the costs may in some cases be excessive they are not necessarily dead losses.

We have been experiencing three major problems, although all the industrial countries have not experienced the same problems in the same degrees. Our inflation rates have been higher in the past period—say since 1973—than they were earlier. Our unemployment rates have been higher. The rate of growth of productivity—of output per worker or per unit of labor and capital combined—has been smaller.

These problems are interrelated in various ways, as causes and consequences of each other. Some of the causation we understand and some we do not. As good a place as any to break into the circular process is the inflation that took off after 1965 with a worldwide boom, stimulated in part by the way the U.S. financed the Vietnam war, and abetted by the effort everywhere to pump economies up to ambitious levels of output and employment. Subsequent experience created skepticism about the determination of governments to stop inflation if the cost was, as appeared likely, an interval of high unemployment, slow growth, high interest rates and fiscal stringency. Moreover, governments showed a preference for accommodating rather than resisting the general effects of specific price increases, such as the oil price increase. The result was to generate strong expectations of continuing inflation, and even of irregularly accelerating inflation. These expectations became embodied in wage contracts, interest rates and many other economic decisions. They created a condition in which even an effort to slow down the accelerating inflation caused an increase of unemployment, which is where we are now in the U.S., Britain and to a lesser degree elsewhere.

The causes of slowdown of productivity growth are more mysterious, certainly more numerous, and apparently more varied among countries. The fact that the slowdown is so widespread and becomes apparent around 1973 has led many people to place main responsibility on the change in the energy situation. However, the cost of energy as an input does not seem sufficient to permit it to explain much of what has happened to productivity. Three factors that seem to have been important in all our countries have been the near-exhaustion of the productivity gains from the transfer of labor out of agriculture into industry, the increased costs of environmental and safety regulations, and the loss of some of the gains of productivity that come from an increase in the scale of production. Except in the U.K. and France, a slowdown in the growth of capital per worker contributed to the slowdown in the growth of total output per worker. Related to this, there has been, in most countries, a slowdown in the rate at which the latest technology is incorporated in the operating capital stock. But when account has been taken of all the factors which can be even remotely measured, we are still left, in most countries, with a large part of the decline in productivity growth unexplained.

At a deeper level of explanation, which is probably closer to revealing where the corrections may be sought, there are two main things to be said. The inflation itself has contributed to the slowdown of productivity growth. It has depressed business investment by increasing uncertainty about future costs and prices. In the U.S., and probably in other countries, it has greatly increased the tax burden on the return to capital by causing understatement of depreciation costs. Beyond that, it may have weakened incentives to produce by creating the feeling that economic prosperity for an individual does not depend on his productive efforts but depends on his good fortune in riding the most rapidly-rising prices.

The slowdown of productivity growth probably also reflected a demotion of economic growth in the scale of personal and national priorities. At the national level we have made decisions about environmental and safety regulations, and about other regulations, about the tax structure and about transfer payments which could only be rationalized on the theory that economic growth was less important than we once thought, or that the rate of growth was assured no matter what we did. Some reflections of this at the personal level, which may have affected talk more than action, were seen in the "new" ideas about the quality of life which tended to spurn acquisition and conventional consumption.

At a still more general level, our problem may be that after 25 years of amazingly rapid growth in real per capita output and incomes, we came to regard that as a bottomless, always-replenished purse upon which we could make unlimited drafts without danger. The result was to impair growth and establish higher and higher rates of inflation from which it would be difficult to climb down without increased unemployment and other adverse consequences.

Certainly in the U.S., probably in Britain and possibly elsewhere, there is a realization that this attitude was a mistake. Economic growth is not everything and there are objectives for which it is worthwhile to sacrifice growth. But the experience of living for several years with little growth, or with negative growth of productivity, has convinced us that we went too far in subordinating growth to other objectives and that we have been inefficient in the sense that we have paid more in growth than we had to pay or expected to pay. One example in the American case is the imposition of regulations to achieve clean air which are much more costly than can be justified by the results.

This view of the problem narrows down considerably the range of policy options for solving it. Once we could take it for granted that our potential output would be growing rapidly and that the efficiency of production would be high. Then it seemed that our economic problem was to assure that the potential output was actually produced and

that it was at least in part used in ways that were superior to those the market would dictate. In those circumstances there was a possible, although as it turned out, an insufficient case for a policy compounded of expansionist fiscal and monetary measures to get up to potential output, and full employment and regulations of various kinds to prevent inflation and to "correct" the market outcomes. Such policies are now seen not to be potential solutions but a large part of the problem.

Our present problem, insofar as it is related to policy, stems from excessive expansion on the nominal side of the economy, excessive expansion in the supply of money and in the flows of money/income, excessive restraint on the real side of the economy, and excessive interferences with the supply of resources and with the efficiency of their use. Our way out of today's difficulties will require a combination of restraint on the expansion of the nominal or money side of the economy and removal of inhibitions to the growth of the real side.

The issues are the appropriate distribution of the emphasis, in degree and timing, between the two sides of this combination and the timing and magnitude of the effects to be expected. The answers to these questions differ from country to country depending on how far gone they are in the process of inflation and weakened productivity growth, as well as on other aspects of their condition. Three possible combinations of policies can be distinguished, which might be called Reaganism, Thatcherism and Shock Treatment:

Reaganism is distinguished by a heavy emphasis on measures to increase productivity and potential output coupled with moderate and uncommitted restraint on the expansion of nominal demand. The rationale is that the supply-side measures will increase productivity so much and so soon that the inflation rate will come down without the need for any very severe restraint on demand. The favorable effect on inflation is to be intensified and accelerated by a radical change of expectations resulting from the demonstration that the government has embarked upon a credible anti-inflationary policy. Because productivity growth will be accelerating and inflationary expectations will be diminishing, the transition to a less inflationary world will be accomplished without an increase of unemployment.

The leading example of Reaganism is, of course, the experiment just being launched in the U.S. This relies heavily on large tax cuts and major regulatory reforms to speed up productivity growth. On the other side of the demand-supply equation, there would be substantial reductions of government expenditures (relative to recent trends) and a gradual decline in the rate of monetary expansion in order to assist in reducing inflation. The success of the program depends on three key points. Will the tax and regulatory changes speed up productivity growth in the degree and with the speed expected? Will the announcement and perception of the program have the dramatic effect on inflationary expectations that the strategy counts on?

There is a good deal of skepticism on all three of these points. Empirical evidence that the supply-promoting results will be forthcoming on the scale and speed expected is, to say the most, highly uncertain. There is as yet no visible commitment by Congress to the expenditure cuts or by the Federal Reserve to the monetary restraint that the Administration wants. And while the announcement of the program has generated a certain vague optimism, it has not yet generated the reversal of inflationary expectations that is needed. There is also the more general difficulty that the program depends on a delicate balance between the productivity stimulation and the demand restraint. If the demand restraint is too great, the economy will be depressed and that will be bad for productivity growth, despite the tax cuts, and if the demand restraint is too small, the economy will be inflationary and that will be bad for productivity growth also. The whole program is at an early stage and its possibilities are not to be dismissed. But for the present, its consequences for the U.S. must be regarded as a big question mark.

Thatcherism, in a view of it which may be somewhat idealized, is a combination of demand-side and supply-side measures which is more rigorous and committed on the demand side than Reaganism. It is recognized, after two years of experience, that this demand restraint causes high unemployment and recession. Hopes that the announcement of a new policy would so reduce both actual and expected inflation as to permit the policy to work without a serious recession have not been met. It is also recognized that during this period of recession the process of reinvestment and adaptation of the industrial base will not go on rapidly and that productivity will therefore not grow rapidly. These disappointments are accepted and the policy of demand restraint is continued in order to get the inflation down.

There is little doubt that a government could continue a policy of demand restraint long enough to end inflation. How long that would be, and how much pain would be caused along the way, we do not know, and the answer surely depends on the length and severity of the preceding inflation, as well as on its real and perceived causes. The British experience does not suggest that the period is short or the process painless. Fear is sometimes expressed that the process of ending the inflation will so weaken British industry, and so depress investment and destroy existing enterprises, that Britain will remain permanently impoverished after the inflation is ended. This fear does not seem realistic. If the American economy could recover from the Great Depression, and the German and Japanese from the devastation of World War II, the British economy can recover from the consequences of some years of anti-inflationary policy. The chief question about Thatcherism is a political one. Even if there is no less painful solution, will the British people tolerate this one or will they seek solutions whose painful consequences are less obvious and immediate?

There may be a Peter Principle at work in economic policy. The Peter Principle says that individuals progress in organizations to higher and more responsible jobs until they finally reach positions which are just beyond their competence. It may be that anti-inflation policies become more and more rigorous but never become sufficiently rigorous to cope with an inflation that is becoming more and more subborn.

Frustration caused by this race in which the forcefulness of policy never catches up with the difficulty of the problem leads to proposals for Shock Treatment to get it all over in a hurry, before governments have a chance to become timid or the private sector to become skeptical. The basic idea is that instead of aiming to get the inflation rate down gradually over the course of, say, five years, which is the usual target usually unmet, the government would aim to get the inflation rate down quickly—in a few quarters. That would be accomplished by severe monetary restraint, of whatever degree proved to be necessary. There would be painful consequences, resulting from existing wage and debt contracts which anticipate continuing high inflation. The pain would be compressed in a short period, however, and would be over before the government was under irresistible pressure to reverse its course. The sight of such a drastic policy would convince people of the government's determination to end the inflation and therefore of the need to renegotiate existing contracts. This process might be facilitated by legislation which required renegotiation of wage and debt contracts.

The idea of Shock Treatment is gaining increasing attention among economists who fear the failure of gradualism. It is not yet on any government's agenda. But spreading discussion of the subject, and thought of how to manage a policy of bringing inflation to a quick and definitive end, may help to make shock treatment an eligible option, preferable to comprehensive controls or economic collapse, if Reaganism and Thatcherism do not succeed.

The clearest lesson of this recital is that countries which are not yet far gone along the inflationary path should be sure to avoid or reverse any movement in that direction. It is much easier to do that than to get back to stability once the inflationary process is

well under way and embodied in public thinking. For other countries, notably the U.S. and Britain, the situation is obviously much more difficult. Still, despite what has been said earlier, there is reason for hope in both of these cases. There seems to be some tendency in American economic policy toward greater realism than was evidenced in the initial formulations of Reaganism. The proposal for a very large tax cut which created much of the worry about the possible inflationary consequences of the program may not be adopted and the Administration is being more cautious about leading the American people to expect that the inflation will be overcome quickly and without a transitional period of slow economic growth. As it becomes clear that the initial program is not causing that decisive change of inflationary expectations that was desired, the Administration and the Federal Reserve may yet undertake more persuasive commitments. Reaganism should not be regarded as a finished product but as an approach still in process of development. In Britain also there are signs of learning from experience how to carry out Thatcherism more effectively and the possibility remains that the program will survive politically.

The economic problems of the U.S., Britain and the other industrial democracies cannot be viewed complacently. But our economies are strong enough to survive these problems, understanding of the necessary policies is growing, and the public seems more willing to support those policies than has been true in the past, or than politicians thought was true. There is much for national leaders, public and private, to do, but the task of restoring stability and reviving growth can be accomplished.

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Performance of the Industrial Economies

	Rise of Output per Labor Hour - Annual Rate	
	1960-73	1973-79
U.S.A.	3.1%	1.1%
Canada	4.2	1.0
Japan	9.9	3.8
U.K.	3.8	1.9
France	5.9	4.2
West Germany	5.8	4.3
Italy	7.8	1.6

	Rise of Consumer Prices - Annual Rate		
	1960-73	1973-80	1979-80
U.S.A.	3.2%	9.2%	13.5%
Canada	3.3	9.3	10.2
Japan	6.1	9.7	8.2
U.K.	5.1	16.9	18.0
France	4.6	11.1	13.3
West Germany	3.3	4.7	5.5
Italy	4.7	16.8	21.1

	Unemployment Rate (% of Labor Force)		
	1960-73 av.	1974-80 av.	1980
U.S.A.	4.9%	6.8%	7.1%
Canada	5.3	7.3	7.5
Japan	1.3	2.0	2.0
U.K.	2.9	5.5	7.6
France	2.1	5.0	6.5
West Germany	0.7	3.3	3.3
Italy	3.2	3.8	5.9

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"How Can The Western Economies Put Their House in Order?"

Working Paper Prepared by Dr. Alfred Herrhausen,
Managing Director, Deutsche Bank A. G.

The way the global economy has developed over the more recent past and the way it is currently moving is characterized, to a growing extent, by imbalances and unstable situations. These disquieting phenomena often raise the very basic question: Are we, indeed, still and really in control of these developments? It is typical of today's discussion on this fundamental issue that discussion is polarized, with one party claiming that market mechanisms have failed dismally whilst the other party hotly maintains that the state and politicians just can't cope. Economic recipes—both theoretical and practical—on what to do conflict correspondingly, with some proponents calling ever louder for government controls and *dirigisme* whereas others claim that state interference is creating the very problems we bewail.

Economic processes and trends are normally too complex to be described in undifferentiated simplified terms and many solutions to the problems thrown up by such processes very often do not, therefore, come to grips with reality and produce the desired results.

Having said that, I do, however, subscribe to the opinion that there *are* certain basic patterns which subsist and continually shimmer through because these patterns and structures are, today, at the very bottom of all economic activity. I perceive these basic patterns in the struggle on how and to whom National Income is to be allocated—a struggle for rewards and benefits which, nationally and internationally, takes place at three different levels. This tussle for who gets what, or tug of war—call it what you will—is going to be the determining factor in economic developments in the years ahead and, to no small degree, in the social and political areas, too.

The struggles on the allotment of national income(s) can be listed as follows: (1) that between the public and private sectors of the economy; (2) that between the factors of production, labor and capital; and (3) that between developed and developing countries round the globe. What the outcome of these struggles will be, struggles which to some extent overlap, no longer depends on merely economic factors but, to an increasing degree and in all three cases, on power pure and simple, power as the sheer ability to dictate one's will to the other side. But where does this lead?

(1) First of all, we witness in many countries a continually growing share of *national income appropriated by the state* hand in hand with increasing state interference—and this includes countries whose economies are basically market economies. One of the reasons why this trend is so difficult to arrest is that existing theories unfortunately no longer adequately explain the realities of a changed—and changing—society. Classical ideas on the workings of a market economy, ideas to which politicians in the economic field geared their actions and which for a long time enjoyed international currency, no longer fully convince as to the desirability of a market economy. You see, the theory I am referring to assumes that there is such a thing as a framework with its well defined components and, in today's economic world, precisely the components of the "framework" are subject to continual change and modification—this above all due to the influence and power of organized interests, the pressure groups.

A number of bland assumptions have lost their credibility, assumptions such as: comprehensive, readily available information for all in the market place; infinitely rapid reactions by all market operators to changes in data, rational behavior by these operators and, as a result of this and of necessity, built-in equilibrium in the microeconomic context. What happens is that the theoretical coherence of the system becomes a prey to repeated and ever-new breakdowns and malfunctionings which then have to be

repaired by the state in order to contain matters and ward off a real catastrophe, the collapse of the system altogether. On top of this, we have the fact that many goods which were hitherto "private" goods undergo a metamorphosis and become "public" goods, and this means that the state has to engage in an additional reallocation in order to ensure social harmony. And there is a specific social pressure at work propagating this particular tendency; that is, in many countries it has become cheaper to promote individual — indeed selfish — interests by using politics and political institutions than to exploit the avenues offered by a market system for the improvement of one's position. We often see the state, therefore, being expelled, quite deliberately, from its role as guardian and preserver of a given framework into that of actively allocating welfare and benefits. The final stage in this sequence is the resurrection of Hobbe's awesome Leviathan. We are therefore faced with the urgent question: Can we do anything about this development?

Yes, but only if we are prepared to learn the lesson preached by Parkinson: that is, that the efficiency of a bureaucratic machine declines with increase in its size, whereas that of a market increases hand in hand with growth in the size of that market. Of course, it would be naive to jump to the conclusion that the main argument in favor of returning parts of the public sector to private enterprise is the limitations of the state or that limitations in the working of market mechanisms in themselves call for intervention by the state through its bureaucrats.

Be that as it may, wherever private enterprise is somewhat more efficient and cheaper, let it do the job. As Adam Smith said, the state in its role as guardian is much more acceptable than the state as a producer. But perhaps the question as to who does what is not the all-important question. Perhaps the way economic activities are organized in the two sectors is much more decisive. If the state, wherever possible, would apply the same organizational approach as private enterprise, it would then achieve a comparable level of efficiency. And a more efficient state could very well mean less state involvement generally.

(2) In the struggle over the apportionment of national income between the *factors of production*—labor and capital—we note that the social power wielded by monopolistic trade unions is increasing rapidly with the result that the social balance of power is now jeopardized. This situation is providing growing scope for unions to burden their opposing group, that is, the entrepreneurs, with costs which entrepreneurs cannot recoup in the market. This fact produces two concrete results: Materially, earnings shrink due to wage increases which outstrip productivity growth and, at the qualitative-formal level, the freedom to make and take decisions is hampered and restricted due to worker codetermination.

An additional aspect which has to be kept in mind is the following: Even if two collective forces of equal strength are pitted against each other, there is no guarantee that the colliding forces will exactly neutralize each other. This would only happen if the conflict of interests were to be fought out as a straight confrontation between the opponents. What can happen, however, and what often no doubt does happen, is that the "warring" groups defuse their conflict by quite deliberately arriving at a modus vivendi or by unconsciously adopting appropriate attitudes whereby it is left to some third party to foot part of the bill implicit in such consensus. An example of this strategy is the way in which, for years now, unions and employers have, through wage settlements, fueled inflation—that is, have passed on some of the costs of such settlements to other parties and, in particular, to parties whose money claims do not move with the level of prices. This approach makes life easier for the wage bargainers. The scientific view of the matter is then as follows: "The problem of how different groups—for instance, unions and employers—relate to one another is defused where friction occurs. The problem of intergroup relations will, however, then surface at some

other point within society. The favorable outcome in the struggle for a larger slice of national income is only pro forma at the expense of, e.g., the employer or union side. In reality, the gains achieved have been 'looted' from those social groups which have no defenses against depredation." In the final analysis, this boils down to a system of organized irresponsibility".[1]

Is there any way out of this dead end? It is not easy to find a satisfactory answer to this question. Within a free and democratic system at least, one cannot resort to force pure and simple as a means of regulating the relations between organized interests. The prospects of voluntary agreement by the various protagonists on some procedure for the orderly reconcilement of opposing interests becomes, however, all the more improbable, the clearer it becomes that, for the foreseeable future, there will presumably have to be some "belt-tightening." Where do we go from here? To proscribe the manifold and complex groupings and organizations would be a dictatorial and authoritarian measure; at the same time, it would be rash and irresponsible to accept a situation in which our welfare would, largely, be dependent upon the random clashes of organized power groups.[1]

The quest, therefore, for some other solution—a third solution—is inevitable and cannot be sidestepped. Such a quest was maintained in Germany for a spell and met with varying success. I am referring to an exercise that was labelled *Konzertierte Aktion* ("concerted efforts") and which took the form of a discussion between the trade unions, industry and the government with a view to improved orientation. Such exchanges were a component in the process of economic development, a third component within that process and complementary to the mechanism of the market and the struggles of the various pressure groups for a larger share of national income. "Concerted efforts" was an instrument which drew attention to the general welfare of the country and tried to impose some discipline on the forces just mentioned. It would make sense if these talks were reactivated.

(3) In the struggle between mature and developing countries on how income in the international context should be allocated—and the oil conflict is a feature of that struggle—we are faced with a situation of truly global dimensions. It is probably no exaggeration to maintain that this particular confrontation—alongside the East-West conflict—is and will remain a central issue for the foreseeable future. "The outcome here will determine what pattern of balance or tensions between the major zones of the world will eventually emerge."[2] This process could be decisive for the whole future of industrialized society. That is, and above all, it could be decisive for our own destinies. Why?

Well, you see, as the continents vie with each other, the rest of the world has achieved emancipation from the historical source from which it received its impetus leading to new developments. It was in Europe that industrialized society took its origin, in Europe with its rationalized structure geared to economic efficiency, with its technological systems, labor organization, division of labor and with its copious flow of goods. From the start, industrialization was bound up with the expectation that the system, our system, would spread throughout the entire world and that this global conquest would go hand in hand with a progressive "opening up" of the world generally, a world whose segments would, of necessity, be linked to each other in peace by means of trade and economic common sense. It was also generally held that that continent which had conceived of industrialization in a global context would reap the benefits thereof. It was similarly held that political leadership and cultural preeminence would also be there

[1] "Ordnungspolitik und interkollektive Beziehungen" in: Warnfried Dettling (Publisher) *Die Zähmung des Leviathan*, Nomos Verlagsgesellschaft, Baden-Baden 1980, pp. 173,184.
[2] Hans Freyer: *Theorie des gegenwärtigen Zeitalters*, Stuttgart, 1967 (DVA), p. 253.

where economic initiative was to be found. Progress was thus synonymous with the propagation of European ideas and ideals throughout the world.[3]

Let us take stock. Universalism has established itself. And for just under a century Europe enjoyed the lavish rewards of its industrial vigor. But this phase is now over, and the pattern of events is no longer characterized by the dominating role of Europe and America but by emancipation from such dominance. And it transpires that in a world which has shrunk together and in which industrialization is under way, conflicts and tension have not eased. Rather they are increasing. The spread of a secondary system has not effaced the pluralism of our world. At best, it has veiled such pluralism under a sort of skim. Under this veil, the aspirations of individual peoples and nations have really gathered momentum and are now being enunciated: The distribution of the benefits deriving from economic progress which favors the classical mature countries is to be modified and the global economy put on a new footing. This new order of things aims expressly at a revised shareout. Countries endowed with raw materials are now putting in their bills and impoverished countries lacking in resources are demanding aid—categorically. Charity will not do in this situation. We are not faced with pleas but with strident demands.

At the same time, I am no proponent of the "ethics of renunciation" about which one hears so much today and which preach that mature countries should "tighten their belts" and thus leave more scope to accommodate the claims of developing countries. In a recent O.E.C.D study, the point was made that "in coping with tomorrow's challenges, technological progress will be a prime determinant and not a peripheral factor." And we can expect technological progress to be achieved in future, too, mainly in those areas where a deep-rooted and long-standing intellectual tradition exists with a special aptitude for producing creative responses to new situations. This intellectual tradition is our inheritance, that of Europe in the widest sense of the word. This tradition cannot find expression in renunciation, in passivity. It calls for active and progressive application. This active approach is a must—and this is something Hans Albert[4] has drawn attention to—for the simple reason that the very tools with whose help problems can be tackled were developed, for the most part, in tackling earlier problems. We cannot allow the technological-cultural know-how embodied in the solutions devised by a society for earlier problems to lie dormant. It must be mobilized if it is to retain its vigor, mobilized not only in our own interests but precisely in the interests of the developing countries. The growth prospects of such countries depends, directly and indirectly, upon the (growth) impulses we can give. Our entire industrial and technological resources are—within the framework of the international division of labor—a prerequisite, too, for the progress of underdeveloped countries. Such industrial and technological resources—without which underdeveloped countries cannot advance—must continue to grow and this calls for a high level of innovation and for an even higher level of capital investment. Growth is and remains an imperative. In the absence of growth, we will probably not succeed in achieving a stable international economic system.

These observations, of course, say nothing about the nature and structure of the growth to be achieved. A call to simply increase the output of goods and services does not define these goods and services and tells us nothing about where these goods and services ought to be produced. Having established further growth as a desirable goal, the North-South conflict is reduced, speaking economically, to the problem: Who does what?

[3]cf. Freyer: Ibid, p. 252 et seq.
[4]Hans Albert: *Traktat über rationale Praxis,* J.C.B. Mohr, Tübingen, p. 24 et seq.

Are we going to be successful in finding a peaceful solution here? I feel this will depend very much on how convinced we are and also on how we manage to convince others that "solving crises by cooperation"[5] is the better approach. Short-term advantages to be achieved by resorting to confrontation are the greatest obstacle in this area.[6] In the final analysis and notwithstanding any temporary advantages, confrontation is productive of negative results. We must learn to think and act in a longer-term context.

Let me mention a related aspect: We will have to surrender a number of possible benefits to coming generations. Otherwise, the "outer limits"[7] will see to it that we actually have less to enjoy, the richer we become.

Another aspect is this: Global problems and issues call for global solutions and responses. Aggressive or isolationist bloc policies are an antithesis to this. In a world conceived of as a unity, something we are approaching more and more, nobody can escape the general destiny. A global approach to things is not synonymous with dull uniformity. The world is not a monolithic bloc. We need its diversity, a diversity in harmony.

It is not my intention to generalize unduly and, therefore, appear noncommittal. With regard to the burning problems raised by the question "How shall we put our house in order?", I would like to draw one single conclusion. One can take this conclusion as being representative of many others which could lead back to the distributional issues identified in my remarks. The conclusion is as follows: *A growing proportion of national income appropriated by the state, an increased measure of dirigisme, together with socio-economic group conflicts and the North-South problem, all go to promote inflation which is now virulent throughout the world.*

It can be proved—and has been demonstrated—that a nominal increase in the growth rate for consumption by the state goes hand in hand with a rise in the index of factor costs; competition for available labor and union power ensure that wage rates move upwards in a parallel fashion in both segments of the economy—in the progressvie area of private enterprise and in the nonprogressive domain of the state. And the increase in productivity in the private sector of the economy is the minimum for such upward movements. Normally, productivity in the public sector of the economy will lag behind that achieved in the private sector. This means that opportunity costs are continually generated in the public sector, costs which are not balanced by some real benefit. This phenomenon is often referred to as the "cost malady of the public sector" and has been pinpointed as a cause of inflation.[8]

A similar situation obtains in the struggle between labor and capital for a larger share of national income. Wage rate increases practically always outstrip growth in productivity and will certainly do so when the inflation rate is higher. In such a case, the trade unions strive to ensure that wages are maintained in real terms. This implies nominal wage increases at least on a level with the inflation rate. This means that all the time more is being distributed than is actually produced. This, of course, fuels inflation.

At the international level, we see something similar in the struggle for benefits. For almost 10 years now, importing countries have been faced with significantly steeper prices levied by oil and raw material producing countries. Importing countries have therefore very often taken measures which have been favorable to inflation: the transfer

[5]Mesarović/Pestel: Menschheit am Wendepunkt. 2. Bericht an den Club of Rome zur Weltlage, Deutsche Verlagsanstalt, Stuttgart, 1974, p. 134 et seq.
[6]Ibid.
[7]The expression was coined by Maurice Strong, Director of the United Nations' Environment Program.
[8]Rupert Windisch: "Staatseingriffe in marktwirtschaftliche Ordnungen" in Streissler/Watrin: *Zur Theorie marktwirtschaftlicher Ordnungen,* I.C.B. Mohr (Paul Siebeck), Tübingen, 1980, p. 307.

of resources in real terms meant a cutback in demand and a leak in liquidity. In order to balance this and avoid a fall in employment, some countries resorted to an increase in the domestic supply of money. This meant expansion in aggregate nominal demand within the economy and inflation gathered momentum. This, again, had repercussions on the exports of oil-importing countries. Their export prices climbed to the detriment of oil producing countries. The price of oil sank in real terms and the advantage enjoyed by oil-exporting countries in reallocation in real terms declined. Oil producers reacted to this chain of events by fresh increases in the price of oil. This, of course, was escalation to a new level and the next escalation is already in sight. Yes, in sight—unless people are prepared to recognize that the new share-out in real terms in favor of oil-exporting countries due to an increased oil price is inevitable and that, on the home front, there is appreciably less for employers, unions and the Welfare State to allocate.

This brings us back to where we started from. Further economic and political problems could be interpreted in a similar fashion: things like the national debt, deficits on current account, unemployment, a weak competitive position, protectionism and other issues which are characteristic of the current situation. Some of these issues will be dealt with in our discussion.

Before I close, may I make an observation on method: We live in an era faced with a multitude of acute and obvious problems and worries all crying for solutions. Some may feel that a very basic approach, such as the one I have adopted, is all too theoretical and out of touch with reality and that strong medicine, swiftly administered, in the form of effective crisis management is the more urgent need. Whether such medicine is going to do the job will depend very much on how thoroughly the causes of the malady have been diagnosed. Diagnosis, however, is a theoretical preliminary, a prelude to action. Walter Eucken, too—the founding father of the "Ordoliberalism" school of thought and of the German social market economy—first published his "Fundamentals of Political Economy" in 1940 before following up with his "Principles of Economic Policy" in 1952.

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DISCUSSION

Discussion of this topic revolved around the contrasting views of the two working papers. The German author focussed on the distributional struggle—at the national and international level—among "well-muscled pressure groups," which had largely superseded the workings of the impartial market. The state itself was increasingly active in the market, no longer limiting itself to establishing a framework. At the same time, wage bargainers—especially trade unions—aimed to improve or sustain the real income of workers even in the face of declining output. In short, we had become preoccupied with the distributional function of the economy at the expense of allocation and stabilization. Our problems—inflation, unemployment, slow growth, price instability, external disequilibria—were traceable to that, and we had to get away from squabbling about how to divide the pie and to concentrate instead on how to make it larger.

The American author agreed on the need to revive real growth in production, but he emphasized that, in his country anyway, the distributional changes of the last generation had been supported by a general consensus. Taxing, spending and regulatory programs had been undertaken with faith in never-ending high growth. Those policy errors could now be recognized, and therein lay the hope for their cure.

President Reagan's economic program offered an example of one country's current attempt to put its house in order, and this was the subject of extensive discussion. Several American participants alluded to the mood in their country favoring economic

reform: government's share of the national product was seen to be too big, government regulations had become onerous and expensive, and confidence in the "fine tuning" of the economy had been lost. People were prepared to support whatever measures were necessary to bring inflation under control and to bolster the nation's military position. But this program would involve short-run sacrifices, and there was disagreement in the U.S. about how these should be apportioned among the citizenry. It had to be noted, first of all, that even among those who supported the rest of the Reagan program there were reservations about the wisdom of the proposed personal income tax cuts (or, more accurately, reduced tax increases). It seemed like a gamble with unattractive odds. If the Administration turned out to be wrong about people's propensity to invest their tax savings and thus stimulate the economy and gross tax receipts, the country would be hard put to get rid of persistent inflationary budget deficits. Business tax cuts might be a more straightforward way of promoting productive investment.

Other American participants expressed broader opposition to the Reagan program, alleging that increased defense spending was to be financed by unjustified cuts in social programs. During the interval while we awaited the translation of investment into jobs, food and shelter, what would be the fate of the American poor—not just blacks and Hispanics, but whites as well? A national budget was not the same as a private enterprise budget. It was a public document shaped over years by philosophical concepts. The Reagan program was unfair in that the burden was to be inequitably shared. It was an ideological budget that went beyond the economics of "getting the house in order." One participant said that President Reagan's 51 per cent of the vote was "not a mandate to turn back 50 years of social history."

A rebuttal to this was that the social programs being cut were ones that most people felt were not effective, and not worth their cost. Moreover, the main approach would not involve cutting out whole programs as much as reducing eligibility for them. A substantial stimulus to the economy would result from reducing the cost to business of complying with government regulations, which was estimated at $120 billion a year.

Some European participants voiced concern about the Reagan program, notably that defense increases combined with tax cuts would prove inflationary. Could one really count on changed expectations to produce a change of behavior? Had sufficient account been taken of the consequences to the world trading system if the program failed? A Canadian and an American expected President Reagan to make full use of his leadership to mobilize public opinion and to bring about attitudinal changes, especially regarding inflation.

The state's growing share of the gross national product was causing concern in all of our countries. In Sweden, for example, the public sector budget had risen in recent years from 43 to 65 per cent of GNP, with a very negative effect on the economy. Austria seemed to constitute the exceptional example of a high public sector combined with relatively low inflation and unemployment, but it was pointed out that the public sector there was large not so much in terms of the annual budget as in state participation in industry—which was nonetheless run on a businesslike basis. The relationship between the size of the public sector and the inflation rate was not entirely clear. Certainly, budgetary deficits contributed something to inflationary monetary policy, but the most damaging effects of a growing public sector were not nominal but real: the diversion of resources from more productive uses and the disincentive to investment caused by repressive tax levels. The percentage of GNP taken by taxes was not an accurate measure of the public sector, though. Many public sector goals were being achieved by mandating private sector spending, which never appeared in government appropriations (e.g., the U.S. Clean Air and Water Acts).

A Belgian was troubled by implications that we faced a rather brutal choice between an unbridled market economy and a statist economy (or "organized irresponsibility" as

it had been called). This was like a choice between cholera and the plague. The state need not aim to replace private enterprise, but each sector had a role to play.

The decline in productivity and economic growth was arguably one consequence of the growth of the public sector in recent years. It aggravated our other problems, such as defense spending and unemployment. Growth rates were now flat at best in the U.S., and down in Japan, Britain and elsewhere. Other causes of declining growth varied from country to country, but they included inflation, energy prices, the cost of environmental and safety regulations, and changing values in society. A Frenchman viewed the break in growth rates as more than a passing phenomenon. It signalled a radical structural change. It would take time and effort to define a new type of growth, based in part on cybernetics and the biological sciences. The capitalist world needed a "bold new program" to counter outmoded Marxist doctrine.

But, as an American pointed out, there were rigidities and irreversibilities in our system which could not be corrected without considerable pain. It would not be as easy to retrieve our lost productivity as it had been to dissipate it over the decades. Although we could not expect miracles, the emphasis on enhanced productivity and growth through the "old time religion" of economic orthodoxy was to be welcomed. Some Europeans, however, were uneasy with the overtones of "supply side" economics. The "stagflation" of the seventies had changed economic behavior in ways that were not yet fully understood. The "semireligious aspect" of both monetarism and Keynesianism were simplifications of the past, according to an Austrian. His country—like Germany and Switzerland—was skeptical of high interest rate policies, with their depressing effect on housing and energy development. The best approach was a policy mix with accents on fiscal restraint and an incomes policy supported by the social consensus. A Briton agreed that demand management was still a necessary instrument in combatting "stagflation". But prescriptions that worked in one country would not always work in others. American productivity could not be boosted by starting the day with calisthenics and group singing as in Japan, and some of the Austrian practices might not be successful abroad.

Political aspects. None of our countries, though, could expect to get its economic house in order without some measure of social consensus. It was the misfortune of political leaders that they were often unable to mold or to hang onto that consensus long enough to see the vindication of what were essentially sound economic programs. Presidents Ford and Giscard were cited in this regard, as was Mrs. Thatcher, who was seen to have lost a valuable 18 months before coming to grips with the cost of the public sector. It was important, then, that Mr. Reagan move vigorously before the political cycle turned against him.

Would the center hold? That was the key political question for the eighties, according to an American. If people found no credible explanation for inflation, unemployment and slow growth, they were apt to look for scapegoats and villains, with the risk that implied for our democratic processes. If our leaders wanted public support in the task of putting our economic houses in order, they had to consult with the citizens and enlist their understanding. In the debate about inflation, for instance, we had to break out of the narrow framework of economists who put all the blame on the central bankers. The results of the French and U.S. elections showed that people were looking for a new faith. The consequences of their not finding it would beset us throughout the decade. As other speakers said, we had to be skeptical about the alleged limits of political feasibility and tolerance. In the long run, good economics made good politics.

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IV. PANEL ON CURRENT INTERNATIONAL ECONOMIC ISSUES

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"Current International Economic Issues"

Background Paper Prepared by Jhr. Emile van Lennep, Secretary-General of the O.E.C.D.

(1) *General.* The links between economic policy and foreign and security issues are stronger than before. Equally the management of the economy (inflation vs. unemployment, etc.) brings economic policy close to the heart of the policy debates on maintenance of democracy and of the market system. Although problems have changed and have become more political, the existing international economic institutions should remain the framework for consultation and action.

(2) *Economic policies and trade.* For the industrial democracies there is no way to avoid a painfully long period of too high unemployment. It is essential to prevent the resulting pressures from leading to a further erosion of the market system. Increased protectionism, subsidization of employment, etc., will make the inflation problem worse and the prospects for a sustainable economic recovery doubtful. Export credit competition has escalated during the past year; this should be brought under control.

(3) *Japan.* There have been criticisms in the U.S. and Europe of Japanese export policies. It might be more appropriate for the U.S. and Europe to accept free trade with Japan despite the differences in productivity performance, working hours, etc. These differences will be corrected by real income and exchange rate changes. For her part, Japan should accept real income and exchange rate changes, as well as making an added effort in such areas as aid to developing countries, and thus assume the kind of responsibilities in the functioning of the multilateral economic system that corresponds to her economy power.

(4) *Interest rates and exchange rates.* There is a strong common interest both in reducing U.S. inflation and in enabling low inflation countries in Europe to moderate the rise of unemployment. The U.S. authorities are right in insisting on the essential role of monetary policy in bringing inflation down. The Europeans are right in asking for less volatility of U.S. interest rates and a smaller U.S. budget deficit.

(5) *Energy.* Higher energy prices have made a major contribution to reducing energy and oil use per unit of GNP. For the coming years, it is likely that there will be a balanced situation in the oil markets leading possibly to a period of declining real oil prices, benefitting our economies. In this period, industrialized democracies should avoid the kind of complacency that we saw in similar circumstances in the 1970's; should strengthen considerably the policies on stocks in order to prevent another oil price shock; and should gradually take up contacts with the surplus oil producing countries in order to develop some common understanding and responsibilities for the longer term energy supply and demand.

(6) *East-West trade and payments.* There has been effective ad hoc cooperation among Western countries on financial assistance to Poland. There are, however, no systematic consultations on the evolution of East-West trade and payments relations.

(7) *Development assistance.* Industrialized donor countries should recognize that aid to developing countries can be motivated by humanitarian, economic and foreign policy concerns. It is not useful to argue whether one motivation is better than another. Instead we should concentrate on the effectiveness of aid in achieving its objectives. Development does not depend primarily on aid but on the policies of the developing countries. Aid should be linked more systematically to appropriate economic policies, trade

policies, treatment of foreign investment, etc., in developing countries. Donor countries should not leave this entirely to the IMF and World Bank.

(8) *Recycling and debts.* The recycling of OPEC surpluses to developing countries is going much better than many expected and this should continue though risks and uncertainties are considerable. The role of banks should continue to increase, but other flows, in particular through capital markets, direct investment, and above all the IMF, should become of increasing importance. Debts and debt service of developing countries are again rising. While some individual developing countries are in serious trouble and the days of borrowing at negative real interest rates are over, there is no general debt problem.

(9) *The international economic order.* Industrialized countries should, of course, contribute to reducing the particular weaknesses and vulnerabilities of the developing countries. Developed and developing countries also have a common interest in promoting an open trading system, productive investment, transfer of technology, and proper sharing in the international decision making. However, the industrialized countries should also identify much more systematically their own interests and responsibilities with respect to the vulnerabilities in the functioning of the world's economic system. These include energy, access to strategic materials, as well as food security, fragility of the financial system, risks to the world's eco-system and social and cultural tensions in rapidly changing societies in developing countries. These issues are not "North/South issues" but the industrialized countries should together identify the actions they can take and the countries (developing or socialist) with whom they might cooperate to achieve their objectives in relation to the different specific issues.

(10) *The North/South dialogue.* The O.E.C.D. countries have in principle accepted the idea of "global negotiations" in the framework of the United Nations. These global negotiations are desirable in the eyes of many; others think they are not desirable but unavoidable. More should be done by the industrialized countries to ensure that these negotiations can be conducted in such a way and on such issues that both sides might derive satisfaction from the outcome, and that the solidarity of the industrialized countries can be maintained during the negotiations.

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DISCUSSION

East-West economic relations. A German participant summarized the proposed gas pipeline agreement with the Soviet Union, which was expected to be concluded in the autumn of 1981. It followed the format of existing Russian contracts with Germany, Italy, France and Austria, but was much bigger in scope. The USSR would supply Western Europe with the equivalent of 30 million tons of crude oil a year—or 600,000 barrels a day—for 25 years, beginning in 1984-5. The Soviets would bear about 90 per cent of the total investment in the project (the transport system alone—from Western Siberia to the eastern borders of Western Europe—costing $15 billion). In return, Russia would earn by the second half of this decade more than $10 billion annually in hard currencies, a not inconsiderable help to her economy. The Russians would purchase pipe, compressor stations, and other equipment in Western Europe, against credits for 13 years or less, on which the interest rates were still under negotiation. Assuming Western Europe's energy needs in 1989 were covered 17 per cent by natural gas, and 25-30 per cent of that were Russian, the degree of energy dependence on the USSR would be only around five per cent. So if the Soviets cut off the supply for political reasons, the effect would not be dramatic.

An International speaker referred to the "marked lack of enthusiasm" in some quarters about this deal, as it was bound to affect attitudes toward dealings with the Soviet Union, especially in the Federal Republic. A Frenchman found it completely inconsistent with the feelings of mistrust about the Soviets expressed in the previous day's discussion. Others pointed out that no energy-importing country could avoid risks, and that on balance this contract involved tolerable risks that were less disadvantageous than some of the alternatives, such as undiminished dependence on OPEC. In Russia, the deal appeared to have the approval of both the neo-Stalinists and the technocratic modernizers. Was not some degree of economic interdependence a sensible element of East-West policy, an incentive to Soviet restraint? Unfortunately, most European countries were too often unwilling to talk multilaterally about East-West economic relations for fear of losing trade. So in general there was no clear impetus away from bilateral dealings.

Energy. Recent talk of an oil glut had led some to predict that a period of declining real oil prices might lie ahead. An American disagreed, pointing out that excess usable commercial inventories were now probably no more than 10 days' worth. It was not the physical facts of the situation that had changed so much as the perception of the need for inventories, and perceptions could suddenly change again with events in the Middle East or even in the U.S. Congress. In the longer run, there was still greater uncertainty, as perhaps half of all production by the year 2000 would come from reserves not yet found. All this suggested that the trend of real oil prices was up, though probably not at the 29 per cent annual rate of the late 1970's.

Japan's performance posed a number of problems for the world economy. Virtually all of her growth in 1980 had come from a surge in exports; this year it would come more from domestic demand, which was healthier. The proper response to Japan's success was not trade restrictions and bilateral deals. Japan had to be kept in the multilateral system and persuaded to adjust by way of her exchange rate and domestic demand level. We did not have to imitate the Japanese in order to have free trade with them, according to an International participant. An American argued, though, that we had to try to learn from the Japanese, who had a superior management system. If one laid down 10 criteria for well-run industrial companies, the Japanese would probably reflect more of them that the rest of us. The role of government in their success had been exaggerated by their critics. Unless we learned to compete effectively with them, the threat of protectionism loomed. Another American suggested, though, that the Japanese may have become champions in a dying sport: heavy industrial capacity, which might be "the wave of the past."

Trade and protectionism. We were on the brink of an export credit subsidy war. It was a waste of resources to spend national budgetary funds to try to get export orders away from other countries, rather than trying to increase employment and productivity. Unless some sign of agreement appeared soon, the Reagan Administration seemed prepared to leave the system and move to unlimited subsidization, which would benefit no one.

Interest rates and exchange rates. One had heard a lot of talk lately about the dollar strengthening because of higher U.S. interest rates. But an American was troubled by the overemphasis on interest rates as an explanation for the course of recent history; many other influences had been at play. The enhancement of the dollar's value meant simply that the arbitrageurs would ensure a widening of the margin between spot and forward rates of counterpart currencies, such as the DM. And that widening could be achieved either by lowering the spot value of the DM or by increasing its future value. To predict which of these would happen, one had to analyze the fundamental factors beneath the surface. Perhaps the market had been doing a better job in the foreign exchange field than it had in Wall Street in judging the future.

Some Europeans were concerned about the "interest rate war." A Briton saw it this way: International liquidity tended to flow toward the countries with high interest rates, i.e., those which sought to combat inflation, not by controlling the growth of money, but by keeping its price high. That in turn pushed up the value of their currencies, which left comparative monetary performance as the only factor that had no effect on exchange rates! In this sense, the market was "rewarding vice, not virtue." The combination of a high dollar, high interest rates, and high oil prices was having a depressing and disruptive effect on the world economy, particularly for the oil-importing LDCs.

A Belgian sympathized with the plight of the Americans, who were "damned if they did and damned if they didn't" in their exchange rate policy. But could the U.S. really expect increased military spending from allies whose economies were being throttled by excessive interest rates? An American referred to foreign demands that his government "do something" about the interest rate, the exchange rate, the inflation rate, the unemployment rate and the growth rate. This was a classic case of an insufficiency of instruments. The U.S. Administration felt that the government should intervene to achieve those objectives that could not be well served in any other way, and to let the market function in such areas as exchange rates and interest rates. A Swiss intervention advocated a middle ground between fixed exchange rates and the detrimental "benign neglect." A German responded that such a flexible band was synonomous with the "managed float."

Recycling and debts. The private capital and credit markets had done a remarkably good job in dealing with the international imbalances following on the breakdown of Bretton Woods and the oil price rise. The net size of the Euromarket had quintupled over the past decade, from $150 billion to $750 billion. (On a gross basis it was probably twice that big.) But it was questionable whether the market could cope as well with the effects of future oil price increases. We had to be careful about the degree and timing of pressures which might be applied by the IMF, the World Bank and others on developing countries for domestic adjustment. It was commendable to try to "sell" the market system to those nations, but pressures brought to bear on them in an extreme or indiscriminate way could jeopardize hopes for the democratic system in the Third World.

A Greek speaker called for increased recycling of funds through direct investments, as some of the Arabs were doing in India. A flow of funds to places with a receptive attitude could help transform technology transfers into high productivity growth, resulting in greatly expanded markets for the developed countries.

The North-South dialogue. An American participant said that most members of the new Adminstration were profoundly skeptical about fashionable theories concerning economic and political development. Contemporary modes of dichotomous thinking opposed, for example, North to South, East to West, developed to underdeveloped, in the same way that academics had spoken for years of bourgeois vs. proletariat, elite vs. mass, capitalist vs. working class, etc. Instead of illuminating reality, these grand theories tended to distort it. They were more useful for propaganda purposes than for policy making, because economic development problems were specific to a particular time and place, and solutions to them had to be similarly specific. It was not helpful, in thinking about the Third World, for instance, to lump together the Chinese merchants of Southeast Asia, Indonesian peasants, Indian villagers, oil-rich Arabs, Latin American slum dwellers, aborigines and nomads—and then to expect to come up with some sort of policy relevance.

One could be skeptical also about theories linking economic development and political change. These things were related in indeterminate ways, and it was unbecomingly immodest to presume that political democracy was likely to be nurtured by certain economic policies. Most grand dichotomous theories of history reflected a blend of utopianism and guilt.

All this did not mean that the Reagan Administration favored bilateral approaches, but it did suggest that the emphasis would be on policies tailored to concrete situations—contextual rather than global, experimental rather than dogmatic, piecemeal rather than holistic. In short, we needed more complex models in the North-South dialogue.

This implication of "total ad hocery sent shivers down the spine" of at least one International participant, who feared it would spread around the globe and mask selfish unilateral policies. Others who had nothing against a pragmatic approach in principle argued that we had to come to grips with a practical political reality: Whatever the differences among the developing countries, they shared a mood of rising expectations, and they would continue to act together in the Group of 77 (which now numbered actually 120). These countries were important to us for practical economic reasons: as sources of raw materials and as future markets. Moreover, the ex-colonial powers not only knew these peoples well but felt a moral obligation toward them. (The Europeans saw their Lomé Agreement as a kind of burden-sharing with North America of the worldwide responsibility for geostrategic stability.) Even if we did not subscribe to all the demands for a "new economic order," we had to pursue global negotiations with these people, and it was essential that these negotiations be well prepared. We could not just flatly reject their rhetoric; we had to demonstrate a change of heart. The tone with which we dealt with them was important, and current U.S. attitudes and styles were worrisome (even though they might be attributable to budgetary constraints). "We've got to walk on tiptoe here," as one Briton put it. An American, who sympathized with the development aims of the Group of 77, asked nonetheless if we should not expect from them—if not support—at least some recognition of the complexity of political issues. It was statistically improbable, for example, that in UN voting the U.S. was always wrong and the USSR always right.

Our cooperation with the Third World did not have to be confined to global negotiations, however. There was room for bilateral and trilateral arrangements, and the unique role of multinational companies in accomplishing technology transfers was mentioned.

International economic cooperation. The role of summit meetings as an instrument of consultation and cooperation was the subject of lively debate. One view was that they were indispensable, and should be longer and better prepared. Another was that, on the economic side, their agendas should be limited to a few specific issues (although an objection to that was that many issues were intensely interrelated). This provoked the further suggestion that the economic agenda at summits "should be held down to zero." The speaker could not imagine that leaders of the major powers did not know exactly what they wanted to do, or that they would be influenced by others.

On the subject of international economic cooperation in general, one school of thought was that it often led toward *dirigiste* solutions, and toward harmonizing at *average* rates instead of emulating the countries with the better performance. We needed less government intervention in the market place. Rejoinders to this were that the market did not always know best, or that "it knew the wrong thing" (e.g., the evolution of the exchange rate of the pound in recent years). Other speakers took a less dogmatic approach, advocating international economic cooperation where it was necessary and feasible. The work of the OECD was cited as an example of successful consultation. The West usually performed better in cooperation than in conflict, according to a Portuguese participant. Big, medium-sized and small countries all had a role to play, which could not be fulfilled simply by the dictates of the "lords and masters."

The potential political consequences of our failure to resolve the present economic crisis were cause for alarm. The "healing process" might be too slow for our democratic systems to endure, a Dutch speaker said. If we indeed required "shock therapy," a summit meeting could lay out the lines of action and entrust the administration of it to "the experts."

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V. DISCUSSION OF CURRENT EVENTS

Foreign policy prospects under the new U.S. Administration. An American participant sketched out the background of the recent U.S. election, and indicated some lines of direction for the future. President Reagan's abnormal landslide was doubly significant as the Republicans had been a minority party since 1932. He had been a "long shot" candidate, representing neither the business nor political establishments, and had built his own coalition, including many voters not traditionally attracted to the Republican cause. Probably the crucial issues had been economic—inflation, unemployment and excessive government regulation—but a dramatic turnabout in foreign policy had also been foreshadowed. Polls showed that a large majority of voters favored higher defense spending and a larger role for America in the world. This marked the end of the post-Vietnam mood of national withdrawal. America had passed through an "identity crisis" which had lasted a decade and a half. There was a palpable new self-confidence in the country, not unlike what had been felt in France in 1958. Although foreign policy had played a significant role in the election, the extraordinary concern since then with domestic affairs reflected the Administration's conviction that a restored U.S. role in the world had to rest on a restored economy. But reinforcing the alliance through close, detailed consultation had a high priority, reflecting the view that Soviet expansionism was the greatest threat to world peace.

How did the new Administration intend to approach its handling of foreign affairs? "Carefully" was the answer. Policies for Africa, for Central America, the Persian Gulf, the law of the sea—all were under review. The principal outstanding question concerning America and its allies, the speaker concluded, had to do with Europe's role outside the NATO alliance area, where the threats to supplies of oil and other natural resources was greatest.

A Dutch participant intervened to say that unfortunately there was little time for a leisurely review of policies by an incumbent administration. That was more appropriate for an institute like Brookings.

Another American speaker contrasted the change in Senate chairmanships with the strong continuity of foreign policy personnel from previous administrations, which suggested that the U.S. remained committed to the world responsibilities it had assumed over the years. A compatriot remarked drily that Republicans "took some getting used to" but it was worth the trouble, as they would be more powerful after the Congressional reapportionment based on the 1980 census. (Over half the U.S. senators, incidentally, had held that office less than five years, a significant change from the old days.) To use a football metaphor, American politics was played within the 40-yard lines, i.e., it moved back and forth no more than 20 yards on a 100-yard field.) Some clue about the likely direction of U.S. foreign policy could be drawn from these Administration views: (a) that the eighties would be a most dangerous decade as the Russians—pessimistic about their longer-term prospects—would be more tempted into risky adventures; and (b) that the preceding Administration had gone further than any other in cultivating the Third World, and had failed. But we should not expect the draft to be restored—within the first few years anyway—by an Administration which decried coercion, and which felt that improving the reenlistment rate was the key personnel problem for the U.S. forces.

The discussion brought forth a wide variety of reactions from non-U.S. participants. America's new-found self-confidence was welcomed. Its European allies had been longing not so much for any particular point of view from the U.S. as for clarity and constancy. Some thought that the Carter Administration had done a good job of consultation, and fears that the new Administration might not do as well had been allayed. One could not yet be sure exactly what the Reagan team stood for, but they

seemed willing to keep an open mind until after consultation, which was encouraging. There was still a danger of polarization on some issues, though, and the way the U.S. chose its words and presented itself in the months ahead would do much to determine "whether the alliance remained respectable." For all the talk about pragmatism, this Administration seemed markedly more ideological than its recent predecessors. Ironically, President Reagan was likely to be criticized for doing what Europeans had for years advised the Americans to do: be less concerned with their image and their popularity.

In answer to some specific questions, an American participant replied (a) with respect to China, that the U.S. would observe the requirements of the Shanghai Communique and the terms of the Taiwan Relations Act; and (b) that the new Administration, which was rethinking a number of foreign policy problems, would not be stampeded into action until it was ready to act. It hoped that this would be understood by its allies, with whom it was prepared in turn to be patient.

Analyzing the French election results. A Frenchman reviewed the implications of the recent elections in his country. The causes of President Giscard's defeat—because it was that more than a victory for M. Mitterand—were manifold: the economic crisis; the split in the majority; the strategy of M. Chirac; and the accumulated effects of many years in office.

If, as seemed most probable, the left prevailed in the legislative elections, President Mitterand could not avoid putting into operation his campaign program, with all that that implied. One could only hope that he would try to limit the risks of precipitate action that would cause disequilibrium. It was a mistake to expect that M. Mitterand in office would be radically different from M. Mitterand in opposition. As perceived by the French speaker, his philosophy was essentially Marxism tempered by Keynesianism, with a strong dose of suspicion about "big capital." One could count on an early stimulation of the economy, with an accompanying increase in GNP, consumer spending, and the size of the national budget. This risked setting off a new round of inflation. There would be an emphasis on protectionism and the nationalization of certain sectors.

On questions of foreign policy, it was harder to make predictions. The criticism which M. Mitterand had addressed to President Giscard about the Polish situation presaged a certain firmness toward the Soviet Union, but that would be balanced by other tendencies. The country's natural interests would help maintain the Franco-German relationship, but one had to admit that the charm had been broken. M. Mitterand favored the enlargement of the European Community, as a "club" to which any democratic country could aspire, although there was no doubt that he would like to see it more socialist. He would not feel exactly at home with his policies in contemporary Britain or Germany. Human rights would be more heavily stressed, and policy changes had already been announced about South Africa and Central America, which paralleled in some ways President Carter's early program. But there was little likelihood of military intervention in Africa in the near future.

President Mitterand was fundamentally a nationalist, *un vrai français.* Although he had travelled, he was not at heart an internationalist, and his lack of knowledge of foreign languages would contribute to his feeling of isolation. He was not a man to back down in the face of reversals, and one could expect him to persevere in shaping his notion of the Fifth Republic. As for the French citizenry, they had immediately and calmly accepted the verdict of the election, which was evidence of their political maturity.

Crises outside the NATO area. An American reference to Europe's disinclination to get involved outside the NATO area led a Briton to recall the situation in the late 1950's, when British forces had been stationed around the world in defense of Western

interests. Among other factors leading to the withdrawal of those forces had been U.S. pressure. One remembered also Suez, and the repeated short selling of sterling on the foreign exchanges in those days. Current debate about the proposed intervention force should keep that historical background in view. An International participant lent his support to this statement.

An American speaker recalled that many senior officials in the U.S. administration at the time had had serious doubts about Britain's withdrawal from its overseas bases. Looking ahead, he said that the buildup of American forces in the Arabian Sea showed that both President Carter and President Reagan had understood how important the area was to the U.S., even if Europeans might be more dependent on it for oil. As long as the Palestinian situation remained unresolved, though, the Arab Gulf states would not permit the establishment on their soil of Western bases. But it would not be wise for the U.S. to seek to set up the kind of outposts that the British had had, for example, in Bahrain.

As the U.S. now shouldered the major burden for the security of that region, it was to be hoped that its allies would support American efforts to resolve the Arab-Israeli dispute, and would moreover bolster their own military efforts at home in Europe. Future consultation among the allies would be particularly important in other areas of the world, such as Iran, where the eventual passing of the Ayatollah Khomeini might invite Soviet intervention. And as the Afghanistan war continued, the allies ought to be consulting each other about aid to the insurgents, and about how to treat Pakistan, over whose territory such aid would have to pass.

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In his closing remarks, the Chairman observed that these discussions had underlined the fact that the Western democracies were going to be up against the greatest challenges they had faced since World War II. Each of our countries had a contribution to make toward safeguarding peace and welfare. We had to take advantage of the strength of our open societies, of their capacity to learn and to adapt to new situations and problems. The maintenance of freedom would require a readiness to sacrifice, determination and a strong will—above all the will of governments backed by national consensus. Achieving this would take a renewed daily effort.

Meetings like Bilderberg played a useful role in the forging of our will—not by mobilizing any particular sentiment but by helping to create a body of enlightened opinion, which was the mainstay of governmental action.

The Chairman concluded by thanking all those whose capable and generous efforts had assured the success of this meeting, especially the Swiss hosts, led by Dr. Victor Umbricht. An American spoke for all the participants in expressing gratitude for the Chairman's skillful work in presiding over the conference.

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