

**BILDERBERG  
MEETINGS**

**SANDEFJORD  
CONFERENCE**

**14-16 MAY 1982**

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NOT FOR QUOTATION

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# I. DIVERGENT POLICIES AND ATTITUDES IN THE NORTH-ATLANTIC COMMUNITY

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“Attitudes and Policy:  
How the Wealth Weapon Can Save the Alliance and Detente”

*Working Paper Prepared by Ben J. Wattenberg  
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History plays tricks. In this time of apparent disarray, a remarkable confluence of diverse global conditions offers the Western allies a long-cherished opportunity: to make genuine détente work. The same confluence of conditions, if ignored, threatens something else: the erosion and/or destruction of the alliance—and perhaps worse.

Consider the conditions:

## *I. The American Mood*

Surely, the political incident that shaped the 1980 election in the U.S. was the taking of the American hostages in Iran. The actual event itself, although dramatic, was unexceptional. It was not the first time, nor will it be the last, that thugs or fanatics will tweak the nose of a great power. What was remarkable, and revealing, was the American reaction to the hostage capture.

Consider: In 1968, in the *Pueblo* incident, other Americans were incarcerated by a third-rate foreign power. The crew of that vessel was held in a North Korean jail for 11 months. But the United States did not invade North Korea; it did not drop a bomb of any type on Pyongyang; it did not dispatch a Falklands-style armada; it did not even attempt a daring rescue-by-helicopter. President Johnson, in short, did roughly what President Carter did in Iran—somewhat less in fact—and it wasn't much. Both Presidents (correctly) negotiated to get our hostages freed without risking war.

When President Johnson pursued that strategy in 1968, the country was restive perhaps, seeking a quicker more muscular response, but it was surely a contained restiveness. The folk wisdom did not interpret the event in North Korea as demonstrating that America was “impotent.” It was not said that the event revealed that “the U.S. was not Number One anymore.” Angry voters did not growl “it's about time that America stopped getting pushed around all over the world.”

Yet a dozen years later, in roughly similar circumstances, that was exactly the reaction of the American people. A great political metaphor had taken shape; the 52 hostages came to be a national Rorschach test. Like the inkblots in the psychological exam, the real meaning of the event was in the eye of the beholder. And what the American people beheld was American impotence. They reacted with both rage and resolve. And those emotions played a major role in unseating Jimmy Carter in November.

These feelings—rage and resolve about perceived national impotence in the foreign arena—had been growing steadily in the dozen years between the two hostage-taking events. As the perception of the war in Vietnam changed from “winnable” to “unwinnable,” to “losable,” to “lost,” American tempers boiled.

As the decade went on, Americans heard about a great Soviet arms buildup, heard about Soviet-sponsored takeovers in Africa and Asia, saw America excoriated in the

United Nations, saw gas lines form at their corner filling station because the fruits of American technology, American capital and American markets had been turned against America by a collection of Middle Eastern potentates. The reason Americans perceived global impotence in the innocuous hostage situation was elementary: actual global impotence.

Americans boiled. They elected Nixon over McGovern; they applauded when our U.N. Ambassador Daniel P. Moynihan denounced the beggars at our gates. Americans simmered—and, accordingly, many of them saluted Ronald Reagan's demand that we not "give away" the Panama Canal, putting Reagan within an ace of the Presidency four years before it was actually to happen.

By the end of the decade, as the hostage situation wore on and on, as the Soviets marched into Afghanistan, American attitudes seemed to crystallize: *get tough again*. That attitude—in external and internal affairs, amongst both the public and elites—was in large measure responsible for Reagan's election.

It was an emotional attitude to be sure, but one that had a contact point in reality and in sacrifice. In the early 1970's only 10 per cent of the American public favored increasing the defense budget. By the end of the decade the figure climbed to 60 per cent. Not for the first time, and hopefully not for the last, American leadership responded to folk wisdom: Carter, elected on a pledge to cut defense budgets, ended up raising them. Reagan has, despite budget pressure, continued that policy, and upped the ante.

## II. The Credit Pusher and the Credit Junkie

As détente dawned in the early 1980's, there was comparatively little intercourse between East and West. The theory of détente, in a word, was to create bridges—economic, diplomatic, cultural, scientific, humanitarian. So valuable would these bridges be to the Soviets, it was reasoned, that they would hesitate to make mischief lest the bridges be burned.

Half of the policy of détente worked. The bridges were indeed built, particularly the economic ones. In 1971, the total indebtedness of Soviet and satellite nations to the West amounted to \$8½ billion. Just a decade later, in 1981, the sums involved are estimated at a level of \$80-\$85 billion—a tenfold increase in a single decade.

Russians, Poles, Romanians, Hungarians and Czechs bathed in a lavish flow of Western goods and services—almost all purchased with the aid of that ubiquitous, fungible, miraculous commodity: hard currency credit. The credits came from governments, from private banks, from banks guaranteed or subsidized by governments, from corporations, from corporations guaranteed or subsidized by governments—all with one common feature: the flow went from West to East.

And so it came to pass by the time of Reagan that the nations of the West, wittingly or unwittingly, had come to play the role of economic drug pusher. And it came to pass that the nations of the East became credit junkies: without their credit fix they could not eat or build, or drill for fuel, or earn—at least not very well.

## III. The Credit Junkie's Response

In the last dozen years, however, the Soviets have not responded according to the rules of détente. Some clichés are accurate: that the Soviets have gone through "the most massive peacetime military build-up in all history" is one such.

At the same time, and probably related to their new military potency, the Soviets have invaded one neighbor, repressed another, and pointed a new array of behemoth-sized nuclear missiles at the Western allies. They have used biological weapons in

contravention of international law, sponsored international terrorism, financed guerrilla invasions and encouraged second-party invasions. They have established new client states in Africa, Asia and Latin America.

Their expansionism and adventurism has in some, probably large, measure been financed by the self-same flow of Western credits. A domestic ruble, replaced by an imported dollar, franc or mark, may then be diverted to Afghanistan, Cambodia, Vietnam, El Salvador, Cuba, Angola, Ethiopia—or to a new blue-water navy, or an SS-20 missile pointed at NATO targets.

## IV. Is There a Plausible Response?

How could, how should, the allies respond in a way that accommodates both American attitudes and international reality? In the modern world there would seem to be four arrows in the quiver of statecraft: military, diplomatic, ideological, economic. The arrows in the quiver of the West today are blunted, warped, bent and unused.

*Military:* Our struggle now is to stay even, or get back to even. If there ever was a time when America and/or the allies could have their way in superpower relations, through sheer military might—that day is gone. It will not return.

*Diplomatic:* If there was a time when America and the allies could dominate and direct the civic activity of the nations of the world—that time, too, is past. Americans have become accustomed to seeing their nation used as a ritual punching bag at the United Nations, a generally useless and amoral forum, but one that reveals how the political land lies.

*Ideological:* There is much that can be done in the so-called "war of ideas," but we enter the contest with one hand tied behind our back. Soviet television does not show pictures of their dead soldiers returning from Afghanistan in body-bags; neither for that matter does Western television. But four murdered journalists or four slain nuns in El Salvador dominate our consciousness.

*Economic:* This arrow is different; it sits in the quiver: gleaming, straight, available—and unused. As the power and diplomatic balance in the world has changed, it has become clearer and clearer that the West's most potent instrumentality of influence is our economic potency: technology, capital, distribution, resources, markets. There is a wealth weapon.

## V. The Opportunity

Such, then, is the nature of our circumstance: finally a tough-minded leader of a newly tough-minded nation, an adventurist and often malign adversary, an adversary now hooked on economic heroin, and an available, plausible, effective and peaceful response.

And how have the Western nations responded? Cravenly. A Collapse Coalition formed on both sides of the Atlantic. In Europe, banks and businesses looked at the Polish situation and said, "business as usual." After all, there were high unemployment rates to consider, let alone the reputations of promiscuous loan-givers. And so, European governments issued statements of sympathy and outrage concerning the political situation in Poland—and signed on the dotted line for a gas pipeline that would provide a steady stream of Western currency to the Soviet Union. The same governments that were ready to use wealth weaponry against the Argentines over the momentous issue of the Falklands—found a dozen reasons why it would not be appropriate to consider it in regard to Afghanistan or Poland.



On the American side of the ocean a second grouping of the Collapse Coalition took shape. Richard Leshner, the President of the U.S. Chamber of Commerce, announced to President Reagan that his organization had carefully weighed business interests against American foreign policy interests and that he (Reagan) had better not tamper with the pipeline because it "will only aggravate further our already poor international reputation for reliability." The Chairman of the Chamber of Commerce, Donald Kendall, stated that pipeline politics amounted to a threat of "economic warfare," choosing not to comment upon what kind of warfare was going on in Afghanistan, or El Salvador, or Poland—or indeed what kind of warfare was threatened by new missile deployments.

George Ball responded to the pipeline situation more cosmically. It will not do, he says, for the leader of the Alliance to try to lead the alliance. Not only won't the wealth weapon work with the pipeline, but it never works, certainly not if America takes the lead. It does not work, Mr. Ball indicates, because it does not work: nations end up acting in their own selfish, or best, interests. Mr. Ball chose not to address the thought that perhaps the allies could be convinced this time to redefine what constitutes their best interests in a time of both crisis and opportunity.

David Rockefeller toured Africa and stated (according to the *Washington Post*) that the presence of thousands of Cuban troops and Russian advisers had no "direct bearing on American business operations in Angola. Clearly, it has not interfered with our banking relations." Dealing with socialist or Marxist countries, Rockefeller said, "really does not cause us any problem at all... We have found we can deal with just about any kind of government, provided they are orderly and responsible."

And then there was Thomas Theobald, Executive Vice President of Citibank—who, immediately after the Polish crackdown, said "Who knows what political system works? The only test we care about is: Can they pay their bills?"

#### VI. What Should Be Done?

And so, a golden moment slips past. As this is written (in early April), it appears as if there will be no halting the gas pipeline; the French signed on while Solidarity members were freezing in concentration camps. There is desultory talk about some limiting of *governmental* credits and guarantees to the Soviet Union and her satellites, or at least limiting government subsidies for credit. The argument is made that *private* lending will dry up by itself because of recent unhappy financial precedents in Eastern Europe. Banks, it is being said, will not loan to the East because they do not wish to make bad loans. Never mind about arms build-ups, invasions, repressions, terrorism, the Collapse Coalition seems to be saying in high moral dudgeon—the problem with those Communists is that they don't pay their bills on time.

But the logic of the present situation, keyed to American attitudes, Soviet adventurism, Eastern credit addiction and the related availability of the Wealth Weapon points toward a different policy with a different goal: *total Western inter-governmental control of the West-to-East credit tap*. A number of such ideas are now being considered in and out of government.

Suppose, for one example of how it might work, that a "water level" of credit were to be established, based on the commercial activity of recent years. Right to extend credit could then be granted to a consortium of lender nations by a proportional formula—and be ratcheted down—or up—as the political situation warrants.

Under such a general plan, credit to the East would specifically not be awarded primarily on the basis of credit-worthiness. After all, if banks and governments merely say that credits will be cut because credit-worthiness is slipping—there is no incentive for *political* accommodation by the East. In fact, there may be incentives for

even further adventurism: "do business with us or else you'll be sorry." Furthermore, there is little possibility of reward: A Soviet bloc that is demilitarizing, a Soviet empire that is shrinking, ought to get Western credit even if it is in financial trouble.

A West-to-East tap, or a variant thereof, could make a genuine détente work. It sets into place the second aspect of the idea of détente: every tap needs a spigot, every bridge a toll-booth. It would do this in a way that would neither embarrass nor humiliate the Soviet Union; neither rewards or punishments need be keyed to specific bargains.

#### VII. What Will Happen If No Action Is Taken?

Meanwhile that get-tough-again attitude still simmers in America. The public is convinced that the allies are malingering, that American toughness has been met with European limp-wristedness; that idealism has been met with decadence. One reflection of the mood:

Do you think the United States' allies in Western Europe are providing the right amount of support for American foreign policies, or don't you think the allies are supporting the United States as much as they could?	
Providing right amount of support	11%
Not supporting as much as they should	80%
Not sure	9%

(NBC News poll, Jan. 1982)

A CBS/*New York Times* poll at the same time showed that by a small majority Americans believed the U.S. should be more forceful, "even if it increases the risk of war." A plurality of Americans believe our sanctions of the Soviets have not been tough enough (NBC). An almost 2:1 majority believe that if further budget cuts must be made because of projected deficits, such cuts should come from non-defense rather than defense budgets. By 51-34 per cent, Americans want the CIA to have more power (Roper, 3/81).

And if in the Congress, the columns, or the White House there is a good word to be said for the business/bank position, this observer has been unable to uncover it. The Get-Tough-Again attitude in American politics is worth some further examination.

Toughness, when it reveals itself on the liberal side of the spectrum generally relates to internationalism: let's-join-hands-with-our-allies-to-save-the-world-for-democracy. But that is not necessarily the feeling as it seems to develop on the conservative side. Toughness there *can* take the form of internationalism. But the same get-tougher spirit can often yield an attitude of: "If no one appreciates us, we'll do what we want to do—alone." Or, even more severely: "the hell with the rest of the world." In a word, toughness on the right can yield isolationism.

These alternative reflections of the same central theme place American foreign policy at a tipping point today. The battle is no longer between tough and soft, but between tough internationalism or tough isolationism. The combat is played out in Congress regarding a Mansfield-type Amendment for troop withdrawals from Europe, in trade policy, in the State Department regarding aid to the Third World, in the United Nations regarding Law of the Sea and other issues. Tough together or tough alone.

New coalitions are forming. Business has a coalition partner, albeit an unlikely and ironic one: the old soft left. For different reasons they preach the same cause: don't be beastly to the barbarians.

But other, more powerful coalitions are forming, or are ready to form.

Consider: the Isolationist right and the New Politics isolationist left are no walking common ground: It's a big ocean, they say, let's have Fortress America. The internationalist Neo-Conservatives are talking about "global unilateralism." This is a different tradition from the isolationist one, but for different reasons both might prefer to redirect American strength away from Europe.

And there is the Welfare Left: they complain about too much American defense spending. But who will be the first to whisper in their ear that American defense spending must go up even further as and if the Soviet economy is propped up by European credits? Is it possible, the whisperers may whisper, that food stamps and college loans in America must be cut back because European bankers are craven at worst, short-sighted at best? (Perhaps the same person will whisper to Europeans that as the Soviets are propped up, our defense costs go up, so do our deficits, so do our interest rates, and so do European rates, aborting economic recovery on the Continent.) Sometimes it seems as if only poor Alexander Haig is left saying, "Let's try and wait for the Europeans."

It should go without saying that if America's mood of toughness is transmuted into an isolationist/unilateralist coalition, the two quickest losers will be the unwitting agents of its formation: European governments—and business interests on both sides of the ocean.

### VIII. *The Options Now*

The Europeans could respond to the mood of U.S. toughness by saying: "We wanted tough leadership for the Alliance, now we've got it: Hooray!" That option, alas, has gone by the boards, in some part because of American heavy-handedness. Or, the Europeans could simply say, "No." So far, as interpreted on the American side of the ocean, that has been the tone of the reaction. Or, the Europeans could say, "Obviously, our interests are not identical with those of America, but we understand America's view and we look forward to ways of mutual accommodation."

For starters, they could put America's tough President to a tough test. For he has been no glorious freedom-fighter himself: one of his earliest official acts involved cancelling a U.S. grain embargo that his allegedly soft-line predecessor had placed on the Soviet Union in retaliation for their invasion of Afghanistan. The Soviets now have Afghanistan *and* the grain.

No particular apology is offered here for Reagan's folly. In his favor, let it be said that he is now at least talking a good game. Test him.

### IX. *Combatting Decadence*

Instead, the Western governments, Western business interests, and Western media join together to dig a great hole which may well serve the function of self-interment. Collectively, we look at our economies and in a classic democratic orgy of overstatement and self-pity announce that things have never been worse and a depression is just around the corner. *That's* why we must continue the pipeline; we need the jobs, unemployment is *so* high. *That's* why we must give credit to the Soviets; we must get markets for our factories. *That's* why we Americans must sell grain to the Soviets; American farmers have never had it so bad.

The facts are different and do not yield a case for such self-inflicted blackmail. In Europe and the United States the data show only "a decrease in the rate of increase of economic growth." And even if one should accept the most gloomy, most overstated assessment of our current collective economic position, it comes out this way:

"Having attained the highest level of prosperity in human history, we are now on an economic plateau."

The nations whose citizens meet in Oslo at the Bilderberg meeting are not only the most prosperous grouping of nations in human history, but the most free, most innovative, the healthiest and—considered broadly beyond mere arms—the most powerful and the most influential.

Yet, when challenged, our nations dither in decadence, while we continue provisioning our adversaries. The case is made for "pragmatism"—to save 1,000 jobs, to ignore the Soviet roots of terrorism, to tut-tut the Poles. But if we cannot rally our citizens to protect and promote our common values, we may find ourselves asking two questions that the assembly in Oslo may choose to consider:

— Isn't idealism now the most pragmatic course?

— Are we sacrificing freedom on the altar of free enterprise?

Reference: *The Wealth Weapon* by Ben J. Wattenberg and Richard J. Whalen. Transaction Books, 1980

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"A European's Thoughts on the State of the Alliance"

*Working Paper Prepared by Henry Simonet  
Member of Parliament, Belgium*

1. Once again, the Alliance is a prey to misunderstanding, suspicion and reproaches. There is nothing new about that; it will probably happen again. But we should not allow the recurring character of these strains to mislead us as to the nature and seriousness of the underlying differences of opinion. It would be dangerous to look upon these misfirings in the machinery of the Alliance as the rule, while consistency of ideas and harmony of action are a blessed exception. "Every fit man is sick but doesn't know it," said Doctor Knock in the play by Jules Romains. But to apply this aphorism to the Alliance would be to minimize its crises, which are tending to become routine, with brief interruptions of understanding and confidence. It is true that any alliance by its nature often involves friction, especially in peacetime, when the enemy's direct threat is not sufficient to silence grievances and—with difficulty—stifle frustrations and grudges. It is even more liable to friction if it has succeeded in achieving the purpose that its founders set themselves, namely to maintain peace while safeguarding its members' independence against the common enemy. That is still the distinguishing feature of our Alliance and its great merit—great but less and less recognized, especially by the postwar generations. It is true that crises can be regarded to some extent as an index of health and vigor. But to treat them as passing episodes and accept them philosophically would be very dangerous to the Alliance's durability. Each of the crises that has shaken the Atlantic Alliance has of course had its own distinctive character, while sharing certain features with comparable earlier episodes. Yet it would be wrong to derive any consolation from the similarity between the current difficulties and those of this or that previous quarrel. Above all, I believe that a thorough analysis of the current crisis is essential because if it was to become endemic, the Alliance would probably not survive. Of course, it would not break up in a spectacular collapse; it would simply wither away through lack of substance, a

perceived common objective or a will to maintain a common destiny. Our American friends are apt to say nostalgically that "Old soldiers never die, they just fade away." It may seem out of place to apply such gloomy thoughts to the Atlantic Alliance today. But it is worth thinking about it.

2. It is worth asking a few questions, the reply to which might provide an insight into the nature of the present crisis and the special features that distinguish it from previous periods of strain and altercation.

First of all, do the Europeans still have the same concept of their security as their American (and Canadian) allies? Or, on the contrary, do the Atlantic partners have such different viewpoints of the dangers that they risk drifting apart?

Next, what would be the outcome of a unilateralist trend in the United States coupled with a European tendency to be isolationist about conflicts and clashes outside what Europe considers to be the perimeter of Atlantic solidarity?

This two-fold trend, which derives from different approaches, but is parallel in its consequences, cannot be ruled out as an academic hypothesis.

Next, can it be assumed that the balance of political, strategic and economic force between the superpowers, between them and their allies and between the democratic and Third World countries has withstood the passage of time sufficiently well for everything to revert to normal once the storm is over? Normal would of course mean that the disputes would go on but without major risks to the cohesion of the Alliance.

There are of course a good many other questions that should be put in any analysis of the "state of the Alliance." But they are not easy to frame and above all it might be unwise to put them too clearly. A short time ago, Mr. Brzezinski defined the balance of power between the United States and the USSR as "an ambiguous equivalence." Without wishing to pass judgment on this diagnosis, I will confine myself to putting a question and then a secondary question:

1. Have not the Alliance—and especially the nature of American strategy where Europe is concerned—and the degree of commitment of the European partners become "ambiguous" also?
2. If that is true, is it better to allow a certain ambiguity to continue or to put an end to it?

Of course, any human organization has a tendency at some time or other in its history to need a certain ambiguity if it is to withstand the contradictions that cannot be sorted out in the immediate future. But it is reasonable to doubt whether the Alliance can continue permanently in a state of ambiguity over, for example, the strategic doctrine of the United States and its extension to the Alliance, or over the "code of rewards and punishments" to be observed by the Alliance in dealing with the Eastern countries (including the USSR) in accordance with their behavior. Are the Europeans inclined to lean towards the positive part of the so-called "linkage" policy<sup>1</sup>, whereas the United States is apt to emphasize the punitive aspect?

3. If we set out to define the European positions more clearly, looking beyond the public statements made with varying emphasis, the ambiguity does not disappear. In practice, the Europeans' attitude towards the "détente-defense" diptych is less clear-cut than the United States would probably wish.

<sup>1</sup>In fact, are the acrimonious exchanges between the partners triangular? At first sight, no. United States-Canada on the one hand and United States-Europe on the other, whereas the Europe-Canada diptych seems to be more harmonious. But the Canadians' silence should not be taken to mean agreement with their European allies on strategic matters.

<sup>2</sup>Which is then regarded as a way of relaxing the subjection of the East European countries to the USSR. The developments in Poland show how necessary it is to have a common, in-depth analysis.

In some quarters there is certainly a willingness to find explanations, not to say attenuating circumstances, for any infringements by the USSR of the code of détente, whether written (e.g., in the Helsinki treaty) or tacit. As in previous cases of tension, there is the same suspicion on the European side that the United States will take its decisions unilaterally and without any genuine prior consultation. It is even argued sometimes that domestic considerations come first. The Europeans have not been slow—rightly or wrongly is not the question for the time being—to retort to the Americans when being reproached by them for concluding contracts for the supply of gas with the USSR, that the Americans were not so fussy when it came to exporting grain.

4. The relative strengths of the super-powers and of the allies themselves have changed over the past 15 years without the fact being fully realized by public opinion in general. Where their security is concerned, the Europeans continue to assert, with relative unanimity, that their own is bound up with that of the United States. In other words, there is no danger that the politico-strategic link, which is the whole basis of the Alliance, will disappear. Nevertheless, voices are being raised in Europe by what is undoubtedly a minority but one that has powerful backing from the organization of its supporters, to preach the anti-nuclear gospel. Of course, their message is grossly over-simplified, but it appeals to a large segment of public opinion. The Euro-American divergence emerges in other words—in the Europeans'

- (a) analysis of the political and economic environment governing their security. They charge the United States with being dominated by an adversary relationship with the USSR, which in their view affects the US judgment of situations in which the endogenous factors are more important than East-West rivalry. The fact that some of these criticisms are not always unbiased (e.g., the insistence of the European Left on calling down a plague on "both imperialisms") naturally does not make the United States more inclined to listen readily to criticisms of this kind.
- (b) in the Europeans' perception of the conditions governing their security. For them, defense and security are multi-dimensional—in other words they are not solely a matter of arms and equipment. The political and economic dimensions seem to them to be equally important, both as a *condition* and as a *means*. As a *condition*, because social stability and an economy capable of bearing a major defense burden are essential to achieve this end. As a *means*, because a policy of economic co-operation calculated to bring about a reform in the structure of the opposing system (as in Eastern Europe) or in an unstable system which is tending to move closer to communism for lack of any Western alternative, is—for the Europeans—a decisive argument in favor of creating a politico-economic environment favoring détente. The lack of any Alliance philosophy as to the policy to be pursued towards Eastern Europe is a dangerous shortcoming, as is amply borne out by the disjointed Western reactions to events in Afghanistan and Poland.
- (c) in the conviction (which is not new) on the part of some of them that the security of the United States is no longer identical with the security of Europe. In their view, if the United States had to choose between its own survival and the protection of its European allies through nuclear deterrence, it would opt for the former. This view, which has had some illustrious advocates, has gained ground. I hope I shall not be taxed with anti-Americanism if I point out that a number of assertions by American statesmen, whether in office or not, have helped to undermine the sometimes wavering confidence of Europe in America's determination to link its destiny to the strategic security of Europe. The recent advocacy by a number of prominent experts of unilateral renuncia-

tion of a nuclear first strike is calculated to increase this disquiet. Here we have the seed of a new paradox.

5. The Europeans were irritated by the speech made by Secretary of State Henry Kissinger in 1973, in which he restricted them to a largely regional role. The way in which they assert their determination to have a voice in world affairs is sometimes ill received in the United States.

Europeans are apt to save their indignation for the policies of their ally which they consider worthy of condemnation, while trying to throttle back their indignation where the Soviet Union is concerned. When they are asked to realize the psychological and political effect of what seems to American opinion to be an unfair attitude and one that is not compatible with Alliance solidarity, they reply, somewhat casually, that after all, the United States is bound to guarantee Europe's security because Europe forms part of its strategic security zone. This does not mean at all that European opinion is leaning towards the USSR—as some pacifist movements are openly tending to do. It merely means that Europe hopes to be spared a nuclear cataclysm compared with which the two previous wars would look like painful but manageable episodes. But does not this hope entail underestimating the dangers of Soviet militarism, for example, by treating the steady growth of the military expenditure of the USSR and its satellites and their armed interventions in Third World countries as purely defensive in character?

6. When the objection is raised of a direct understanding between the super-powers, reached outside Europe, there are those who readily agree that what would be acceptable to the Great Powers where Europe was concerned would certainly be acceptable to Europe itself. In other words, we are witnessing the emergence of a school without any—as yet—declared principles, of active as opposed to passive neutralism. What I call “active” neutralism would involve leaving the strategic and military security of Europe to the super-powers in order to maintain the peace that has prevailed there for the past 37 years, while retaining the ability to project its political influence and economic interests throughout the world. Utopian though this calculation may seem, it would be a mistake to ignore or belittle it. Some American circles that are irritated by the reluctance of the European countries to face up to the necessities of collective security (for example over the deployment of theatre weapons)<sup>1</sup> do not seem to be far from treating it as a form of active neutralism. It is obvious that there is a contradiction between this state of mind and the continuation of the Alliance. But it is not certain that this is clearly realized, despite American warnings. The fact is that part of European opinion is no longer really afraid of the USSR, which it regards as having a politico-economic system that has lost all credibility. Nor does it take quite seriously either the strategic guarantee or the warnings of the United States. This skepticism, which is due as much to factors peculiar to Europe as to others arising in America, incidentally goes hand in hand with a sincere attachment to our common values, both human and political. In Euro-American relations, the paradox is the rule and the norm is the exception. Europeans like to have an America which is *strong* and *vulnerable*. *Strong*, because that is a precondition of their security. *Vulnerable*, because it gives them plenty of room for maneuver, plus the satisfaction of being able to preach!

7. This psychological background is vital to any understanding of the Atlantic relationship. In addition, there are a number of circumstantial factors which give the current difficulties their distinctive character. In other words, what reproaches are the

<sup>1</sup>The difficulty encountered by the US Administration in taking a final decision about the stationing of the MX missile shows that any final decision of this type is not easy to take.

European allies levelling at their partner this time which are different from the usual catalogue of recriminations that are periodically exchanged by the allies? Two of the criticisms are new or at least expressed with abnormal precision and acrimony.

On the economic side, a very clear majority of Europeans are in disagreement, not with the ultimate aims of United States economic and financial policy, but with its immediate objectives—which they consider to be incompatible<sup>1</sup>—and with the methods being used to achieve them. Everybody will recollect the objections raised by most of the European leaders against American interest rate policy.

A second criticism relates to the world view of United States foreign policy, which tends to reduce all international strains and clashes to rivalry between the super-powers. For example, the European analysis of the deep-seated insecurity prevailing in the Near and Middle East and the measures required to reduce it differs appreciably from the American by placing greater emphasis on the factors that are specific to the region. This approach was made clear in the Venice declaration by the Council of Europe.

The third criticism complements the second to some extent. Not only would the United States do its standing in European eyes grave harm by interpreting tensions in terms of the duel between the super-powers, but it would aggravate the tensions by stressing the military aspect to the detriment of the others. The importance attached to this aspect is readily understandable to those in Europe who are worried by the unrelenting military build-up of the USSR. But while there is no fundamental divergence between the majority of Europeans and the United States over the need to maintain a global and regional balance with the USSR, the former believe that the United States does not attach sufficient importance to the economic and social factors or to the endogenous causes of instability, especially in the Third World.

From the purely military standpoint, the Europeans find it hard to grasp a methodology under which targets are set for the growth of military expenditure (a procedure which they are apt to regard as a way of avoiding the politically awkward problem of conscription) before defining the approach and the strategy to be reflected in the budget.

The foregoing are a few of the points which distinguish the current crisis from its predecessors.

I have ignored the now traditional reproach levelled by Europeans against their partner, namely the lack of consistency at the foreign policy-making level in the United States. For one thing, it is not new and nobody is immune from this reproach. And for another, it seems to me to be an inseparable feature of the political and administrative operation of the American government. And lastly, it reflects a living democracy and a dynamic society. The Europeans might help the Alliance as a whole by putting forward their own preferences with sufficient consistency and cohesion to compel the United States to do the same.

#### *In conclusion*

The majority of Europeans do not believe that there is any alternative to the Alliance with the United States and Canada. Of course, they do not always realize the unfavorable impact on American opinion and on a number of policy-makers (especially in the legislature) of what are regarded in the United States as lapses from solidarity with and within the Alliance or as a refusal to face up to the risks entailed

<sup>1</sup>Balance the budget, raise military expenditure and cut taxes. European skepticism appears to be widely shared in the United States.

by their own security. But the majority of Europeans are not tempted by a neutrality guaranteed by the super-powers. They know that at a time of crisis between the latter, it would leave Europe as the potential prey of the USSR, which would probably be unable to resist the temptation of threatening them with annihilation. In the short term, at any rate, Europe is not prepared either to trust the USSR or to assume full responsibility for its defense.

The points of friction that have developed between Europe and the United States cannot therefore be regarded as part of a process of deliberate divergence but rather as warnings among Allies designed to prevent such a divergence, which would be the prelude to dismemberment.

But this cannot be avoided by verbal expressions of good will alone.

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#### “Divergent Policies and Attitudes in the North Atlantic Community”

*Working Paper Prepared by Manfred Wörner  
Member of Parliament, Federal Republic of Germany*

I. The increasing threat to the political, military and economic security of the Alliance partners has not strengthened the inner cohesion of NATO. On the contrary, the Alliance today appears to be endangered by the presence in it of divergent political and social developments rather than by outside factors. This applies also, and not least, to the incipient decoupling of Western Europe from the United States. The Soviet foreign and security policy, aimed at transforming Western Europe into a “zone of peace and détente” shows a masterful ability in exploiting conflicts of interest within the Alliance for its own ends. It follows the classical approach of “divide et impera”, i.e., “divide and rule.”

II. Divergencies in policies and attitudes do not merely exist between Europeans on the one hand and Americans on the other. The crisis of the Alliance is not limited to growing transatlantic alienation. What are in some cases profound political differences of opinion also exist between the European partners, as is borne out by the numerous co-ordination problems and frequent disagreement in the context of European Political Co-operation (EPC). A glaring example of this is the position odd-man-out Greece has recently adopted in practically all fundamental foreign and security policy questions.

Although the growing interdependence of problems requires close co-ordination and joint strategies, the principle of acting in a way that is supportive of the Alliance is being put into practice less and less. National egoism, regionalism and the danger of unilateralism are on the increase, as reflected by the inability of the West to rapidly formulate and gain acceptance for a joint policy on sanctions in respect of the Soviet Union.

III. Our political and economic interests do not always coincide. This is only natural in an alliance consisting of free and sovereign states. Conflicts of interest and political differences of opinion are, in any event, not a disquieting matter, as long as there is an area of fundamental agreement, something that is absolutely necessary if one is to arrive at a balance of interests. However, when there are divergencies in the Alliance on fundamental positions, there is cause for serious concern. This is the case in the following areas in particular:

1. Fundamental and up to now largely identical values are drifting apart. The shared conviction of the priority of fundamental freedoms and human rights, as well as political and national self-determination, stands in contrast to a growing value neutralism, i.e., a growing indifference to these values. Some European countries, particularly the Federal Republic of Germany, are plagued by doubts and uncertainty as to their own values and objectives, as well as by a remarkable loss of contact with reality. While the United States is once more becoming aware of its strength and French defense efforts, for example, designed to maintain peace in freedom are supported by a broad majority of the population, in other countries fear, passiveness, conformism and appeasement are having an increasingly determining influence on foreign and security policy. Pacifism, neutralism and anti-Americanism have become the political credo of a vociferous minority.
2. Divergent assessments of the motives, objectives and strategies of Soviet policy lead to different concepts as regards détente and relations with the East. One group interprets the doctrine of “peaceful coexistence” as a means employed by the Soviet Union to weaken the Western ability to offer resistance and undermine its defense readiness. They advocate a policy of strength with regard to the Soviet Union. Other governments interpret the motives of the Soviet Union as being predominantly defensive, despite its policy of continuing a massive military build-up, and they consider the Soviet Union to be status-quo oriented, at least in Europe. They are inclined towards a continuation of détente policy at all costs and pin their hopes mainly on negotiations, conducted primarily with a view to bringing about arms control and disarmament. Between these two extremes there are a number of intermediary positions.
3. Different conceptions of military political and economic security have emerged as a consequence of these fundamental divergencies. Consequently there are also different views on the instruments and possible strategies for preserving security in the future. Individual political groupings in Western Europe advocate equal security partnerships with the United States and the Soviet Union. The objective is to establish a European-wide system of security, preferably without atomic weapons. This objective will remain utopian until the Soviet Union becomes willing to practice political and ideological self-restraint. Since there are no indications for this whatsoever, our objective must be as much as possible to eliminate the risk of political abuse of military power by the Soviet Union, reduce the crisis-proneness of the Alliance and preserve the political capacity to act and the self-determination of our allies based on the principle of indivisible security.  
Another factor of divergence, important in the long term for our economic security, concerns the close connection between security and development policy. What is controversial in particular is the extent to which, within the framework of North-South co-operation, one's own security policy interests should play a role. Closely related to this and equally controversial is the question of members of the Alliance assuming responsibilities outside of the NATO region.
4. One of the most explosive problems in the Alliance is the different orientations of the partners in the field of economic policy. What is involved here is not just the controversy on interest rates, protectionism or an uninterrupted supply of energy and raw materials at acceptable prices. Much more will depend on the ability of the Western industrial countries to adjust and react to the profound structural changes emerging in the world economy than on other problems of

the Alliance. Growing structural unemployment and the accompanying strain on the social budget could undermine the will for national self-defense in some countries.

5. Today there are already unmistakable and measurable divergencies with respect to the value attributed to defense spending in the various national catalogues of tasks. The same applies to the ability and willingness to gain acceptance for urgent security policy necessities competing with domestic desires and priorities. As is evident from the NATO two-track decision, there is an increasing tendency in some partner countries to undercut controversial defense policy decisions by referring to current or future negotiations or by pointing out undesirable repercussions for the détente process.
6. Strategic planning is an area marked by an extraordinarily important and by now open disagreement among the NATO partners. A change in the American attitude towards the defense of Europe and a marked shift of American strategy towards the crisis areas in the Near and Middle East, Southern Asia and in the Caribbean have made these divergencies clear. In addition to this, there are the differences of opinion on the strategy of "flexible response" and on related individual questions such as the future role of tactical-nuclear and conventional forces.

Closely related to this is the controversy on the objectives of arms control and disarmament negotiations, i.e., whether such negotiations can be seen as an instrument of political détente, or whether they should be conducted primarily with an eye to military security requirements.

IV. "Statesmen are ultimately judged not by their contemplation of dilemmas but by their ability to conceive alternatives." (Kissinger)

The following points are of urgent importance for overcoming the present critical developments in the North Atlantic Community:

1. A realistic and *shared* assessment of the motives, objectives and strategy of the Soviet Union. This includes, not least, the ideological and propagandistic components of Soviet power policy.
2. We will have to make it much clearer to the "silent majority" than has been the case in the past that it is the contrast between socialist dictatorship and a liberal economic and social system which is the actual cause of tensions between East and West (freedom offensive). Above all, we will have to invest far more energy, time and thought in transmitting to young people the fundamental values which can give them guidance.
3. The military superiority of the Soviet Union, especially in Europe, must under no circumstances be consolidated, not even by arms control and disarmament negotiations. Adequate defense efforts on the part of all partners are indispensable.
4. The Alliance must formulate and gain acceptance for a new and comprehensive strategy for dealing with the Soviet Union in the future. It will be of decisive importance to agree on joint approaches in the economic and financial sector (credits, technology transfer, etc.). As this is the only area in which the Soviet Union is dependent on co-operation on the condition that it exercise restraint in world politics, the West has an opportunity to exert considerable influence on the Soviet Union. If we do not take advantage of this opportunity, we will continue to be played off against each other.
5. The strategy debate in the North Atlantic Community must be conducted soberly including domestic and alliance policy factors. We need a security policy concept, which takes into account

— the steadily growing military potential of the Soviet Union;

- the "nuclear borderline situation," as a result of which the strategic rationality and political legitimacy of all attempts to eliminate the problematic weak points of the NATO posture are being called into question;
- the defense policy options on both sides of the Atlantic.

It will be of decisive importance to limit the military and political employability of Soviet military power by linking Soviet decisions on the use of military power with specific (if possibly incalculable) risks.

6. Against this backdrop we will have to develop new approaches to bring the objectives, methods and criteria of arms control policy in line with defense policy requirements.
  7. A realistic discussion of the problem of sharing work and burdens inside and outside of the Alliance is indispensable. It is particularly important that the effects of crises and potential conflicts outside of the NATO region on the Alliance and individual partner countries be included.
  8. Europe cannot and must not be restricted to playing a merely regional role within the Alliance. We should explore new avenues of transatlantic co-operation with a Europe capable of acting. The objective must be to unite Europe in the field of defense policy and expand Europe's own contribution in order to place NATO firmly on two pillars and alleviate the imbalance in the relationship between the United States and Europe.
  9. Finally, in the interest of the Allies themselves, it will be necessary to reassert the principle of acting in a manner supportive of the Alliance.
- V. Questions:
1. For what reasons has the Alliance thus far failed adequately to respond to the continuing build-up of military and political power on the part of the Soviet Union?
  2. Are the Western democracies still capable at all of conducting a long-term and coherent foreign and security policy that will do justice to the Soviet challenge?
  3. Will the present forms and structures of Western cooperation (NATO, EC, OECD) be sufficient on a long-term basis or do we need to establish new overall conditions?
  4. Is there a majority in the Western industrial countries that is convinced of the superiority of a liberal economic and social system? If such a majority exists, what can we do to mobilize it?
  5. Can Europe be an independent third power within the framework of a European-wide peace order spanning the two political blocs?
  6. Is there an alternative to securing peace by means of a strategy of deterrence? If there is not, what would have to be done in order to maintain or restore its credibility?
  7. Are stability and a balance of power sufficient criteria for a comprehensive security policy? What are the medium and long-term prerequisites for economic security?

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## DISCUSSION

*Chairman: Walter Scheel*

In discussing divergent policies and attitudes, several speakers who had attended past Bilderberg Meetings said that they felt a sense of *deja vu*. Differences among the alliance partners, especially those on either side of the Atlantic, were a recurring Bilderberg theme. Some participants were inclined to attach more significance to these differences than were others, but there was agreement that they hampered the effectiveness of the alliance.

The clearest expression of divergences in governmental policies lay in the discussion of the nature of the Soviet threat and of economic policies toward the countries of the East Bloc. But divergent popular attitudes loomed in many participants' views as even more ominous. Some speakers called on political leaders to exert greater influence over public opinion; others felt that only changes in the structure of the alliance could secure the endorsement of public opinion that was its underpinning.

*Attitudes toward the Soviet Union.* An American saw in his countryman's working paper a dangerous and distorted view of the Soviet Union. This view, which he said was more prevalent in the Reagan Administration than in any previous one, held that the Soviet Union was the "source of all evil" and that U.S. policy should be to confront it at every opportunity and seek to promote its downfall. In practice, those in Washington who held this view had lost out to advocates of the more traditional approach which recognized the reality of the Soviet Union's existence and sought to find ways to live with it.

The Reagan Administration's foreign policy had so far been "quite reasonable and sensible," in a Belgian speaker's opinion, but many Europeans found the rhetoric coming out of Washington alarming. Words that followed one line and actions that followed another promoted confusion. The gulf between what was said and what was done was bound to create distortions in the expression of foreign policy and lead to transatlantic misunderstanding. If the "get tough" attitude described in the American working paper became a basis for policy, we were in for trouble.

Why had the U.S. moved away from détente just 10 years after it had emerged as the basis for NATO dealings with the Soviet Union? A German felt that the answer lay in the massive Soviet military expansion of the last decade and the resulting shift in the military balance. The theory behind détente had been that a relaxing of tensions and opening up of trade and other relations between East and West would make the Soviets less assertive and expansionist. But they had failed to show restraint and moderation. They had practiced cooperation only where it was useful for them and confrontation when it was detrimental to the West and to the world. The fault of the West was that it had used "only the carrot, and not the stick." But in Europe there was a strong inclination not to abandon the policy of détente. It had led to benefits Europe did not want to give up. Germany especially, because it was a divided country, had profited from détente in such ways as the easing of the Berlin situation.

Differences in our assessment of the Soviet threat aside, we could all agree that the East Bloc was in serious trouble. What we were seeing there, suggested a British speaker, was nothing less than the failure of the communist system. Poland was in revolt, Soviet agriculture had made no progress in 20 years, and Soviet incursions around the world had met with little success. An American elaborated on this last point, saying that any minor territorial gains the Soviets had made in Africa were more than offset by the disastrous loss of influence resulting from Egypt's defection from the Soviet orb. Indeed, we were making too much of the Soviet threat, the speaker believed. The most troublesome developments of the past decade (the rise of

OPEC, the fall of the Shah, the Arab-Israeli situation, etc.) had had nothing to do with the Soviet Union.

Our approach to the Soviet Union, argued the German author, should be guided by the assumption that it is "the last classical empire," and that it is in decline. It faced a choice: either reform or break down. The West's problem was that it could not know when this breakdown might occur and it had little influence over domestic developments in the Soviet Union. Our policy should be neither to stabilize nor destabilize the Warsaw Pact countries; it should not put them in a situation they could only escape by force, not should it help Soviet leaders escape change. Western policy, in short, had to combine elements of cooperation with elements of containment. The goal should be to create favorable conditions for change inside the Soviet Union.

*Economic policy toward the East.* There was considerable divergence over the extent to which the NATO countries should extend economic cooperation to the Soviet Union and its satellites. The American working paper's call for the establishment of a formal mechanism to tie economic cooperation to Soviet behavior found little support among those who represented the business and banking communities on both sides of the Atlantic.

A Dutch speaker faulted the American author for proposing to use such a delicate weapon as the wealth weapon as a "club to hit the Soviet Union and its satellites." While it was true that not since World War II had the Soviet economy been in such disastrous straits and therefore the opportunity to use the wealth weapon so great, it was worth remembering that it was a sophisticated weapon, to be used selectively. The Soviet Union was not the same as its satellites. It would be a mistake, for example, to use the wealth weapon against Hungary, which was "silently and efficiently doing what Poland tried to do out loud." We should approach every Warsaw Pact country differently, based on its own situation.

The free market system, an American argued, was something we could peacefully export to the Soviet satellites. It gave us the opportunity to drive a wedge between them and the Soviet Union in a non-confrontational way. A Portuguese participant added that just as the Marxist elements in Angola and Mozambique had come to the conclusion that the Soviets made bad commercial partners, so would the Soviet satellites. It was likely that the Soviet Union would disintegrate from the sides rather than at the center, and the economic weapon could be useful in peacefully furthering this process of disintegration.

But other speakers felt that we should be asking ourselves if the capitalist world were going to continue to keep the communist world going. We needed to analyze the extent to which economic relations between East and West had different effects and consequences. In this respect, Americans were critical of the Soviet gas pipeline to Europe, while Europeans questioned U.S. grain sales to Russia. In any case, if we were going to use the wealth weapon, it ought to be a matter of governmental policy and not something decided by businessmen acting in concert.

Perhaps, a German suggested, we would begin putting some limitations on economic relations with the East anyway, for economic rather than political reasons. We were dealing with totally inefficient economic systems in the communist world. Would our bankers go on granting them credit? If Poland had been declared in default, the banking community would have had a serious problem on its hands, a problem that now the Soviet Union and COMECON had to deal with.

An International speaker intervened to point out that the degree of freedom to use the economic weapon was limited anyway. We had to recognize both the opportunities and the constraints in using economic policy. Our banks were facing enormously enlarged country exposure, not just in the Soviet bloc, but in many LDC's. A policy of coordination of economic policy had to be seen not just in a NATO-East Bloc

framework, but in the total context. It was a Frenchman's opinion that to do economic fine tuning to influence the Soviets would only be harmful to ourselves; the economic weapon was one we could not use.

*Public opinion in the U.S. and Europe.* Popular attitudes in the U.S. had, in the view of the American author, undergone a fundamental shift in recent years. The traditional intellectual dominance of left-of-center ideas in the U.S. had given way to the ascendancy of more conservative values: a strong national defense, the virtues of a free economy, and less government regulation. There was a new sense of conviction that democratic capitalism was the best system to produce and distribute wealth, the system most conducive to the preservation and expansion of human liberty. Americans were, in short, newly tough-minded.

Several participants saw opposite developments in Europe. Some worried that fear was giving rise to neutralism and pacifism. Others saw a false sense of security, engendered, perhaps, by the fact that we had not experienced a major conflict in a generation. Indeed, no one could even imagine what such a conflict would be like with nuclear weapons.

Parallel with a "go-it-alone-if-necessary" American attitude that tended toward isolationism, there was a warning of growing anti-Americanism in Europe. It was not to be confused with pro-Sovietism, according to an International participant, but was rather a distancing from the U.S. In some ways, Europeans feared the U.S. more than the Soviet Union. This was not by any means the majority view, but it had to be reckoned with.

On the contrary, one German saw—in his country at least—little evidence of anti-Americanism, pacifism or neutralism. The great majority of Germans—a greater percentage than a decade ago—wanted to remain friends and allies with the U.S. What was often confused with pacifism was the effort of the younger generation to come to terms with nuclear weapons and the nuclear doctrine. And today, only a small fraction of the German people thought of neutralism as a solution to their country's problems, compared with a substantial majority 20 years ago. Europe's faith in American ideological leadership had slipped, but this did not mean a rejection of the alliance or of cooperation and friendship with the U.S.

An International participant was worried about the implications of the drift in public opinion. The alliance depended on the endorsement of public opinion, without which its nuclear backbone could not exist. Governments had the machinery to work out divergences among themselves, but they had to pay more heed to changes in the public mood. They had to reverse the drift of public opinion away from the alliance and convince the public that its continued existence was vital to peace. Public opinion was the linchpin of Atlantic unity.

Too great a divergence between public attitudes and government policy could be dangerous. The public had to be aware of and support the reasons for policy decisions. The leadership of the NATO countries had to rally public opinion behind the alliance, to show courage instead of creating fear. It was crucial, a German speaker argued, to make it clear to people that the alliance was one of values, and that we only kept our values as long as we were prepared to defend them.

*Changes in the NATO structure.* Had the time come to reconsider the structure of the Atlantic alliance? A Dutch participant pointed out that it had been established 35 years ago on the basis of realities that no longer existed—notably the economic, military, and technological hegemony of the U.S. As in a marriage, when realities changed it became necessary to make changes to stay together. NATO was now a group of 15 equal countries (though some were more equal than others.) The U.S. was in the center, with the other countries arrayed around it, linked by bilateral ties to the U.S. We needed to consider splitting NATO into a two-pillared structure.

The new realities that NATO faced, in the view of an Italian speaker, included the decline in relative power of the U.S., military parity with the Soviet Union, criticism of independent nuclear forces and of the flexible response doctrine, and crises outside the alliance area. All of these new realities had increased the importance of the role of the European countries. As a result, they felt increasingly frustrated; they were too powerful and independent to agree constantly with the U.S., but not powerful enough to do everything they were called upon to do in the alliance. It was inevitable that NATO should change from a community of nations into a traditional kind of pre-World War II alliance.

But others were opposed to structural changes in the alliance. They were convinced there could be no independent European security. Only with the U.S. could the security of Europe be maintained. A separate European body, said a German, was a dream that would never come true.

The alliance could solve its problems with far less rash measures than altering its structure. We could start, suggested an American speaker, by asking ourselves what we were trying to accomplish, what were our goals. A Briton felt that we could easily live with a certain degree of divergence, and that anyway, our divergences were not in fact so wide.

In our dealings with the Russians, we should be careful not to find so much comfort in their problems that we became complacent. We risked spending too much time speculating on the crumbling of the Soviet empire and not enough time addressing the possibility that NATO might crumble first. A Belgian said we should be more concerned about "passive Atlanticism" than about neutralism and pacifism.

Instead of worrying so much about our adversaries, urged a French speaker, we should be more concerned about ourselves, to become better acquainted as partners. We should, above all, stop "hollering at each other across the Atlantic," said a Briton. We tended, when things got difficult, to indulge in empty rhetoric. We needed instead to update our machinery of consultation, improve our contingency planning, and seek greater foreign policy synchronization. We could do much to end our divergences by giving more thought to where the Western interest lay.



## II. WHAT CAN ARMS CONTROL ACHIEVE?

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*Working Paper Prepared by Egon Bahr  
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### I.

The efforts for arms control undertaken over the decades have not prevented the nuclear arsenals of the two alliances, that is NATO and the Warsaw Pact, from growing to a point where, if used, they are sufficient to wipe out mankind. At the same time, conventional arms are growing in number.

The increase in conventional weapons holds true for countries of the Third World as well, where this trend has accelerated since the oil price rise of 1974. To a remarkable extent, the recycling of oil dollars takes the form of arms purchases from the major suppliers, namely the United States, the Soviet Union, France and the United Kingdom.

Since 1945 over one hundred wars have been waged in countries of the Third World. They remained local because in no instance was there a head-on clash between the superpowers. The attempts at regional arms control agreements have remained unsuccessful, with the exception of the Treaty of Tlatelolco, which made Latin America a non-nuclear-weapons zone. There is no arms control agreement in the offing for Third World countries to reduce or eliminate the danger of further wars.

It can be assumed that the danger of a conflict in the South sparking off a crisis elsewhere will remain minimal, but it will increase the nearer such a conflict is to the region where the major destructive potentials are located; this applies particularly to the Middle East and Southwest Asia.

### II.

Arms control has nevertheless produced significant positive results in the form of both agreements and negotiations without agreements. Negotiations, mainly between the two superpowers, have served to provide each side with important information, to clarify concepts and hence to permit the two sides to assess each other better. It is a remarkable achievement that two competing superpowers and two opposed alliances have learned to discuss security matters with each other, as they have done for many years now. Before the nuclear age there was nothing like this.

Even at the MBFR talks in Vienna it has proved possible to achieve a comparison, with which we are now largely familiar, of the two sides' conventional forces; the discrepancy in the data of 150,000 troops is hardly significant any more from the point of view of security.

The Test Ban Treaty has led to qualitative limitations, whilst the Outer Space and Antarctic Treaties have set geographical or regional limitations to the arms race. The ABM Treaty and the SALT process have played a major part in ensuring that Washington and Moscow have achieved a degree of agreement and mutual knowledge, which has a stabilizing effect even in the absence of a ratified international agreement (SALT II): the number and capabilities of each side's intercontinental weapons are known, and the political implications of certain weapon categories are essentially no secret, albeit the subject of political controversy.

A dialogue on arms control is intrinsically conducive to political stabilization. Surprisingly, this dialogue has not been interrupted in the wake of events in

Afghanistan or Poland. Given the highly dangerous potentials now in existence, it is indeed in the mutual interest of both sides to continue the dialogue. It is the purpose of arms control talks to enable both sides to feel each other's pulse, as it were. This is no mean feat. But detecting a temperature does not in itself constitute a cure.

### III.

The ABM and SALT Treaties are the two most important agreements to date.

The ABM Treaty is the outcome of the fact that it is much cheaper to manufacture intercontinental missiles with nuclear warheads, in other words, missiles with a range of over 5,000 km., than to produce defense systems against them. There is not likely to be any technical breakthrough in the development of an adequate defense capability against intercontinental missiles until well into the 1990's. The two superpowers thus remain vulnerable and susceptible to fatal blows by the other side. An anti-missile system on each side does not greatly alter this situation. Mutual security is a balance of mutual vulnerability.

The SALT process seeks to neutralize the two intercontinental potentials at a higher common level, in other words to achieve security by means of equilibrium.

It is in the interest of the two superpowers and indeed of all other countries that the largest and most dangerous potentials should be checked so that there is a predictably small, if not improbable, risk of their use. It is therefore in the universal interest that the SALT process be continued, preferably leading to reductions.

One consequence of the SALT process was that the systems of less importance for the two superpowers, namely missiles with a range of between 1,000 and 5,000 km., were not subjected to any restrictions, which in turn led to a new unchecked arms race. The Soviet build-up of SS-20 missiles, which are a potential threat to regions ranging from Alaska through Japan, China, India, Southwest Asia and the Middle East to Europe, is being countered by corresponding U.S. systems, namely Pershing II and Cruise missiles. Negotiations are in progress in Geneva on land-based missiles in accordance with Western concepts, but there is the danger of a new grey area emerging for missiles with a shorter range of between 150 and 1,000 km. The talks in Geneva must seek to put an end to such an additional arms race, even before agreement is reached on the intermediate-range missiles.

These experiences show that every sector must be covered by negotiations or agreements, or else new qualitative arms developments will occur.

### IV.

Arms control negotiations to date have produced the following results:

- (a) an end to arms competition in new regions or sectors, which is in the mutual interest,
- (b) common ceilings at a higher level, and
- (c) agreements in specific sectors, leaving other sectors and categories open to new arms efforts.

Until now arms control has meant the cessation of arms production, but not disarmament. It is understandable if an increasing number of people question the success of a policy that produces, as a result of arms control, more arms but less security.

In my country the question of resistance to such a policy is posed not only by the so-called peace movement but also by the two principal Churches and by key members of the Opposition parties, including eminent figures such as Professor Biedenkopf, who has raised the basic question of the acceptance of nuclear defense which

presupposes a willingness for self-extinction. This discussion will continue and not remain confined to Europe. It raises the question of developing a new approach to arms control in order to prevent the Western societies and hence NATO, the basis of our security, from becoming destabilized as a result of increasingly expensive armaments.

## V.

In this age of mutual assured destruction, known as MAD for short, victory is not possible any more. The fundamental desire of all nations for security can no longer be attained through superiority because, in the event of a conflict, superiority can no longer be taken advantage of without the danger of self-destruction. This means that, unlike conditions in the past, security cannot be achieved in opposition to the potential adversary but only together with him.

This is patently obvious in the heart of Europe. In the event of a conflict not only the Federal Republic of Germany but also the GDR would be destroyed. Although these two states are fully loyal to different political systems and different alliances, the GDR's security also constitutes the Federal Republic's security, and vice versa. This holds true for the whole of Europe. It also holds true for the United States and the Soviet Union. One must recognize that the only form of security that now exists is common security.

Common security calls for some rethinking—by the United States no less than by the Soviet Union, whose military doctrines are in principle geared to superiority, to deterrence, but if this fails to military victory. This is not only futile, but will become less and less credible.

If both sides realize that they can organize their security only jointly on the basis of the existing alliances and on the basis of the continuing widely varying philosophies, arms control could lead in its initial phase to a discontinuation of qualitative arms developments, thus preventing the introduction of new destabilizing weapon systems, and in its second phase to genuine reductions. For it is also clear that common security can be arranged at less cost than is the case at present.

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*Working Paper Prepared by Christoph Bertram  
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The main achievement of arms control in the 1980's will not lie in promoting reductions in armaments. It will remain, more modestly, one of regulating the military competition, not of changing it quantitatively. The effective and rational reduction of military arsenals in East and West is only one, and, perhaps, the most difficult of the conceivable achievements of arms control. Others are no less significant if less spectacular: negotiations provide a needed permanent contact between the major powers even if not crowned by a concrete outcome; they are probably essential if deterrence by nuclear threat is to remain acceptable to public opinion in democratic countries. And even purely regulatory agreements will provide two far from negligible dividends: a basis for military planning, and a framework for curbing expenditures on future programs and thus respond to the economic constraints experienced even by the major powers.

I. *Arms Control as Reduction.* Arms control, as defined since the early 1960's when the term became accepted, implies the effective control of some aspects of military competition through mutual agreement, between East and West in general and the Soviet Union and the United States in particular. It suggests that such agreement would allow both sides to do less than what they would otherwise be doing to assure their military strength.

In practice, this has meant agreements on what should be permitted rather than on what should be curtailed. With the notable exception of the ABM Treaty of 1972 which banned effective defense against ballistic missiles, and the limitation, in the as yet unratified SALT II-Treaty, of the number of nuclear warheads per launcher, arms control has generally tended to ratify the existing arsenal and its near-term potential for technological improvements, and even encouraged both sides to build up to the permitted ceilings.

This is no mean achievement, as I shall argue further in the second part of this paper. But it is doubtful if this is going to be enough in the future. The permissive nature of existing nuclear arms control regimes has allowed nuclear arsenals on both sides to rise to such dimensions that the call for more than mere arms regulations, namely for arms reductions, has become increasingly louder—from both the left and the right of the spectrum, from President Carter (nuclear weapons should disappear from the face of the earth) and President Reagan (real arms control means deep reductions). The widespread and growing concern in Western societies over the danger of nuclear war, however unjustified, will give further weight to impatience with the size of existing arsenals. Reduction, not regulation, will be the task that arms control in the 1980's and 1990's will be asked to perform by politicians and public opinion alike in the West.

There can be little doubt that the size of existing nuclear forces—whether in the strategic or in the theatre category—vastly exceeds rationally plausible requirements. What can be the sense in over 4,000 launchers with roughly 20,000 nuclear warheads that constitute the operational arsenal of both superpowers today, when total destruction can be waged with a fraction of this force? The refinement of nuclear forces and employment options has assumed a similar refinement in the concepts of nuclear war. But limited wars will, in all likelihood, not remain limited, and any nuclear use remains therefore a last-resort option even for the nuclear giants. Deterrence through the threat of nuclear destruction remains a rugged, basic concept, and not even the greatest sophistication in weapons technology is likely to change this. Hence there should be ample room for major reductions.

The same applies for theatre nuclear forces. Here, too, the arsenal has acquired a volume and a variety which exceeds by far rationally plausible requirements. What can possibly be a rational task for the nuclear device carried on board the aging Soviet Whisky-class submarine on a reconnaissance mission in Swedish waters last November? And how can the requirements of nuclear release procedures and the need for protection be reconciled with the fact that over 50 per cent of NATO's tactical nuclear weapons are linked to launchers with a range below 30 km.? Here, too, there should be a wide safety margin for major cuts.

But arms reduction requires much more than this general sense that today we have more than enough. It requires clarity about how much *is* enough. But this precisely is what is missing today. The doctrinal concepts for nuclear deterrence in the past decade have essentially become open-ended. They lack in-built criteria for restraint, and the size of the nuclear arsenal is thus today defined not by rational requirements for deterrence but by the requirements for staying within the constraints of defense budgets.

Before embarking on reductions, it will be necessary, therefore, to define first the ceiling of what really is needed in nuclear forces. This is in sight neither in the strategic nor in the theatre nuclear field. The Reagan Administration's notion of "deep reductions" in strategic forces seems to be limited to the desire for drastic reduction in Soviet heavy missiles; it has no concept of what strategic forces are essential for the security of the United States and its allies and which are not. The same applies for theatre nuclear forces. The "zero option" which President Reagan, after much urging from embattled European politicians, has presented as the Western position in the current Geneva negotiations, is unaffected by a clear sense of what theatre nuclear forces the Alliance needs in Europe. This is a dangerous position. The Soviet Union is unlikely to accept this proposal as it stands; but one conceivable outcome of the negotiations in Geneva would be a deal which, while not eliminating the threat of Soviet medium-range missiles, at least reduces it significantly, in exchange for the total abandonment of NATO's 1979 program. The result would be that the Western Alliance would not only be prevented from introducing theatre nuclear forces which make sense for nuclear deterrence in Europe (particularly the ground-launched cruise missiles), but also locked into an existing theatre nuclear posture which makes much less such sense.

The Alliance has entered the Geneva negotiations without a prior notion of what are its essential military requirements in theatre nuclear forces based in Europe. It is incapable, therefore, of having any clear sense of what, militarily, it can give up in exchange for Soviet concessions. Even if successful in diplomatic and political terms—and this is still far from assured—the Geneva negotiations are unlikely to produce rational, as opposed to arbitrary, arms control. The same, for the same reasons, promises to result from the emerging U.S.-Soviet talks on reductions in strategic forces (START).

Western governments are still conceptually unprepared for arms control as arms reduction. What agreements are reached will therefore be as doubtful in their arms control significance as in their long-term political acceptability. Unless the conceptual groundwork to define again "how much is enough" is accomplished (and there are few signs that it is even recognized by governments as the prior task), arms control in terms of reducing the existing nuclear arsenals will scarcely be successful.

II. *Arms Control as Regulation.* This means that the most relevant arms control of the decade is likely to follow the pattern established in the 1970's: the agreement on maximum ceilings for certain weapon systems, between the major powers and in Europe; the extension of "confidence-building measures"—restrictions that do not affect the size of military forces but their operation and that can assist in the verification of agreements—from conventional to nuclear forces and from the surface of the earth to space, in addition to the confidence-building effect of the calculability of military efforts inherent in any limitation agreement; and the discouragement of certain military technologies that both sides deem as undesirable, too uncertain or too costly.

It is unglamorous arms control, slow and with results that, while basically sound, are far from spectacular. This may be important for Western politicians to keep in mind when they are faced with the familiar temptation of over-selling the promises as well as the results of negotiations, and particularly for those in Western Europe who seem to expect that the calendar of negotiations will oblige the timetable for the deployment of NATO's longer-range theatre nuclear forces.

Two negative consequences follow from the painstaking character of arms control. First, arms control has very little to do with détente. It is a functional exercise. There is no evidence to suggest that the prospects of arms control are any better when

political détente between East and West flourishes, or that they are significantly worse when the political relationship is depressed. One of the problems for arms control since the second half of the 1970's has been that it was asked to serve as the most tangible manifestation of détente. This is more than the process can carry. Arms control cannot be the locomotive for improved East-West relations, because its preoccupation with the means of military competition tends to consume, not produce, political trust. Rather it has to be protected against strains in the general East-West relationship, as far as this is possible in democratic societies. Linkage—the notion that progress in arms control should deliberately be made dependent on overall improvements in political relations—can serve neither arms control nor détente.

Second, arms control is no alternative to the implementation of necessary military programs. The idea that somehow "good" arms control can avoid "bad" military programs is politically tempting but unrealistic. Because the time required for negotiations will often exceed that needed for the implementation of military programs, only unnecessary projects can be linked to the outcome of negotiations—and they should not be undertaken anyway. Necessary arms programs, on the other hand, should not be made dependent, except in their extent, on the outcome of negotiations: otherwise, because of their conditional nature, they risk being neither convincing to the domestic audience nor to the opponent in negotiations. That is the fundamental difficulty of NATO's "double-track" decision of 1979 to both introduce new nuclear weapons and negotiate away the need for their deployment. The conditionality of the program deprives it both of domestic support and of credibility in the negotiations. NATO governments now have to deploy against growing domestic opposition in order to extract meaningful concession from the Soviet Union!

This is not an argument against making military programs explicitly dependent on arms control results. There is real arms control value in making clear to the Soviet Union *before* one undertakes a major program, that this will be affected by restraints on her part. But it is an argument against the specific link established by the Alliance in December 1979. What should then have been made dependent on the outcome of arms control is not the fact of NATO's nuclear modernization but its extent; to underline this the Alliance should have committed itself unconditionally to a minimum deployment, and be prepared to negotiate everything beyond that level, rather than, as it did, conditionally to a maximum one which can be totally negotiated away.

There are positive lessons as well. Perhaps the most important is that arms control, particularly on nuclear weapons, is, in democratic societies, an essential corollary to nuclear deterrence. All Western societies are currently experiencing a mounting uneasiness over the reliance on nuclear weapons for their security. That uneasiness has grown not least because of the initial reluctance by the Reagan Administration to embark seriously on the search for negotiated limits on nuclear weapons. It is true that this Administration, earlier than many had expected, agreed to talks on theatre nuclear force negotiations, and the President's November 18, 1981, speech set out a range of proposals for arms control. But the Administration had for too long allowed its image to be that of an opponent, not a supporter of regulating military competitions, so that even its more serious initiatives were seen as tactical, not substantive, moves. Unless Western governments can regain the credibility that they are serious about the pursuit of arms control they will lose the domestic support for nuclear weapons on which the credibility of deterrence continues to rest. Arms control is, for democracies, no favor one does to the other side.

III. *Tasks for the Future.* Arms control is an essential companion of nuclear deterrence. But how should it best be conducted? It would clearly be preferable if the Soviet and the American governments were conceptually ready to engage in major

reductions of their nuclear arsenals. For the reasons suggested earlier I doubt if they are. And it will take time and investment to get them there—not least by the analytical community which has all too often conceptually followed but not preceded discussions within government. The question is what should arms control seek to achieve in the meantime.

I see no alternatives to the continued pursuit of the regulatory approach. But it will encounter growing impatience, from politicians who hope that arms control can solve their problems and from public opinion which has become skeptical about the marginal impact of regulatory controls. While the regulatory effort should be continued, it will not be enough.

Two other measures should accompany it. First, the slow speed of arms control should not be an excuse for delaying necessary unilateral reforms in the Western military structure, even if—on the face of it—it might imply giving up potential future bargaining chips. The uncertain prospects for theatre nuclear arms control, for instance, should not block a serious reassessment of the relationship between conventional and battlefield nuclear forces in the defense of Europe. We will have to come in Europe to a military posture which relies less on nuclear weapons than the one we have today. Arms control or the lack of it will not solve this problem for us; we have to confront it anyway. The same applies in the area of strategic forces: what makes little sense in terms of a posture for deterrence cannot be legitimized by the possibility of agreed arms reductions in some distant future.

Second, while the concern over nuclear weapons has the deepest emotional resonance in our societies, the danger of nuclear war is not, in fact, the most imminent among the security challenges faced by the world. Deterrence continues to work, and the destructive capability of nuclear arms will assure its effect in the future. Nuclear wars in the 1980's or 1990's will be no more winnable than they have been hitherto. The more pressing threats to security are those against which nuclear deterrence does not apply: the creeping crises which might suck the world into war. Eastern Europe with its endemic brittleness of Soviet control is one, the festering crisis in the Middle East is another.

Since we cannot solve these crises, we should at least have the machinery to manage them, through appropriate procedures within the Western Alliance, and through a close, permanent dialogue between the two major powers. Crisis management is dangerously underdeveloped today. It will have to be developed again. The readiness to engage in serious arms control is perhaps also a political precondition for developing more effective methods of pre-crisis dialogue and crisis communication. And regulatory arms agreements can make one important contribution to crisis management by introducing a measure of transparency and predictability into the military competition.

The arguments advanced in this paper may suggest a rather modest role for arms control in the current decade. That would be misleading. The pressures for arms control are likely to grow in comparison to the past decades. The first has been mentioned: arms control is becoming essential to retain the respectability of deterrence by nuclear weapons in our democratic countries. The second is the pressure from the economic costs of defense which will become a much greater burden for both the industrialized East and West. Perhaps these pressures will combine to push governments towards criteria for military restraint which they have so far failed to display and which arms control can help to codify.

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“The United States and the Atlantic Alliance in the 1980's”

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In democratic societies arms control has become a necessary adjunct to national security policy. In Western Europe, a commitment to arms control seems the indispensable prerequisite to the modernization of NATO forces. In the United States, defense modernization programs are held to be the essential precondition for effective arms control. The pursuit of arms control, while defense modernization proceeds, appears to be a required ingredient in the preservation of a transatlantic security consensus. Such an approach was embodied in a broader sense in the dual concept of defense and detente of the Harmel Report of 1967 and subsequently in a more specific fashion in the NATO Ministerial Council “two-track” decision on theater nuclear modernization of December 12, 1979. Thus the question of arms control, both within the United States and most of its allies, and therefore in the Atlantic Alliance itself, is related to considerations encompassing the structure of the national political systems of Alliance members, the values and outlooks of political elites and public opinion, and the process of consensus formation on security issues within the Alliance itself.

The apparent gap on security issues between the United States and certain of its allies has reflected a divergence on the roles respectively to be accorded defense modernization and arms control policy in the management of relations with the Soviet Union. Such differences, in turn, are based upon such factors as sharply contrasting geopolitical positions; perceived gains and losses from the East-West diplomacy of the last decade and especially the lessons to be derived from the conduct of strategic arms limitation talks (SALT) between the United States and the Soviet Union in which West European allies have not been direct participants. The result has been transatlantic discord about the meaning of Atlanticism itself and hence even a questioning of the relevance of the multilateral approach to security upon which the Atlantic Alliance was founded. On the one hand, at one extreme, there has been a deepening concern, manifest more in the United States than elsewhere, that an Atlanticist consensus may no longer be possible because of differing transatlantic approaches, and the priority to be attached, respectively to defense and detente. On the other hand, the opposite position holds that the United States, in allegedly placing an excessive emphasis upon the restoration of military power, is heightening tensions with the Soviet Union. To the extent that the United States, in this view, is equated with the Soviet Union as a cause for insecurity in Europe, the proponents of a unilateral approach to security in the United States, advocating the replacement of a seemingly obsolescent Atlanticism with a new nationalism, are strengthened. Arms control policy, and in particular, the intermediate range nuclear force (INF) negotiations, has become the focal point and an important, but not the exclusive, catalyst in such sentiment. What follows, therefore, is an American approach to the question of what arms control can, and cannot, achieve in the 1980's. This assessment is set forth as a potential contribution to whatever transatlantic consensus may be possible on the relationship between national security and arms control set in present context of the Atlantic Alliance and the security problems confronting the United States and its West European allies.

1. Both the United States and its West European allies share as an objective the achievement of arms *reductions* in Soviet counterforce-capable systems targeted against their respective homelands. Nevertheless, the deployment of Soviet SS-20 launchers led to Chancellor Schmidt's celebrated speech in 1977 proposing NATO long-range theater nuclear weapons modernization as a response to a Eurostrategic imbalance which was not addressed in SALT II. Moreover, the buildup in Soviet heavy systems (SS-18) targeted against the United States produced an asymmetry that by the end of the last decade had contributed to the perception in the United States that the fixed land-based portion of its strategic nuclear force was becoming vulnerable. The failure of SALT to provide an acceptable framework for effective reductions in such systems contributed to the growth of opposition to the Treaty in the United States. Strategic force modernization has been seen in the United States as a necessary prerequisite for reductions in Soviet counterforce-capable systems. Just as there is broad agreement that Soviet nuclear systems targeted against Western Europe exceed Soviet requirements (perceived from the West) for deterrence, a similar view exists in the United States with respect to Soviet counterforce-capable systems targeted against the U.S. homeland. In this regard, the SALT process has not only left untouched the Soviet counterforce-capable systems targeted against Western Europe, it has proven unable to provide a satisfactory basis for eliminating such capabilities against the United States.

2. The Soviet Union has put forth proposals designed essentially to "freeze" existing force levels or, at most, to produce reductions that would codify for Moscow a margin of advantage in the categories of systems under negotiation. The history of arms control provides no evidence that, in themselves, agreements resulting from such negotiations can do more than reflect a prevailing military relationship. To place upon arms control a greater burden is to cast into doubt the utility of the concept itself. To invest arms control negotiations with excessive expectations is fraught with the potential for eventual public disillusionment. In the shorter term such hopes are likely to defer defense modernization programs which in themselves might have enhanced the incentive of an adversary to reach an accord. One alternative to such a "freeze" would lie in the limitation or the elimination of categories of weapons of greatest strategic concern, respectively, to Western Europe and the United States: Soviet SS-20's and SS-18's, in return for "equivalent" U.S. and NATO systems, which might include the Pershing II and the MX, both of which, like the Soviet SS-18 and SS-20, could reach targets within minutes with counterforce accuracy. (Although it possesses potential accuracy at counterforce levels, the present generation cruise missile flies within the atmosphere at subsonic speeds and therefore does not possess the rapid reaction capability of ballistic missiles). Because of proposed deployment schedules and political-technological uncertainties for the U.S.-NATO systems, the basis for such an arms control agreement probably does not exist, especially if the Soviet Union sees the prospect for Western nondeployment by unilateral decision or otherwise by the failure to complete presently agreed deployment plans.

3. There is a Western consensus to the effect that arms control should enhance deterrence based upon the following: the survivability of deterrent forces as the essential precondition for the preservation of deterrence itself; and the diminution in the potential for surprise attack. Both elements have important implications for the framework within which arms control negotiations can be evaluated for their effectiveness as a contribution to the security of the United States and the Atlantic Alliance. Judged by both criteria, they have had little effect upon the East-West military relationship of the last decade. In the SALT process, the United States had

sought an agreement that would restrain the deployment by the Soviet Union of large numbers of ICBM and SLBM launchers. The ABM Treaty placed legal restraints upon the ability of the United States to defend its fixed land-based strategic forces, while the other parts of SALT did not restrain effectively the ability of the Soviet Union to deploy, both in qualitative and quantitative terms, capabilities perceived increasingly to pose a threat to such forces. In NATO, moreover, a decade of MBFR has coincided with a reduction in the minimum warning time thought to be available in advance of a hypothesized Soviet-Warsaw Pact attack, although there has been a continuing effort in various sets of arms control negotiations to reach agreement on confidence-building measures intended to diminish surprise. By the criteria of survivability and minimization of surprise as the basis for deterrence, the potential contribution of arms control for the 1980's is dimmed by the legacy of the last decade. In turn, this problem has been rendered less soluble by an apparent lack of consensus between adversaries about the very meaning of stability and the perceived military requirements for deterrence. To develop such accord would depend necessarily upon compatible approaches to military doctrine and strategy, which has proven to be of formidable dimensions even among allies, not to speak of states with hostile political interests, geopolitical positions, and sharply contrasting approaches to military affairs.

4. It is necessary to view arms control at the intermediate nuclear force level within a broader global strategic context. This means that an agreement limited to intermediate range systems would be insufficient in itself. Just as the SALT II Treaty left unrestrained the deployment of intermediate range nuclear systems targeted from the Soviet Union to Western Europe, an agreement confined to Soviet launchers such as the SS-20 would leave intercontinental capable systems that could be retargeted to intermediate targets such as Western Europe. To link intermediate range systems and intercontinental launchers, however, is to increase the complexity of arms control negotiations that already face formidable obstacles to the achievement of an acceptable agreement. The greater the number of issues, systems and parties involved, the more difficult the attainment of an arms control agreement and the more protracted the negotiations are likely to be. The longer the negotiations, the greater the likelihood that no agreement will be reached or that any accord that is concluded will be peripheral to the security needs of one or more of the signatories. The longer the time from the initiation of negotiations to the conclusion of an agreement, the greater the likelihood that new weapons technologies will reduce its significance to national security. It is likely that these propositions will hold ominous implications for arms control in the years ahead. Of equal consequence are changes in the characteristics of weapons systems themselves which raise questions about what is to be controlled, and by what type of agreement. For example, if a launcher has a retrofire, or reload, capability, it is essential to eliminate all, or most, such launchers if a system such as the SS-20 or the SS-18 is to be effectively restricted. The greater the number of launchers with retrofire capability not included in an agreement for such reductions, the less significant any such arms limitation accord is likely to be as a contribution to strategic stability. In this respect, the "zero option" proposal for intermediate range systems contains a certain logic that may be relevant to other systems with comparable characteristics. Closely related is the difficulty of separating arms control in one geographical context from adjacent zones. The dismantling of Soviet SS-20 launchers in the Western Military Districts of the Soviet Union facing NATO, leaving intact such systems behind the Urals, would place nearly all of Western Europe within the range of such systems. Mobile launchers could be retargeted from central regions of the Soviet Union against targets in Western Europe or China. Under such circum-

tances, a "nuclear free zone" even encompassing all of Europe from the Atlantic to the Urals would have little relevance for the principal security problem facing Western Europe from Soviet counterforce-capable systems.

5. A good arms control agreement should be based upon the limitation of what is significant and the verifiability of what is controlled. This means that there should be a coincidence between what is significant and what is controlled and that the Soviet Union should not be able to violate the provisions of an agreement in ways that the West could not detect by the means available either within or outside an arms control agreement. In the final analysis the verifiability of an arms control agreement represents a judgment of the quality of the national intelligence community. For this purpose, the United States has relied upon national technical means of verification, the limits of which may have been reached. Such means have been most suitable to verification of arms control provisions related to the *quantity* of objects such as silos or other fixed installations. Qualitative improvements in weapons, including the deployment of launchers with a retrofire capability; the increasing number of warheads deployable on a missile; the greater accuracy and variable range of such systems; and the emphasis upon mobile launchers, have introduced verification problems that, given the technological characteristics of weapons systems in the 1980's, will pose problems which, taken together, are of unprecedented difficulty for arms control. There is a further problem in that verification by national technical means is less efficient if its object is a weapon already deployed rather than a system still in its conceptual or R&D phase. But if verification by national technical means cannot be utilized until the deployment phase, certain states, especially closed societies, where armaments are not subjected, as in the West, to continuous and systematic public scrutiny, will retain the potential for breakout from agreed limitations on presently deployed systems either through the clandestine production of the components of such capabilities or by a decision to press the deployment of a new generation weapons system. Although the testing of such a system would probably provide an opportunity for detection by national technical means, an adversary would have gained a potential edge given the lead time of several years (at least a decade in the United States) from the initiation of research to the deployment phase.

#### Conclusions

1. Arms control negotiations and agreements do not provide in themselves an adequate basis for reduction in weapons systems. Instead, they may even coincide with a substantial increase in armaments by one or more of the parties.
2. Arms control negotiations and agreements do not constitute a substitute for a national security policy based on adequate defense capabilities. In the absence of the possession of the means for defense, the incentives for arms control are likely to be minimal, especially for the party possessing a greater military capability.
3. American arms control policy seeks overall reductions in major categories of nuclear forces while attempting to increase Soviet incentives for such reductions by undertaking necessary defense modernization programs.

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## DISCUSSION

Chairman: Andrew Knight

The remark by an International speaker that there was "no alternative to arms control"—at least no attractive one—found universal acceptance among Bilderberg participants. But the central question, "What can arms control achieve?," elicited a diversity of views, which did not divide readily into U.S. and European camps, as in the preceding session. Divergences on this subject cut across national boundaries and groups of nations.

*The purpose of arms control negotiations.* An American speaker, agreeing with the current U.S. administration, stressed that arms control should curtail the growth of nuclear weapons and reduce existing stockpiles. This was the dual aim of the INF negotiations, the zero-option proposal, and the START talks. Prior agreements, including SALT II, had not done this. They had not caused the Soviet Union to abandon or curtail any weapons system. Arms control should seek to change Soviet military doctrine which, in the words of the German author, was "geared to superiority, to deterrence, but, if this failed, to military victory."

We did not enter arms control negotiations as a favor to the other side or to simply avert the danger of nuclear war (a remote danger in the present decade), said an International speaker. We negotiated because, if we were locked in an arms competition, it made sense to try at least to achieve levels on which we could plan. And we negotiated to show our people that we were willing to regulate the competition—which was essential to retain popular support for the nuclear deterrent strategy.

Arms control, in another International participant's view, was required to establish a world order with less hostility and more stability. Achievement of arms control measures that put ceilings on types of weapons and numbers of warheads injected a degree of predictability into military planning. With predictability came manageability, and with manageability came stability.

*U.S. arms control policy under the Reagan Administration.* The American author said that opposition in the U.S. to SALT II had arisen because of perceived gaps favoring the Soviet Union in strategic forces. The Reagan Administration was not prepared to codify these gaps, although it had abided by the terms of the unratified treaty.

Arms control, with emphasis on arms reduction, was a central element of U.S. foreign policy. It was linked to an effective defense and national security policy. The objective of U.S. policy was to reduce the capability of the Soviets to threaten credibly to launch a nuclear attack against the U.S. and its allies—a problem which had grown as the result of the large number of counterforce-capable weapons deployed by the Russians in the prior decade.

U.S. arms control policy insisted that Soviet systems targeted against Western Europe and those targeted against the U.S. were not separable. Reductions at one level which left the other unchanged were not acceptable. START called for the reduction to 5,000 of the number of warheads deployed on no more than 850 sea or land launchers.

U.S. policy also stressed that, parallel with negotiations, defense modernization programs should be carried out. START should not be viewed as a substitute for strategic force modernization. We must use arms control to address major security problems—the Soviet counterforce weapons targeted against us. If arms control could not address this issue, it had to be seen as peripheral to our military security needs.

*The zero option.* This proposal had political utility as well as military liabilities. Most viewed it as a valid U.S. effort to respond to European pressures and to build

some kind of consensus for the NATO two-track decision. It made political sense as a means of marshalling public opinion. It was also, in the view of a Briton, a suitable response to the Soviet freeze proposal. (We should not be too concerned, as neither proposal was likely to get very far anyway, he felt.)

Many participants saw the zero option proposal as militarily unwise. It was an outgrowth of NATO's lack of clear-cut concepts of what it could and could not do without. Adoption of the zero option would deprive the alliance of the opportunity to introduce new systems that made strategic and military sense and would lock it into a highly vulnerable theatre nuclear posture.

An American warned that the zero option would amount to a unilateral nuclear moratorium. It had been embraced both by those who wanted to deploy weapons and by those who wanted to stop deploying; we could not have it both ways. There was a danger that the zero option proposal would lead the Soviets to prolong and complicate the INF negotiations and that meanwhile the West would not proceed with deployment of the long-range TNF's as mandated in the 1979 decision. There was also the danger that the Russians might accept a version of the zero option postulating zero for the U.S. and a Soviet balance with France and Britain; this would lead to the decoupling of the defense of Western Europe from U.S. strategic forces.

Some participants doubted that the zero option proposal would result in such a decoupling. They saw it enhancing European security through the removal of Soviet SS-20's. And the Russians could not drag out the INF negotiations indefinitely because they would come up against the December 1983 deadline for NATO deployment of long-range TNF's.

There was considerable concern that that deadline might be allowed to slip by. A German speaker, disputing a countryman's view that deployment of Cruise and Pershing II missiles would have a destabilizing effect on the START talks, said NATO should be prepared to do what is militarily necessary. An International participant agreed, saying that it was important for the Soviets to see NATO united and determined to go ahead and implement the 1979 decision to deploy unless there had been a breakthrough at the negotiating table. Arms reduction could not be accomplished without the necessary incentive, which, for the Soviet Union, was a credible Western defense program.

*Conventional forces and no first use.* In an International participant's opinion, NATO's renunciation of the first use of nuclear weapons would reduce the deterrent value of its nuclear forces. Clearly the Soviets were concerned that NATO might use nuclear weapons first, so they had a strong interest in making that an unlikely eventuality. It was the uncertainty that provided the deterrent.

A precondition for the change in NATO doctrine that the renunciation of first use would imply was a significant strengthening of conventional forces. Did the political will exist in Europe for such a build up? Were European publics and parliaments willing to make the kind of sacrifices necessary for an adequate conventional defense if the trade-off was to remove the nuclear issue from the international debate?

Many participants suggested the answer was "no." Where was the money to come from? How could European governments, with their budgets already stretched, commit the necessary funds to support a conventional force build-up in these difficult economic times? We were deluding ourselves if we thought the money would be available. And the prospect for a greater American contribution to conventional forces in Europe was nil. The sensitive subject of burden-sharing, warned an American, was never very far beneath the surface of foreign policy debate in the U.S.

A Norwegian worried that NATO might commit itself to renouncing first use on the assumption that conventional forces would be increased, only to find that it could not do so because its people were not willing to pay. This could lead to a situation where

we would not defend ourselves with nuclear weapons and could not defend ourselves with conventional weapons.

A German agreed that raising conventional force levels to meet Soviet superiority was a questionable proposition in the current economic climate. But there was another approach: to start serious negotiation on a lower conventional balance. In any event he argued, the state of NATO's conventional defense was not really so bad. West Germany, for example, had systematically increased its ability to counter a Soviet conventional attack by developing anti-tank weapons of the sort so successfully used by the Israeli army against Soviet-made Syrian tanks. Thus the Soviets were assured "no easy walk to the Rhine."

But a majority of views held that NATO had neglected its conventional defenses. An International speaker warned that because we had not fulfilled our commitment to conventional forces, we had "built ourselves a short war" in which we would have to decide very early on whether or not to escalate to nuclear weapons. Our only available strategy was the "delayed tripwire." We had two alternatives: withdraw or escalate. We needed to raise the nuclear threshold by building up our conventional capability to the point where we were confident we would not have to resort to theatre nuclear weapons.

Another German speaker supported this argument, saying that there was no alternative to the doctrine of flexible response. What was needed was a change in Europe's military posture, not its doctrine. It was necessary to restore the military balance; because of Warsaw Pact superiority, the doctrine of flexible response was in doubt. What we really had was a hidden strategy of massive nuclear retaliation. We had neglected our conventional defenses at a time of strategic parity with the Warsaw Pact and, worse, superiority of Warsaw Pact tactical nuclear forces. The result was a severely lowered nuclear threshold; we would have to use nuclear weapons in a very early stage of a conflict. While it would be difficult—and perhaps undesirable, from the point of view of excessive militarization of our societies—to seek full conventional parity, we should acquire modern weapons which clearly favored the defender—weapons which gave us the ability to fight not only the first but also the second echelon enemy forces by purely conventional means.

Such a scenario was viewed with skepticism by an Italian. From a strategic point of view, he argued, conventional forces were not enough to maintain NATO's forward defense without transforming West Germany into a virtual battlefield. We would need to station eight to ten additional divisions there.

*The need for public support.* There was a danger that NATO's nuclear doctrine could be undermined by the loss of public support for it. Management of public opinion presented a serious challenge to the alliance and its political leadership.

A Norwegian participant feared that the Soviet Union would get the impression that there would be no new deployment of nuclear weapons in the West because of the force of public opinion against it. The Soviets, therefore, would not feel compelled to make the necessary concessions in negotiations. They could be expected to step up their efforts to influence Western public opinion in this respect. The leaders of the alliance countries had to explain forcefully to their people that the only way to achieve meaningful arms reductions was to stand firm and exert maximum pressure on the Soviets to reduce their nuclear forces.

Two participants, an American and a Dutchman, expressed concern that NATO's strategy of nuclear deterrence, with its implication of limited nuclear war, was becoming very hard for the public to accept. It was true, said the American, that the increased horror of war made it less likely, but there was a danger that that feeling could lead to total abdication. NATO's strategy involved a fundamental paradox, observed the Dutch speaker. In order for it to function, one had to imagine the

unimaginable. It was a strategy which evoked its own opposition, and opposition that was necessary to keep the deterrent principle alive. But he feared we were reaching the point where public opinion would no longer accept this strategy.

With respect to strengthening conventional forces, a British participant felt that here, too, the public held the key. Europeans felt great anxiety about the possibility of a battlefield nuclear exchange on the continent. We needed to link that fear to the build-up of conventional forces, and to devote some attention to the creation of a battlefield nuclear-free zone. This could help generate the public support for strengthening conventional forces. A Norwegian agreed that the fear of a nuclear exchange in general might overcome popular reluctance to pay for conventional weapons.

We faced a grave situation if leaders failed to convince their publics of the need to strengthen conventional forces and to deploy long-range TNF's by the end of 1983 if negotiations had not been fruitful; we would, warned an American, be defenseless. A German urged that political leaders be courageous enough to go ahead with deployment regardless of public opinion. This had been done in the Federal Republic twice before: first when Adenauer decided to re-arm, and later when U.S. nuclear weapons were introduced on German soil. Both actions were taken in the face of widespread public opposition.

A major difficulty in rallying public support in Europe was NATO's reliance on American nuclear weapons controlled by Americans. Was it easier to prevent war with these weapons in Europe or without them? It might be better if the European nations had some autonomy in their defense, as did the French. An International speaker regretted that American missile installations in Europe did not have double keys.

Another obstacle in influencing public opinion, a Norwegian pointed out, was that our leaders too often seemed unsure of what they needed to convey to the public. The U.S. was especially suspect in this regard, with evaluations of the military balance changing from one administration to the next. European policy was at least more consistent. We needed greater continuity of American policy if we were to be convincing to our publics.

*Obstacles to negotiating effective arms control measures.* Did NATO have a clear idea of what it was trying to achieve in arms control negotiations? Some speakers felt it did not. "Are we negotiating so that we can deploy weapons, or deploying weapons so that we can negotiate?" asked an American. We were plagued by changing fashions in arms control. Different leaders had different ideas about where the real priorities lay. The problem with stressing reduction, according to an International participant, was that we lacked a sense of how much was enough and what we could do without. We should not expect too much of reduction when regulation was still the best we could hope for. Until we figured out what our requirements really were, we would have a hard time agreeing on reductions.

An American pointed out that arms control negotiations could arouse expectations that could not always be satisfied. NATO's political handling of the INF negotiations had given the public the idea that there was an alternative, that arms control could obviate the program altogether. The result, an International speaker observed, was that the onus was now on the West to show that it had done everything possible to negotiate. It was going to be difficult to demonstrate before the end of 1983 that negotiations had failed because of Soviet intransigence.

In the future, an American argued, any arms control policy put forth should be accompanied by an associated military policy. We tended too often to adopt policies as the result of domestic pressure on governments to get results, regardless of whether they served the interests of Western security. The practical consequence of all the emphasis on reduction could be to destroy any sense that we were willing to initiate

nuclear war. We had created in NATO a defense based on nuclear strategy, but we had a populace with growing nuclear pacifism, arms control proposals that negated our declared strategy, and no buildup of the forces that our arms control policies implied. Sooner or later we had to put before the public the implications of what we were doing. And sooner or later we would have to arrive at a political settlement with the Soviet Union, to define what it was we meant by a peaceful world.



### III. THE MIDDLE EAST: ISSUES AT STAKE

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"The Reagan Administration in the Middle East: Issues at Stake"

Working Paper Prepared by The Honorable Hermann Frederick Eilts  
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*Introduction.* When assuming office in January 1981, the Reagan Administration inherited a Middle East potpourri: (a) an Egyptian-Israeli peace treaty, but with final Israeli withdrawal from Sinai still 16 months away; (b) West Bank/Gaza autonomy talks that had languished for the previous two years; (c) a Soviet military invasion of Afghanistan, whose seriousness the previous administration had underscored by issuing the vaguely worded "Carter Doctrine" declaring the Persian/Arabian Gulf a "vital" American interest to be defended with force should a "foreign" (read Soviet) attempt be made to install itself militarily in that region; (d) a resolved hostage problem with Iran, but continued seriously disrupted relations with the Islamic Republican Government of that country; (e) an Iraqi-Iranian war, the outcome of which remained uncertain, but which could adversely affect political stability in the Gulf region; (f) disruptive efforts by Arab rejectionist states, especially Libya and Syria, directed against the Camp David prescribed peace process; (g) a Lebanon largely under Syrian military occupation and with serious confessional strife; and (h) a growing petroleum supply glut with reduced American dependence on Middle East oil imports and a breaking price situation. It was from this "mix," coupled with the new president's overriding concern about the domestic economic situation in the United States, that Middle East policy has been devised.

*The Soviet Threat.* Despite serious difficulties encountered by Soviet troops in Afghanistan, the Reagan Administration considers the putative Soviet threat to the Persian/Arabian Gulf to constitute the principal danger to the area. Secretary Weinberger has warned that, should the Soviets succeed in Afghanistan, they may be expected to follow the "historic routes" through Pakistan and Iran in the direction of their long cherished objective, a position on the Gulf. This threat to the Gulf has by all means to be contained.

Doing so makes it imperative to persuade Israel and moderate Arab states to subordinate unresolved aspects of the Arab-Israeli dispute to the overriding need to achieve "strategic consensus" among those states in order more effectively to face the Soviet threat. Regrettably, whatever limited similarity of view exists between Israel and moderate Arab states about Soviet objectives in the Middle East is insufficient to cause the Arabs to accede to the American belief that Arab-Israeli issues be subordinated. Rather, they continue to insist that a solution to the Arab-Israeli problem, and especially its Palestinian component, is of greater importance than meeting a somewhat amorphous Soviet threat. In the face of this position, the Reagan Administration has found it necessary to lower its goals and, instead, to limit itself in the first instance to seeking facilities for its own military forces in the area.

*United States Military Facilities.* The "Carter Doctrine" was announced in January 1980 with little military capability to back it. A Rapid Deployment Force for possible use in the Middle East had first to be forged in order to make that policy pronouncement credible. As part of its overall focus on strengthening American defense, the Reagan Administration has given high priority to making the RDF a viable instrument.

If a Soviet threat to the Middle East is to be effectively met, American military facilities in the area are needed, preferably in and in any case in close proximity to the Gulf. Only with the existence of military bases or facilities in the Middle East can the United States, in the event of need, rapidly and effectively project its armed forces into the area in order to assist friends. Military facilities have therefore been sought in Egypt, Saudi Arabia and Oman. Results have been limited as these states continue to demonstrate keen political sensitivity to the existence of American military facilities on their soil.

An agreement for stockpiling American military equipment and for the use of certain Omani military facilities for American forces has been concluded, along with similar agreements for Somalia and Kenya. Egypt, while offering military facilities for American use on an *ad hoc*, temporary basis, has thus far been unwilling to provide permanent military facilities. It has nevertheless indicated a willingness to make available air and port facilities at Ras Banas. Saudi Arabia, which would be ideally suited for forward military facilities, continues to refuse to grant these.

Largely because of a threatened Soviet veto over redeployment of UNEF, after the conclusion of the Egyptian-Israeli peace treaty, some 2,000 American troops will now participate in a multinational peacekeeping force in Sinai. They will join troops from several European and Third World states to verify continued fulfillment by both Egypt and Israel of their peace obligations. Assigned American units, and their use of Israeli-constructed, Egyptian-owned facilities, are not to be used for military operations in the area unconnected with peacekeeping. The United States is currently providing Egypt with massive military assistance and hopes that this will eventually persuade the government of Egypt to agree to closer military cooperation, including more permanent access to Egyptian facilities. The RDF has already conducted successful maneuvers in the Western desert in conjunction with Egyptian forces.

*Saudi Arabia.* The Reagan Administration wishes to build upon the long standing United States association with Saudi Arabia in the political and military spheres. In an effort to bolster Saudi security in the face of a perceived threat from the Islamic Republic of Iran, it has, at Saudi request, deployed to Riyadh four USAF AWACs to fly surveillance missions in the Gulf and adjacent areas. While no formal, Congressionally approved American security commitment to Saudi Arabia exists, the long time presence of several American military missions, designed to train the Saudi military and National Guard and to undertake certain military engineering programs, constitutes a kind of "plate glass" window lending some credence to repeated assurances of United States determination to assist Saudi Arabia if attacked. Moreover, in order to prevent any miscalculations by unfriendly elements, President Reagan has publicly stated that the United States will not permit a replication of Iranian developments to take place in Saudi Arabia. The United States is thus committed not only to the territorial integrity and political independence of Saudi Arabia, but also to the preservation of the House of Saud.

As further evidence of its interest in Saudi Arabia's defense, the Reagan Administration has continued the sale of American military equipment to that country. Most prominent in this regard is the approved sale of five AWACs to Saudi Arabia to be delivered in 1985. Secretary Weinberger, during a visit to Saudi Arabia in February 1982, also concluded a military cooperation agreement with that country, although the precise meaning of that agreement remains obscure. American efforts to obtain greater Saudi cooperation in the military sphere remain bedeviled by unresolved Arab-Israeli issues (especially the Palestinian problem), by Saudi opposition to the Carter-brokered Camp David agreements, and by Saudi Arabia's determination to support Arab objectives. The Fahd peace plan was cautiously welcomed by the Reagan

Administration not as a substitute for the Camp David prescribed process, but because it seemed to suggest a wider Arab interest in moving toward peace. The Administration is awaiting whether an Arab summit can be persuaded by the Saudis to endorse it before considering how it might fit into the ongoing Middle East peace process.

*The Arab-Israeli Problem.* Important though it is, the Arab-Israeli problem should, in the eyes of the Reagan Administration, be subordinated to the Soviet threat. The Camp David agreements, it believes, represent the only viable way to proceed toward peace. The conclusion of an Egyptian-Israeli peace treaty, while only a partial peace, does to a considerable extent defuse the danger of resumption of major, area-wide Arab-Israeli hostilities. As a longer term objective, the Reagan Administration wants a comprehensive Middle East peace, but believes that the time is not right for active pursuit of such an objective. Instead, in the immediate future, two elements of the Arab-Israeli problem need be addressed: first, Egypt and Israel should be encouraged to proceed with full implementation of their peace treaty of March 1979; second, through the timely dispatch to the Middle East area of former Under-Secretary Philip Habib, the precarious ceasefire in Lebanon between Syria and the Palestinians, on the one hand, and Israel on the other, needs at all costs to be preserved. As a corollary, in order to hamstring Libyan capability to disrupt the peace process through terrorism and adventurism in Chad and the Sudan, the Reagan Administration also is adopting a hard line toward the Qaddafi regime, including urging American oil companies to leave Libya and seeking to impose an oil boycott on that country.

As the date for Israeli military withdrawal from Sinai approaches, the Reagan Administration is keenly aware of the security misgivings that must inevitably arise in Israeli society. It has sought to reassure Israel of continued American support by providing additional sophisticated military equipment to Israel and by taking the unusual step of concluding an agreement for strategic cooperation with Israel. To its regret, the Administration has encountered serious difficulties in restraining Israel from resorting to unilateral military actions. Israeli actions in bombing an Iraqi nuclear facility and PLO headquarters in Beirut with an attendant heavy loss of life among innocent civilians, as well as extending Israeli law to Golan, have caused embarrassment for the United States in its efforts to pursue an even-handed policy in the Middle East. If American credibility in the Middle East and elsewhere is to be maintained, it has had to react in a manner disapproving of these Israeli actions, yet without permanently impairing ties with Israel. Thus, it voted for a UN resolution condemning Israel for the attack on the Iraqi nuclear facility, suspended briefly the delivery of certain sophisticated military equipment and, in the wake of the Golan action, suspended implementation of the strategic cooperation agreement. Shortly afterwards, however, it maneuvered in the UN to prevent a resolution which would have required mandatory sanctions against Israel for the latter's Golan action. The Reagan Administration, like everyone else, encounters difficulty in dealing with a prickly and unpredictable individual such as Prime Minister Begin, although its commitment to the security and well-being of Israel is irrevocable.

*West Bank/Gaza Autonomy.* The Camp David prescribed West Bank/Gaza autonomy negotiations, aimed at creating a self-governing body for the Palestinians in those regions, do not in the eyes of the Reagan Administration have any urgency about them. Having already languished for over two years, largely due to sharp Egyptian-Israeli differences over powers and responsibilities of the proposed self-governing body, the Administration feels it has no alternative but to place them on a back burner. To the extent that Egyptian and Israeli negotiators, after the late

President Sadat's visit to Washington in August 1981, were prepared to resume pertinent discussions, the United States could simply play a low key, watching role. The assassination of Sadat, whom the Reagan Administration had hoped could eventually be persuaded to agree to a compromise between divergent Egyptian and Israeli positions, was a blow to the Administration. His successor, Hosni Mubarak, is viewed by Secretary Haig as more rigid in outlook and more desirous of improving Egypt's relations with Arab states rather than developing a closer Egyptian-Israeli association.

In the hope of obtaining some kind of West Bank/Gaza autonomy agreement prior to April 25, 1982, Secretary Haig in January of this year toyed with the idea of shuttling between Egypt and Israel, but was required to relinquish any such design in the face of the unwillingness of either side to make concessions on unresolved autonomy issues. Nevertheless, in order to facilitate its continued interest in the matter, a Haig aide, Richard Fairbanks, has been designated to help the parties reach agreement on autonomy issues. Granted, this downgrades the status that West Bank/Gaza autonomy talks had under the previous administration, but it is consistent with the current objective of the Reagan Administration to try to achieve a series of interim agreements.

*The PLO.* The Reagan Administration is mindful of sharp Israeli opposition to the PLO and has itself condemned PLO terrorist activities. Nevertheless, Secretary Haig has publicly indicated a stance toward the PLO similar to that of the previous administration. Should the PLO be willing publicly to recognize UN Resolution 242 as the basis for peace negotiations and explicitly Israel's right to exist, the United States would be prepared to enter into a dialogue with the PLO. The Reagan Administration is nonetheless content, at least for the time being, to have the PLO leadership reject such terms.

*The Iraqi-Iranian War.* The Reagan Administration lacks the capability to play any mediatory role in the Iraqi-Iranian conflict. Given the hostility of both Iraq and Iran to United States interests in the Gulf and in the Middle East, it is content to see that war played out to an inconclusive result.

Concerned about a Soviet threat to Iran once Ayatollah Khomeini dies, yet without a physical presence in Iran, the Reagan Administration has sought to assist the disparate Iranian exile groups to reconcile their differences in order to present a united front in the anticipated struggle for a successor in Iran when it materializes. Given the serious differences between such Iranian emigré elements, this has been an extraordinarily difficult task.

*European Initiatives.* While recognizing that the European states have an interest in Middle East peace, and the positive intentions behind a European initiative, the Reagan Administration is dubious about any such initiative. It is skeptical that any European initiative will further the Middle East peace process. Aware of Israeli sensitivities, it also questions the avowed European interest in the creation of a Palestinian state, does not believe that the Europeans individually or collectively have any appreciable influence upon either Israel or the Arab states, and is concerned that European efforts to give status to the PLO will only create a hardening of Israeli positions and will thereby complicate still more the already difficult Middle East peace process.

*Some Questions.* The Reagan Administration's Middle East policy raises a number of questions, viz:

(1) Does it in fact have a strategy for the Middle East or is it simply devising *ad hoc*, Band-Aid type solutions to Middle East issues?

(2) Assuming that the Reagan Administration has a coherent Middle East strategy, despite the discordant statements of Secretaries Haig and Weinberger, is it giving adequately high priority to Middle East issues in contrast to domestic policy and other areas of foreign policy concerns?

(3) Is the Reagan Administration's apparent obsession with a putative Soviet military threat to the Persian Gulf credible to the governments of the area and to America's European and Japanese allies? If not, what is needed to make it so? Or is the whole idea simply a meaningless delusion which distracts attention from the real problems of the area?

(4) Although Egypt, Saudi Arabia and Israel share concerns over possible Soviet activities in the Middle East, is the Haig concept of a "strategic consensus" feasible in the absence of significant steps to resolve area-wide political problems?

(5) Is the Reagan Administration's relative indifference to Palestinian issues warranted? Is the Palestinian problem indeed central to any comprehensive Middle East peace? Related to this, is it possible for the United States to obtain meaningful military cooperation from friendly Arab states if some real progress is not made on the Palestinian issue? Should the Reagan Administration more actively seek dialogue with the Palestine Liberation Organization in the context of its avowed desire to move toward a comprehensive peace?

(6) After April 25, 1982, will the Camp David peace framework still be a viable way to proceed? Or are the Europeans and friendly and unfriendly Arabs correct when they insist it is for all practical purposes dead, especially with respect to resolving the Palestinian issues, and that some other, more promising forum needs be sought? If so, are there alternative approaches to move toward a comprehensive peace?

(7) Is the current American obsession with obtaining permanent military facilities in Egypt, Saudi Arabia and elsewhere in the Middle East likely to destabilize moderate Arab regimes?

(8) Is the United States wise in placing so many of its eggs in the Egyptian, Israeli and Saudi Arabian baskets? Are there alternatives to such an approach?

(9) Should the Reagan Administration attempt to do more at this point in time in order to improve relations with Iran and to bolster Iran's capability to meet likely Soviet pressure in the wake of Khomeini's expected demise? If so, what can it do without alienating Saudi Arabia and other friendly Arab states?

(10) Are American actions against Qaddafi likely to weaken him or will they rally Libyan and Arab support behind him?

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*Working Paper Prepared by Professor Elie Kedourie  
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It is generally, not to say universally, believed that the Arab-Israeli conflict is the most important issue at stake in the Middle East today. It is certainly so for Israel and for some, at any rate, of the states in the region. Whether it is so for outside powers is another question. But what is beyond doubt is that this particular issue caused a great deal of tension in European-American relations during the October 1973 war and its aftermath. It continues to do so today.

Peace between Israel and the Arabs is obviously desirable for its own sake. It is also desirable from a Western point of view in that it would deprive the Soviet Union of a lever and a weapon, and remove a cause of anti-Western feeling in the Arab world. So much is agreed on both sides of the Atlantic. Divergence, however, becomes apparent regarding the manner in which settlement of the conflict is to be tackled.

The divergence appears clearly in the contrast between the principles underlying the Israeli-Egyptian Peace Treaty of March 1979 and the document entitled, "The Framework for Peace in the Middle East" which Begin and Sadat signed at Camp David the following September, on the one hand, and the Venice Declaration issued by the EEC heads of state in June 1980, on the other. Both the Treaty and "The Framework" involved the U.S. as a go-between, as in an important sense a guarantor of the peace between Egypt and Israel which the Treaty was to establish, and as a party to the negotiations about the autonomy of the West Bank and the Gaza Strip which "The Framework" envisaged. These documents did not mean that Egypt was abandoning its concern for a solution of the Palestine problem. What they do signify, however, is that Egypt was removing itself from the Arab coalition which, for over 30 years, had maintained belligerency against Israel. With Egypt removed from this coalition, the risk of a general Arab-Israeli war, with all its dangers of escalation and superpower confrontations, would become small and remote. From a U.S., and more generally Western, point of view, this was a great boon. If this analysis was correct, then it followed that both Egypt and Israel should be encouraged, should be offered, the greatest possible encouragement to persevere in the course which President Sadat's visit to Jerusalem in November 1977 had inaugurated, and the greatest possible discouragement to abandon this path.

The Venice Declaration clearly showed that the EEC powers clearly dissent in great measure from this analysis. These powers clearly believe that the Palestine problem is pivotal, that tranquility would not be restored to the Middle East until the Palestinians—and the PLO—are brought into the negotiation and joined to the other parties with whom Israel would have to deal. In contrast to what might be called the Camp David approach, which would tackle the conflict in Palestine indirectly, through negotiation between Israel and Egypt with U.S. assistance, the EEC approach would insist on a direct and comprehensive negotiation in which all the different parties would be represented. The difficulties and risks of such a strategy are not negligible. In the first place the very number of the parties involved in such a negotiation would make for its probable failure. One important reason why the Palestine conflict erupted into a general Arab-Israeli war in 1948, and thereafter proved rebellious to a settlement, was precisely the large number of parties involved. Each of these parties, on the Arab side, had their own particular concerns and interests which were not easily reconcilable with one another. The Palestine conflict was the cockpit where the ambitions and enmities of various Arab countries confronted one another. To seek a comprehensive negotiation might excite anew fears and ambitions perhaps better left dormant. Tension not only between Israel and its neighbors might rise, but also tensions between those neighbors themselves. The very desire to achieve peace might then itself lead to an outbreak of hostilities. Saudi Arabia, which is now much more prominent in general Arab affairs than it was in the past, might find itself involved. Involvement might lead to a set-back or discomfiture, with unpredictable consequences for the stability of the regime.

A comprehensive negotiation might also entail introducing the Soviet Union into the negotiation, recognizing its *locus standi*, and perhaps also making it, jointly with the United States, the guarantor of a settlement. The consequences of such a development none can foresee, but they are unlikely to be favorable to Western interests.

Is there then a case for treating the Arab-Israeli conflict with benign neglect? Neither Europeans nor Americans believe that this is a real option. The Americans have been very active in mediating. They have tried to assist the autonomy negotiations within the framework of Camp David, and they may even see attractions in the Venice Declaration approach. They have also interposed themselves in disputes between Syria and Israel, and have exerted influence, and brought pressure to bear in Jerusalem and Riyadh. These initiatives are not without their cost, and the question must always arise whether the price paid in further entanglements and more complicated commitments is worth paying, whether a sphinx-like or sibylline stance would not be more appropriate to the status of a super-power. If such a status had reality and meaning, it is the local, the regional powers who ought to be seeking the favours of Washington, and to be concerned at its disfavor, not the other way round. But this of course requires a far-reaching change of style in U.S. foreign policy, and a reassessment of political and military priorities.

A reassessment is indeed necessary. For assume that the Arab-Israeli conflict is settled either through a compromise peace, or through Israeli capitulation, where would this leave Western interests? The answer has to be that such a settlement will have only marginal, and perhaps negligible, effects. There are many actual or potential areas of disagreement and conflict among Arab states, which may become even more acute when the Arab-Israeli conflict is settled; conflict between Syria and Iraq; between those who have, and those who do not have, oil; conflict within states ruled by narrowly-based governments devoid of legitimacy—conflict which is likely to have international repercussions; conflict about control or influence over a new Palestinian state between Syria and Jordan, and in which the Soviet Union may find it easy to intervene; conflict between the Popular Democratic Republic of the Yemen and its neighbors, be they Oman or the Yemen Arab Republic, or Saudi Arabia.

Over and above these problems in the Arab world, there is the overriding problem posed by the Soviet presence in Afghanistan. When this country was invaded at the end of 1979, there seemed to be a forceful response on the part of the U.S. administration. But forceful as it seemed to be, U.S. action did not deter the Soviets from implanting themselves in Afghanistan. Whatever effectiveness U.S. action might have had was considerably weakened by the visible reluctance of its European allies to support a robust stance, and by the openly critical attitude some of them adopted towards not so much U.S. action—which anyway amounted to very little—as U.S. rhetoric. It cannot, however, be denied that Afghanistan is much more central to Western interests than the Arab-Israeli conflict. Afghanistan is for the Soviets a base and a jumping-ground from which to exert military power and political influence over Pakistan, and the oil-rich countries of the Arabian Peninsula. From Afghanistan, too, subversive activities can be mounted, if need be, to destabilize Pakistan and further to destabilize Iran. The consequences of Soviet success here on the supply of oil and on the strategic position in the Indian Ocean would be extremely serious. A prudent appreciation would have to consider the worst case from a Western point of view. This worst case envisages Soviet activism in the vicinity of Afghanistan, together with the existence of a pro-Soviet regime in Teheran. Against such a combination, there is little, as things stand, that the U.S. and its allies can do. The likely dangers cannot possibly be averted by arming local friendly powers. The defects of this policy were clearly seen at the time of Khomeini's triumph in Iran, where the downfall of the Shah has inflicted a most damaging blow to Western interests.

Another, most important, issue at stake in the Middle East concerns the price of oil. It is now widely recognized that the successive and exorbitant rises in the price of oil since 1973 have been a main contributor to inflation, recession and unemployment in Europe and the U.S. It is also recognized that if the price of oil remains at this high

level, not only will this mean a continuing drain of wealth from the oil consumers to the producers, but also a continuation of unemployment and recession. The repercussions of this enormous transfer of wealth on the international financial system are also very serious. The accumulation of large and increasing balances by oil-wealthy states puts at risk the stability of the international financial system, and the solvency of banking institutions who find themselves in the position of borrowing short (from the oil producers) and lending long (to Third-World and East European countries). Together with the Soviet occupation of Afghanistan, the OPEC cartel constitutes the most pressing issue at stake in the Middle East for the Western world. It is clear that the breaking of the cartel can be brought about either through economic forces or through political action. To break the cartel through the working of economic forces imposes a great cost in unemployment and foregone production. It is this which has at last brought down the price of oil. But this process is very slow in showing results, and requires a steadfast determination on the part of the oil consumers to pursue in concert fiscal and economic policies which may prove to be very unpopular. Since the cartel is composed of governments, it can also be checkmated by bringing to bear political pressure on the producer states. Political action also requires to be taken in concert, and to be so used as to reinforce the pressure exerted by the working of the market. Whether the Western powers are willing or able to agree on, and to pursue, the necessary policies remains to be seen. The record so far warrants no great confidence.

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## DISCUSSION

*Chairman: Winston Lord*

A central cause of transatlantic tension was the divergence in attitudes about how to tackle settlement of the Arab-Israeli conflict. The author of the British working paper had asked whether there was not a case of treating that conflict with "benign neglect," and whether "a sphinx-like or sibylline stance" was not more appropriate to the status of a mediating superpower like the U.S. In the discussion, he reiterated the suggestion that the conflict would eventually have to be resolved by the parties immediately involved. The main interest of the outside world was to prevent the outbreak of generalized hostilities in the area—a danger which had been greatly reduced by Egypt's withdrawal from the Arab coalition. Was time really running out, he asked, or was that an outworn cliché?

Several participants felt that the time for a peaceful settlement was indeed running out, and that "benign neglect" would not lead to a workable solution. Nevertheless, said one American speaker, that was the policy of the present U.S. administration, which in her view was reactive and disinclined to spend the political capital necessary to achieve something on the issue of Palestinian autonomy. A compatriot agreed that there was no evidence of any constructive strategy.

The charge of "benign neglect" was refuted by another American, in light of the amount of time the U.S. administration had devoted to Middle Eastern problems during the preceding 16 months. Reviewing the Reagan administration's approach to dealing with the Middle East, he said that there were no illusions in Washington about finding a quick comprehensive solution to the Arab-Israeli conflict. It would have to

be settled gradually over a long period of time, and its place would no doubt be taken by a succession of other disputes in that complex area. In addition to dealing with the Mideast peace process, the U.S. had wanted to pay attention to the security problems of its friends in the area—with regard not only to the threat of Soviet invasion (which was probably the least likely) but also of internal insurrection and of the spill-over of regional problems, such as the Iraqi-Iranian war. The U.S. recognized that people who were secure were able to take risks for peace, and that peace enhanced security. The fact that the new government had addressed the Mideast security issue may have misled people into thinking that it had overlooked the peace process, but in fact both issues had been addressed simultaneously.

The Camp David accord was being pursued as “the only game in town,” and one to which Israel was firmly committed. Although Camp David was not dead—as some other participants claimed—it was at its most difficult stage. It had not been easy to follow an administration which had enjoyed the early benefits of Camp David, and to be faced with the details of implementation.

The author of the American working paper intervened to point out that one problem with Camp David was that two totally different kinds of agreement had flowed from it. One had been intended to serve as a fairly precise framework for Egyptian-Israeli talks. The other was a vague, amorphous guide to the “half way house” of autonomy, unaccompanied by any real effort to determine what would follow. (One could argue that the subject of autonomy should never have been brought in, but it had been.) Although Camp David might not be dead, the author did not see how much could be made of it in its present form. Indeed, nothing significant had happened on the autonomy talks for the past two years. It might be said that they had been hostage to the Israeli withdrawal from the Sinai, but that argument was gone, and it was necessary now to “put up or shut up.” It had been a mistake, the speaker said, to bring the talks down to the level of a representative of the Secretary of State instead of maintaining them at a special Presidential level.

We were doing a disservice to the resolution of the Arab-Israeli conflict, an American argued, by continuously putting the Palestinian issues on page one of the media. It was just one of countless cases of irredentism around the world, and did not merit this “media hype” year after year. A Frenchman alluded to “the American disease” of addressing Middle East problems, not on their merits but on the basis of the domestic political equation. He feared that this tendency might be spreading to Europe, with the result that the West would be more hamstrung than ever in dealing with the Mideast. A Greek participant complained that dogmatic U.S. views about the Middle East kept the West from coming to grips with the real problems. Successive American administrations had called for time to implement complex solutions, but could the years that had elapsed be considered a “short time”? The speaker warned that Arabs could not cooperate in the long run with an alliance which refused to find a solution to the central Palestinian issue.

But an American observed that public opinion and political leadership in his country were rapidly moving away from intellectual support of the Israeli cause because of the “appalling” way in which it was being represented. Another American, however, said that in the last analysis the U.S. was bound to come down on the side of its friends. Surveying the Middle East, he saw a violently anti-American Iran, a Lebanon wrecked by its internal problems (not by Israel), and a Saudi regime which bore a large responsibility for current economic dislocations because of the 1973 and '79 oil price rises. In contrast, Israel was the one state with a reasonably democratic government and a free labor union movement. The sharing of common values was at the bottom of American support for Israel, he said.

Several participants expressed concern, nonetheless, about the effect of Israel's current course of conduct. A Greek speaker said that “creeping annexation” was putting dynamite at the legal basis of the state itself, which depended on a UN Resolution making it clear that the West bank was not a part of Israel. An American wondered, too, how the integrity of the Jewish state could be maintained in the face of three unacceptable alternatives: (1) to try to continue the occupation, which was becoming increasingly difficult to maintain after 15 years; (2) to accompany annexation with a kind of apartheid policy aimed at keeping Palestinians in a second-class status, which would be unacceptable to the Western world as well as to the Arabs; or (3) to drive out enough Palestinians to make a manageable situation; but another such Palestinian Diaspora would be more than the Arab world could take. The increased settlements amounted to a de facto annexation of the West Bank and the Gaza Strip, but the demographics of that meant that a third of the population of Israel would soon be Arab. The higher Arab birth rate would take that to 50 per cent, which would undermine the whole concept of the state of Israel. All this presented a dangerous prospect, but the speaker saw no way of reversing it so long as the Reagan administration persevered with the Camp David process—which he said meant doing nothing at all.

An International participant hoped that we were really less dismissive of Camp David than the discussion suggested. It would be particularly disastrous to throw away the second half of the accord, dealing with Palestinian autonomy, as there appeared no other way to get at that issue. He went on to say that, unless it soon appeared that the U.S. was ready to assert new leadership, the Europeans would be likely to take an initiative that the Americans would not like.

French, Italian and American speakers advocated a more important role in the Middle East peace process for the Europeans, who could not remain spectators in a conflict which threatened world stability. One Frenchman cited the importance of President Mitterrand's recent visit to Jerusalem, which had shown that France, like other states, was now able to talk to both sides. This development was of greater significance than the Venice Declaration, which so far had produced few results. A compatriot regretted, though, that the Europeans could not yet speak with one voice as they were all so dependent on Mideast oil. He called for a conference of the U.S. and its major European partners in view of their common vulnerability to developments in the Gulf. In the political world, as in the business world, he said, commitments had to change with circumstances.

Closer European-American collaboration was also advocated by an American who said that we had to reach a consensus about how to approach the Palestine Liberation Organization (PLO). Whichever approach was the best, we could not productively pursue two at once. The U.S. might be able to exercise a helpful influence in finding an interim solution, but until a negotiating position had been stated, the autonomy talks could not move ahead.

In response to British questions, the author of the American working paper said that autonomy talks would not make progress without Palestinian participation. That had been the chronic trouble with the talks. President Sadat had not approved, but he had been persuaded by the U.S., under Israeli pressure, to go along. Moreover, there seemed to be no likely alternative to the PLO as the representative of the Palestinians. Over the years, the U.S., Israel and Egypt had tried unsuccessfully to find other spokesmen of sufficient stature. At a minimum, one would need a PLO “green light” to ensure the participation of the Palestinians in the West Bank.

This led one logically, even if reluctantly, to the conclusion that we ought to be prepared to talk to the PLO. There was a moderate element in the PLO leadership, including Yasir Arafat, who were at least willing to try to discipline the more radical

elements. For example, during preparations in 1977 for a possible reconvening of the Geneva Conference, Arafat had yielded to Saudi and Egyptian urging and had approved a formulation which accepted UN Resolution 242, recognizing Israel's right to exist (although he had expressed reservations about the adequacy of the Resolution's language concerning refugees). But Arafat had been overruled by the PLO executive committee by a vote of 12-4, at Syria's behest. This raised the question whether the moderates were capable of controlling the left wing. While one could not expect Israel to engage in a dialogue with the PLO until it had accepted 242, the U.S. might be able to talk with the organization to test some of these elements.

The American author went on to describe an eventual Palestinian state as he envisaged it. It would be a narrow West Bank-Gaza state, possibly with a connection between the two. It would be demilitarized and contractually monitored by its two neighbors, Israel and Jordan, who would have an interest in its remaining well disciplined. Economic assistance would have to come from other Arab states, and it would not be a Soviet bastion. Nor would it be a place to which all the Diaspora Palestinians could return—although the concept of a flag and passport would facilitate the task of settling elsewhere for those who could not return. In short, "it would not be a serious danger to anybody." Having said all that, the speaker had to recognize that the fractured nature of the Palestinians offered no guarantee of how they would handle their autonomy once they got it. But this ought to be tested.

An American participant emphasized that the U.S. commitment not to meet with the PLO was not conditioned on Israel's conduct or good faith behavior in fulfilling the Camp David agreements, but was based on the PLO's rejection of Resolution 242. But there were many strands to U.S.-Israeli relations, and it was a mistake to suppose that the behavior of Prime Minister Begin, as head of a sovereign government, depended in any significant way on U.S. non-recognition of the PLO.

Speakers from Belgium, Switzerland and the U.S. argued that it was important to give some encouragement to moderates such as Arafat, even if the degree of his control over the PLO were uncertain. Diplomatic history showed the necessity of talking with one's adversaries—even extremists—and Algeria and Rhodesia were recent cases. The U.S. should decide on its own whether in all the circumstances talks with the PLO were warranted, and not simply accede unconditionally and eternally to Israel's wishes. An Austrian pointed out that pressure from PLO extremists might constrain Arafat from making conciliatory remarks about 242. Everything had to be done, he said, to keep Camp David alive, even though the autonomy approach might not be far reaching. A Norwegian participant suggested that Jordan might in fact present an obstacle to a broader Palestinian state, and he found it hard to envisage total demilitarization. With Egypt out of the coalition, he wondered too if Syria would not, out of frustration, be tempted to wage a limited war against Israel for political gains.

The author of the British working paper was more skeptical about the notion of "testing the PLO." He could not help thinking of the analogous process in industry, in which materials were "tested to destruction." The quest for peace, like the launching of war, was undertaken without knowing where it would lead. If we embarked on a comprehensive peace plan, our situation at the end might be no better than at the beginning. Was it not wiser to "trust the devil we know rather than one we don't know"? The territory of Palestine, ever since the mandate of 1938 and especially since 1967, had been a cockpit for diverse ambitions, attracting all sorts of intrigues, combinations and attempts at subversion. A new Palestinian state, if demilitarized, might not be a threat to the Israelis, but that would be for them to judge.

The reason there had been no settlement in the Middle East, after all, was that there were incompatible interests—among Arabs as well as between Arabs and the Israelis. The people involved had been hard put to see how those conflicting interests could be compromised, or how they could impose their own interests. The question for us had to be one of priorities, and in the author's opinion the top priority in the Middle East for the U.S. and Western Europe should be to prevent the encroachment of the USSR. That could not be achieved by settlement of the Palestinian issue, no matter how it was resolved. It was widely argued that the unpacified PLO posed a threat to the existence and stability of moderate regimes in the area, but no regimes had yet been unsettled by the Palestinians, except perhaps indirectly that of the Lebanese, who were not masters of their own fate in any case. (A Frenchman intervened to take exception to this last point. Lebanon had offered a model of diverse societies trying to live together in the Middle East, and the disintegration there could be a portent of the future in that region.)

Instability in the Middle East ran very deep, and was not amenable to political resolution. There was little evidence of a link between the Palestinian question and the dangers of the spread of Islamic fundamentalism, which was a bigger issue in the Moslem and Arab world. It was not a political issue, though, in the sense that one could devise a political strategy to deal with it. It had to do with the legitimacy of existing regimes which the fundamentalists deemed were ungodly and deserved to be overthrown. This was often related to contact with the West and the corrupting effect of the recent oil revenues. The movement was inherently radical in that it was inclined toward collectivism and egalitarianism. This might understandably deter some people from wanting to do business with the fundamentalists, but there was absolutely no reason to link that with the Palestinian issue.

A French participant came to a very different conclusion. Although the Palestinian problem and the religious issue were distinguishable now, there was a danger that they might converge at some point and explode. Fundamentalism was to be found not only in the Middle East, but throughout Islam. We might be witnessing the end of regimes inspired by Ataturk and the birth of a new balance in the Arab world. The speaker was not comfortable with the characterization of the Palestinian problem as essentially a local one. As long as it remained unsolved, a general instability would persist that was almost as dangerous as a general war, so a major effort was needed to settle it.

That vision of converging, rather than parallel, lines in Islamic developments was shared by a Greek participant. There were exceptions in the more secularized Near Eastern countries, but in the Gulf and as far afield as Indonesia one could sense a groundswell of fundamentalism. It was especially strong among students, so that its full effects would not be felt for a decade. The movement subjected the Western model of society to a more scathing criticism than had Marxism. Two particularly dangerous areas were Shi'ite majority countries, like Iraq and Bahrain, and countries with growing active left-wing fundamentalist movements. Many professional radicals were donning the mantle of Islam.

The speaker thought that Israel was seeking to take short-term advantage of this situation by cooperating with Iran and aiding Palestinian fundamentalists. But in the long-run it was laying up for itself a much more dangerous enemy.

The West should seek to help the fundamentally secular regimes, whether of the right or left, in order to get the Arab-Israeli problem off the top of Middle Eastern agendas. That issue was interpreted by the Islamic movement as a *Moslem*-Israeli problem, and it brought together all the Islamic passions against the West, seen as the supporter of Israel. If we wanted to maintain a relationship with the emerging Islamic power, it was important that justice be seen to be done and that the West demonstrate

an equal concern for Palestinian rights. This might incidentally result in fundamentalists coming into office in fewer countries than might otherwise be the case.

Another Greek participant referred to the destabilizing effects in traditional Arab societies of industrialization and sudden new wealth. As political life was suppressed, the religious movements were the focus of energy. The main wish of the Arabs, she said, was to be rid of the refugee problem, a burden which they had borne for years. An Austrian speaker wondered whether Western pragmatists really understood enough about Islamic fundamentalism—not only about the Shi'ites in Iran, Lebanon and Syria, but also about the religious criticism of Saudi modernization.

On the subject of the Saudis, an American observed that their ambivalence about the PLO could not easily be discerned in their public statements; one had to probe beneath the surface. Another U.S. participant remarked that Saudi Arabia had been one of the few centers of stability in the Middle East. What did the drop in oil prices imply for the massive Saudi development plans for industry and agriculture? A German replied that the Saudis would manage comfortably, but that Libya, the Emirates and other oil producers would be hurt by the sharp drop in revenues. An American foresaw a potential for great disequilibrium within OPEC if the overhang in the oil market was indeed substantial. A Frenchman, who predicted a highly unstable oil market in any event, advocated closer Western coordination of energy supply and conservation policies.

Several interventions alluded to Saudi concern about the outcome of the Iraqi-Iranian war. Those two countries had effectively neutralized each other before, but the worry now was that Iran, after achieving victory, would seek to assert itself in the Gulf. The perception in Saudi Arabia, Abu Dhabi, Kuwait and Bahrain was that the Iranian successes—especially in using U.S. equipment effectively and in being able to mobilize masses of troops—must indicate American intervention. (Many of the same people had believed that the original Iraqi offensive betokened a U.S. “green light.” These perceptions were important, even if they were untrue.)

Two American participants suggested that the war would likely serve to weaken the power of the mullahs, and that a dialogue might be restored between the West and rehabilitated Iranian army officers, many of whom had been trained abroad. Other speakers evoked less favorable possibilities for Iran, such as a communist takeover or mullah adventurism across the Gulf to keep the army occupied away from home. Although Iraq was Germany's main trading partner in the Mideast, it was difficult for the Germans to intervene as peacemakers. An Islamic negotiation, with UN help, might bring the war to an end, but even if Saddam Hussain survived he would no longer be an influential figure in the Gulf. Baghdad might not remain the permanent capital, according to the American author, and Iraq itself, which was an artificial entity, could break up again.

A Briton remarked that the Soviet Union would be standing by, as always, to profit if it could from this and other Middle East crises. There was no point trying to disentangle the East-West aspect from the local conflict, or to decide which was paramount. The two were intertwined. If the Soviets were brought into Middle East negotiations, though, a Greek participant warned that the Arab rejectionists would not only sign agreements with them, but would invite them into the area. But the fundamentalist movement was as hostile to communism as it was to Western society, which gave reason for hope in spite of Soviet willingness to increase its supply of arms to the Arabs.

The disruptive role played by terrorism was described in an American intervention. According to U.S. intelligence sources, Libya had spent over \$100 million training some 10,000 assassins in recent years, with the help of instructors from the German Democratic Republic and collaboration with Syria. Terrorist organizations from those

countries had aimed to set afoot groups to kill not only the American president but thousands of officials from the U.S. and other nations. These communist-backed agents, whose origins could be traced to the Arab-Israeli dispute, were active in France and elsewhere. Counter-intelligence efforts were underway to combat them, but it was a difficult task.

Participants from Turkey and other countries spoke of the role that country could play as an intermediary in Middle Eastern diplomatic efforts. Its position—culturally, geographically, strategically—gave it a unique competence. On the military side, though, it was clear that Turkey's NATO bases could be used only for NATO purposes, and not to support unilateral action in the Middle East by the U.S. or others. The “NATO confines” might one day be extended to include the Middle East, but that would have to be done by amending the NATO treaty.

Finally, two speakers referred to some very special problems encountered in the search for peace in the Middle East. One, mentioned by an International participant, was that the changes sweeping across the region had drastically narrowed the room for domestic maneuver available to most regimes. It was therefore increasingly difficult for leaders to make the kind of gesture which Sadat had made to Israel.

The other complication, discussed by an American, was stylistic and semantic. The Israeli message was being presented so outrageously that it sounded more unreasonable than it actually was. We should not lose sight of the fact that a country with a narrow margin of security, totally dependent on another country for its survival, felt that it had to give the impression that it was very difficult for it to make any concessions. But their negotiating style was keeping the Israelis from facing the objective realities of their own position. They negotiated in a Talmudic manner, while the Arabs proceeded by epic poetry, and it was not always easy to tell where pragmatism ended and poetry began. It was as wrong to take Israeli statements at face value as to interpret the Arabs literally.

Beyond these nuances of “atmosphere,” we in the West were bound to be troubled by the elusiveness of our expectation that there could be achieved in the Middle East a condition called “peace” with Israel, after which all other tensions would disappear, leaving everyone to live in harmony. Most wars in history had been started between nations at peace; the peculiarity of the Middle East was that its wars seemed to break out between countries already at war.

#### IV. ECONOMIC ISSUES: DOGMAS AND REALITIES

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“The United States and Europe: Coping with Change”

*Working Paper Prepared by Sylvia Ostry*

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*Introduction.* Perhaps the central lesson for industrial economies from the experience of the 1970's—from the “school of hard shocks”—is the clear *reminder* that sustained economic growth requires not only a continuing adaptation to a changing environment but also, on occasion, the flexibility to adjust to sudden shocks. I say *reminder* because the longer historical record of economic development leaves little doubt on this score, though in the postwar decades of the 50's and 60's we were lulled into ignoring it. In part this is because there were, atypically, few major adverse shocks during this period; in part, the unprecedentedly protracted surge in real growth made the process of structural adaptation appear almost effortless, much of the re-allocation of resources coming out of the growth margin rather than out of someone else's hide.

The 70's, however, reminded us that change is difficult. Our economies have still not made anywhere near a full adjustment to the shocks of that decade. This by itself suggests that the early 80's will not be easy even if nature deals a favorable deck of cards and the players succeed in avoiding both shooting themselves and each other in the foot.

There is also broad agreement that a part of the difficulties we now face are due to government actions over several decades which have impaired the capacity of our economies to adjust; there is also, I believe, agreement that on both sides of the Atlantic actions to improve this capacity are essential now if our economies are to get into smoother waters.

Despite such shared perceptions, it is nevertheless clear that things appear different in the United States and Europe. Let me say at the outset that I have used the designation United States rather than America only because I am Canadian and therefore acutely aware of how misleading the continental terminology can be. Were I European I should have had even greater difficulty writing this paper!

In broad terms, when one looks hard at the United States—beneath the daily hyperbole of the financial markets and the internal macro-economic policy conflicts, one still discerns in the basic attitudes of most businessmen the bullishness that has long characterized this frontier economy. At least initially, the Reagan administration's mission of “unleashing” the dynamism of the private sector struck a responsive chord, because there is a widespread belief that this dynamism truly is there to be unleashed. On the other side of the Pond, one does not even have to scratch the surface very hard to find more pessimistic attitudes. Others will no doubt fill in various dimensions of this dichotomy; what I propose to do is to look at some of the economic and institutional factors which contribute to it.

To sharpen the differences, let me start by making the case in terms of polar paradigms. These, like all paradigms, are perforce overdrawn and subject to a host of qualifications, but I hope they capture something of the essence.

*The United States Paradigm.* The U.S. paradigm might be called the *Pluralistic Market Economy*. Not, to be sure, the *atomistic* economy of Adam Smith, but one in which the role of markets is a dominant feature not just in the text book examples

of pricing apples versus pears, but also in the fundamental processes of allocating and re-allocating the basic human and capital resources of the economy.

The powerful role of markets in promoting adaptation is visible, first, in the geographical mobility of production and population—the early, slow decline of New England as textiles migrated south; the rise of the “New South;” the progressive weakening of the industrial Middle West to the profit of the booming Sun Belt; the creation of new growth industries and centres like Silicon Valley, and the surprising beginnings of a renaissance in New England with the arrival of high-technology firms.

It is visible, also, in the vigor of “the entrepreneurial spirit” and the variety of channels through which it leaves its mark on the growth (and death) of firms—one thinks of companies like DRI, from its beginnings as an academic sideline to its “maturation” as a division of McGraw Hill; or the reverse pattern—the numerous computer hardware or software companies that saw their origins when a few bright employees of a larger company “had a better idea” and split off with their share of know-how and a few “pirated” clients to emerge—in a few years—as major competitors. One detects not only the “pull” of market opportunities, but also the “push” of unemployment—it has been argued, for instance, that the greatest “spillover effect” from the U.S. space program arose when the program was cut back, thereby “releasing” onto the markets a flood of skilled but unemployed talent in search of new livelihoods.

Perhaps the most dramatic evidence of the vigorous adaptability of the U.S. economy lies in the response to the enormous surge of youth and married women in the labor market over the 1970's. Employment increased by about one-quarter—in the four largest European economies it increased by less than two per cent. In authentic text-book fashion the price of labor fell relative to other factors and business men dutifully substituted labor for capital, like true neo-classical entrepreneurs. This meant, of course, some decline in productivity. But as the new crop of workers matures and the growth of the labor force slows over the 80's, it would not be unreasonable to expect something of the opposite to happen.

There are many other signs of labour market flexibility. Decentralized bargaining and a lesser degree of unionization result in much more sensitivity of both real wage levels and wage dispersion to cyclical conditions than is the case for Europe. Every measure of mobility—geographic, inter-job, inter-occupation and inter-industrial—is relatively high.

Not only is the North American bargaining system the most decentralized in the industrialized world, but coverage of agreements is only about one-third that of most European countries and apparently shrinking. Nevertheless, it is premature to talk about the de-unionization of America. In contrast to the more ideologically-inclined European movement, the U.S. system is characterized by pragmatic professionalism at the bargaining table and the recent Ford-U.A.W. contract suggests a potential for adaptiveness which is positively Japanese! Such adaptiveness has obvious survival value.

In highlighting flexibility and adaptiveness I am not, of course, suggesting that the U.S. is without rigidities. Indeed, there are some elements in the U.S. way of doing things that give rise to rigidities that are quite specifically American: a labor economist could not fail to mention the pattern of negotiated three-year, overlapping wage contracts which impart a degree of nominal wage momentum to the U.S. economy that inflation fighters have full cause to rue. More broadly, one is struck by the excessive legalism or “hyperlexia” of U.S. economic relations. In this regard, the most striking innovation of the UAW-Ford negotiations may not be its “wages for job-security” trade-off, but the fact that the management side was represented—an almost unprecedented event—by personnel officers instead of lawyers!



The importance of legal process, and its effect on limiting flexibility, is even more apparent in the torrent of regulatory activity that developed during the 60's and early 70's, the associated hypertrophy of regulatory agencies, and the massive resulting opportunities for litigation. This development is not, I think, entirely unrelated to the paradigm. If pluralism in political affairs is the counterpart to economic decentralization, the rise of consumer and environmental advocates and other, more narrowly-focused interest groups—each spawning its own support structure—is also part of the process. In this view, “regulatory reform” may find itself up against some quite fundamental constraints.

Even so, the overall point I would make is that rigidities in the U.S. are largely of the sort captured in Art Okun's felicitous phrase—the *invisible handshake*; they arise essentially from contracts and agreements thrown up by the market system. For most of U.S. history, when economic pressures built up requiring adaptation, this took place in an essentially market-conforming manner; if circumstances made contracts unsustainable, they were bought out (with a handsome slice for the middleman) and new contracts devised.

To put it even more abstractly, this paradigm rests on a clear distinction between *economic* rights (backed up by the legal machinery of contracts) and *political* rights (expressed by the policy commitments of the State), and indeed leaves relatively little scope for the latter in determining the economic conditions that individuals face. What the market hath given, the largely invisible hand of the market may erode. What the State hath given, the visible hand of the State must revoke.

It is tempting to go a bit further in trying to define why the U.S. economy is the way it is. I speculate that the specific character of the American service and small-scale manufacturing sectors is an important element in the story. There is here a great deal of “taking in one another's laundry”, of creating and capitalizing on fads, and more generally catering to the consumerist society. Non-Americans, and indeed a good many Americans, might question the social value of this kind of activity compared with more traditional “productive” pursuits. That, however, is not my point. What such a sector *does* do is to give rise to a reservoir of people with generic, “money making” skills rather than the more task-specific “human capital” embodied in industrial employment—generic skills being easier to redeploy from one line of work to another as market opportunities change. Perhaps the educational system—in particular its emphasis on providing opportunities for a rather superficial “higher” education to large numbers of people through the junior colleges—goes in the same direction, in contrast to the greater emphasis on selection, quality and specialization in Europe.

The burden of this speculation might be taken one step further. Such “flexibility” as this resource pool of redeployable opportunists generates obviously does not come free. One might argue that the U.S. pays a price in terms of lower aggregate productivity growth than abroad, where specialization, learning-by-doing, and more focused lifetime employment patterns provide greater scope for productivity gains in *established channels*. The gain, of course, arises *when the premium on being able to disengage from established lines and to forge new channels for growth rises*.

*The European Paradigm.* Let me turn now explicitly to the counterpart—the European paradigm—recognizing full well the even greater risk of distortion involved in subsuming in a single paradigm the vast cross-country differences within Europe. If this paradigm captures some aspects of Europe it is clearly Northern Europe rather than the Mediterranean countries that one would look to, with France, perhaps, “situated” between the two.

The European paradigm—and here I am not talking about Europe as an emerging single economic unit, which may or may not be the wave of the future, but of an archetypal European country which may only “more or less” capture the essence of any particular European state—the European paradigm might be labelled the *Social Market Economy*. Such an economy works “through” markets, to be sure, but the operation of markets is heavily conditioned by a politically guaranteed expansion of “property rights in the status quo.” As a general statement, the State takes on the obligation to provide both a comprehensive social insurance guarantee and a steadily rising standard of living, to which the population has become accustomed. The lines between what the State provides as a matter of political rights and what the private sector provides via the interplay of market forces is, to some extent, blurred.

The social insurance elements are apparent: socially guaranteed “property rights” in adequate health care; an educational system that may discriminate on the basis of ability, but provides rights in education to those who meet the tests; property rights in housing. . . I use the word paradoxically here, for it is not the right of a property owner to dispose of his property as he see fit that is alluded to—rather, the rights of tenants to maintain themselves in established circumstances and, more broadly, the state's obligation to assure the provision of adequate housing. Perhaps more fundamentally, the social market paradigm provides a degree of State-supported job “tenure” across broad areas of the economy that is equalled in the U.S. only in the civil service.

Let me clarify. I am not debating whether the European worker has greater economic privileges than his American counterpart or not. Rather, the point is that whereas the foundation of American “property rights” is by and large the decentralized contract, in Europe it is to a much larger extent the centralized State.

During the 50's and 60's and into the 70's, when the European support and protective systems developed, there seemed little cause to be concerned. To be sure, as the direct support expanded, the redistributive burden grew. But equity or redistributive considerations were, and are, at the core of the paradigm, whereas the American version of the welfare state was most often defended in terms of generalized values of fairness or equality of opportunity. Redistribution there was largely a consequence, rather than an explicit objective.

Less noticed, during the development phase of the European welfare state, was the rigidification of labor markets that ensued from the rise in non-wage labor costs—the indirect taxes that at first seemed costless, and which largely funded the social expenditures. But, in fairness, there was little reason to notice: high rates of investment and correspondingly rapid growth in productivity—spurred further by the dividends of European integration, a rapid growth of world trade and substantial possibilities for technological “catch-up”—tended to validate and “fund” the expansion of social property rights. The undermining of the flexible response mechanisms of markets did not become apparent so long as the extension of social guarantees did not go beyond the capacity of the smooth expansion of the economy to sustain them. But, to coin an image, increasing constraints were being laid down all around the economy—constraints which were non-binding only so long as the economy surged out ahead of them.

Once the capacity to *adapt* was seriously put to the test—as in the past decade—the constraints revealed themselves: given the difficulties of altering arrangements that had become viewed not just as economic but as *political* rights, tax burdens and deficits both began to rise as growth slowed. Labor markets did not function adequately to re-allocate workers from declining to growing sectors; employment growth practically ceased; pressures to subsidize existing jobs and sectors mounted.

One might summarize that Europe has constructed a set of institutions that work markedly less well when growth slows down, but rapid growth is increasingly elusive. This is surely one source of Europessimism. The difficulties of altering arrangements that have gone deeper than the contractual commitments of the American paradigm, to become essentially *political* guarantees, are clearly evident. There are, of course, other elements: *energy dependence*, for instance. Though in the simple calculus of macro-economic impacts, the rise in oil prices hit the U.S. as hard, or harder, than most European countries—the perception that energy dependence is an inescapable reality is, apparently, more clearly recognized in Europe than in the resource-rich U.S. where, to boot, past energy profligacy provides a vast margin for relatively low-cost further conservation.

*A Closer Look.* I suspect that I have pushed the paradigms as far as, or perhaps further than, they can legitimately be taken. Before abandoning them to “the real world,” however, and before establishing the indeleible impression that I am engaged in a prescriptive rather than descriptive exercise, I want to point out that each of the paradigms has its obverse side.

The American paradigm, as I have drawn it, is one that elevates the virtues of efficiency—to an increasing extent at the expense of equity and non-economic goals. The “dark side” of the efficiency paradigm is that in a world of, inevitably, partial mobility at best, persistent regional, sectoral and interpersonal disparities (while providing the right “incentives,”) also impose large human social costs over a protracted transition.

Perhaps even more fundamentally, the combination of a relatively mobile—hence “rootless”—population and a decentralized provision of social services is likely to lead to a systematic under-provision of social investment relative to private investment. The “twinned” phenomena of urban decay and suburban sprawl provide a certain kind of direct evidence for this imbalance. Somewhat more generally, it can be argued even on pure efficiency grounds that a very mobile, “get rich quick” orientation in the economy generates excessive obsolescence and unduly myopic horizons for business planning—as the Japanese have often pointed out forcefully to their American counterparts.

Finally, and perhaps most severely, the American paradigm promotes the simultaneous development of an underclass—a class of those who cannot, or don’t wish to, “buy into” the system. The “have nots,” in this schema, are alienated not only from the economic system, but also from the broader political processes which validate it. More importantly, as Daniel Bell and others have suggested, the political party in the U.S. may be in a “state of decay;” a condition Bell attributes to the decline of *civitas*: “the spontaneous willingness to obey the law, to respect the rights of others, to forego the temptations of private enrichment at the expense of the public weal.” The prototypical mobile opportunist is a market asset, but is he likely to become a political liability?

The European paradigm also has its obverse side. Most visibly, perhaps, the social market paradigm *does* generate a stream of social goods: public transport systems tend to work; social infrastructure is more richly provided; cities are, in general, more agreeable places to live in in Europe than in America.

More important perhaps, the social market paradigm, as it operates in at least some European countries, has avoided the emergence of a large underclass of citizens with no stake in the existing social order. As Bell might say, there is more “*civitas*,” a greater commitment to getting political institutions to work right. One might speculate that this pattern is one born of necessity; the heritage of class distinctions and ideological conflict that is so much more a part of European than of American history

may, paradoxically, have sharpened the perception of the need to strengthen political processes as a way of promoting the grand compromises on which social stability rests. In the United States, where class conflicts are less marked, and the great majority of even the relatively poor are adherents of the market system as the road to opportunity, there is a contrary mistrust of political process and of politicians.

*Some Policy Questions.* I think I have said enough about paradigms. Let me finish by making a few points about policy. Policy based on oversimplified models would be perilous indeed. Nonetheless, there are some relevant policy insights to be gleaned.

First, for the United States, the dynamic potential is clearly there, but the near-term constraints to expansion are also severe. It is not easy to see how the marked differences in the thrust of monetary and fiscal policies are going to work themselves out. There is evidence of a new kind of cycle developing, linked to the sharp fluctuations in interest rates; but it can be argued that such a cycle is itself unstable as borrowers and lenders begin to anticipate it. Whether the end result is one of increasing “attentisme” and hence more prolonged weakness, or a gradual smoothing of growth towards rates consistent with slowing inflation and the Fed’s chosen monetary targets is, I think, still very much in doubt. At the same time, the high average level of real interest appears to be having major, but very unevenly distributed, impacts across regions and sectors. If the net impact is to accelerate restructuring towards those sectors where prospective rates of return make current borrowing costs non-constraining this might be seen as the appropriate working of the market system. But resources are not perfectly mobile, so that adjustment costs rise sharply as the speed of adjustment accelerates and a good deal of structural damage is likely to be incurred in the process. Finally, both macro-economic instability and structural pressures seem to be keeping risk premiums in financial markets at unprecedented levels. If the gloom of the financial markets spreads out across the economy, with resulting loss of confidence, the bullishness of the American economy with which I began this speech, may get harder and harder to find.

Just as all is not roses in the United States, so one also has to recognize that not all is gloom in Europe. To be sure, in almost all the European countries the difficult task of making markets work better has to be faced. But distinctions can, and should, be made. At one extreme, where labor and capital resources are “locked in” by social guarantees to existing jobs and, at the same time, real wages and other costs are frozen by indexation, difficulties have to be expected: markets in which *both* prices and quantities are constrained are unlikely to work well. But one need not conclude that strengthening the capacity to adapt requires wholesale dismantling of the paradigm. If societies choose to constrain markets to be somewhat sticky in terms of moving resources from sector to sector, this choice can probably be effectively maintained if greater flexibility on the price and wage side can be secured. In this regard it seems to me that the centralized institutions of a number of European countries, if they are supported by a reasonably solid social consensus, provide a good deal of scope for action. Obviously, this requires a perception of common interest among the social partners, but this exists in many European countries, however threatened it may be at the present time.

*Conclusion.* To conclude, I am suggesting that, first, the pluralist paradigm is *a priori* more flexible and therefore more viable in a period requiring major structural adjustment. The test of this hypothesis is likely to be political—the erosion of *civitas*: a fine balance is required between the centrifugal forces which are so appropriate to economic adaptability but so threatening to political cohesion if carried too far. Secondly, consensus mechanisms *may* provide a viable alternative to decentralized

market forces as a means of coping with change. The test is likely also to be political: the will and ability to deal with the nexus of property rights in the *status quo* without major ideological confrontation. Thirdly and most clearly, a society which has neither consensus nor effective markets is in serious trouble and perhaps has no choice but to initiate a difficult, step-by-step movement towards greater market discipline and the painful transition costs such a movement entails. Finally, the transatlantic clash of ambience—the American “we can do anything,” the European “we can’t do anything”—is both misleading and potentially dangerous. The point is that neither paradigm is necessarily superior to the other: they are simply different.

#### *Issues For Discussion.*

##### I. Paradigms and Policies

There are a range of policy issues creating tension in European-American relations. The currently most obvious example lies in the area of monetary policy and exchange rates where, in contrast to the rigorous American commitment to monetary aggregates and non-intervention, the European view is more pragmatic on domestic policy implementation and does not eschew exchange market intervention as a policy instrument under appropriate circumstances. Other examples relate to “industrial policy,” where again, the United States stand is far more rigorously non-interventionist in principle, whereas the European view is either pragmatic (intervention *if necessary*) or polar (intervention *is necessary*).

To what extent do these differing views stem from fundamentally divergent “world outlooks” (i.e., as related to the different paradigms)?

Or, to put it another way, what is the scope and prospects for compromise in policies and direction?

##### II. Signs of Convergence?

A. *Industrial Relations.* There are some indications that, in Europe, wage negotiations are becoming more decentralized as, under the pressure of rising unemployment and diverging financial situations of enterprises, sectoral and regional considerations are impinging on wage agreements and working arrangements at the plant or enterprise level. Conversely, in the United States, some recent settlements suggest that the traditional notion of collective bargaining as essentially an adversarial process between labor and management is being modified in the direction of a more cooperative notion of social partnership—with the joint interests of workers and the enterprises for which they work playing a larger role.

Can such developments be taken as suggesting that beneath the diversity of *perceptions*, as embodied in the paradigms, economic *structures* may be evolving towards greater homogeneity?

B. *Regulation.* It is probably that, by the mid-1970’s, the overall degree of government regulation of economic activity may not have been markedly different in the United States and Europe. To be sure, the instruments used have been different—most notably in the extent of direct government ownership and production—and the prime focus may have differed as well, with heavier emphasis on *economic* regulation in Europe, and on “horizontal” regulation in such areas as environment and health in the United States. More recently, government attention and efforts in the United States have turned sharply in the direction of trying to reduce the scope of government regulation. A similar shift in attitudes about regulation has not thus far become clearly visible in Europe.

Are pressures building in Europe to move in the direction taken in the United States, of reducing the extent and weight of regulatory control?

If not, is there a prospect of increased conflict between the United States and Europe in such areas as aviation, direct investment, and a range of service and financial sectors where deregulated, competition-minded American firms encounter their regulated European counterparts? Is there likewise a danger that active use of regulation as a chosen instrument, as for instance in the development of high technology industries, may give rise to increased intra-European conflict?

##### III. *Labor Markets, Unemployment and Policy Objectives*

It has been argued that the remarkable flexibility of the American labor market, stemming from both attitudinal and institutional factors, is a powerful source of underlying strength when major adjustments are required. This flexibility is also reflected in the startling contrast between the lesser duration of unemployment in the United States as compared to the more highly structured and rigid European labor markets. (For example, long duration unemployment—six months and over—represents 10 to 15 per cent of United States current unemployment, but 40 to 50 per cent of the unemployment of many European countries.)

Given these factors, and the unprecedentedly high levels of unemployment in Europe today, is the “public tolerance” for any given overall level of unemployment in Europe likely to be less than in the United States?

If the unemployment situation fails to improve for some time, will the pressure for policy change be greater in Europe than in the United States?

Is this likely to increase tension in European-American relations? Make international policy coordination more difficult? Exacerbate trade frictions?

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“U.S. Economic Performance and Prospects”

*Working Paper Prepared by The Honorable William E. Simon  
Former Secretary of the Treasury*

Although the United States is currently reporting huge budget deficits that are expected to become even larger, there is still one large surplus—a deluge of economic rhetoric and simplistic slogans. The media provide a daily barrage of detailed descriptions, largely misleading, of rival economic policies: Reaganomics, supply-side initiatives, pure monetarism, neo-Keynsianism, government planning and controls ranging from arbitrary wage and price regulations to centralized command bureaucracies, and even revived versions of the discredited gradualism from the past. These efforts have created confusion and fear about the performance and prospects of the U.S. economy. The American people and other nations have become at best uneasy and at worst cynical about our repeated economic failures. The overwhelming evidence of this breakdown is the continued pattern of extraordinarily high nominal and real interest rates in the United States despite the major reduction of reported inflation rates and the severity of the current economic recession. There is widespread recognition that we have badly disrupted our economic performance and that conditions will rapidly deteriorate even more if fundamental economic policy reforms are not completed quickly. Americans have learned that stagflation, credit crunches, exorbitant interest rates, major bankruptcies, declining productivity, huge trade deficits, and a volatile national currency are not problems that only afflict other people.

The devastating stagflation results of the last 20 years have an obvious explanation. Politicians have all too often manipulated economic policies to control their own election prospects. The perpetuation of near-term political power has overwhelmed long-term economic goals as politicians have responded to the intense pressures of powerful interest groups able to deliver election financing support and large blocs of votes. The general public now understands that occasional attempts to stabilize the economy have been replaced by new rounds of inflationary policies whenever signs of economic adjustment pains appear. A vicious circle of economic failures has been the inevitable result as too much government fiscal and monetary stimulus creates an overheated economy leading to inflation; inflation pressures pushed up nominal interest rates that then disrupted housing, personal consumption, and capital investment; the serious erosion of economic activity quickly raised the politically sensitive unemployment rate, triggering yet another surge of fiscal and monetary stimulus that began the destructive cycle once again. As this dreary sequence is repeated, the levels of both inflation and unemployment continued to ratchet upward.

The repetition of this vicious circle in response to short-term political pressures has led inevitably to too much government spending concentrated on immediate consumption. Taxes have been rapidly increased to record levels in a futile attempt to match the uncontrolled growth of government budgets and an array of "off-budget" and government credit programs. Chronic government budget deficits of unprecedented size have resulted, creating a huge overhang of debt throughout the economic system as everyone adapts to the inflationary environment. Excessive amounts of money and credit have been created at double-digit rates to accommodate the large government deficits and the surge of consumption. Government regulations have rapidly proliferated in response to the demands of powerful interest groups and massive government bureaucracies intent on expanding their authority over the private economy. In the most desperate circumstances our political leaders have turned to authoritarian wage and price controls, senseless energy regulations, and dangerous credit allocation schemes to delay the economic pressures created by their unwise economic policies. These vain efforts to demonstrate the symbols rather than the substance of leadership have seriously threatened the future of our economic system and the fundamental political and social stability that ultimately must depend upon the creativity and productivity of the private competitive market economy.

*Background of Economic Problems.* Our current economic difficulties began in the mid-1960's when the unfortunate convergence of powerful political pressures created an extended stop-and-go pattern of erratic economic output consistently below the underlying capacity of the economic system, rising levels of both inflation and unemployment, eroding productivity gains, emerging trade deficits, and a vulnerable dollar subject to volatile swings in the international financial markets. It is easy to identify the causal variables. Government spending exploded in the mid-1960's and continued to grow at a double-digit rate at the federal and state and local government levels throughout the 1970's. Since the total economy was capable of growing only three to four per cent each year in real terms, the inevitable result has been a growing role for government spending as a share of the gross national product and chronic federal budget deficits that have now been reported in 20 of the last 21 years. Monetary policies basically accommodated these chronic government deficits and private credit demands to avoid crowding out major sectors of the economy. As private investment languished and government regulation increased, the long-term erosion of productivity accelerated. Chronic trade deficits, partially caused by the extraordinary costs of oil imports following the price changes throughout the 1970's, added to our economic problems, and the deterioration of the dollar's exchange rate disrupted our international position and added to domestic inflation.

In 1969 a new administration arrived in Washington, D.C. and initiated a four-point economic program designed to stabilize the economy. The four points were: (1) reduction of double-digit growth of government spending; (2) reduction of tax rates, with special emphasis on individual rates, to encourage savings and investment; (3) blunting the proliferation of government regulations; and (4) moderating the excessive growth of money and credit. Those economic policies were temporarily successful in restoring growth, reducing inflation and unemployment, restoring productivity, and stabilizing trade and international monetary conditions. But the policies did not represent a strong enough break with the recent past and, most importantly, they were not maintained. The realities of the approaching national elections in 1972 reversed those policies leading to surging inflation by 1973 and a severe economic recession by 1974. After the elections, the administration attempted again to slow down the uncontrolled pace of government spending; tax rates were reduced in early 1975, with special emphasis on individual rates to encourage savings and investment; an attack on unnecessary government regulations was initiated; and, the Federal Reserve attempted to slow down the accommodative growth of money and credit. This pragmatic approach worked once again as real growth resumed in early 1975, inflation dropped from double-digit levels to less than five per cent in 1976, employment increased and unemployment declined, and the U.S. international economic position was strengthened. But once again political decisions by a new administration arriving in 1977 destroyed the long-term economic prospects by returning to the expedient policies of the past. During the rest of the 1970's, the United States experienced chronic *stagflation*—extended periods of sluggish or negative economic output and high levels of unemployment combined with sustained double-digit inflation rates. In the international economy large trade deficits accumulated, as oil import costs increased rapidly and competition in our traditional export markets escalated, and the dollar exchange rate deteriorated steadily. Federal budget outlays continued to grow at double-digit annual rates. Monetary policies accommodated the inflationary pressures created by public and private consumption, massive increases in business and personal debts, and the enormous government borrowing required to finance deficits.

During the 1970's, many different programs were announced with the intent of correcting the fiscal, monetary and regulatory problems that were distorting the proper functioning of the U.S. economy. Some of these reform initiatives created temporary progress, but the political will to sustain the efforts for several years, rather than only several months, was never adequate to really break the inflationary psychology or to restore investment and technological development incentives. In the 1980's, a fundamental reorientation of economic politics is necessary to restore the vitality of the domestic U.S. economy and stabilize our role in the international economy. Gradualist economic programs will not work in our political environment. We are far beyond the point where merely gradual adjustments can be tolerated. An across-the-board program of much greater force and scope must be used. Our actions must be decisive and irreversible. The adjustment pains must be accepted as the necessary price of restoring long-term economic vitality. To delay this difficult transition will only increase the ultimate costs in political and social terms as well as economic results. We can no longer simply fine-tune the system. We need a massive shift in policies to sharply decrease government spending, large tax reductions and reforms to restore private incentives, the elimination of existing legislative and bureaucratic regulations that restrict the economy, sustained enforcement of responsible monetary policies, and an aggressive trade and investment position based on the current realities of international competition. In short, the futile policies of the past must be replaced with much stronger actions to revitalize the American economy. This

is not the time to compromise by following the advice of timid politicians and doctrinaire technocrats. A clear choice must be made between a continuation of stop-and-go stagflation results, and a comprehensive set of fundamental changes that will properly focus on long-term goals.

*Necessary Economic Policy Adjustments.* I am not here as an apologist for Reagan economics, but rather as a firm believer in the free market principles which I have outlined above and on which Reagan based his campaign. Yes, President Reagan came into office recognizing in principle the course of action which should be followed. The question now is whether his administration can exert the continuing leadership to bring the U.S. government actually to take the necessary steps. Specifically, unless the projected deficits can be dramatically reduced, the economic recovery that economists have been predicting will suffer a serious setback. The sluggish economic recovery that economists now claim will begin some time during the last six months of 1982 will be quickly destroyed by fiscal and monetary problems linked to deficits that are now expected to exceed \$100 billion this year and rise to \$200 billion, or even higher levels, during the next few fiscal years unless major economic reforms are enforced.

The first step is to regain control of government spending using current priorities rather than historical promises. This is obviously difficult because the budget has been used as a political tool for many years to buy off various constituencies. Following 15 years of double-digit growth of federal budget outlays, an even more rapid expansion of "backdoor financing" of government activities through a maze of off-budget and federal lending and loan-guarantee programs. It is obvious that the momentum of existing commitments has eroded spending controls and created unprecedented budget deficits. The rapid growth of spending has shifted a growing share of the total economy into government activities and the huge deficits have warped monetary policies and diverted savings into deficit financing of government consumption and away from needed private investment. This pattern explains many of our basic inflation, productivity and sluggish growth problems. For example, in fiscal year 1966, the federal budget totaled \$135 billion; one year later it had jumped to \$366 billion and then to almost one-half of a trillion dollars in just three more years. From fiscal year 1979 to 1981 the budget outlays then rose to \$657 billion, a gain of 34 percent in just two years. Off-budget outlays and total government lending and loan guarantee programs grew even more rapidly.

After ignoring the growing momentum for many years, Congress finally agreed to cooperate with the new Reagan administration by reducing the anticipated growth of federal spending for fiscal year 1982. The approved target of \$695 billion was \$44 billion lower than the original goal. This reorientation was achieved by challenging the variety of social programs that have expanded automatically. The initial euphoria following the early "budget victories" has been dissipated, however, by the follow-up announcements that federal spending in fiscal year 1982 is now expected to be at least \$725 billion, even if a large number of non-defense and non-income security programs are further slashed. It is increasingly apparent that much stronger budget-reduction efforts will be required immediately to slow down the upward momentum of spending for national security, the proliferation of income transfer payments on an entitlements basis, health care outlays, and the required interest payments on the national debt that is now well over \$1 trillion, compared to a total of \$367 billion in 1969. In fact, by fiscal year 1985 the current forecast of revenues of \$797 billion, which is based on an exceptionally rapid and steady projection of economic growth, will barely cover the outlays for just three existing federal programs—defense, income security (largely social security and government pension payments), and health care—plus the required

interest on the national debt (a cumulative total of \$795 billion). Outlays for everything else are projected to be only \$73 billion by then, but the entire amount will become a deficit since all of the anticipated revenues will be required for the three high-priority programs: defense, income security and health care.

I should add that I do not hold any of these programs sacrosanct, not even defense. National security is, of course, critically important and we must spend whatever is required to maintain our national security. But our dollars must be spent with maximum cost effectiveness at all levels and in all departments of government; the Pentagon is no exception. Every expenditure must be scrutinized and defended in order to cap the natural tendency of government to runaway spending.

Although it is obvious that the budget has been out of control for many years and that huge deficits will persist far into the future unless revolutionary changes are initiated, Congress and the powerful special interest groups continue to reject specific spending adjustments even though they have joined in the pious rhetoric about the need for overall restraint. Even the current budget deficit forecasts of \$100 to \$200 billion in fiscal years 1982 and 1983 have so far failed to motivate a Congressional response on individual appropriation bills. The ongoing decimation of long-term capital markets and severe short-term monetary distortions have been a heavy price to pay for the largely unrestrained budget policies of the last 15 years based on unrealistic political promises.

The second step is to continue the reversal of growing economic disincentives created by record-levels of taxation. Last August, the Reagan administration and Congress acted to provide meaningful tax relief by granting a three-year program of individual tax-rate reductions and more realistic rules for taxing business profits. The anticipated tax relief from fiscal year 1981 through 1986 totals \$749 billion—or three quarters of a trillion dollars—with 79 per cent of the amount committed to individuals and 21 percent to business firms. The dollar figures are large, but in reality the individual benefits in the early years, prior to the indexation of the system beginning in 1985, are barely enough to keep pace with the insidious effects of continued "bracket creep" which occurs when inflation pushes people into higher marginal income brackets effectively increasing their real tax rates. Similarly, inflation has consistently distorted business accounting practices leading to higher nominal profits and increased cash tax payments even though actual cash flows needed for capital investment and the development of new technology have been severely restricted. The thrust of the Reagan administration program to cut tax rates is intended to restore major incentives to increase savings and investment as a means of improving economic output, particularly the pace of productivity gains required for real growth. These benefits will be lost, however, unless major progress is made soon in really controlling the *continued* double-digit growth of government spending and the associated off-budget and federal credit programs that have combined to create a massive drain on the potential total national savings available for private investment *after* the huge government deficit requirements are satisfied. The need for further tax relief and major structural reforms should not become a hostage of the anticipated federal deficit financing needs resulting from spending and credit excesses.

The third major economic reform measure initiated by the Reagan administration attempts to improve productivity and lower costs by reducing unnecessary government regulations which have increased the scope and detail of government planning and control. The basic effort will focus on cost/benefit analyses of existing and proposed government regulations to evaluate their net effects. This common-sense approach has been missing as new legislation and bureaucratic rulings have proliferated during the last 50 years.

Finally, monetary policies have adopted the goal of slowly moderating the growth of money and credit to constrain the inflationary pressures accumulated over the last 15 years. In the past the Federal Reserve Board has often announced admirable plans to fight inflation and stabilize the growth of the monetary aggregates to minimize cyclical distortions. These good intentions have been repeatedly overwhelmed by pressures to become more accommodative to prevent prospective credit crunches and rising interest rates. The unfortunate results have been the stop-and-go economic performance of the last 15 years with rising levels of both inflation and unemployment. The current situation would be more promising if the Reagan administration and Congress actually fulfill their promises to provide fiscal discipline so that the Fed is not left alone to fight inflation, creating the risks of a monetary overkill. As the combined package of government spending, tax and regulatory policies unfolds, it will be crucial that the Fed carefully match its goals of moderating money and credit against the emerging pattern of economic recovery expected to begin in 1982. If monetary policy is too tight, the economic recovery will be unnecessarily restricted by high interest rates. But if the Fed prematurely abandons its efforts, the skeptical financial markets will quickly react to the prospects of renewed inflation, rising interest rates, falling stock and bond prices, continued financial disintermediation, and eventual economic distress. The extremely high level of nominal and real interest rates in the U.S. credit markets indicates the continued skepticism of lenders and investors. The complexity of this transition clearly demonstrates why all four economic policy initiatives—spending, tax, regulatory and monetary—must be carefully coordinated to gain balanced progress.

While it is crucial that we sharply reverse the repeated fiscal, monetary and regulatory policy blunders of the last 20 years, it is equally important to avoid any repetition of the disastrous wage and price controls and credit allocation programs used by political leaders to divert attention away from fundamental policy errors. The empirical evidence is clear: such controls quickly become ineffective and eventually wind up causing serious problems. In the 1970's such controls severely damaged capital investment and private economic planning while failing to prevent the acceleration of inflation to double-digit levels and unemployment rates to the highest level since the great depression of the 1930's. In fact, the anticipation of future controls frequently motivates business and labor leaders to favor inflationary price and wage actions. There is widespread agreement that such arbitrary controls are counter-productive, but political expediency still leads to their use as a symbol of aggressive leadership as a poor substitute for more difficult efforts to correct fundamental fiscal, monetary and regulatory problems. The unfortunate application of energy regulations and trade protectionism in recent years are additional examples of policy errors resulting from short-term political responses.

The United States must also avoid the dangerous suggestions that centralized government planning and controls should be used to correct the current economic problems. This approach typically involves widespread public ownership of economic assets and detailed plans for allocating human, material and capital resources along with rigid targets for production and consumption. The command economy approach is not an effective means to direct a modern economy as complex as the American system. Even more important, a command economy destroys personal incentives and directly threatens individual freedoms. We now have 60 years of reality to analyze, including 35 postwar years and the current deterioration of many command economies into near-bankruptcy, while much of the world continues to move forward. We now have a mass of statistics to compare on economic growth, per capita consumption of foods, durable goods, services and housing, the pace of investment, and the social indicators of the overall quality of life and the social infrastructure. We also

have abundant evidence concerning social mobility, political participation and basic personal freedoms. Despite the efforts of governments to conceal and confuse these growing disparities, people throughout the world are more and more inclined to compare the performance of each type of economy. The average person is not so uninformed and so naive as politicians would like to believe.

There are those who charge that Reaganomics is anti-poor. On the contrary, the genius of the free market is that by pursuing self-interest, an outpouring of wealth and inventiveness raises the standard of living for all citizens. It is in the principles that Ronald Reagan enunciated during his campaign that the hope of the poor is to be found, and in collectivist economics that it may be lost.

*Conclusion.* Although the media have unfortunately focussed attention on the daily details of the current economic recession and prospects for recovery later in 1982, two fundamental questions of far greater significance require immediate answers. Will economic policy changes be substantial enough to cause a real turnaround after so many years of erosion and a decade of stagflation? Will the necessary policy change be sustained against growing pressures to revert to the discredited gradualist policies of previous political leaders that have brought the premier economy of the world to the liberal brink of disaster? The American response to these two basic questions will shape the future course of our economy long after the current recession and prospective cyclical recovery are forgotten. If the crucial policy reforms are pervasive and forceful enough to really reverse the negative fiscal, monetary and regulatory trends that have brought us to the economic precipice, then America will begin a long and difficult transition. But, if a politics-as-usual approach dominates, there must be real concern about continued domestic stagflation and America's role in future international political, military and economic relations. Both the problems and solutions are clearly political issues. Recurring economic cycles will still continue, individual governments will experiment with various forms of controls, protectionist problems will persist, and future cartels will try to manipulate the price and supply of raw materials. But if correct political leadership is provided, powerful market forces will move the world economy toward a more integrated, open and competitive system with increased benefits for all nations willing to participate.

I have a strong preference for the competitive market economy approach for achieving these goals. I favor an economic system that diffuses and decentralizes decisions and directly rewards individual creativity and productivity; a political system that responds to the personal priorities and aspirations of its people rather than to the collectivist goals of the existing government; and, a social system that provides institutions and services that really help people to fulfill their personal potential. In summary, I advocate a society focussed on the individual rather than the state, and one which draws its inner strength from the enthusiastic commitment of its free people rather than from brutal military power. Political, social and economic freedoms are each necessary but they only become completely adequate when they are combined.

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## DISCUSSION

*Chairman: Thierry de Montbrial*

The clarity and philosophical penetration of the working papers were praised by a number of participants, but a British speaker found that, in some respects, they were uncertain and unreliable guides to policy. The International paper erred, he thought, in painting the *laissez-faire/dirigiste* distinction as an American/European one. He alluded to the time-honored U.S. tradition of seeking local and special advantage, and to the penchant for government regulation, which he contrasted with the new trend in Europe toward more freedom and deregulation. He compared the SEC bureaucracy with the self-regulation in the City of London, for example, and said that the countries which had best withstood the oil price shock had been those, like Germany and Austria, which had been able to adjust incomes rapidly—for whatever cultural or institutional reason. Certainly if the International author were right, then the American author had to be wrong in his depiction of a highly dirigiste U.S. society.

The International author reiterated her belief in a fundamental difference between the U.S. and Europe. If Americans were calling for structural change, it was not because they needed it more than the Europeans, but because the free market paradigm was so powerful in the U.S. The welfare state had not been introduced there with ideological overtones, as it had in other parts of the world. Ideology had come in "by the back door."

A Greek speaker wondered into which model one would fit the Japanese. They had the greatest sense of property rights in employment, were extremely interventionist in their industrial planning, had a large and flexible small company sector, an extraordinary stress on productivity, and a high savings rate. Moreover, they had enjoyed rapid growth despite a period of high inflation.

Several speakers connected our present economic difficulties to the fact that we had departed from our models in recent years. A Briton said that the Western system had been based on free markets working within a framework of financial discipline. One or both of those elements had unfortunately been reversed in many countries. The U.K. was now trying to get back on the right track, and gradualism was really the only choice open. He implied that large tax cuts, as advocated by the "supply siders," could not be afforded at this stage. (The American author intervened to remark that there was nothing intrinsically bad about gradualism; it simply did not work.)

A Norwegian denied the implication that social democracy necessarily entailed a lack of discipline; it was a question of the strength of the government in office. He went on to dispute the dogma that high tax rates had been a decisive factor against expansion in the U.S. The supply siders would have been better advised to take the tax *system* instead of tax *rates* as their point of departure. That was very important for the level of interest rates. A Swedish speaker seemed to lend support to this view when he asked whether the public sector was indeed too big in the U.S. It came to only about 32 per cent of GNP, compared with more than 50 per cent in countries like Sweden and the Netherlands.

A Dutchman had to agree as a practical matter with the American author's prescription, even if he did not go along with his philosophy. We had to reduce the public sector share of the economy. In the Netherlands, for instance, more people were now dependent on income produced by the public sector than were employed in the market sector. But during the high-growth years of the fifties and sixties we had built the infrastructure of the welfare state and the speaker said that the expenses for it would have to be borne. He predicted that economic growth would slowly be restored, but he was not convinced that it would absorb the 30 million unemployed in

the OECD countries. And if annual economic growth lingered around two per cent, and social welfare spending had to be cut, it was hard to imagine our voters agreeing to the four per cent increase in defense expenditures which we were told would be needed to build up our conventional forces.

A German referred to the three classic functions of an economic system—allocation, production and distribution—and said that our postwar prosperity, including the "German miracle," had been achieved by emphasis on the first two. We were now all preoccupied with the third function, and a return to economic health depended on our restoring the balance. A Danish participant agreed that the greatly enhanced bargaining power of labor was often left out of the analysis, but he was pessimistic about chances of restoring full employment and satisfactory growth through the market system, as the working papers had suggested. A certain policy mix was now embedded in our societies, and it was idle to think we could change it to deal with the recession. A German was not so sure. He implied that expectations of lower inflation would blunt the bargaining power of unions and lead to restrained wage demands.

An International participant argued that four central principles, or dogmas, of our system had been overridden by the realities: (1) *Monetary aggregates should not increase by more than the amount needed to accommodate sustainable non-inflationary growth.* Monetary policies had in fact been much too expansionary during the 1970's, resulting in a surge of inflation. Countries like the Federal Republic of Germany and Japan, which had applied prudent and realistic policies, had enjoyed the lowest rates of inflation and the lowest nominal interest rates. Tighter policies were now helping to bring down inflation, but recent gains were precarious and could be reversed by premature relaxation.

(2) *Fiscal policy should contribute to the fight against inflation.* This principle had been largely ignored in recent years, contributing to stagflation, high interest rates and the crowding out of productive investment. Foreign financing had helped alleviate some pressures, but it was only a temporary stop-gap.

(3) *Wage increases should be kept within the bounds set by productivity growth and changes in the terms of trade.* In fact, real wages had risen much faster than productivity, while the terms of trade had shifted adversely. This had encouraged capital-intensive investment, which aggravated unemployment. To restore the profit margins needed for growth, we would have to keep real wages *below* productivity growth for some time to come. Governments could help by restraining public sector wages and removing obstacles to competitive labor markets.

(4) *The liberal and open international trading system must be preserved.* Governments had so far resisted pressures for across-the-board trade restrictions, but protectionist trends and the tendency to subsidize "lame ducks" were cause for concern. Such policies were bound to invite retaliation and retard international adjustment.

Another International speaker supplied an overview of important aspects of the current economic evolution. He said that both European and North American analysts foresaw a sluggish economic recovery, lasting well into 1983. Inflation would decline, but unemployment would remain high. The political and social implications were serious, which explained the demands for a policy change to accelerate recovery. But there seemed to be broad agreement among our governments that there was no prudent alternative to a non-accommodating policy combined with supply-side measures. During the next two years, it would be vital to create conditions favorable to private investment as the major engine for recovery.

There was little transatlantic disagreement, he concluded, about the threats posed by inflation, budgetary deficits and eroding business profits. But there were chronic

European-American differences in other areas: trade, including agriculture; the philosophy of North-South economic relations; and policies in the energy field. On the interest rate issue, the U.S. had an especially important responsibility—because of the size and influence of its economy—to reestablish an “appropriate” level of interest rates. This concern was reflected in a number of European and Canadian interventions.

An American participant found the repeated reference to high “U.S. interest rates” disconcerting. He pointed out that the level of real rates was, in reality, the same around the world. Nominal rates might be different, but the forward foreign exchange markets brought them into equality. There was no denying that the large and growing U.S. budget deficits contributed to the high level of interest rates worldwide, but European deficits had been so high themselves in recent years that the percentage of GNP available for industrial investment there had in fact been lower than in the U.S. Concern had been expressed about U.S. companies borrowing in Europe, but there continued to be a net capital outflow from the U.S. The speaker believed that governmental intervention in the exchange markets was not the answer to our problems. We had instead to address the fundamental domestic political problem of bringing expenditures into line with tax revenues and the general interest.

A German thought the U.S. position on this subject was too dogmatic. Fundamentals were of course essential in determining exchange rates, but intervention should not be overlooked as a useful tool to influence the market. A Norwegian pointed out that the U.S. could more easily accommodate foreign exchange rate volatility because the relative volume of its external trade was small. So the Americans were bound to intervene less than the Europeans and Canadians in the exchange markets. A Swiss participant complained that, not just the level, but the volatility of U.S. interest rates over the past two and a half years had had a most disturbing effect on European capital movements and interest rate levels.

An American predicted a high U.S. dollar exchange rate for the foreseeable future as a result of the Reagan administration's economic program, which he analyzed in some detail. The fundamental assumption had been that the U.S. economy needed structural change to break the pattern of high consumption and low savings; and that this could best be brought about by lowering the level of corporate and personal taxes, which would not only enhance incentives to produce but would also increase the supply of savings available for fresh investment. The problem was how to achieve this without introducing disruptive forces which threatened the objective. As it turned out, though, the expectations of higher savings and investment had been offset by a second pattern of change: reduced spending for social programs accompanied by a rapid and massive boost in military spending, leading to a large budget deficit. That deficit should be evaluated, not in terms of its relation to GNP, but as a percentage of funds available in the market. This might be as much as 50 per cent, which was extraordinarily high. A way had to be found to reduce the deficit, with its crowding-out effect, until the enhanced revenues from the lower supply-side tax rates began to flow. The incidental rise in interest rates had unfortunately set off expectations contrary to the ones intended by the program, and had contributed to dislocations abroad. The Reagan administration had to confront that dilemma as it tried to reconcile the commendable aim of long-term American structural change with the immediate implications for the international markets. In the meantime, the speaker was grateful for the steadfastness of the Federal Reserve Board. He was supported by a compatriot who stressed that high interest rates were the fault, not of the Federal Reserve, but of inflationary expectations.

A Belgian participant, who was seconded by others, said that Europeans felt awkward about criticizing the U.S. when they had not done everything possible to put

their own houses in order. Nonetheless, the impact of U.S. policy was so far-reaching that Europeans felt bound to speak out. A Briton, for one, reckoned that the U.S. deficit could be trimmed by as much as \$50 billion a year by increasing gasoline taxes to the levels that Europeans were accustomed to. A German participant asked how long the world could endure the unprecedented high level of interest rates without severe repercussions on investment, employment, and our social and political structures. Expectations about the structure of U.S. budgetary revenues and expenditures were as unsettling as the size of the projected deficit. It could be instructive to look at the experience of the Federal Republic of Germany, where interest rates had been brought down over recent months from a peak of 11.7 per cent to 8½ per cent. This had been due to an improvement in the country's current account and a dampening of inflationary expectations, which had induced the unions to accept lower nominal wage increases—although higher *real* wage increases were still feasible. As the economic environment changed, the bargaining position of unions was getting weaker, which had important political implications.

An American participant said that he shared the aims of the author of the U.S. working paper, but could not agree with the implied disparagement of the achievements of the last 40 years. Jobs and per capita incomes were growing, and the proportion of people living below the poverty line had dropped. The job-training and food stamp programs had strengthened American society. Compared to those compassionate measures, he said, the effects of Reaganomics had been “disastrous.” America's economic troubles were traceable to the inadequate financing of the Vietnam war, the oil price rise, the archaic U.S. health care industry, and the Federal Reserve policy on interest rates, which had stifled construction. The present administration's program would put the burden of fighting inflation on those who could least afford it. This was ideology, not economics.

The author of the American paper intervened here to point out this paradox: The people most hurt by inflation were the poor and unemployed whom the politicians aimed to help by the spending which led to the inflationary deficits. Until we got those frightening deficits under control, we were skating on thin ice and there would be little hope for a revival of growth and stability.

Another American was more hopeful about prospects for his country's economy. Viewed in relation to GNP, the debt burden was “not cataclysmic.” It was true that savings were inadequate, and this issue should be addressed within the framework of tax reform. It was in the interest of the government not to tax personal savings, so that they would flow into the investment pool. For like reasons, companies should be allowed to deduct dividends paid on preferred stock, which were analogous to interest charges. By 1985, the Federal government ought to be moving toward a responsible system of dual budgeting, which would distinguish capital investment from current expenditure. The U.S. General Accounting Office and two commissions had recommended that, but the two previous administrations had been opposed to it, as was the Office of Management and Budget at present. This reform would produce better control of the government's commitments and cash flow and would facilitate the setting of priorities. We ought to focus on reasonable hopes as well as our fiscal fears, which could be immobilizing.

A Canadian participant quoted a friend's observation that what was happening in their country “may well work in practice, but will never work in theory.” Canada was experiencing high unemployment, high interest rates, high inflation and slow growth—a combination for which the textbooks had no remedy. As the International author had pointed out, countries where neither the market mechanisms nor the consultative mechanisms were working well were in serious trouble. How much divergence in the economic policies of industrialized nations was compatible with the



maintenance of international economic order? The answer to that was hard to quantify, but we were certainly close to the edge. The speaker saw no evidence yet of the convergence of the two models described in the working papers, and he was dubious about the claim that the U.S. model, being more market driven, was necessarily more adaptable to change. At the national level we had to get the right macroeconomic mix to insure recovery, and internationally we ought to make better use of existing multilateral institutions rather than seek to resolve economic issues bilaterally. Above all, we should stop blaming other countries for problems that were of our own making.

A Frenchman said that we all shared a collective responsibility for the working of the international economic system. The task was complicated by the fact that the European economies were, in varying degrees, mixed systems. If some measure of international order were not restored, we would be confronted with permanent instability. The eighties would not be a decade for resting on our laurels. Even if we had a technical recovery, it was unclear how much unemployment and interest rates would decline from their present high levels. France had taken a positive approach to the problem of bringing down both inflation and interest rates, he said, and the results had not been without beneficial effects at home and abroad. Our relationships with countries of the Third World were vitally important. We had to make a greater effort to understand their situation; many of them faced the prospect of becoming even poorer.

A Greek participant expressed strong opposition to limiting the flow of funds through the World Bank and the IMF to the developing world. We should, on the contrary, encourage the accumulation of investment in those countries through both public and private channels.

A speaker from Portugal, on the other hand, said that the developed world was being "attacked, almost in a military way" by a wave of products from the newly industrialized nations. Scientific technology had taken root around the globe at the same time as the revolution in transport and communication, permitting exports at competitive prices. The first waves had brought automobiles and optical and audio equipment from Asia, and succeeding waves would bring such disparate products as aircraft from Brazil and light bulbs from Hungary. There was no doubt that manufacturers and their workers in the Atlantic countries would suffer, but the effect went beyond that. We had seen in France, for example, how a stimulation in consumer demand, instead of helping domestic industry, had simply enlarged the trade deficit by bringing in more imports. The speaker called for a kind of "industrial NATO" to coordinate and defend our interests on the economic front.

A British intervention refuted the notion that "OPEC must be crushed." That organization had proved itself weak in the face of market forces, and was no longer a danger to the Western economy. It now accounted for less than half of the free world's oil production, and its member nations would be in net financial deficit this year. OPEC amounted in effect to a Saudi exercise in smoothing out short-term price fluctuations and stabilizing the market in enlightened self-interest, in the manner of buffer stock management.

Looking back over the discussion, an American participant concluded that he would be inclined to emphasize the similarities rather than the differences between European and U.S. economic problems. The quarter century following World War II had been an era of stability and economic growth in all directions, but it had carried the seeds of its own destruction. We had acquired expectations and attitudes that were proving unsustainable, and some of the bills were coming due, as it were. Foreign lending had managed to ease some of the shocks of the oil price rise, but in the end there was a limit to the lending capacity of banks and the credit of borrowers, even if

their trade was growing. In the same way, we had seen the limits to leveraging in our domestic economies. In the perspective of U.S. history, there had never been an inflation as long and intense as the one we had endured since the late 1960's. In the fight against inflation, it would be useful to have stronger fiscal measures to complement monetary policy, but that posed difficulties of acceptance, timing and technique in the political context. Beyond that, we were up against structural problems in industry and the labor markets. There was an illusion that marginal economic tinkering might be effective, but that would not restore international confidence and stability. Our problems grew out of domestic instability, and that was where the priority lay. The major question was how fast nominal wages could be brought down to accord with the inflation rate, to eventually produce higher real wages. There was some evidence that an economic revival would be accompanied by significant productivity gains. The U.S. had already made good progress on the inflation front, although business was still experiencing an intense profit squeeze from accumulated cost increases. With continued gains against inflation, it was hard to imagine that interest rates would remain so high indefinitely, and therein lay some hope for a resumption of sustained growth. For the moment, Americans were "failing the course in budgetary arithmetic," which meant they were not likely to take the clear, decisive action the situation required. Did we have enough time to do what was needed? No one could say for sure, but the speaker was "not totally pessimistic."

## V. DISCUSSION OF CURRENT EVENTS

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### THE FALKLAND ISLANDS CRISIS

*The British perspective.* A British participant was invited to explain his country's motives and objectives in the ongoing hostilities in the South Atlantic.

For at least 15 years, no British government had had a major interest in retaining sovereignty over the Falklands. No government had felt that there was a vital military or economic interest in holding onto the islands, and Britain would have welcomed an accommodation with Argentina as long as it had been satisfactory to the Falkland Islanders.

But Argentina had committed a naked act of aggression. Having negotiated apparently in good faith only a few months before, Argentina had invaded the islands without warning. The initial British response had been to appeal to the United Nations, which passed Resolution 502, calling for a ceasefire, the withdrawal of Argentine troops, and a negotiated settlement.

Why had Britain not just shrugged its shoulders, said it was a matter of 1,800 people 8,000 miles away, and forgotten the whole episode? If it had done so, it would have been a clear-cut invitation for countries in any part of the world to use military force to settle disputes. Argentina had no valid claim to the Falklands. The British insisted that it was a matter of principle that the Argentines withdraw. This response had come from the British people, and had not been generated by Parliament nor by ministers. The British people were not about to put up with the Argentine action and they did not want their government to do so, either.

The British objectives, then, were to remove the Argentine invaders and to restore British administration. This was to be achieved by exerting diplomatic, economic and military pressure on Argentina. Given the workings of the U.N. and the record of the Argentine junta, it was not realistic to think that any sort of settlement could be achieved without all three forms of pressure.

Britain had shown flexibility in its negotiating position and was now insisting on a bare minimum of conditions. It had scaled back the demand for an immediate withdrawal in favor of a phased withdrawal, in which the British fleet would also withdraw some distance from the islands. Instead of insisting on a return to British administration, it had agreed to an interim administration that might include third parties. And it had agreed to negotiate sovereignty, with the one caveat that it could not agree in advance that Argentina would ultimately gain sovereignty.

Britain was grateful for the economic action taken by the Commonwealth and the E.C. countries. And it understood that the U.S. had had to remain neutral during the time it was playing an active diplomatic role. The NATO countries should certainly urge continued flexibility in the British negotiating position, but they should also keep in force economic sanctions against Argentina.

Britain knew that it was risking its national prestige, but it was fully prepared to make the sacrifice. It had taken gradual military measures—first, a maritime blockade, then the retaking of South Georgia, then the establishment of the exclusion zone. Ultimately it might have to invade part of the islands. Finally, Britain was well aware that there were wider implications of the crisis. It was not blind to the danger of a Peronist regime coming to power in Argentina, or of Soviet interference. It knew that the U.S. had genuine regional interests in Latin America and had gravely damaged those relations by coming down on the British side. Britain realized the situation could get out of control, with considerable repercussions. But backing down could have

equally serious repercussions. The global implications of allowing a nation to take up arms, ignore a U.N. resolution and get away with it, were grave.

*The American dilemma.* An American participant described the conflicting considerations which afflicted American policy on the Falklands issue. The initial American reaction had been similar to Britain's: if Argentina's use of force were allowed to succeed, it would set a dangerous precedent. Americans, too, were mindful of the fact that Britain was their most dependable ally. It was certainly not in American interests for Britain to be "intimidated by third world radicalism."

But the inter-American system was one of the oldest American foreign policy relationships, and for the U.S. to compromise it would be akin to asking Britain to risk Commonwealth ties. No matter how just the cause, deep emotional connotations were involved.

The U.S. was concerned, too, that the overthrow of the Argentine military structure, which would be the likely result of a total collapse of their effort in the Falklands, would have consequences in Argentina far beyond the immediate issue. It was not just a danger of Peronists coming to power, but of the removal of one of the balancing elements in Argentine politics. If the Argentine military were discredited, it was likely that a third-world, anti-Western, anti-market, pro-Cuba type of regime would come in. (To such a regime Britain might hand over the Falklands, having proved they could not be taken by force.) Such developments in Argentina could have consequences for Brazil and other countries in the area, and for the future evolution of Latin America as a whole. This was a matter of the profoundest concern for U.S. foreign policy and indeed for all of Western foreign policy.

Beyond Argentina and Latin America, there were global implications. A combination of radicalism and nationalism sweeping through Latin America could have particularly unsettling effects in parts of the developed areas of the third world, which we would all pay for in the years to come. In light of all these considerations, it was understandable that serious Americans could hesitate before making an all-out commitment to Britain.

Britain, though, could not have taken another course, and her standing up to the arbitrary use of force was in the interest of the West. But retaining the Falkland Islands was not as important as defeating the use of force. It would be against Western interests for Britain to fail, but the U.S. hoped for a settlement in which both sides' objectives could to some extent be achieved.

While the U.S. recognized that Britain could not relinquish sovereignty under military pressure, it might lend strong support to the British demand for Argentine withdrawal, but leave open its position on the sovereignty issue. It might have been helpful for the British if the U.S. had defined the terms of the negotiations earlier and separated the political from the military issue. Strong U.S. support for Britain on the basic principle of use of force, combined with a willingness to see the Argentine point of view on the political issue, might have provided the bridge whereby the generals could get off the islands. Surely they had taken a position they had come to regret and did not know how to escape.

In short, the chief U.S. concern was to get Argentina off the Falklands and to begin a political process that would not wreck the inter-American system. We needed some means of getting the issue settled diplomatically, removing the Argentines in a manner that would not foster radicalism in Latin America. It was the role of Britain's friends to help it on the issue of use of force, but also to seek to provide an exit—not one on which Britain had to commit itself immediately, but one which gave the Argentines some hope of an ultimate outcome compatible with their views. It was a challenge which required very creative diplomacy on the part of the U.S. and Europe.

*Negative views of Britain's response.* While virtually every speaker condemned Argentina's invasion as an act of aggression, many took a dim view of Britain's response. One American said that while he sympathized with the British position, he, too, was deeply concerned about the implications of the Falklands crisis for American and Western interests in Latin America. The U.S.-Latin America relationship was an important and delicate one with a mixed history. It could be characterized as a love-hate relationship. The U.S. had not always handled itself well in the region, and the recent declaration of support for Britain had been met with universal hostility in Latin America. This had serious implications, especially for U.S. financial relationships.

An Austrian suggested that America's inability to negotiate a peaceful settlement of the crisis was indicative of declining U.S. prestige in Latin America. If things continued as they were going, warned an International speaker, the U.S. would no longer have to worry so much about Cuba and El Salvador, because Argentina would become a Soviet base in Latin America. And a Frenchman feared that the Falklands crisis might cause Argentina to become a nuclear power sooner than expected.

Another International speaker felt strongly that the British response to the Argentine invasion was inappropriate. The ends did not justify the means. It was a game in which everyone was going to lose. The Falklands were militarily indefensible, and in a few years the British would have to hand them over to a Peronist regime. The U.S. relationship with Latin America would suffer bitterly; the North-South issue would be sharpened; the present British government would fall; and the English Channel would widen. The speaker felt a sense of disappointment in Britain, a country from which he expected wisdom and moderation. What we were seeing was a "colonial hiccup."

Several participants were surprised that Britain had not dealt with such a potentially explosive problem earlier and more seriously. Why had such a dangerous situation not been given more attention? And now that it had erupted, was the British reaction, after such neglect, not disproportional? A Dutchman accused the British of having ignored clear warning signs that trouble was brewing. A Spaniard agreed, saying he doubted Britain had made a serious effort in years past to negotiate a settlement.

A Portuguese speaker felt that Britain had jeopardized international support by starting the killing in the Falklands. A Dutch participant agreed, saying that once the shooting and the loss of lives had begun, one encountered in Europe a "feeling of disgust." People were disgusted that a colonial problem could lead to a bloody crisis, that Western diplomacy should break down, that an obviously well-planned invasion could catch the West unaware, and that the U.S., with its influence in Latin America, could not stop it.

Continued European support in the form of economic sanctions could not be taken for granted, a German warned. They were up for renewal in a few days, and he expected a lively debate. Given Europe's current economic problems, the British attitude was not appreciated by everyone.

*Positive views of the British response.* A British speaker said that his country appreciated the difficulties the crisis presented to the U.S. Britain had been in full accord with the neutral U.S. stance during the Haig negotiations, which Britain had hoped would succeed. But when it had become clear that the Haig mission would not succeed, there would have been widespread anti-U.S. feeling in the U.K. and a serious rift between the two countries if the U.S. had not come down on Britain's side.

Suggestions that the ends sought by the British did not justify their means amounted to "a cop-out," the speaker went on to say. There were no other means available to demonstrate that aggression did not pay. Britain was using military force in a way carefully calculated to give maximum backing to the diplomatic effort and to result in minimum loss of life. There was room for a peaceful settlement, but no

chance of one without the naval task force because the Argentine junta did not understand the language of sanctions and of diplomacy.

Another Briton disagreed with those who felt nothing good would come out of the Falklands crisis. Assuming there would not be a British defeat, he saw a restoration of confidence in the alliance, especially on the European side. The effective use of sanctions was a shot in the arm of the E.C., representing the first time the political objective of the E.C. had been given some reality.

The Latin American result did not have to be entirely negative either. If the crisis ended in a reasonable outcome, there would be respect for the U.S. and its allies for standing up and demanding a correct solution. The worst result would be for Britain to do badly and for the U.S. to be seen to have allowed it to.

An American argued that an Argentine failure in the Falklands would not necessarily result in a Peronist or pro-communist regime. The invasion had been clearly the act of a reprehensible government trying futilely to stave off economic collapse. Its failure could be an opportunity. The fall of the generals might, with some subtle outside assistance, be a turn for the better and even a strengthening of U.S. interests in Latin America. A more moderate general might take over, or there might be a meaningful move toward democracy.

Indeed, the U.S. ought to review its attitudes and policies in Latin America, suggested a Briton. Many in Europe and elsewhere condemned America's support of dictatorship in Argentina and its policies in countries like El Salvador and Guatemala.

Several speakers saw positive implications for NATO arising from the Falklands situation and Britain's actions. Europe had acquired the image, in the view of a Frenchman, of a group of nations that "just never react, who are totally hamstrung by their colonial past." As a result, Europe felt itself to be a continent living under the protection of the U.S.—a situation not good for Europe or for U.S.-European relations. Britain's action in the show of solidarity had bolstered morale within NATO. It was a good thing, especially in the Middle East and Africa and other areas where Europe had interests, to be seen as a group of countries capable of military action when necessary.

A Greek speaker agreed, saying that rather than criticize Britain for its reaction, one ought to condemn the European countries for not reacting often enough, and for allowing incidents to go unchallenged, which Argentina surely had not failed to notice. It now required sacrifice and effort to reassert the principle that Europe would not stand by and see the rule of law violated. That was a sacred principle, and for violating it, Argentina should be given nothing more than a trusteeship over the Falklands.

The current criticism of Britain's reaction reflected, in the view of an International speaker, the prevalent mood in Europe that no issue could justify action that entailed loss of life. This was a major concern for NATO. It could lead to a situation where we would not defend ourselves in an attack for fear of loss of life. To put pressure on Britain not to land troops on the Falklands because of the potential loss of life was to forget who had started the military action. A Briton responded to expressions of outrage over the sinking of the General Belgrano by saying that Argentina had been warned that any movement that appeared threatening would be acted upon. Once forces were committed, it was unrealistic to expect that no one would be killed.

As for the danger of greater Soviet interference in South America, we could assume the Soviets were closely watching the British reaction and its implications. Surely they had realized that the West was in earnest and had decided to stay out of the crisis. They now had a clear signal that the NATO partners were capable of reacting. (Indeed, as one speaker pointed out, failure of the British to act might have led the

Russians no longer to take very seriously the alliance guarantees of the status quo in Berlin.)

With respect to concern about Argentina going nuclear sooner because of the Falklands crisis, a Briton said that it did not much matter because Argentina was going nuclear anyway. In any event, it was high time the West considered the possibilities of a major nuclear confrontation if regimes like the one in Argentina got their hands on nuclear weapons. The conflict, the speaker continued, had heightened the importance of conventional weapons. It had shown how vulnerable surface ships were and what a powerful weapon the nuclear submarine was. NATO should be building more of them.

As to the charges that Britain had not dealt with the problem of the Falklands sooner, the British speaker admitted that perhaps it should have done so. But it had been seriously negotiating earlier this year. Indeed, the present government had gone further than any previous one by offering a proposal to grant Argentina sovereignty and to lease back the islands. Summing up his country's position, the British speaker agreed that sovereignty ought not to be the main issue, nor should self-determination for the Falklanders. Britain needed to show it meant to defend vigorously the principle that aggression did not pay. The longer Argentina saw divided counsel in Europe and uncertainty in the U.S., the longer it would hold on. Ultimately there would be some sort of accommodation. Britain was not going to keep a garrison on islands far out in the South Atlantic with no strategic objective. Britain knew that a glorious conclusion was not in the cards; it too was prepared to pay a price.

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#### EAST-WEST RELATIONS: POLAND, TRADE AND FINANCE

*A European view of East-West relations.* A Norwegian member of the panel felt that the Soviet threat would remain the main political and security problem confronting the West and the dominant factor in most conflicts within the NATO alliance.

Yet the Soviet threat fulfilled the Norwegian proverb that "nothing is so bad it isn't good for something." Without that threat, cooperation among the democratic nations of Europe and North America probably would not exist. The threat of communism had helped us achieve a better understanding of the values of our own societies and had promoted the development of freedom, human rights and social justice.

But the nature of the threat had changed. Communism had lost its ideological and political appeal; there remained only the military threat. The common man no longer had any illusions about the communist system. Indeed, some communist leaders were beginning to make adjustments in traditional communist policies, especially in the economic sphere.

The remaining military threat was substantial, however, and we should not be lulled into a false sense of security by the problems in the East. The aims of the Soviets remained unclear; we could not know how they would act in the future. We did know that they did not hesitate to use force to pursue their interests. They held their own people and those of the Warsaw Pact countries in a firm grip. We might well ask ourselves, if they treated their friends like this, how would they treat their enemies?

The military capacity of the Soviet Union was enormous, and a major East-West conflict would be catastrophic. Our aim therefore should be simple: to prevent the spread of Soviet dominance and preserve world peace. To achieve these ends, we

needed in our dealings with the Soviets strength, firmness, solidarity, patience and moderation.

*Strength:* We could not allow the Soviets to hold military superiority. A military balance was essential for world peace. We could achieve such a balance by obtaining mutual arms reductions, and we should always be ready to negotiate to that end.

*Firmness:* We had to make clear the limits beyond which the Soviets could not go and we would not be pushed. Our failure in this respect had led to the breakdown of the détente policies of the 1970's. We could not afford to give the Soviets something for nothing.

*Solidarity:* The Soviet Union was doing its best to split the West and to play upon the conflict between Europe and the U.S. Close and frequent consultation among the NATO allies was the best remedy for this.

*Patience:* We could not expect quick results in our negotiations with the Soviets. Delay was one of their tactics and an outgrowth of their distrust of us.

*Moderation:* We had to make clear that it was not our aim to break up the Soviet security system or unravel what they saw as their empire.

Our aims, rather, were to maintain security for ourselves and respect for our interests. At the same time we sought a movement in the East toward greater respect for human rights, tolerance of dissenting opinions, and freer flow of information. But we could not force these things on the Soviets with sanctions and coercion. The communist attitude toward personal freedom and human rights could only be ameliorated if the leaders of the communist world realized it was in their interests to do so. We had to make them understand that change was a precondition to developing friendly relations with the West. It would be a long process, and we had a long way to go. But, in spite of our misgivings and frustrations, we had already made progress.

*An American perspective.* The first assumption of U.S. policy toward the Soviet Union, an American panelist said, was that it was in a serious and worsening crisis whose implications were not clear. The crisis had several aspects:

*Ideological:* Communism had lost its appeal both internally and externally. The Soviet regime could no longer evoke the enthusiasm among its people needed for the system to work. There remained only an appeal to nationalism.

*Political:* The Soviets had overexpanded their empire. They had assumed responsibilities they could not meet.

*Demographic:* The growth rate of Russian and other Slavic populations was steadily declining, while that of the colonial minorities was rising. By the end of the century, the majority of Red Army recruits would be non-Russian. There would also be a negative impact on the labor force.

*Economic:* This was the most serious crisis. The Soviets were paying the penalty for taking control of the national economy, which was steadily declining. There was a lack of incentives, the economy was overcentralized, poor investment decisions were made, and vast subsidies were laid out for non-productive purposes. The military sector used up a growing proportion of national resources. To keep its empire together, the Soviet Union had to expend large sums: \$3 billion to Cuba, \$1 billion to Vietnam, \$1 billion for the war in Afghanistan. The economic crisis was also wreaking internal havoc in areas like health care and food. To make matters worse, the export markets on which the Soviet Union relied for hard currency—gold, oil, and diamonds—had softened, resulting in a severe liquidity crisis.

The Soviet Union had weathered crises before, but this time they lacked the human resources to recover. They were entering a period of revolutionary crisis. Their political superstructure was no longer in accord with their economic infrastructure. Something had to give, and it was more likely to be the political structure. The Soviet leadership could be expected to go one of two routes. They could adopt economic

reform along the lines of Hungary. Or they might take the aggressive route, with an appeal to nationalism. Which way they went depended largely on internal factors, but the West could have some influence.

The American view was that the West ought not to help the Soviets out of their predicament by transferring capital and technology without demanding a quid pro quo. By withholding these things, the U.S. government was seeking to force the Soviets to face the consequences of their system and take the route of reform.

*Poland and the use of sanctions.* In determining what NATO's reaction to events in Poland should be, a German panelist warned that although we felt a sense of outrage at the imposition of martial law, our outrage had to remain impotent in the nuclear age. NATO had not been founded to defend the allies of the Soviet Union against the Soviet Union. The line across Europe had to be respected. A military response, an American agreed, was out of the question. We could only consider economic measures. The question was how and to what extent to apply them. Their use presented both opportunities and problems. A member of the panel gave a European banker's perspective on the use of economic measures. In deciding whether or not to grant credit to countries that did not behave as we wanted them to, we had to ask whether politics or economics came first. There was no clear-cut answer.

On the one hand, it could be argued that finance followed trade, in a cause-and-effect relationship. In that case, a banker had to worry mainly about the creditworthiness of his borrower. When a government placed an embargo or trade restraint on a country, the resulting financial questions were the banks' problem. While it was fashionable to criticize banks for their policies toward different countries, few people realized that banks were as highly dependent as trade and business upon establishing good, stable customer relations.

On the other hand, it could also be said that, in the modern world, trade followed finance. Providing finance determined whether or not a trader or manufacturer could survive in the international marketplace. In this case, financial institutions had to worry about the whole range of economic, social and political conditions in their own countries, as well as in those with which they were doing business—employment levels, utilization of capacities, current accounts, growth, exchange rates, even inflation. But the responsibility for these things rested with the politicians, who set up the framework within which banks had to act. All banks could do was press the politicians to maintain as favorable a business environment as possible. This was not to say that banks did not on occasion have to make decisions with political implications.

Responding to criticisms that banks had gone on doing business as usual in Poland, the speaker pointed out that business in Poland had been anything but usual. Banks and financial institutions were functioning there under very adverse conditions, with no assurance they would be paid back. A Dutch participant, however, had little sympathy; banks, he said, should not have been lending to countries they knew could not repay their borrowings.

There was a need, several speakers felt, for some kind of restriction on credit. Perhaps this was already happening, suggested a Briton; governments were becoming less willing to back credit and, given the huge size of the Soviet debt, banks might soon be less permissive about extending credit to the East bloc. An American recommended that all NATO governments agree to eliminate both guarantees and subsidies for credit extended to the Soviet Union. The banking system would take care of the rest through the market system and assessment of risk. The U.S. government had been withholding subsidies and guarantees in recent years, and American banks had not been extending new credit to the Soviet Union.

A Dutch speaker agreed that the West had been overlending. We should stop subsidizing these loans and we should coordinate our economic policies with regard to the East. A Frenchman added that the Western countries should not compete for Eastern business on the basis of terms and conditions to the extent that there were terms and conditions which should be the same for everyone.

The question of coordinating economic policy was a crucial one. Many participants felt we had not done this sufficiently in the past, with the result that we sometimes used measures that hurt ourselves more than our adversaries and that imposed unequal burdens on the NATO countries. Trade restraint, for example, tended to be more painful for Europe than for the U.S. because external trade represented a far higher proportion of GNP in Europe.

Coordination of economic measures also offered an opportunity to show cohesion and solidarity in a crisis. We needed to examine together and agree as a group, in advance of a crisis, what conditions should trigger sanctions, what kind of sanctions should be used, and when they should be lifted. Such agreement in NATO, an American argued, could be a powerful weapon in influencing behavior before a crisis became extreme. Without such consultation and agreement, sanctions were an empty gesture, "a demonstration of intent without impact."

A British speaker agreed, saying we needed to decide on gradations of sanctions. It was impossible to gauge the effect of sanctions before they were applied, but we ought at least to discuss them in advance.

But was such consultation and agreement beforehand feasible, asked an American. The Allies had tried in 1980 to decide what sanctions should be imposed if the Soviets invaded Poland. The prevailing opinion was that, because it was impossible to know the severity of what might happen, it was futile to create an agenda of sanctions; we had to await the occasion before deciding. Sanctions, the speaker felt, could only be applied in the heat of the upheaval.

*The effectiveness of sanctions.* Numerous participants questioned the usefulness of sanctions. It was a German's view that many of the sanctions imposed as the result of the Polish situation amounted to nothing more than "helpless posturing." Two speakers cited the cause of Rhodesia as an example of the ineffectiveness of embargos. Just as Rhodesia had had little difficulty getting cars, computers, and other Western goods, so the Russians would always get whatever they wanted. By not trading with them, warned a French speaker, we lost the ability to control the end use of the equipment they were getting.

The effect of sanctions upon the Soviet leadership was unclear. Applying sanctions on them was, said one participant, "like shooting in the dark." Furthermore, added a German, a large proportion of the credits to the East bloc went to countries that even the U.S. government wanted to gain more independence from the Soviet Union.

Putting credits under total international control, continued the German, would be another step toward central planning, toward government control over capital movements. We could not use Marxist weapons to fight communism.

An International speaker felt we knew far too little about the functioning of sanctions. We tended to make ideological rather than political determinations of their applicability. We had no idea of what kinds of sanctions worked and what kinds did not, and under what circumstances. Our economic system of the free market was better geared to incentives than to sanctions. How could we make the use of incentives and sanctions as political instruments compatible with our system? Until we had some answers, we were perhaps not justified in calling for sanctions in a crisis and criticizing those who did not go along.

In using sanctions we ran the danger of being the ones to start another cold war, a German warned. We had to keep the prospects for long-term cooperation open.

Furnishing credits and technology, not withholding them, would make reform possible in Eastern Europe.

But another German took issue with this view. The theory of cooperation leading to long-range reform was oversimplified and wrong. Perhaps trade produced changes in the humanitarian and social areas, but not in the economic system, nor in the power structure of communist countries. We had to try to influence with sanctions the behavior and policies of the power elite. We should neither deny the East all trade, credit, and technology nor provide these things to them regardless of their behavior. We should use economic measures as a moderate weapon to influence intergovernmental behavior.

An American agreed that there was leverage in financial credits, but he feared that, with the huge number of outstanding loans, the leverage was moving to the other side. Nonetheless, we should always make clear in our dealings with the East bloc that sanctions were a possibility. Those who opposed them were advocating that we be allowed to sell to the East the rope to hang us. And those who argued that sanctions hurt us more than our adversaries were wrong. The Olympic boycott was a case in point. It had deprived the Soviets of the stage on which to show off their system in a controlled way and it had had deep financial costs in terms of lost television revenues and hard currency from foreign exchange.

Another American speaker pointed out that the transfer of U.S. technology to the Soviet Union had helped build up the Russian military machine. This was a matter of grave concern to the current U.S. administration.

*Détente.* We should take care that sanctions did not derail the process of détente, said a German speaker. There was a difference in perception between most Europeans and many Americans about détente. It had been a reality for Europeans, especially Germans, and had yielded palpable gains. It had defused the Berlin situation, provided more contact between East and West Germany, and improved the relations of the East European countries with the Soviet Union and of the East European people with their governments. Without détente, the speaker ventured, repression in Poland would have come sooner and been harsher.

But another German felt that, while there had been some benefits from détente, we had also paid a price for it. It was a policy that was supported by some realists, but also by many who had lost touch with realism, who had lost sight of what the Soviet Union stood for. The political consequence of détente was that our will for the defense of freedom and our conviction in our moral values had suffered.

The harshest view of détente came from an International participant who felt that none of its expected advantages had materialized. The Soviet Union had not changed its international behavior, there had been few steps toward greater liberty and human rights in the Warsaw Pact countries, and the Soviets had not abandoned their expansionist goals and policies. The West had derived only "fringe benefits" from détente, and most of those had gone to the Federal Republic of Germany.

Yet, in the view of many speakers, there was no alternative to détente. It was the best—if not the only—instrument we had to effect change over the long run. We had had détente for only 10 years, and the kind of change we were seeking occurred very slowly. As long as we took care of our defense and security, we could afford to pursue détente. It had not worked in Poland, but it might work the next time somewhere else. At some point the Soviets would feel the need for reform themselves; or they would tolerate reforms in their satellites that they would not allow in the Soviet Union; or they would be too weak to prevent such reforms.

*Unity in the NATO alliance.* A British speaker agreed with the Norwegian panelist's view that the Soviet threat had brought the NATO allies together, but he felt we had

not taken sufficient advantage of that. We tended to allow difficulties arising from confrontation with the Russians to promote disunity instead of unity.

A Dutchman remarked that those in the future who read the history of the 1980's would be astonished to see how events in Poland which were disastrous for the Soviet Union had been turned into such a divisive issue for NATO.

Our disunity plagued us especially with respect to crises outside the alliance area. When the Russians had marched into Afghanistan, we had simply argued about what to do. We needed to update our planning machinery for areas outside the alliance, a Briton argued. Our first responsibility was to safeguard our own boundaries, but we had to discuss among ourselves how to react to events in other parts of the world. If we refused to do so, we would only harm ourselves. Judging from our response to the Afghanistan crisis, the Russians might think they could get away with even greater risks.

But, responding to a Turkish speaker's question about whether NATO should plan a contingent reaction to a Soviet move into Iran, a Norwegian recommended that we leave them in maximum doubt about what we would do. Smaller countries like Norway were reluctant to see NATO commit itself to a strategy for areas outside the alliance. It was fine to discuss and make plans, but the commitment should remain unstructured.

A Frenchman wondered if we were not making too much of our supposed disunity. Discussion and division among us were not a sign of weakness; it was the way we did things. There always came a time in events when we united behind a common goal. Call it the Pearl Harbor complex, or the Falklands complex; the fact was that it transformed us into a formidable people. This presented a permanent danger for those who would be our adversaries, and they should be reminded of it.

The Western alliance was the target of psychological attack from the Russians, a German participant stated. They were trying to derail the double-track decision, to break the Federal Republic out of the system, to spread fear, and to defame the U.S. Despite these attacks, the speaker was optimistic. Poland had taught us that the moral power of free nations was stronger today than ever before. And the Soviet Union, morally, intellectually, and ideologically, had never been weaker. We in the West were wrong to think we were lost. We would prevail as long as our leaders possessed moral conviction and courage.

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#### CLOSING REMARKS

At the closing session, the Chairman referred to Mark Twain's characterization of Wagner's music as being "not as bad as it sounds." This was, in a way, his feeling about the present state of European-American relations after listening to three days of wide-ranging discussion. He went on to express his thanks to all those who had contributed to the success of the conference: to the Prime Minister, Mr. Willoch, and his government; to the Norwegian hosts, especially Mr. Werring; to the authors of the working papers and the discussion chairmen; and to the interpreters, the secretariat, and the hotel staff.