

BILDERBERG MEETINGS TELFS-BUCHEN CONFERENCE

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3-5 June 1988

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FOREWORD

This booklet is an account of the proceedings of the 1988 Bilderberg Meeting at the Inter Alpen-Hotel Tyrol, Telfs-Buchen, Austria. Working papers and introductory remarks are reported essentially as they were presented, with minor editing. Remarks and interventions made in the discussion sessions, as well as panelists' closing remarks, are organized according to subject matter, and are not necessarily reported in the order in which they were made, nor in their entirety.

Grant F. Winthrop
Rapporteur

INTRODUCTION

The thirty-sixth Bilderberg Meeting was held at the Inter-alpen-Hotel Tyrol, in Telfs-Buchen, Austria on June 3, 4, and 5, 1988. There were 116 participants from 17 European countries, the United States, and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of the governments or organizations to which they belonged. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no reporting of the conference proceedings took place.

Lord Roll of Ipsden, the Chairman of the Bilderberg Meetings, opened the conference with a welcome to the participants and an exhortation that they remain in attendance for all three days. He stressed the importance of keeping the discussions tightly focused, and encouraged all participants to join in.

I. WHAT CAN BE DONE WITH THE WORLD ECONOMY:
ALTERNATIVE SCENARIOS

Moderator: Lord Roll of Ipsden
Introductory Remarks: Paul A. Volcker

II. HOW TO HANDLE A WORLD AWASH WITH PUBLIC
AND PRIVATE DEBT?

Moderator: Kenneth W. Dam
Working Paper: Alfred Herrhausen
Introductory Remarks: Pedro Pablo Kuczynski

III. THE GERMAN QUESTION REVISITED

Moderator: Ernst H. van der Beugel
Introductory Remarks: Helmut Kohl

IV. THE NEW INFORMATION ERA

Moderator: Etienne Davignon
Introductory Remarks: Walter B. Wriston

V. BRIEFING ON THE MOSCOW SUMMIT

Moderator: Lord Roll of Ipsden
Introductory Remarks: Rozanne L. Ridgway

VI. THE IMPACT OF GLASNOST

Moderator: Franz Vranitzky
Introductory Remarks: William G. Hyland
Theo Sommer

VII. FUTURE STRATEGY OF THE ALLIANCE

Moderator: Henry A. Kissinger
Working Paper: Francois Heisbourg
Introductory Remarks: Hans van den Broek
Brent Scowcroft

VIII. THE GULF AND AFGHANISTAN

Moderator: Theodore L. Eliot, Jr.
Working Paper: Gary G. Sick
Introductory Remarks: James Craig
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LIST OF ABBREVIATIONS

AUS	Austria	ITA	Italy
BEL	Belgium	NETH	Netherlands
CAN	Canada	NOR	Norway
DEN	Denmark	PRO	Portugal
FIN	Finland	SPA	Spain
FRA	France	SWE	Sweden
FRG	Federal Republic of Germany	SWI	Switzerland
GRE	Greece	TUR	Turkey
ICE	Iceland	UK	United Kingdom
INT	International	USA	United States of America

Introductory Remarks

The world economy is doing quite well, despite all our worries about it. In most parts of the world, we have been seeing growth combined with some greater stability in prices. The world economy has been growing for about five and a half years, led mainly by the United States, but recently also by Japan. Even in Europe the vital signs are somewhat stronger, although unemployment remains high. The overall growth numbers also indicate the directions of growth are becoming more appropriate. Export growth in the U.S. has been around 15 percent in real terms in the last couple of years. And we are beginning to see some stirrings of investment. We see, to some extent, the opposite in other countries. Japan's growth is certainly spurred by domestic expansion at this point; this is true to a lesser degree in Europe.

Despite the protectionist pressures in the developed world, there are some encouraging signs of openings of markets among the developing countries in Asia and Latin America. Taiwan is a remarkable example, where wages and growth are both increasing 10 to 12 percent a year, and prices are stable.

There is no inherent reason why this growth cannot continue for another three to five years. Indeed, there are some reasons to think that one possible scenario will involve growth for an indefinite period, featured by very strong increases in output in general in the U.S.

Despite these reasons for optimism, there is a pervasive air of uncertainty and unease. This is justified. There is clear evidence of a fault line running through the industrialized world economy. That fault line is reflected in historically very large international imbalances, characterized particularly by the \$150 billion deficit in the U.S. external account and the counterbalancing surpluses in Germany and Japan and some other countries. As is always the case with huge international imbalances, there are accompanying internal imbalances. That is certainly true in the U.S., but, for all its relative decline in recent decades, the U.S. is still the largest, most influential economic power in the world. What happens in the U.S. has a large influence on the world economy in general. The fault line is very much apparent in the U.S., and thus becomes a threat to the world economy if not dealt with.

There is nothing new about all this; it was true two years ago. This shows that economic fault lines, like geological ones, do not produce earthquakes on schedule. The timing of the effects of these imbalances are not predictable, but they are inevitable unless something is done. We are not doing much about these problems at the moment, but we have the capacity to do so.

From the American perspective, the problem is that we are spending more than we are producing, and we are therefore importing the excess of

about 3.5 percent of GNP. The difficulty lies in historically high levels of consumption--both private and public--as a ratio of GNP.

As far as the domestic savings imbalance is concerned, we are saving too little relative to demand. Savings in the U.S. have been chronically low. Historically, for many years, the U.S. saved eight to nine percent of GNP. That figure, low internationally, has been tending to decline in recent years. We now have about a seven percent savings capacity, and we have been running a 3.5 percent government deficit that has to be financed one way or another. It absorbs half our internal savings, in effect. The other 3.5 percent is clearly not enough to meet investment needs, even though they have been running historically low--about seven percent. We've been balancing the accounts by borrowing the other 3.5 percent abroad--50 percent of what we are saving, net, at home. This is not an indefinitely sustainable situation when the consequence is a buildup in international debt, which is now about \$500 billion.

There is a new ingredient in the situation. Today, we are now spending more than we can produce. With unemployment running below 5.5 percent--the lowest in 15 years--we must be running close to the point where labor markets themselves are going to get tight enough to produce inflationary pressures if we continue to grow beyond our potential. Many of our competitive export industries that have been doing well are at, or very close to, capacity. These include wood products, many parts of the electronics industry, large parts of the chemical industry, the aluminum industry, even the steel and textile industries, where capacities have been reduced. There is a limit on how fast we can increase our exports or our total production. Looked at over a period of time, our growth potential is made up of the increase in the labor force plus an increase in productivity, both of which are increasing barely more than one percent a year. This is unlikely to change dramatically. One percent a year increase in productivity and one percent a year increase in the labor force produces a growth potential, with full employment, of a little more than two percent a year. If we run our economy for any period of time at more than two percent a year, the inflationary threat becomes quite clear. To come close to balancing the accounts, output could be increased at two percent a year for a couple of years, with all of it devoted to external accounts and none to domestic consumption. We are in an adjustment period, and it is going to take some time to deal with it.

What, then, are the alternative ways of dealing with the world economy? Some say the problem will go away in time, when our excess capacity and unemployment are utilized. That is not a sustainable position because we are too close to capacity. No reasonable budgetary projection says that future growth within our reasonable potential will generate enough revenues to balance our internal budgetary account. Indeed, looking at the spending side, there are at least as many pressures to increase spending faster than the GNP as there are to reduce it. Attempting to positively spur growth to deal with these problems would be likely to produce a recession because doing so would produce inflationary threats in an already nervous market, would send up interest rates, destabilize financial markets, and create problems.

One approach to the balance of payments problem is to go protectionist

in a big way. That will do nothing to deal with the internal overspending problem, would clearly be inflationary, would depress investment, and would cause retaliation. In short, it would send the world into a tailspin.

Another approach would be to depreciate the dollar. There has already been considerable depreciation of the dollar to the extent that it is now competitive. The limitation on the U.S. trade position now is not that the dollar is overvalued. We still have a considerable problem on the consumption side which is a symptom of overspending. Wage levels in the U.S. per hour are no higher than in Japan in manufacturing industries. We are potentially competitive with Japan at current exchange rates. Even if that is proved not to be true, this would still be the worst time to have a further depreciation of the dollar, given its high inflationary potential relative to its potential to expand exports. This would be a high-risk course in terms of precipitating a recession.

Another alternative is to sit back, do nothing, and hope for the best--the policy we have been following. A variant of it is to tighten monetary policy to deal with the incipient or actual tendency to grow faster than our potential. This apparently is going on, but it is a very difficult and delicate exercise in current conditions. But monetary policy itself cannot deal with the basic imbalance between savings and the demand for savings, except by repressing investment, which is undesirable. If too little is done, it won't be successful; if too much is done, given the vulnerability of markets, the fragility of some institutions, and the debt situation, there is a danger of precipitating a bigger reaction than one would want. There may not be an even path between doing too little and doing too much.

Finally, there is the constructive, responsible course of action--attacking the overspending and overconsumption at their source: the budget and fiscal policy. We need to face up to this problem quickly. We may be able to survive the fault line if there is confidence that the problem will be dealt with over a three- to five-year period. That confidence depends on an effective fiscal program being in place, which implies action on both the spending side and the tax side. Looking at the budget, it is hard to see a restraint on spending without doing something about entitlements, and it is hard to see enough action there to close the deficit, which means taxes have to be looked at. It is probably politically impossible and economically unwise to touch the income tax; this leaves excise taxes, of which the most logical is a \$.50 a gallon gasoline tax, phased in over three or four years.

We in the U.S. tend not to debate measures like this in political campaigns, but rather to appoint commissions. We ought to take action, and whether we do depends on whether the presidential candidates dig themselves into positions during the campaign which makes it hard for them to act.

The U.S. economic position has eroded, and it is inevitable--and perhaps not undesirable--that it will continue to erode in relative terms. It is not inevitable, and it is positively undesirable to speed that process by irresponsible economic policies. We need to do some minimum things that are necessary to maintain leadership of the world's economy, such as funding international institutions, maintaining consulates and embassies abroad, paying our contribution to GATT, etc. All these pressures are complicated by our failure to come to grips with the budgetary situation. It is very hard to maintain positive world leadership on the foundation of a depreciating dollar

year after year. If the U.S. is going to provide a foundation for continuing world leadership, it had better get after these problems.

Discussion

Divergent trends between Germany and the rest of Europe were seen as a major cause of concern by an International participant who opened the discussion. A balance of payments disequilibrium was building up that threatened the adjustment process Europe was now in the midst of. The most recent OECD forecasts showed Germany with a more than \$40 billion current-account surplus, while the rest of Europe would have a \$35 billion current-account deficit for 1988. This was because domestic demand had been growing faster outside of Germany. It was not a new problem, but it was one of great potential magnitude. To correct this disequilibrium, there would have to be a 20 percent or greater upward realignment of the deutschemark--a "frightening figure".

The movement toward the 1992 single market was an encouragingly political development. But the inexorable building up of this disequilibrium in Europe could lead to a breakdown of the EMS and might bring the single-market movement to a halt. A key moment in the history of the EMS came in 1983 when the French socialist government was forced to change to less expansionary policies. This was in the interest of France and of Europe as a whole because at the time there was a clear danger that inflation was going to get out of control. We needed now to have a similar u-turn in German economic policies--a substantial stimulant to domestic demand and substantial readjustment of the deutschemark. But such a major change in German policy did not seem very likely.

A German responded to this by saying that the situation in his country was already improving. A 2.5 percent growth rate was projected for the first quarter of 1988. This improvement was due largely to an increase in domestic demand, resulting from tax reform. The tax burden was being cut by \$50 billion marks in a three-stage reform. Other programs were being reformed: the social security and health systems, the postal authorities, etc. Germany was going through a transitional phase, trying to take advance steps in terms of cyclical development, looking toward the single market. Excessive pessimism about the current situation was not justified.

A Belgian speaker said he was "flabbergasted" by the proposal to revalue the deutschemark by 20 percent. He was not worried about imbalances in Europe, and foresaw the convergence of European economic policies through the E.C. toward more free-market policies. A Dane agreed that the significance of the disequilibrium between Germany and the rest of Europe was exaggerated. The implication of having more integrated markets in Europe was that the overall current account position of Europe as a whole had to be looked at. It was in approximate equilibrium in the sense that the deficits that corresponded to the German surplus were fairly equally distributed, and not, in themselves, unsustainable. Indeed, exchange rate adjustments of the magnitude proposed to eliminate the German imbalance

were so large as to be incompatible with the single market.

Was the proposal for a u-turn in Germany the only remedy for the imbalances, wondered a German. The 20 percent realignment would lead to new difficulties and exacerbate old ones. For example, the need to reform European agricultural policies would be greatly complicated by such a move.

The International speaker responded that, regarding the sustainability of the European disequilibrium, Europe was only at the beginning of the American adjustment. As the U.S. current account deficit decreased, large adjustments would have to be made. The European deficits would not be sustainable if the improvement in the American position fell on the deficit countries and not the surplus countries. As to the improvement in the German situation, it was encouraging, but it did rely to a great extent on export demand from the rest of Europe. European hopes for monetary integration were inconsistent with the existence of a payment disequilibrium of the magnitude that now existed in Europe.

Turning to the U.S. budget, an American speaker said that the situation, especially as seen by outsiders, was "awash in misconceptions". In the U.S., budget projections were seen as though "chiselled in stone". Accounting for funds was "atrociously simplistic"; there was neither gap accounting nor a capital budget. Gramm-Rudman had been somewhat effective in creating some additional discipline, and had slowed pressures for spending. But deficits continued, and had to be financed.

A "large and ominous" budget difficulty lay ahead in the form of social security. The changes recommended by the 1982 commission had produced increasing current surpluses in the amount of social security tax income. It had been suggested that social security tax surpluses could finance all of the current deficits and some of the current debt in a few years. There could be conflicting pressures to either reduce social security taxes, stay the current course, or change the assignment of social security funds. Therein lay the potential for handling current deficits by cutting into the entitlement programs in a way that might be politically feasible. But the risk of financing debt using surplus social security taxes was that the social security fund could become depleted in 30 to 40 years.

Another American wondered what was so bad about the increasing social security surplus. The response was that it was not necessarily bad at all. Some scenarios suggested that the large burden on the system when the baby boomers retired could even be handled without reducing the surplus. But, if it was used to finance the deficit, and then the period of high demand came, there could be some difficult problems for future budget makers.

Beyond the particular problems confronting the U.S. and Europe respectively, participants discussed a range of more general economic issues, including trade and protectionism, exchange rates, unemployment, and world economic leadership.

Concerns about unemployment were voiced by an Austrian and American. The Austrian speaker felt that there was not enough attention

being paid to full employment. In Europe, there was some growth, and, at the same time, historically high levels of unemployment. How could we go about achieving higher employment? What kind of role could new developments in work and labor in our societies play? We needed new strategies to find new sources of work, employment, and growth. The American interjected that, in the American steel industry, for example, unemployment was worse than the figures indicated because many steelworkers were on early retirement, with inadequate income.

Responding to the problem of unemployment in Europe, an American admitted that Europe faced difficulties. The U.S. was going to have to deal with its current account deficit by increasing manufacturing output by 15 to 20 percent (about \$200 billion). On the opposite side, Europe and the rest of the world would have to absorb increased exports. To deal with the unemployment problem, there would have to be expansion, against pressure to increase output fast enough to reduce unemployment, while the U.S. was pushing \$200 billion of manufactured goods onto world markets. Unemployment in Europe could not be dealt with by rapidly increasing manufacturing production. The increase would have to come in domestic growth.

Several speakers wondered what would happen to the level of the dollar. Would there have to be further adjustment? Did we need some mechanism to insure its stability? An American's response to the first question was that, while most econometric equations said the dollar would have to go down another 20 percent, this would be counterproductive. The dollar ought to be competitive at its current level. As to the second question, we ought collectively to do something to get greater stability in exchange rates. Rates had been unstable for 15 years, although inflation rates had converged.

A French speaker asked whether the protectionist danger had been contained. Was there any danger of the next U.S. president moving in that direction? Or would we see a move away from multilateralism toward bilateralism, perhaps on a continental basis? An American answered that he thought protectionism was contained, but that, if there was a recession, it would resurface very strongly. And there was perhaps a movement away from multilateralism. More bilateralism, with regional arrangements, was a dangerous tendency, because of the potential for protectionist blocs to arise. It was a problem we ought to be dealing with.

As to the possibility of the U.S. entering at least a mild recession, the American speaker said he saw no classic cyclical causes of recession on the horizon. The U.S. was not overinventoried, not overinvested, and interest rates were not going up. There seemed potentially to be a recovery starting. Asked whether the October 19 crash had been forgotten, the speaker said that that seemed to be the case. The crisis had passed, and no action had been taken. He warned that a repeat performance could be worse.

Some fundamental questions about world economic leadership were posed by an Italian. The U.S. seemed to have abandoned its traditional role of a nation capable of and willing to guarantee world economic stability. Was this concept still valid? Could and should the U.S. resume that role? Could any other nation assume it? Was the mechanism of economic coordination by the

Group of Seven a substitute, or a figleaf to hide the lack of leadership?

In light of developments in the Soviet Union and the resulting possibility that the Russians might cease to be the common enemy that had united us in the past, wondered an American, might there not be some fundamental changes in the way we ran our economies? Could we maintain our defense budgets? Could the U.S. justify foreign aid, support of NATO, SDI, the space program, if there was no common enemy?

In another American's view, no other nation was strong enough to guarantee world economic stability. The U.S. was lightening its own burden too quickly to provide a feeling of confidence that there would be sufficient effort in the world to reflect the collective interest in stability. No other country could be a substitute. As for the Group of Seven, the U.S. had to strongly chair it, or it would become a figleaf. But it was true that it would be harder to take strong leadership if there was no common enemy.

II. HOW TO HANDLE A WORLD AWASH WITH PRIVATE AND PUBLIC DEBT?

Working Paper

Some Ideas on How to Solve the Debt Crisis

A critical appraisal of the debt crisis must first examine how it arose, because its causes offer a key to its solution.

The fact that we have now been confronted for six years with an unusual accumulation of financial liabilities in many Third World countries, especially in Latin America, and have observed the emergence of a widening of the discrepancy between debt size and debt-service capacity, has its deeper roots in the two oil-price hikes of the '70's. The effects of these price hikes on the debt problem complex are, however, varied.

After the first oil shock, the world financial system was in danger of getting into almost insoluble difficulties, because massive amounts of so-called "petro dollars" - hundreds of billions - began to accumulate in the OPEC states, but could only be partly spent there, whereas they were urgently needed elsewhere in the world for the financing of growth.

This raised the problem of recycling: the funds not used by the oil-producing countries had to be recycled back to the places where they were needed. This task, which, had it not been solved, would have caused the collapse of the world financial system and a world-wide depression, was assumed by the international commercial banks - in most cases voluntarily, but in some cases under strong political pressure.

In this process, the extension of loans to or the arrangement of bond issues for today's debtor countries did not - as is frequently asserted - take place without due consideration, but - at least in the vast majority of cases - on the basis of careful creditworthiness checks. The assumptions on which these checks were based at the time were as follows: The borrowing countries would achieve above-average economic expansion - developing and newly industrializing countries! In the course of this dynamic growth process they would continuously restructure their economic and social systems, away from central administration towards more market-oriented structures with a broad-based stratum of efficient small and medium-sized industrial enterprises.

That these assumptions were not unjustified is shown by the development performance in a number of countries: in the decade from 1970-1980, Latin America reported an average annual growth rate of 6%, with Brazil (8.5% p.a.) and Mexico (6.5% p.a.) at the top of the list, as well as Chile (+7.5% p.a.) in the second half of the '70's; Venezuela achieved +4%, while Argentina was an exception with +2.5% p.a.; Nigeria recorded +4.5% p.a., although with strong fluctuations.

So, by and large, the growth process was well established. This is why a large portion of the loans - most of those sourced in the Federal Republic

- were linked with exports to the LDC's: buyer loans, sometimes in conjunction with local cost financings, played an important role. In this respect, the readiness of the international banks to provide credit also represented financial support for their respective domestic export industries (good examples are the nuclear-power station agreements between the Federal Republic and Brazil, the building of the Itaipu hydro-electric power station, and the construction and extension of car factories, etc.).

In addition to this, the process of economic restructuring had already begun in the debtor countries. It promised to gain momentum as growth gathered speed. (Argentina's Minister for Economic Affairs, Martinez de Hoz, was awarded the title of Finance Minister of the Year in 1978.)

The whole of Latin America was regarded as the "continent of the future", with great potential and resources.

This process of economic growth and restructuring, which was well under way, was interrupted when the second oil-price hike came in 1978/79. In the wake of the world economic recession, which now set in, the assumptions on which international lending had been based lost their validity: expansion did not continue, at least not on the scale which debt service and on-going restructuring would have called for. In Latin America, real GNP shrank by 1.3% annually from 1981 to 1983. Consequently, debtor countries steadily lost creditworthiness. The crisis erupted in 1982 with Mexico. Since then it has kept busy all those involved: IMF, World Bank, the Paris Club, the regional development banks, central banks, the governments of debtor countries and, last but not least, the commercial banks.

The first approach to solving the problem comprised three phases. In the first phase, the debtor countries were to be placed in a position to sustain interest service payments. The (American) banks were particularly interested in this, because otherwise they would have been forced to promptly form provisions on their claims to the debit of their profit and loss accounts. The borrowers were therefore given "fresh money" which they used for part of their interest payments.

The second phase, in addition to "fresh money" injections, was (and is) centered on the so-called "rescheduling": the terms of the loans are extended in order to reduce the annual financial burden on the debtors. Linked with this was - and is - the hope that interest rates would fall in the wake of reduced rates of world economic expansion. In conjunction with the resulting fall in their financial burden, the debtor countries were to apply an economic policy that would allow them to regain their creditworthiness. This conditionality was introduced into all negotiations on fresh money and rescheduling.

In the third phase, the debtor countries were then to return to the international financial markets on the basis of their new creditworthiness and obtain again "regular" financing.

This third phase has not yet been reached. We are still in phase 2. It is proving vastly more difficult than first expected. There are many reasons for this. The main ones are as follows:

1. Each "country case" is different: Brazil's economic problems are different from those of Argentina, which in turn are different from those in Mexico, in Chile, etc. The so-called "case-by-case" approach is therefore

essential, as it allows one to take account of the individual circumstances.

2. There is a similar individuality on the creditor side, especially with regard to the creditor banks or groups of banks. There are at least three groups to be distinguished here:

- the Continental European banks:
They began at a very early stage to form provisions for their claims on countries with payment difficulties. These value adjustments represent, as a rule, deductible expense items and have meanwhile reached considerable magnitudes - up to 50% or more.
- the American and British banks:
They began much later on to provision for their claims. This is why they have not, in general, reached a level comparable with that of the continental Europeans. Moreover, their provisions are tax deductible only to a very small extent (U.S.) or on a case-by-case basis (U.K.); in the U.S., they represent part of the primary capital.
- the Japanese banks:
They are only just starting with their provisioning. Their provisions, too, are not - or only to a very small extent - tax deductible.

So far the legitimate need to respect solidarity amongst the international financial community has made the banks dependent on the "weakest link in the chain". To overcome this, the variety of tax law and commercial law regimes should, as far as possible, be harmonized and differentiated approaches developed, thus allowing banks to decide in accordance with their specific situation (menu approach).

3. With regard to the call for appropriate economic policies on the part of the debtor countries, the initial opinion was that, owing to the lack of proportion between debt size - inflated steadily by fresh money - and debt-service capacity, austerity policy and belt tightening were the right recipe. The belief was that this would free resources for the debt service. No alternative to such a type of conditionality was put forward until 1986, when the so-called Baker Initiative came to the fore, which has been adopted in a few instances (notably in the Mexico package of 1986/87, and in 1987 in the financing programme for Argentina).

This initiative of the American Secretary of the Treasury was based on the valid insight that the problems faced by the debtor countries could only find their solution in an environment of economic expansion. Secretary Baker therefore called for a policy of growth stimulation rather than austerity and the provision of fresh money to finance this growth.

In principle, this view is right. Just as the industrialized nations cannot solve their difficulties without economic growth, so too will the developing

and newly industrializing countries not be in a position to solve their problems without expansion. They must return to the growth path which they were following in the '70's and which is the only basis on which they will be able to reorientate their economic and social structures towards greater efficiency without undue social and political tension. Only economic expansion will prevent the "zero sum game" in the national and international distribution process.

The Western creditors must support the efforts made in this connection.

With regard to indebtedness, this support can only relate to the three criteria which define any debt:

- size of the debt,
- the level of the interest rate and the spread,
- the maturity.

The theoretical possibilities derived from these criteria are as follows:

- with regard to the size of the debt, either an increase by means of fresh money
or a
reduction by means of debt forgiveness;
- with regard to the level of interest rates and the spreads, either a reduction of the interest rates
and/or a
reduction of the spreads;
- with respect to maturities, stretching them.

Additional alternatives would be to change the currencies in which the debts are denominated and to change the type of interest rate (fixed into floating, or vice versa).

All these possibilities have already surfaced in the models developed hitherto for solving the problem, most recently a case of debt forgiveness in favor of a debtor in the latest Mexico proposal. Debt/equity swaps, which convert claims into equity capital, have played an increasing role in the recent past.

The fact that despite all the efforts we have still not really come any closer to solving the debt problem is due primarily to two things:

1. The principal debtor countries do not have a healthy economic policy which above all would be conducive to induce the repatriation of flight capital on the basis of regained confidence in the domestic economy. Whatever approaches to a solution are developed on the financial side, they won't offer any real help unless the debtor countries "put their own house in order".

2. The world economy has too many trade barriers impeding the free exchange of goods and services according to the principle of comparative cost advantages. This is an obstacle for the debtor countries to earn the

foreign exchange they need for their debt service obligations by exporting to our markets. Even if appropriate financial solutions are found and the debtor countries do pursue the right policies, this will not be sufficient to overcome the debt crisis if we do not open up completely our markets to the countries with payment difficulties. This is why the present GATT round has great importance, or at any rate an importance which deserves greater attention than it is presently receiving.

Taking all these points together, the following debt strategy can be recommended:

All parties involved - debtors, World Bank, Fund, creditor governments and banks - should develop a framework for a period of say, 5-6 years, in order to finally avoid the need for hectic debt renegotiations at shortening intervals. Within such a horizon, the financial needs of debtor countries should be met by the official institutions and the banks on a "fair burden-sharing" basis, on condition that appropriate economic adjustment procedures are implemented.

The role of the banks within such a scheme of "phased conditionality" would be to provide new flows and - when appropriate - to make concessions on the conditions of the old debt.

Although they increase the size of the debt, new flows are essential for debtor countries and their future capability to grow out of their debt. But new bank credits should under no circumstances be used for balance of payments financing; they should be provided in two different forms only:

1. Parallel and co-financings (mainly with the World Bank)
2. Trade finance, even medium-term.

The first form is to be found in the 86/87 Mexican package, the second in the 87 Argentine package. For Brazil's 86/89 programme both forms are envisaged. In concentrating on such models the banks would basically return to the classical forms which prevailed prior to the recycling of oil money.

In certain cases, the optimal combination of instruments may also have to include elements which imply more or less direct forms of partial forgiveness - which simply means help, resulting in debt reduction. In this context, market-related options are conversion into bonds along the lines of the recent Mexican model, debt/equity swaps and debt-for-goods schemes (a bank sells LDC loans to an importer whose claims are then paid in goods), as well as voluntary models for the repurchase of old debt by the government/central bank of the debtor country or the original obligor itself.

The issue of direct partial forgiveness on capital - which means a "cut" into the existing system of LDC claims - is much more delicate. It would only - if at all - be conceivable where very poor countries are concerned. Also, the general question always remains whether it will be possible, in view of strategic interests, to motivate common action by all creditors involved in a transaction.

Even if, for most countries, the burden resulting from repayment of capital is being deferred through MYRA's until well into the nineties or even

beyond the year 2000, interest still has to be paid on such liabilities. Therefore, concessions with respect to interest burdens or to interest payment modalities are a very relevant issue. This makes it all the more regrettable that diverse versions of interest capitalization and capping are still resisted determinedly by the majority of creditor banks, restricting their own room for maneuver in this way. However, depending on the merits of the particular case and under strict conditionality, such concessions would appear to be more negotiable than partial forgiveness on capital.

High priority must therefore be given to the creation of mechanisms which guarantee stabilization and limitation of developing countries' interest payments. The IMF Interim Committee's recent approval of a "Compensatory Contingency Financing Facility" (CCFF), covering erratic interest rate movements besides commodity price declines, lower export volume and natural disasters, is a step in the right direction. Alternatively, debtor countries might be sheltered more effectively from external interest rate shocks by a special Interest Compensation Fund (ICF):

Such a fund would support eligible developing countries which are committed to an approved adjustment program and which are hit by interest rates exceeding a preagreed level. The ICF would be financed jointly by governments, international financial institutions, and banks (e.g. on the basis of their respective exposure to the debtor). The management would lie with the IMF. The ICF would bring about a more reliable basis for the debtor countries' budget planning and might represent an incentive to all creditor countries to pursue a monetary policy conducive to keeping worldwide interest rates down, as utilization of the fund would then be correspondingly low.

Within this whole scenario, it is evident that even more attention must be drawn to the time factor as a basic criterion for a meaningful solution: in fact, since the outbreak of the debt crisis, original maturities have been stretched by extending consolidation periods (on average from 1-1/2 to 4 years), repayment periods (from 6 to 15 years) as well as grace periods (from 3 to 5 years).

Therefore, it is a dictate of reason

- to design economic adjustment policy programmes for problem countries under the leadership of the official multinational institutions covering periods of at least five years and
- to make a serious attempt to deduce from that the time profile of the debtor countries' financial needs as well as the respective allocation to the creditors. The latter should - at least as far as banks are concerned - be enabled to choose among different forms of assistance within a scheme of phased conditionality. (By the way, concessions on interest may be staggered and confined to certain periods - as an additional motivation for domestic efforts - with the proviso of a return to terms previously agreed with the banks, should economic conditions improve to a certain degree.)

In addition to a broadened spectrum of instrumental options for banks, another key element of a renewed debt strategy is the cooperation between World Bank and IMF: their programmes and monitoring procedures have to be compatible with each other within a multi-year dynamic setting, designed also with a view to long-term adjustment in addition to reviews repeated at rather short intervals; they would have to be actively supported by the countries concerned if meaningful results were to be expected.

We have to be aware, however, that the adjustment programme as outlined above is likely to meet with implementation problems. It might therefore be envisaged that banks, jointly with the World Bank, the Fund and creditor governments build up model debtors serving as test cases. Depending on the individual case, this task could be performed by existing Advisory Committees or new Consultative Groups which would develop and process a renewed or enhanced debt strategy.

The application of any such strategy will, however, only meet with success if the debtor countries observe the following prerequisites:

- Sound economic policies: i.e., not merely declarations of intent, but also measurable results, stated by certificates of the Bretton Woods Institutions.
- Compliance with obligations (depending on the case: if necessary, previous arrangements may be reshaped by mutual agreement between the parties; under no circumstances should arrangements be broken by unilateral debtor action).
- Steady, smooth and undisturbed cooperation with the banks, the World Bank, the Fund and creditor governments.

These measures and attitudes would be to the benefit of all parties involved.

Of course, all this also presupposes disciplined monetary, fiscal and trade policies of the industrial countries. Otherwise, open-minded politicians in the problem countries would be additionally hindered from gaining acceptance for their structural adjustment policies at home.

Introductory Remarks

I.

We are no closer to finding any solution to the international debt crisis. We are confronted with an extremely complex problem which cannot easily be solved. Calling for leadership as the answer implies that there might be an easy solution, which there is not. Any solution has to be very thoroughly worked out on a cooperative basis by politicians, economists, and bankers.

The problem is characterized by completely different conditions in the various countries, and different circumstances with the creditor banks. There are completely different situations in Europe, the U.S., and Japan; this is why it is so difficult to find a consensus. Whenever we have tried to find a consensus in past years, we have found we are dependent on the weakest link in the chain--the American banks. So, a general solution cannot be found.

In Washington, administration officials insist there can be no bailing out of the banks. In Europe--Germany especially--this kind of talk does not exist because the tax system is different. In the U.S., while the government is willing to share in the banks' profits, they are not willing to share in their losses. The difficulty in finding a general approach has led us to the menu approach that takes into account the different situations of the countries and the creditor banks. As to the latter, the issue of tax deductibility is paramount.

What could be worked out as a general approach is an offer to any debtor country that qualifies. It would have to be defined what this means. Whatever solution is worked out will not be possible without applying reasonable economic policies. Such policies will differ from country to country. So the case-by-case approach will be necessary in the context of qualification.

Even if we found a suitable menu approach and even if it was based on reasonable economic policies applied by the various countries, the solution still would not be possible without the industrialized countries opening their markets. The debtor countries are dependent on export opportunities, which can only be provided by our own economies. Hence, the ongoing GATT round deserves more attention than it is getting.

Aside from the relatively narrow economic aspect, geopolitical judgment is needed to approach the problem of debt. Three main criteria have to be taken into account in order to see the geopolitical consequences of failure to solve the problem. First, why do we not make use of the huge growth potential we have in the debtor countries? Doing so would have an immediate impact on the U.S. export performance, especially in the Latin American countries. Second, we need to deal with unstable democracies in Latin America. For example, the former Argentine finance minister has said that, if the Peronists take over, they will renounce all debts. It is in our interest to help these countries stabilize their democratic structures.

This brings up the point of the time frame. We tend often to be impatient. We talk about problems, structures, and solutions, but not about the time frame in which the solutions can be achieved. We have to be more patient and take into account that all the approaches we take have structural consequences. This means we have to deal with long-term perspectives. We must, therefore, start as quickly as possible.

Thirdly, any economy and society can be defined and characterized by how it deals with the uncertainty of the future. We have to structure our societies and economies in a way that enables them to adjust as flexibly and quickly as possible. What we have been doing over the last ten years is quite the opposite. By state interventions, by debt, we have made our structures more inflexible than flexible.

Taking into account that there is an unutilized growth potential, that

we have to deal with unstable democracies, that we have to be able to adjust as quickly as possible, we must cooperatively seek a solution by means of new approaches.

Introductory Remarks

II.

The notion of a world awash in debt does not seem totally accurate. There are of course some major areas in the world economy that are awash in debt, but there are others where tremendous progress is being made. For example, the U.S. farm debt problem has gradually been dissolved in the last five years. Major developing countries such as India are making progress with very low growth in their external indebtedness. A number of countries at the leading edge of economic growth, such as Spain and Korea, are making tremendous reductions in their debt right now. The Latin American debt is a perennial problem; it has been around since 1821. We will solve in some fashion or another the present cycle in the debt crisis there, but we are bound to have another crisis by the end of the century.

The debt strategy that was adopted in 1982 was clearly the correct one. There were three elements to it. The debtor countries, which were all middle-level income countries at around \$2,000 to \$4,000 per capita, with advanced urban industrial sectors, had to reform. The second ingredient was that there had to be the continuation of some credit from the outside. The third was world economic growth in order to enable them to expand their exports.

To some extent, all three elements have happened. But they haven't happened quite to the extent that was envisaged. On the credit side, the external credit flows fell off quite rapidly after the initial emergency financial packages were put together, and they were not made up by credit from the World Bank. Indeed, the World Bank in the last couple of years has had a barely perceptible resource transfer to the area, as has the Inter-American Development Bank. Major countries like Brazil have been net payers of flows to the World Bank. So the multilateral development banks have, for many reasons, failed so far in helping the strategy.

As far as world economic growth is concerned, it has been only moderate--the lowest growth of the last four decades, around 2.5 percent per year. There has been a major slowdown, which has in turn led to a slowdown in commodity usage. Therefore, the exports of the debtor countries have not gone up in value terms. One criticism that can be made of the economic aspects of the strategy is that the exports that were supposed to pay the way out of the crisis were taking place in a very soft commodity market. As a result, although Latin America has expanded its exports by about 25 percent in the last six years, the value has stayed flat, and, including the oil countries, has in fact gone down.

The third problem that has emerged is that some banks took too long in protecting their balance sheets against possible future losses. This was not entirely their fault, especially in the U.S., where the tax treatment of

loan losses is highly unfavorable. Governments were, on the one hand, urging the banks to continue lending, but, on the other, were not helping them to face the problems these loans pose.

The Latin American Debt Story: 64 Numbers from the IMF

	1980	1981	1982	1983	1984	1985	1986	est. 1987
Real per capita GDP (% change)	3.7	-1.9	-3.2	-5.0	1.31	.4	2.2	1.6
Inflation (CPI % change)	54	59	68	106	128	149	87	118
Terms of trade (% change)	7.2	-4.1	-5.4	-2.7	3.5	-1.9	-12.2	-2.5
Exports (f.o.b., \$ bn.)	94	100	90	92	102	96	80	89
Imports (f.o.b., \$ bn.)	97	105	85	64	65	63	64	70
External debt outstanding (\$ bn. year-end)	231	288	333	344	362	371	391	421
Debt as % of exports of goods & services	183	210	273	292	277	299	361	362
Debt service ratio as % of exports of goods and services	34	42	51	45	42	43	51	55

Source: IMF, *World Economic Outlook*, October 1987, statistical appendix tables. These data differ in amount, but not trend, from those in the earlier chapters of the book, largely because of different definitions.

Where are we now? Comparing in the table above, the last three lines of 1982 with the last three of 1987, bearing in mind that each country is different, it can be seen that external debt outstanding, which was roughly \$330 billion at the end of 1982 is now roughly \$100 billion larger. Most of the difference has gone to pay part of the interest burden. Also, debt as a percentage of exports has increased quite rapidly--from 270 percent to about 360 percent. As a result, the debt service ratio has stayed quite constant, but with a tendency to rise. This underlines the vulnerability of this debt to increases in dollar interest rates. About 75 percent of the debt is at floating rates, and any increase in interest rates has an immediate adverse consequence on the debt-service ratio. In 1986 and 1987, roughly one percentage point amounts to three percentage points of export earnings.

Against all this, there has been major progress in starting to restructure world economies. One of the driving forces behind this has been the establishment of programs in some countries to convert debt to equity. This has been especially successful in Chile, and is beginning to happen in Mexico, Brazil, and Argentina. Monetary economists criticize debt-equity swaps as inflationary, but this is not really a valid objection.

There has been a significant start in privatizing and reform of tax systems and exchange systems in a number of countries. Argentina is now selling part of its airline, is preparing to sell half of its phone company, and is going to sell the merchant fleet. These are healthy developments. Another important development is increased awareness in the U.S. especially of the cost to U.S. exporters of the continued depression in Latin America.

Looking to where we are going, it is true that there is no single solution. The governments in Latin America have to be key participants in

sorting out the problem. They have in the past conducted policies, such as erratic exchange rates and capricious tax administration, which encouraged capital flight. Latin Americans today--especially Mexicans, Venezuelans, Argentines, Colombians, and Peruvians--have about \$250 billion invested outside. Governments need to provide the conditions to repatriate not the principal, but even half the interest, which is about \$10 billion annually. This would, more than anything else, solve the problem by bridging the gap in order to have some growth.

Some basic questions are not being posed. Should there be debt relief? Should governments help? Should the relief be through direct or indirect fiscal support? What do the World Bank and the Inter-American Development Bank have to do with all this? The question of general relief is a thorny one, and systems of generalized relief will encourage more default. Some of the schemes that have been proposed have said we need to proceed case-by-case. The problem in Latin America is that the first case will set the tone for all the others, and, when something is done for Argentina, then Brazil will want the same thing, and so on.

Any scheme that provides relief has to have as a centerpiece that, if there is a way in which banks can, for a time, pass on to the debtors the reserves that they have created--that is, discount the debt for a period--then the banks must be given an upside. If they are to discount the outstanding amounts of their loans, they ought to be able to get the difference back. If banks give relief to Mexico, for example, which has oil exports at \$12 a barrel now, why should the banks not benefit when Mexico, at some point in the future, is exporting its oil at \$50 a barrel? There has to be some scheme of that type. And for that scheme to be credible, an international agency like the IMF or the World Bank has to control it, so that there is discipline. Otherwise, the major banks will suffer, and the money-center banks will be imperiled.

The World Bank is an essential element in any strategy. But the World Bank was created in a period when public investment was the top priority. This has now changed; Latin America has a pretty good infrastructure. What Latin America needs now is working capital, maintenance, and private investment. The World Bank is not organized to provide that. It needs some major internal changes, not just a reorganization. What the role of the institution really is needs to be examined.

Discussion

Opening the discussion, an American expressed his whole-hearted agreement with the prescriptions set forth in the working paper. In seeking a solution to the debt problem, it was particularly important to tie the various elements of a solution together--trade, debt, GATT, the opening of markets, etc. This would help avoid a case-by-case approach from becoming a generalized approach in terms of every country wanting the same treatment. If debt and trade were brought together, a solution that was attractive to one country might not be so attractive to another.

The creation of an international debt facility was a particularly important step--more so than the details of financing debt relief. Such a facility should be a joint venture between the World Bank and the IMF.

It was imperative to focus on the various suggestions and options for solving the debt problem and how they related to different countries. The Baker Plan had fallen short in terms of bringing in net new monies. New monies had been available only under duress and as part of reschedulings. International institutions had not been participating to the extent they should; they had to become involved to a greater extent by providing co-financings and guarantees. The agenda of the upcoming Toronto summit meeting should include the whole question of debt and its relation to security and stability around the world.

A German speaker asserted that the debt issue would indeed be on the Toronto agenda. He worried that the importance of the issue was being underestimated in many industrialized countries. The sense of frustration and spirit of resignation in Africa and Latin America was increasing, and the result would be much more expensive for the West in economic terms than coming forward with solutions now. We had, in effect, to make "advance payments on a better future". Our aim should be to create greater stability and promote growth in the developing countries, and we needed to do so in the same spirit of cooperation that characterized the Marshall Plan.

An American agreed, stressing that governments had to get involved in the solution. We had reached the point where banks could no longer put forward technical solutions. There was a limit to what could be asked of profit-making institutions. Governments, not the banks, were responsible for conducting foreign policy. There, too, was a limit to the concessions that governments in the developing countries could make to private institutions, and to international institutions that operated on primarily technical criteria.

What was needed was a recognition by governments that the problem of growth was not merely a question of helping developing countries, but of maintaining the stability of the international order. Governments had to demonstrate their interest in promoting growth in the developing countries. Arrangements had to be negotiated on a basis that rewarded performance. Reforms were more likely to happen in response to a generous proposal. Our challenge was to find a balance between providing enough incentives but not taking on all the responsibility. Government participation in solving the debt problem would be forced upon us anyway; a strong case could be made for doing immediately what we would ultimately be forced to do.

A German speaker emphasized that the debtor countries, too, had responsibilities in achieving a solution. Many of them had been pursuing unwise, unacceptable policies. Capital flight was a particular problem. A Dutchman agreed, saying that the amounts involved were "massive". Returning these flows would reduce the debt problem to manageable terms and would also affect the willingness of banks, governments, and international institutions to act. How could such prescriptions as debt reduction and new loans be advanced while the doors in these countries remained open to capital flight? Conversely, the lender countries should take action to prevent the inflow of these funds.

Many of the debtor countries had only the behavior of their governments to blame for their economic difficulties, agreed an American. Latin America, in particular, had an enormous amount of capital outside, and considerable corruption at high levels of government. It was not a poor area and had the capacity to grow. Any plan to aid these debtor countries had to include incentives for the return of outside money, which was a huge proportion of total savings.

A German participant sought to put the problem of capital flight in perspective. It really was a result of the underlying economic problems of these countries. They had no well-functioning capital markets or banking systems, both of which were essential to avoid capital flight. There was also a lack of confidence in these countries' economic development.

Several participants acknowledged the political difficulties of achieving a solution to the debt problem. The notion of the developed countries rewarding the debtor countries for good behavior was bound to be politically awkward. Rather, the approach should be based on the idea of partnership.

An American doubted that Brazil, Argentina, and Mexico would be able to resist indefinitely the "demagogic impulse" to confront the banks. Some had cited Brazil as an example that this could be avoided, but the only thing Brazil showed was that a weak president would not confront the U.S.

Another American felt that there was too much gloom in the discussion about Latin America. It was true that many African countries would not be able to service their debt. But, under reasonable assumptions about growth, open markets, commodity prices, etc., Venezuela, Colombia, Brazil, Mexico, Chile, and possibly Argentina ought to be able to service their debt. A German responded that this was only because we provided fresh money.

In response to one participant's call for "more courage and determination from the banks", a number of speakers addressed the role of the banks in the debt problem. Said a Spaniard, it was political pressure on the banks in the late seventies and early eighties to recycle petrodollars that led them to undertake huge risks with developing countries. But the banks were left with the responsibility of having made the loans and the necessity of finding a solution. That solution could only come through a sizeable reduction of debt to a level where it could be serviced on a normal basis, where markets would begin to regain confidence, and where funds would once again start to flow to the developing countries. This solution, in turn, depended on the ability of the American Banks, especially, to increase the size of their provisions for these loans to a point where a major debt forgiveness was possible and did not threaten the stability of the banking system. Nor could the banks reasonably expect to recover in the future any part of the debt that was forgiven.

In a Swiss speaker's view, the banks were in a dilemma. Their primary responsibility was to their shareholders, their depositors, and the public in general. It was their job to make sound loans. If they had loans which were not sound, they had to reduce those loans. Meanwhile, the debtor countries needed more money. But the banks, under the present circumstances, were not in a position to do more. Banks could reasonably be asked to extend the maturities of the principal of old debts over long periods of time. As for

interest, why should debtor countries not be treated like corporations--defer interest in the lean years, but make them pay up in the good years?

An American observed that debt forgiveness or debt moratoria had a "superficial appeal", but would have the result that debtor countries in the future would not have access to capital markets and loans. A German was not concerned about this, saying that, as soon as a country regained its creditworthiness, the banks themselves would welcome it back to the credit markets. This had happened with China, even though the Chinese government after World War II had declared all debt wiped out.

The emphasis on trade as being part of any solution to the debt crisis was welcomed by a Canadian speaker. In his view, it was particularly important that progress be made at the current Uruguay Round of GATT negotiations. Developing countries were at the table for the first time, and saw this round as an opportunity for economic advancement. It was also necessary to deal with capital flows at the same time as trade negotiations. Unless effective measures to improve capital flows were found, the Uruguay Round was liable to end in stalemate.

An Austrian wondered if assuring increased market access to developing countries was enough. Should further measures be undertaken, such as giving developing countries a stronger position through new preferential arrangements like non-reciprocal trade arrangements?

A speaker from the Netherlands felt that the trade issue was complicated by the low level of prices of agricultural commodities as the result of the agricultural policies of the E.C., the U.S., and Japan. Developing countries had no chance to use agricultural commodity exports to repay their debts. This called for a "braver approach" by the West to agricultural policies.

An American worried about focusing on trade as the only or primary means of dealing with the debt question. This could result in pressure to lower standards--wages and working conditions--within the developed countries as they sought to compete in world markets.

A Turkish speaker cautioned that "too much intellectual effort" was being paid to the problems of the debtor countries, too much focus on the non-performers at the possible expense of the performers. In this context, Turkey was a performer. Since 1980, it had opened up its economy, liberalized trade, and made structural adjustments; it thus had access to international capital markets. But Turkey still had problems. Of its \$7.3 billion in debt service in 1988, \$2 billion would be paid to OECD governments or their agencies. It was important that any scheme of generalized debt relief not penalize such performing countries as Turkey. For example, a prohibition on new bank credits for balance of payments financing would be harmful to Turkey. The international banking community should be aware of the differing needs of different countries.

It was an American participant's view that, before the West could effectively tackle the debt problem in developing countries, it had first to put its own economic house in order. The October 19 stock market crash showed the vulnerability of our system and the volatility of change. The economic situation was still unstable, with the U.S. having made no fundamental progress toward dealing with its twin deficits. The debate on the developing countries should be put in the context of an opportunity for the developed world. Any comprehensive plan had to be put forward on the basis that, unless we helped the LDC's develop their markets, we would not be able to solve the problems of the developed countries.

III. THE GERMAN QUESTION REVISITED

Introductory Remarks

Three events last year again made Germany and the German question headline news. On June 12, 1987, President Reagan, in his address at Berlin's Brandenburg Gate, called: "Mr. Gorbachev, tear down this wall!". On September 7, 1987, I met General Secretary Honecker for the first time in the Federal Chancellery. And the 31st of December marked the end of a record year in terms of human contacts in divided Germany: Over five million Germans from the German Democratic Republic - which is one in four of the total population - visited the Federal Republic, many of them several times. In the opposite direction the number was five and a half million. Furthermore, just under 15,000 ethnic Germans out of two million from the Soviet Union resettled in the Federal Republic, 25 times more than in the previous year. Regardless of how future historians may judge these events and figures, they already show that the division of the country, the wall and the barbed-wire, are not history's last word on the German question. That question will remain open as long as the Brandenburg Gate remains closed.

The division of Germany, the result of a decision by the wartime allies in 1944/45 and already then the division of Europe as well, is not the irrevocable fate of our continent. Nor, in historical terms, do West and East disagree on this point. To overcome Yalta and Potsdam has been one of the basic aims of French policy since the days of deGaulle, and Ronald Reagan and George Shultz have spoken in a similar vein.

In his book Perestroika Mr. Gorbachev recalls his meeting with President von Weizsacker in Moscow last year. In response to the Federal President's remark that in speaking of a "common European house" one should not dig ditches in the living room, Gorbachev said that for the present we should start from the existing facts and not indulge in speculation. And he added: "Let history decide what happens in a hundred years' time".

Judging by his own words Mr. Gorbachev, too, thus considers the German question still open. As for the timeframe for its solution, I am a little more optimistic! Communist leaders have got their historical calculations wrong before. Think, for instance, of Khrushchev's boast that Communism would overtake Capitalism by 1970.

But let us get back to the German question today. For us, the Federal Republic of Germany, and for myself, my oath of office is still valid. We are bound by the preamble to our Basic Law, which reads: "The entire German people are called upon to achieve in free self-determination the unity and freedom of Germany".

And in this connection my very words to General Secretary Honecker on the first day of his visit to the Federal Republic were: "The awareness of the unity of the nation is as keen as ever and the will to preserve it is unbroken. Our meeting is neither the end nor the beginning. It is a step on

the path of an already long development. It is marked by efforts to develop orderly cooperation." On that evening the Germans - roughly 22 million - in East and West were one nation - and not only in front of their television sets!

But Mr. Honecker's visit also showed that the German question is not the same today as it was when the Federal Republic of Germany and the GDR were founded in 1949, that there is a difference between the situation during the confrontational phase of East-West relations - marked by the Berlin blockade, the uprising of June 17, the Berlin ultimatum and the erection of the wall - and the present situation. At that time it was still hoped that the German question could be solved in the short or medium term through the restoration of national unity. The Soviet Union, when it saw the Federal Republic increasingly becoming integrated into the community of free nations, held out tempting but deceptive prospects of German unity.

We refused to be led astray. Germans in the West, but above all those in the East, have learned from painful experience to adjust to an extended period of division.

All the more must we focus our policy on the human rights and humanitarian aspects of the German question. All the more urgent is our task of preserving the historical, cultural and linguistic unity of the nation, and especially of keeping the people aware of that unity, and of making the consequences of division less painful, less unbearable.

The responsible political forces in our country have no quarrel over this objective. Nor is there any dispute over the fact that in seeking to improve the situation of the people in Germany we are dependent upon cooperation and dialogue with those who bear responsibility in and for the GDR. This is the quintessence of our dialogue and cooperation with the GDR leadership. This policy will not lead us to forget we have to deal with a Communist regime, with all the consequences of that. This policy is enhanced by the general improvement in East-West relations over the past three years.

As before, our central task is to maintain and increase the possibilities for contacts in both directions among the people in divided Germany. Every additional human contact helps to preserve the nation's unity. Today we must think in terms of generations. This is not easy for Germans. As a result of the division, hardly any new family ties were established across the dividing line. The old ones are moving from the first into the second and third generations. Our aim, therefore, must be to establish personal contacts over and above those among relatives. Only if the Germans in the Federal Republic of Germany and in the GDR continue to take an interest in one another, only if they personally experience and set an example of closer contacts with the Germans in the other part of the nation, out of a sense of responsibility for one another, will the people remain conscious of their national unity.

That is why it is so important that in 1987, for the first time, over 5 million Germans from the GDR visited the Federal Republic, including about 1.3 million below retirement age. At the same time the number of visits by West Germans to the GDR increased to 5.5 million. This increase in intra-German travel is unprecedented since the erection of the Berlin wall in 1961. After all, the wall was an attempt not only to cement the Eastern aim

of establishing two, or even three, states in Germany, but to stop all contacts with one blow and thus undermine the people's consciousness of being one nation. We have based our policy on the cohesion of the Germans. All the speculation about the Germans drifting apart has proved to be wrong. The figures I have just quoted speak for themselves. Relatives who previously had only been able to write to one another can now meet.

In both East and West the people are worried about transboundary threats to the environment--to mention Chernobyl, for instance. They demand remedies which we can only provide in transboundary cooperation. The churches have not allowed the links between the faithful in both parts of Germany to be severed, and they are increasing their efforts to make the borders more permeable. Young people in the Federal Republic, who are now used to traveling abroad, discover in the GDR an unknown yet familiar country. All these experiences prove more than theoretical studies that the status quo is not the end of the road in Germany.

It does not lie within our power, either politically or historically, to say the German question no longer exists. That would meet with sharp protests from Germans in East and West. They want to be and remain Germans. There can be no question of a divided nationality. Nor would our friends and neighbors in East and West understand us if we thought of renouncing the unity of all Germans. On my visit to Moscow in July, 1983, I told General Secretary Andropov that we could no more accept the division of Germany and the wall in Berlin than he could accept a wall running right through the center of Moscow. He did not contradict this argument. Nor would the French and Poles, precisely in view of their own historical experience, understand the Germans permanently accepting the unnatural division of their nation. Were we to announce such an intention they would find it simply unbelievable. It is not the renunciation of the unity of the Germans but the ending of their separation that is the key to the future of our nation.

Of course, we do not overlook that the causes and circumstances of the division of Germany and Berlin are not exclusively a German concern. They are part of the division of Europe, part of the confrontation between East and West. The GDR is today the outpost and keystone of the Soviet Alliance which determines the Soviet Union's power postures and range of influence in Europe and, to a large extent, its position in relation to the United States of America as well. There are no signs whatsoever of the Soviet Union being prepared to abandon those positions. All the speculation about the two German States going their own separate way ignores this basic fact. The same applies to the fantasy of a Central Europe between East and West. As long as the two political systems and their interests continue to clash, as long as the Soviet Union defines its interests in central Europe, in Germany and in Berlin, the way it still does today, the Germans will not be able to find a common path to freedom and unity.

Our Basic Law, which commits us to the pursuit of this goal, is at the same time our commitment to freedom and human rights and to the democratic values shared by the Western community. It reflects our determination to integrate with the community of free nations and to defend our freedom together with them. This is the deeper meaning of our contribution to NATO. This is the reason why 500,000 Germans serve under

NATO, and why, for demographic reasons, we had to extend the term of our conscription from 15 to 18 months.

In making this commitment after the catastrophe of the Second World War, we showed that we had learned the lesson of our history. This fundamental policy is not negotiable. Neither can German unity be bought at the expense of freedom. Adenauer's priority is the same as ours today: freedom before unity. Nor are we prepared to jeopardize our membership in the free Western community by trying to follow a nationalistic German course.

We are therefore opposed to mock debates on whether and to what extent our policy objectives with regard to Germany can be reconciled with our goal of European Union. In fact there is no discrepancy between our national and our European commitment. The more consistent our support for European integration and our pursuit of European Union, the more reliable will we be as a partner in the all-European task of ending the unnatural division of Europe and hence of Germany. And we know that this is an important reason for the ever closer Franco-German cooperation which provides both the basis and the thrust for the achievement of that goal.

The sole objective of a realistic policy for Germany can only be to resolve the German question within the framework of a peaceful order for Europe. To attain that objective we must prepare the ground in cooperation with our Western friends and allies, but also with our neighbors in eastern and south-eastern Europe. In this connection our partners must always be aware that we Germans are more directly affected by the division of Europe than others. The Germans in the GDR, but also our neighbors in other eastern and south-east European countries, cannot enjoy freedom and elementary human rights. They are denied the right of self-determination.

Making those rights and freedoms a reality throughout Europe is the common task of all Europeans. The process of security-building and cooperation in Europe is eloquent testimony to their responsibility for overcoming the division of Europe and constructing a lasting, peaceful order in which all individuals and nations can live in security and determine their own future. And this is one of the reasons that we should not speak of the European Community as if it were the whole of Europe. Europe is more than the European Community. It is the totality of all countries, even those unable or unwilling to join in. We must never forget this.

We accept this responsibility in the knowledge that any solution of the German question affects the interests of others. A solution cannot be achieved against the wishes of the superpowers and against the wishes of our neighbors in East and West. What is rather required is a common, active policy towards the East of the kind we have been pursuing with our friends and allies since the Harmel Report of 1967.

In following this course we cannot abandon the democratic values that link us with our friends, nor can we erase the fundamental differences that remain between us and the East. Our aim must be to seek within the overall relationship between East and West more human contacts and a wider exchange of ideas and culture, as well as more practical cooperation in all fields. We must in other words perform the art of the possible, and explore these possibilities at a time when the Soviet Union proclaims a "new thinking" in international relations and where it seems doors are opening.

If we compare the Soviet Union's arms build-up in the seventies, and especially the threat posed by the SS-20 missiles to Western Europe, with its present willingness to eliminate this class of weapons under the INF Treaty, and the Soviet Union's invasion of Afghanistan at the end of 1979 with its withdrawal as from the spring of 1988, then we can say things have changed for the better in Moscow.

The new Soviet policy may possibly lead to a further reduction of the military confrontation. The litmus test with regard to conventional forces still lies ahead. But we must always remember that the spiritual, political and ideological confrontation between East and West will remain; indeed it may acquire new forms. Anyone who thinks this is a pessimistic approach should again consult the book entitled *Perestroika*. We should not take two positions as some do in Europe--one group acting as if nothing had changed; the other as if everything had changed.

But we in the West need not fear this confrontation. To us glasnost and democratization are no danger. On the contrary, developments in Eastern Europe are beginning to take the course we have always wanted. We hope that they will pick up momentum. This hope is nurtured by the fact that the Soviet Union is examining its own past more than ever before, that the Soviets and the Poles are together filling in the blank spaces in their history, and that the GDR is rediscovering the common German history.

These are all signs of hope: hope that not only the economic and administrative deficiencies in the Eastern system will be remedied, that not only wrong decisions regarding arms technology and lapses in big-power designs will be corrected, but that the door will be opened to allow Eastern Europe to reflect on its own interest and responsibilities within the European and the global framework. This could also lead to the correction of a terrible historical aberration which led to the division of our nation and the whole of Europe.

This may be a long-term perspective, but according to the old Chinese proverb even the longest march begins with the first small step. Our task here and now must be to seek, through cooperation, exchange and contacts, to loosen up the rigid structures in Eastern Europe, to extol our free and democratic way of life, and to keep the Germans conscious of their unity. It is precisely this policy which the people in divided Germany and divided Europe expect us to pursue. There will be a peaceful answer to the German question. We in the Free World have a better hand of cards, and I hope we will make use of this opportunity.

Discussion

Germany, in an American speaker's view, occupied a unique position in the East-West struggle. This called for special concern and cooperation on the part of Germany's allies--especially the U.S.--in the political, economic, and security spheres.

The search for a single security strategy for Europe paralleled its search for a single market. Such efforts, including the Franco-German Initiative, were within the original definition of the European pillar of NATO and should not be rejected out of hand by the U.S.

The issue of modernization of tactical nuclear weapons generated intense feelings in Germany. Nuclear weapons based in Germany and targeted on Germany presented great political difficulties for its leaders. The West should not press Germany too hard on this issue, or expect it to move too fast.

In any collective enterprise, there would always be an ongoing debate about the division of labor and profit. Americans should not look to an illusive solution to difficult problems by pressing the burden-sharing debate.

Political realities in Germany had to be respected also in the economic area. The fear of inflation was printed deeply in the national memory. In terms of stimulating economic growth, the German government could not be pushed to move faster than it could move politically.

Another American participant agreed that the U.S. should not "overload the German system with too many technical demands". This was especially true in the demands for burden-sharing when there existed no clear agreement on what the purpose of the shared burden was.

For several historical reasons, the speaker continued, the problem of Germany unity was especially difficult. First, if one looked at history, one would find that Germany had been either too weak or strong for the peace of Europe. When it was divided, it invited outside countries to balance its rivalries, and this led to conflict. When it was united and attempted to achieve security by purely national efforts, establishing an equilibrium was very difficult.

Since the Napoleonic Wars, Germany had never had ties to the West; it generally had looked east. It was the great contribution of the Federal Republic of Germany that it established ties to the West. Americans, who came to know Germany late in the game, took these ties for granted, not understanding there had been different tendencies in German history.

Finally, it had to be said that no one was as interested in German unity as the Germans. If Germany got too far ahead on its national course, it would raise the apprehensions rooted in its history.

From a Frenchman's point of view, it was correct to say that the division of Germany was the same as the division of Europe. We should therefore encourage the changes apparently underway in the Soviet Union and Eastern Europe. But there were practical questions about how the West should do this.

First, in the economic field, what kind of help should the West give the Soviet Union and Eastern Europe? Should it be along the lines of the Marshall Plan? Should there be conditions? If so, should they be only economic, or should they extend to human rights and to security? Was there a risk for the West in being either too complacent or too demanding?

Second, in the security field, we were faced with major questions on the subject of disarmament. It would be a big mistake to think disarmament necessarily meant security. Could we achieve security in Europe without

nuclear weapons? If there had to be nuclear weapons, what kind should they be, where should they be deployed, and in whose hands? What was the future of the U.S. conventional commitment to the defense of Europe? If it was to be reduced, what did this mean for European defense? How far did Europe have to go to assure its own security?

Finally, in the political field, we had to recognize that the unified European market might not be achieved without monetary union and political cooperation. What was going on now between East and West was very hopeful, but presented a great challenge. Our political cooperation since 1945 had been based upon East-West conflict. Would the developments in relations between East and West lead to greater unity within Europe and between Europe and the U.S., or was the opposite a possibility?

To be able to provide answers to these questions, said an American, we had to create a vision of what the future would be about. We in the West were acting as if perestroika would do our work for us. But we did not know what would happen as a result of what was going on in the Soviet Union. We did not know what the Soviet reaction would be to the turmoil that would occur in the Soviet Union and Eastern Europe if perestroika succeeded. We had to come up with proposals to the Soviets about political evolution. One Soviet version of the common European house sounded like a Soviet protectorate over Europe. A version acceptable to the West could be one in which the two superpowers agreed not to interfere with political evolution, but to take care of security concerns. We needed a precise conception of what kind of Europe we wanted to see. Was it possible to separate European political evolution from security evolution?

A Belgian speaker interjected that, if Europe could not define what its goals and its organization in the security field should be, real European integration would be hindered.

The common European house was still very far from being built, observed an International participant. But the common economic house of the E.C. member states was slowly being built. As that economic union developed, the German question, and the question of the division of Europe, would become a question for all the members of the community. The "colonial empire" of the Soviet Union could not last forever, and the E.C. members had a special task to make peaceful the process of its dismantling.

A Canadian wondered if the Soviet objectives in the division of Germany had changed since Gorbachev came to power. Soviet policy in the past had been to keep Germany divided and weak. Was there now any new indication that the Russians were prepared to respond to the aspirations of the German people?

Citing the already noticeable effects on Western public opinion of the changes in the Soviet Union, an Italian suggested that the German people might react favorably to a Soviet offer on German reunification in exchange for the denuclearization of Europe.

In a Portuguese speaker's view, the necessity for Gorbachev to allow the Eastern European countries greater freedom might lead to a movement toward more democracy in East Germany. Might the result be greater interest in reunification in the GDR? In this vein, a Swiss participant

reported that his impression from visits to East Germany was that, in private circles, the topic of reunification was put on the table more frequently than in West Germany, especially among the young.

A German speaker acknowledged that there was a renewed interest in reunification in West Germany. But the government position did not reflect the thinking of all the Germans. Some wanted to press even harder for reunification, and put it on the agenda of world affairs. Others gave it very little thought. Still others were of the opinion that the German question should be left "to the tides of history". After all, Germany was "eminently divisible". National goals could change. Perhaps, in 50 years, the situation in Europe and in Germany might have moved far enough so that reunification would not matter any more.

A countryman responded that the German people in neither West nor East had given up their hopes and expectations on the subject of reunification. They had not given up on their history. The right of the German people to self-determination had not been extinguished. The door was open; history had not yet written its last word on the subject. There was no danger of a return to Bismark's nation state. Germany had made new beginnings. Nor was there any chance of a deal with the Soviet Union on reunification. Germany was not up for sale. The ties between West Germany and the rest of Europe were strong and growing stronger every day.

Western Europe's first objective, the speaker continued, must be to achieve the single market in 1992. Then, the matter of political unification would have to be looked at. It would be a slow process, requiring patience, but a good start had already been made.

With respect to Eastern Europe, the notion of a Marshall Plan was good, provided it was acceptable to the recipients. But there would have to be conditions, and not just economic ones. They should encompass human rights and religious freedom. The West could not be timid and take a wait-and-see attitude. As for Gorbachev's common house, it would have to be defined. It should be a house with many doors and windows, one to and from which people were free to come and go, without the supervision of a concierge.

In security matters, the West had to understand that, for all the talk about peace and friendship with the Soviet Union, the threat was still very much there. We could not leave everything to Gorbachev. We had to maintain our defensive capability in order to maintain peace and stability. But we had also to remain open to dialogue and contacts.

The West's strongest asset was its concept of freedom. In dealing with the East, the West had been dealt the better hand. In 12 years the century would end--a century marked by terrible wars. But recent developments should give us hope that we would have a good chance of establishing peace for the next generation.

IV. THE NEW INFORMATION ERA

Introductory Remarks

One of the recurring themes of history is our apparent inability to credit information which is at variance with our own prejudgments. Examples abound. The great historian, Barbara Tuchman, uses the Japanese attack on Pearl Harbor to illustrate the point. Despite the fact Japan had opened the Russo-Japanese War in 1904 by a surprise attack on the Russian fleet, American authorities years later dismissed the possibility of a similar maneuver. "We had broken the Japanese code, we had warnings on radar, we had a constant flow of accurate intelligence, . . . we had all the evidence and refused to interpret it correctly, just as the Germans in 1944 refused to believe the evidence of a landing in Normandy." Barbara Tuchman sums up by saying: "Men will not believe what does not fit in with their plans or suit their prearrangements." This phenomenon, unfortunately, is not limited to discrete events.

When major tides of change are washing over the world, the power structures almost inevitably reject the notion that the world really has changed and cling to old beliefs. Some changes in the past have come slowly and thus increased the time we have to adjust to a new reality. In the last years of the 20th century, the velocity of change in the world is now so great that there is literally no precedent to guide us. Policymakers are discovering that many of the events which are altering the world come not in response to their actions, but are driven by technology which they may only dimly understand.

Since about 85% of all the scientists who have ever lived on this earth are alive today, and these men and women have better tools and more creative opportunities, it is not surprising that the rate of change is now more rapid than at any time in human history. "The entire Industrial Revolution," says Carver Mead, the great Caltech Scientist, "enhanced productivity by a factor of about 100," but "the micro-electronic revolution has already enhanced productivity in information based technology by a factor of more than a million--and the end isn't in sight yet." The consequences of this revolution are immense, but have not always been immediately grasped by policymakers.

The fact that politicians and diplomats are by nature attracted to historians who record the rise and fall of nation states, but generally display little interest in the history of science, contributes to the problem of understanding what is happening today. Indeed, many renown history books barely mention the impact of science on the course of events. In ancient Greece, Plato explained that even in his time, engineers were not held in high regard by philosophers: "You despise him and his art," he wrote, "and sneeringly call him an engine-maker, and you will not allow your daughter to marry his son or marry your son to his daughter." Nothing much has changed, even though scientific events are altering the shape of national and international events in fundamental ways.

On October 4 last year we celebrated, if that is the right word, the thirtieth anniversary of the launching of Sputnik by the Soviet Union.

World reaction to the event at that time was mixed. Dr. Edward Teller opined that the United States "had lost a battle more important than Pearl Harbor".

The President of the United States took a more sanguine view: ". . . So far as the satellite itself is concerned, that does not raise my apprehensions, not one iota. I see nothing at this moment . . . that is significant in that development so far as security is concerned, except . . . it does definitely prove the possession by the Russian scientists of a very powerful thrust in their rocketry . . ."

Konrad Adenauer related the event to European geography: "Five hundred and sixty miles is only the distance from Bonn to Vienna. It does not prove they can fire anything parallel to the earth over a distance of many thousand miles."

In the blinding clarity of hindsight, Dr. Teller was probably closer to the mark in some ways than the politicians. On the other hand, the fallout from the event did galvanize America to mount a program which would put a man on the moon.

Despite the initial reactions to this event, what should no longer be in dispute is that satellite technology changed the world forever. Even today the full consequences are not known.

The convergence of computers with telecommunications has created an information revolution that in journalist Mike O'Neil's words is "hurrying the collapse of old orders, accelerating the velocity of social and political change, creating informed and politically active publics, and inflicting conflict by publicizing the differences between people and nations". While this communications revolution is central to all these tides that are washing over our world, much more is in the offing.

The impact of information technology has a profound effect on the rate of advance of all science, since calculations that used to take days can now be done in minutes. Scientific knowledge is currently doubling about every 13 to 15 years. The old industrial age is fading and being slowly replaced by a new information society. This transition does not mean that manufacturing does not matter, or that it will disappear, any more than the advent of the industrial age meant that agriculture disappeared. What it does mean is that like agriculture today, manufacturing will produce more goods for more people with less labor. It also means that the relative importance of intellectual capital invested in software and systems will increase in relation to capital invested in physical plant and equipment. Traditional accounting systems designed for another age no longer reflect what is really happening either in business or national economics.

All this taken together is changing our global economy, transforming national political and business institutions, and altering national foreign policy objectives and the methods of achieving them.

Changes of this magnitude have always been profoundly disturbing to the power structure, and with good reason. The mismatch between the fruits of new technology and the operation of the political process, whether in government, business, or the family, has often produced unrest, changing value systems and, indeed, sometimes revolution. Just as the spread of

rudimentary medical knowledge took away the power of the tribal witch doctor, the spread of information about alternate life styles in other countries threatens the validity of some official doctrine and thus the government's power base. Since knowledge has always conferred power on those who know how to use it, the proliferation and dissemination of information to huge numbers of people can be, and more often than not is, a precursor to a shift in the power structure. But the side effects of the information revolution go even deeper than that.

The very nature and definition of national sovereignty is being altered in substantive ways.

The currently accepted tenets of national sovereignty, like most man-made concepts, did not emerge full-blown upon a waiting world, but grew and changed over time. People with a vested interest in any given definition of sovereignty want to sustain their own power and naturally resist any change which might undermine their authority. Perhaps one of the first organized presentations of a concept of sovereignty appeared toward the end of the 16th century from the French scholar, Jean Bodin. He argued for the unlimited and autocratic power of the state unrestrained by law. This idea was embraced by kings, but challenged by others including Johannes Althusius who argued the power of the state was limited by the laws of God, nature, and by the social contract with the state.

It was left to the great Dutch jurist, Hugo Grotius, to give us the sense of the meaning of sovereignty that exists more or less intact to this day. In broad terms, Grotius defined sovereignty as "that power whose acts are not subject to the control of another, so that they may be made void by the act of any other human will". This definition obviously covers many different facets of the exercise of power.

One of the fundamental prerogatives assumed by all sovereign governments has been to pursue their national interest by waging war. This has been true since early history, but today it is an aspect of sovereignty which is being severely circumscribed by the effects of information technology. No one who lived through the American Vietnam experience could fail to understand the enormous impact that television had in frustrating the government's objective in Southeast Asia. Knowing in a general way that war produces violent death is one thing, but watching the carnage of a battle, or the body bags being unloaded at Dover Air Force Base, on your living room television set is quite another. While debate will rage for years about whether Vietnam was lost on the battlefield or on the home front, few observers would fail to give at least some significant weight to television's effect on the citizens at home. When the British felt it necessary to engage in war over the Falkland Islands, they learned their lesson well and severely limited the press and TV coverage of those hostilities. Whether or not that military operation could have been successfully conducted under the glare of full television coverage is an open question, although British rules on press coverage are very different from those in America. We have seen in the United States an organization publish the names of American agents in place overseas; we have read accounts in national newspapers detailing American naval and troop movements at a time of national emergency. These episodes puzzle both domestic and foreign observers. Solzhenitsyn in his address at Harvard in 1978 put it this way:

" . . . We may see terrorists heroized, or secret matters, pertaining to one's national defense, publicly revealed, or we may witness shameless intrusion on the privacy of well known people . . . " This process has repercussions on the effectiveness of leadership. We are all familiar with the old saying that no man is a hero to his valet, and today it can be argued that television has become the valet of world leaders.

In the absence of a major threat to the integrity of one's own borders or to the independence of the nation, one can at least question whether or not a democratic government operating in the full glare of television cameras could, in fact, conduct any long sustained military operation which produces heavy casualties. If this perception is true, one rather important aspect of national sovereignty has been substantially altered.

If we look at the other side of the same coin, national domestic politics, we observe a similar phenomenon.

The quality, speed and nature of information spread by the mass media has altered the relationship between the people of the United States and their government. Representative government in America is changing. Information technology has made it both possible and politically profitable for politicians to bypass traditional political structures that supported the orderly process of government, and head, instead, for the TV cameras to push some particular issue of the moment. As more and more leaders learn this lesson, the ancient cement of party discipline and consensus government begins to crumble. Adversarial confrontations make good TV drama, but may often lead to bad policy decisions. The national and international agendas are increasingly being set by the media in the sense that policymakers have to spend a good share of their time and energy dealing with whatever crisis or pseudo-crisis has been identified by the media that day. Real issues, deliberative thought, long-range strategic plans are often casualties of the required damage-control actions of the moment. In these circumstances, the old bipartisanship in American foreign affairs has fallen prey to a new divisiveness. The so-called TV docudramas, part fact, part fiction, have even attempted to change events in the past. The merging of the media and the message has created a situation which, in the words of Daniel Boorstin, "A larger and larger proportion of our experience, of what we read and see and hear, has come to consist of pseudo-events." This kind of information is rarely the solid foundation of good policy judgments. But that is the age in which we live. It is a world where Yasir Arafat works with a media consultant; Mohammad Abbas, who hijacked the Achille Lauro and murdered an old man in cold blood, appears on American network television although a fugitive from justice; the Iranians stage marches, and Soviet spokesmen appear regularly on American TV. The world is very different from the days of Citizen Edmond Genet--today instead of being asked to leave the country, he would be on Ted Koppel's Nightline to protest President George Washington's outrageous actions.

Without passing value judgments on whether this is good or bad, the facts are that representative government as envisaged by the Founding Fathers is no longer operating in the manner originally intended. We may have to think anew about old relationships, but as of the moment, the use of information technology has far outstripped the political process. This problem is not limited to Western governments. If democratic societies face

the problems of adapting to what amounts to a whole new definition of sovereignty, closed societies like the Soviet Union will have a much more difficult time. Their problem is twofold: first, communist regimes have always relied to some extent on their ability to control what their citizens see and hear. This control is now beginning to slip, and from the Soviets' point of view will get much worse over time. In addition to borders becoming increasingly porous to TV and radio, studies by the Ganleys reveal that the Eastern bloc countries have little difficulty gaining access to VCR's and the number available in Moscow is growing daily. The KGB is concerned that videotapes will be used for "Magnitizdat"--a coined word for "tape publishing"--for political groups.

Aside from the growing volume of what the Soviet citizen is able to see and hear that is at variance with the official line, the government's second major problem concerns the Soviet's continuing ability to be a leader in science. Modern scientific research increasingly requires the ability to access huge data bases at remote locations. If access is limited to a very small number of scientists, progress will be slowed. Opening up super computers and data bases to large numbers of men and women obviously loosens the state's control of data. It is a Hobson's choice, but it is very real and the dilemma will get worse, not better, over time.

The phenomenon of eroding government control over how citizens live and work, and how one's institutions are managed is not limited to closed societies, but is becoming more and more evident in the West. National sovereignty and political saliency has traditionally entailed the government's power to regulate major sectors of society, ranging from health care to heavy industries. The increasing difficulty of exercising this power in the information age, as opposed to the industrial age, was summed up by George Gilder this way: ". . . A steel mill, the exemplary industry of the material age . . ." lends itself to control by governments: "Its massive output is easily measured and regulated at every point by government. By contrast, the typical means of production of the new epoch is a man at a computer workstation, with access to data bases around the world, designing microchips comparable in complexity to the entire steel facility, to be manufactured from software programs comprising a coded sequence of electronic pulses that can elude every export control and run a production line anywhere on the globe." The advent of the silicone compiler, which is an analogue of desktop publishing for chip design opens up, in Gilder's words, "a great economic cleavage between the interests of entrepreneurs and the authority of national governments." Since the technology will continue to progress, the cleavage will deepen over time.

The growing inability of sovereign governments to regulate things in the information age has profound foreign policy implications.

Recently, for the first time in history, a private company forced a super power to change its policy. This occurred because the monopoly enjoyed by governments on photographs from space was broken by the launching in February 1986 of the privately owned French satellite SPOT. When the pictures of the Chernobyl nuclear disaster taken by SPOT began to show up on the front pages of the world's newspapers, the Soviet Union was forced to change its story and admit that the event was much more serious than they had claimed. In this instance, the technology was not new, but the

power to use the information shifted from the public to the private sector. But what SPOT revealed about Chernobyl, it can also reveal about American military sites and, thus, poses public dilemmas. There is no American censorship on SPOT pictures, as there has been on a de facto basis with American Landsat's photos.

While the resolution of SPOT's picture is only ten meters, no doubt it will be improved. It is not beyond the realm of possibility that the next logical development would be for an international news agency to purchase its own high resolution satellite. From a cost standpoint, purchasing a satellite would be a good deal less expensive for a television network than covering the Olympics. If this occurs, the guardians of "national security" will clash in space with the defenders of the First Amendment.

The policy dilemma posed by SPOT was sharpened by the offer of the Soviet Union to sell quality imagery, which has a five meter resolution, to anyone beyond their borders who has the price. National rules, including those of the Department of Defense and President Carter's secret directive in 1978 limiting the power of civilian satellites, are eroding to the point of ineffectuality. Although history cannot be written in the subjunctive mode, one might at least wonder about the course of events if SPOT had produced a picture of Pearl Harbor on December 8, 1941, when the world was being told our fleet was intact. What is certain is that it will become harder and harder for nations to assert things that are not true if the spy in the sky is not owned by the government.

Another aspect of sovereignty has traditionally been the ability of nation states to issue currency and mandate its value. What kings said their currency was worth was not always congruent with the facts. In the 17th century, the Amsterdam bankers made themselves unpopular by weighing coins and announcing their true metallic values as opposed to what some sovereign said they were worth. Those Amsterdam bankers spoke to a very small audience and their voices were not heard very far beyond the city limits. Today technology carries the judgments of the market about the value of currencies to all parts of this planet in minutes.

We are witness today to a whole new system of international finance which is up and running. The really unique thing about our new international financial system, as opposed to prior arrangements, is that it was not built by politicians, economists, central bankers or finance ministers. No high level international conference produced a master plan. It was built by technology. It is doubtful if the men and women who tied the planet together with telecommunications and computers realized that they were putting in place a global financial marketplace which would replace the Bretton Woods agreements and, over time, alter political structures. Although only a few politicians saw the possibilities of instant global communications, the money traders of the world immediately drove their trades over the new global electronic infrastructure, and thus created the new international monetary system that is governed by the Information Standard.

Today, information about all countries' diplomatic, fiscal and monetary policies is instantly transmitted to more than two hundred thousand screens in hundreds of trading rooms in dozens of countries. As the screens light up with the latest statement of the President or the Chairman of the Fed, traders make a judgment about the effect of the new policies on the relative

values of the country's currency and buy or sell it, accordingly. The entire globe is now tied together electronically and there is no longer any place on this planet to hide.

Although innumerable speeches are made giving lip service to the idea of a global marketplace, many people still fail to understand the reality. Finance ministers who believe in sound monetary and fiscal policies are starting to perceive that the new technology is on their side, but politicians who wish to evade responsibility for the results of their imprudent actions on fiscal and monetary matters, correctly perceive that the new Information Standard will punish them. It is, in fact, more Draconian than the gold exchange standard and a great deal faster.

Like all technological advances, the new Information Standard makes the power structures of the world very nervous, and with good reason. The rapid dissemination of information has always changed societies and, thus, the way governments have to operate. In my own country we have seen many examples in our lifetime, but perhaps the most dramatic was the civil rights movement. The plight of black people in many sections of our nation went almost unnoticed by many Americans for almost 100 years. Suddenly the TV cameras brought into our living rooms the image of Bull Connor with his dogs and whips. Americans decided together in very short order that this was wrong, and the civil rights movement made a quantum leap forward and dramatically changed the political landscape in our country. A similar thing is happening in the financial markets of the world.

Even though politicians in my country have come to accept universal suffrage and the ballot box as arbiter of who holds office and who does not, this new global vote on a nation's fiscal and monetary policies is profoundly disturbing to many.

When women suffrage first came along it was greeted with about the same enthusiasm as politicians now use to talk about traders and speculators. Just as the American political marketplace was never the same again after the passage of the 15th and 19th Amendments to our Constitution, the world financial markets will never go back within national borders. The lines on the maps, which have been the cause of wars, are now porous. Money and ideas move across and over borders in a manner and at a speed never before seen in the world. Markets are no longer geographical locations, but data on a screen transmitted from anywhere in the world. Accepting the judgment of thousands of traders who translate politicians' actions into new values for currencies and stocks and bonds, is harder to come to terms with because it developed so fast and is new and unfamiliar. Nevertheless, it is about as useful to cuss out the thermometer for recording a neat wave, as it is to rail against the values the global market puts on a nation's currency.

This state of affairs does not sit well with many governments, because they perceive correctly that the new Information Standard is an attack on their sovereign powers. Since global financial markets are a kind of free speech, many complain about what the markets are saying about a country's policies.

In times past, if a country did not like the way some particular financial standard was working, be it the gold standard or the Bretton Woods agreements, the leader of the country could call a press conference and simply opt out of the system. This has happened many times in history.

What will get politicians' attention over time, is that today there is simply no way for a nation to resign from the Information Standard. No matter what actions are taken by a country to try to escape from the system, those thousands of screens in the trading rooms of the world will continue to light up and the market will continue to make judgments.

Since the technology on which the new financial system is based will not go away, it is reasonable to assume it will be with us for a long time. The good news is that since the Information Standard is here to stay, there will be increasing pressure on all governments to put in place sound fiscal and monetary policies, and that means, also, that over time the chances of international financial cooperation are enhanced. While each nation will continue to pursue what it perceives to be its national interest, there will be increasing pressure to harmonize various economic policies. Progress is already visible in these areas.

In the field of foreign policy, new technology is rewriting old concepts of sovereignty and over time will also change national objectives. One statesman who noticed the impact of science on national sovereignty early on was Anthony Eden who opined in 1945 that "every succeeding scientific discovery makes greater nonsense of old-time conceptions of sovereignty". Although Mr. Eden was among the first leaders to recognize this phenomenon, the shift in the power structure that is taking place today is not unique in history. There have been many instances throughout history of technology impacting international relations and altering the balance of power between sectors of society and between countries.

The early science of blue water navigation is a case in point. Although mariners from many countries had for years crossed oceans and explored foreign climes, only the Europeans exploited the political potential presented by this new knowledge. Braudel has pointed out that "the conquest of the high seas gave Europe a world supremacy that lasted for centuries". The historical mystery is why the technology of ocean navigation, once demonstrated, was not grasped by other maritime civilizations to expand their own political power.

In more recent times, even the most jaded diplomat might have to concede that the balance of power in the world shifted decisively on July 16, 1945, on the desert of Alamogordo, New Mexico, when the first atomic explosion took place. For the modern Luddites who explain almost daily that SDI won't work, it is useful to remember that almost half of the scientists at Los Alamos through the atomic bomb would not fire.

When it did, relations between nations were instantly altered and, indeed, the very survival of our planet came into question. The process works both ways. Scientists suddenly discovered the desirability of having a world framework of international law and order to protect society from their own discoveries.

Some will say that while new technologies may affect the balance of power on a temporary basis, they cannot change the basic geopolitical interests of a country. This argument rests, in part, on the fact that it is vital for a country to have assured access to certain critical raw materials.

Countries having these desired natural resources within their borders are therefore of strategic importance to us. The oil rich nations in the Middle East are the most obvious examples, but there are other areas whose

soils contain important minerals ranging from copper to titanium.

Not that long ago, armies fought and men died for control of the iron and steel in the Ruhr Basin because ownership of these assets conferred real economic and political power. Indeed, the basic idea of a nation state was based on the concept of territoriality. Today, these once fought over assets may be a liability. To the extent that new technology replaces once essential commodities with plastics or other synthetic materials, the relative importance of these areas to the vital interest of nations is bound to change.

When World War II cut the U.S. off from a supply of natural rubber from the Far East, we turned to synthetic rubber, which had its basic research completed before the first World War. The technology had not been exploited because it was too expensive. The war emergency caused us to set aside economics in order to produce tires, but as we went up the learning curve, production costs were driven down. When we reached the point where synthetic rubber became cost effective, the significance of rubber producing countries to our strategic interests was altered.

Today, as fiber-optic cable replaces the twisted copper pair, the relative strategic importance of copper producing countries will also shift. Sand, the most common substance in the world, is the raw material for computer chips. Clay is the base for superconducting ceramics which will speed data by a factor of 100 and generally enhance the power of magnets and thus further shift the value of traditional natural resources. Over a period of years, this same scenario in various degrees has, or will apply to other natural resources, even oil.

As these events unfold, diplomatic priorities are bound to change. Even the strategic importance of critical areas of the world is altered by technology. It was not so long ago that conventional wisdom told us the lights would go out all over the world if the Suez Canal was ever closed. The conventional wisdom did not take into account the technology that would allow the building of huge supertankers that could, and did, carry oil economically around the Cape of Good Hope. This feat was achieved by relatively simple technology, but it altered the political dynamics of the physical control of a specific territory. Today the velocity of change is so great in all aspects of science, technology, economics and politics that the tectonic plates of national sovereignty and power have begun to shift. As military hardware has developed, political scientists and statesmen are fond of remarking--sometimes in a pejorative way--that generals usually prepare for the last war, without considering that they themselves may now be guilty of similar errors. If policy makers in business or government fail to understand that the world really is very different, even though in Barbara Tuchman's words, what they see "does not fit in with their plan or suit their prearrangements", they will follow into oblivion a long list of other leaders who made similar mistakes in the past. On the other hand, those who understand and master change will be tomorrow's winners.

Discussion

A Portuguese speaker opened the discussion with the observation that not all of us realized that the structure of power was changing due to the information revolution. The tendency was not toward the concentration of power based upon mass communications; Orwell's prophecy was not being fulfilled. There was more dissemination of information, and interactivity was becoming more important, leading to more participation in societies, and therefore in political life.

There were, however, some imbalances being created by the information revolution. First, there was an enormous difference between developed and undeveloped countries in this area. Second, some countries had reached much higher levels of technology than others in certain fields. Third, in the production of information, especially in the mass media, there was an imbalance between the U.S. and Europe. Europeans absorbed many American television programs and motion pictures, but there was little movement the other way. This was likely to lead to import quotas imposed by European countries. Finally, global communications groups were being created, controlling many different forms of media around the world.

The danger lay more in the fulfillment of Aldous Huxley's prophecies than George Orwell's. There was a general tendency for the written word to be replaced by the image. The effects of this on education were already detectable in the form of people who had become hooked on images and whose development was effectively blocked by television. Literature was marginal to such people.

Yet the role of the mass media was essential. Today, politics had become too serious a matter to be left to the politicians. Also, it had become easier and cheaper to broadcast than to disseminate in print. The arrival of interactivity would change the role and content of the mass media, and the role of journalism in shaping public opinion. Although some self-imposed rules of conduct by the media were advisable under certain conditions, the freedom of the media was vital and was good for society as a whole.

An American felt that, just as technology was "blasting open markets", so the media was "blasting open" peoples' minds with general information and entertainment. The ability of East Germans to watch West German television was an example of this. Throughout Eastern Europe, entrepreneurs were selling backyard dishes for receiving satellite broadcasts. In China, American movies were being shown weekly. The American Cable News Network could be seen all over the world. In short, a great many people were witnessing Western life and standards.

This trend would only increase as more powerful geostationary broadcast satellites were launched, more broadcast services were started, and cheaper dishes linked with better domestic receivers became available. Within 20 years, every second home in the West would be linked to cable or dish.

In the future, there would be greater diversity and variety in the mass media. In Europe, attempts were being made to improve program standards. Today, entertainment programs were very expensive to make, and it was only natural that they would be made for the markets most able to pay for them

with advertising dollars. But programs and movies were increasingly being made for world markets, and it was to be hoped that diversity would win over protectionism in media. The effects on national identity and culture of the information revolution were not something governments should fear. Anyway, the "genie (was) out of the bottle", and technology was moving faster than politicians could act.

Another American felt that the media, particularly television, had changed politics. The average viewer today was far better informed than the newspaper reader of 50 years ago. And the alleged negative effects of television on politics were greatly exaggerated. A countryman agreed, saying that people in democracies functioned best with the most information possible. This made it harder for governments to assert things that were not true.

In another American's view, there was, in public affairs, a "dangerous new kind of censorship" caused by too much information. For example, full financial disclosure by political candidates was required by law in the U.S. But citizens did not get full disclosure from journalists, who tended to root out and publish or broadcast only the most titillating details. The viewer or reader thus got a distorted picture. Similarly, in television interviews, hundreds of feet of tape were used for 30 seconds on the air. There was a conflict between the interviewee and the producer about what went on the air.

In a Belgian speaker's view, there was a danger that people in the public arena would act according to the most immediate and optimum media effect. Freedom of the press was an essential part of our democratic systems, but the media had to uphold certain ethical standards, including making clear the difference between reporting facts and commenting on them. Finally, while there was nothing wrong with the growing concentration of power in the media, there had to be a greater distinction between ownership and management on the one hand, and the editorial staff on the other.

An American worried that governments could still do much to control the flow of information through the media, and use it as a powerful weapon to further their own interests and hold back democratic development. A Briton added that, even in democracies, governments would always try to censor certain things. Indeed, censorship was often demanded by the people in democracies, as in the case of pornography.

Addressing the effects of the information revolution on business, an American was concerned that the business community was already behind in its application of currently available technologies, and did not understand the applications of those technologies to come. The implications of these technologies were disturbing to the management and staff of companies because the changes required to apply them and compete in global markets were extremely onerous. Managements tended to do too little too late. The empowerment of workers at the lowest levels of businesses through training and giving them available information meant letting go large numbers of managerial and professional people. In addition, new technologies meant changes in product cycles and the ability of companies to get products into

the marketplace.

In another American's view, information technologies were not that complicated and the issues involved should not be regarded as esoteric. The public gains from them were the same in economic terms as from any form of cost reduction. And the costs of interference with those economic advances were the same as in other fields.

Information technologies, specifically computer networks, were instruments of international economic integration. There were already in place worldwide computer networks in many fields, such as banking and financial markets. They tied markets together rationally, reducing costs and making possible transactions that were not possible before. They existed in management information systems, where they allowed the exchange of technical information and created cost reductions.

Yet computer networks were regarded by some governments as a threat, as something to be slowed down. This was not justified. The threat to privacy had been overcome. Concerns about job loss were better handled by such things as works councils than by government regulation. There was concern that computer networks might interfere with traditional telephone monopolies, which had claimed the right to say who could set up a computer network and under what circumstances. This kind of protectionism inhibited economic progress, and unlike other forms of protectionism, slowed the development of the entire economy. The answer to the problem was liberalization of the telephone systems, as had happened in the U.S., Japan, and the U.K. Yet there was still resistance in many countries. This issue had to be viewed in the same way as protectionism in other industries.

Concerns and fears about certain aspects and byproducts of the information revolution were expressed by a number of participants. An American observed that, as computers advanced, and increasing amounts of ever more complex information became available, a new elite would arise, consisting of those who dealt with this information. No matter what the computer could accomplish, the human brain could only absorb and deal with so much information at any one time. Barring developments to link the brain with computers, the human brain would remain a limiting factor. Thus there had to be a whole new process of selecting information, a new set of standards by which it would be selected, and a new elite to do the selecting. It remained to be seen whether this would be a good thing for democracy.

An overabundance of information was already a problem in the defense and intelligence areas, observed another American. There were "nowhere near enough people" to analyze the reams of information beamed down to earth from the hundreds of military and intelligence-gathering satellites in space.

The huge volume of intelligence made possible by information technologies complicated the ability of governments to make decisions in the security area, said a British speaker. The technological revolution increased the speed at which military deployments could be made and be identified. Risk assessment software could help in such situations, but, in complex crises, there was a danger the software could drive the crisis. A new level of intense cooperation among statesmen was therefore necessary in this new era.

Another concern, expressed by an International speaker, was the relative success of our countries in coping with the information revolution. Some countries were bound to fall behind. This was especially true in education, said an American. New technologies and changes in information dissemination placed very heavy responsibilities on those in charge of our educational systems. Those countries that resisted the changes or failed to keep up would fall behind "fast and far". It was crucial, added another American, that research be done on the applications of technology to how people learn. Those countries that could take available technologies and use them to undertake a complete restructuring of the educational system would be far ahead.

Another American concluded the discussion on a hopeful note, saying that technology was "on the side of freedom". Disseminating the maximum amount of information through the media expanded the role of freedom. Certainly, these new technologies had their side effects, with which we had to learn to deal. They had not brought us a perfect world, but rather a different world. At the end of the day, they had given us greater freedom.

V. BRIEFING ON THE MOSCOW SUMMIT

Introductory Remarks

This is clearly a time of great ferment in the Soviet Union, and change was very much part of the atmosphere the American participants in the summit encountered in Moscow. All of the Soviet people the Americans met with--from Gorbachev himself to the refuseniks to the students at Moscow State University--were preoccupied with the subject of what they were going to do and how they were going to do it, and what did the change taking place in the party structure and elsewhere mean for the Soviet people. As the Soviets considered the reorganization of their own system, they displayed a new interest in other systems of government outside their own. In addition to the summit, there was a focus on the upcoming party conference, and a good deal of talk about restructuring, openness, and the pace and scope of change.

Underlying the American approach at the summit was the desire to find a way to assure the Soviets that there was a consistency and continuity in the American interest in the Soviet-U.S. dialogue. President Reagan sought to make clear that the U.S. was looking for a durable process for dealing with Soviet-American differences, as well as identifying areas where there might be a convergence of interests. His goal was the establishment of a framework that could be passed on to a successor administration of either party.

From the American point of view, the outcome of the summit--absent an arms control agreement--was that a new focus was placed upon three other areas: human rights, regional issues, and bilateral relations. They received a level of attention that they do not get when there is an arms control agreement in the offing.

With respect to the arms control portion of the summit agenda, both sides concentrated on the three tough remaining issues: air-launched cruise missiles, mobile missiles, and sea-launched cruise missiles. Some progress was made on treatment of air-launched, and on a mobile-missile verification regime, but a great deal remains to be done. The two sides' post-summit positions are unchanged. The Soviets believe an agreement should include mobile missiles, the Americans believe it should ban them.

Sea-launched cruise missiles present the most difficult problem. The Soviets have offered a very intrusive verification regime which, in effect, would put the U.S. Navy out of business. The task is to find a verification regime that works without having this effect. The U.S. meanwhile feels that these missiles should be left out of the numbers to be dealt with in START.

In the area of nuclear testing, much was accomplished, and it is hoped that both sides will soon ratify two unratified treaties from 1974 and 1976 that deal with nuclear testing. The U.S. and the Soviet Union have both placed 50 inspectors at each other's nuclear testing sites--which is unprecedented--and this number will ultimately increase to 90. This is an example of

the challenge of verification which lies at the heart of START--to find a balance between information given for information gained. In START, verification poses a far greater challenge than it did for the INF agreement. In any event, large strides have been made in the area of nuclear testing, a fact that is too often given little attention by the press.

In the dialogue between the U.S. and the Soviet Union on conventional and chemical weapons, the U.S. found it necessary to resist the Soviet desire to enter into bilateral agreements in areas which the U.S. believes are multilateral. Particularly in the conventional area, the U.S. has said it will not negotiate bilaterally, and has referred the Soviets back to the mandate negotiations in Vienna. The Soviets have resisted this, with the result that the summit produced only sterile exchanges in this area.

Gorbachev did put forward a conventional arms proposal in one session with Reagan that appeared to be a new version of past Soviet proposals involving data exchanges on conventional weapons, followed by meetings of experts to evaluate asymmetries. The U.S. has seen these proposals as attempts to propagandize and to slow down the conventional stability mandate talks. Gorbachev's proposal called for completion of the mandate negotiations first (though this could be delayed by mutual agreement of the two sides), baseline inspections for the collection and verification of the numbers on each side, assessment of the numbers to see if there are asymmetries (the Soviet position is that there are none, assessing the Atlantic to the Urals as a whole), and finally developing techniques to achieve reductions.

In its second phase, after the achievement of equal levels, Gorbachev's proposal called for reductions of 500,000 on each side, though precisely what this number applied to was not specified. Though presented with some fanfare, this proposal seemed to disappear. It was never brought up again by the Soviets, and American attempts to ask questions about it were not successful.

In short, no progress was made at the summit toward closing off the mandate negotiations, nor the Vienna follow-on conference to the Helsinki Final Act. The U.S. has insisted on a balanced outcome, and the Soviets have agreed to language which specifies this, but so far there has been no substance. It appears that there is a great pause as the Soviets await the party conference. Taking into account the proposals that are on the table in Vienna, the new theses being presented by the Central Committee in advance of the party conference, and the discussions going on with the Warsaw Pact countries about where legislative changes might lead in Eastern Europe, the most that could be said at the summit's conclusion was that the two sides are working somewhere else on these issues, i.e., in Geneva on chemical weapons and in Vienna on the Helsinki Final Act.

There was discussion at the summit about regional issues which have an East-West cast to them, such as Southern Africa, Central America, the Middle East, Cambodia, Afghanistan, etc. It was a helpful exchange, but no great progress was made. The dialogue will be kept going in the coming months by expert-level meetings, but it will be some time before anything concrete comes out of the discussions.

With respect to Southern Africa, the two sides had some small points of agreement, but nothing of real substance. The common ground is that a settlement is necessary that entails the complete withdrawal of foreign forces from Angola and the achievement of Namibian independence in accordance with U.N. Security Council Resolution 435. The two sides agreed to adopt the Cuban proposal of setting September 29, 1988 (the tenth anniversary of UNSCR 435) as the date by which to attempt to reach a resolution of differences. This may not be realistic, but it allows the U.S. and the Soviet Union to demonstrate that they both are trying to solve the problem. Yet it appears that the Soviets have not yet decided to what extent they are going to push the Angolans or the Cubans. The Soviets are not willing to accept U.S. aid to UNITA; their objective is to create a situation where the political outcome is an end to U.S. assistance, with Soviet support of the remaining political structure in Angola. They have not given concrete support to the political reconciliation process.

In the Middle East, there is still no convergence of interests. It seems that the Soviet Union has not yet decided how to play out its interest there, indeed has not yet defined its interests in the peace process.

A reading of the Joint Statement from back to front would call attention to a listing of bilateral activities--not headline news, but an attempt to restore a whole web of Soviet-American contacts that was totally lost between 1979 and 1985. They bring engagement among interested groups in science, the environment, ecology, the Arctic, people-to-people exchanges, cultural programs, and an exchange of consulates in Kiev and New York. They are of great importance in providing a supporting web beneath the big issues.

Finally, it was not the U.S. intention to make the summit a human rights summit, but that is what it became, and this probably was not a bad thing.

The famous names are for the most part gone, but there are equally desperate cases left, and it is on these that an American team is now engaged in regular exchanges with the Soviet Union. Another large group of emigrants has been allowed to go. Indeed, emigration is up for April and May. And while the level is nowhere near that of the 1970's, the numbers are healthy. There will be between 12,000 and 14,000 Jewish emigrants this year. As for prisoners of conscience, it appears there are now only about 100.

The language in the Joint Statement which speaks of spiritual values and the freedom of the individual was, surprisingly, offered by the Soviet side. It appears the leadership is trying to build a record of international acceptance of these things as they go into the party conference.

Yet, for all the talk of glasnost and of new ways of doing things, the Soviet system remains the most opaque political process around. The same 30 contacts are used, and everyone is fed the same line. It remains very difficult to see what is really happening. The result is that, in human rights, great changes are announced, but changes in the system have yet to

be seen. Laws on such things as religious practice and the use of state security as a bar to emigration are said to have been rewritten, but no one has seen them or knows how they will be made part of the legal system.

The mood throughout the summit was good. The President's Moscow State University speech was the best description of what the U.S. message to the Soviet Union is. Gorbachev was a good host, although he still erupts in the middle of sessions into vigorous exchanges on certain issues, such as SDI, or the Soviet Union not being admitted as a full partner in a condominium on regional issues, or American human rights positions.

The public parts of the visit were a success, but their policy impact is debatable. The summit did show that this kind of broad dialogue can take place without arms control agreements, and perhaps it added to the understanding that the arms control negotiations that lie ahead will be very complex and will take time.

The U.S. is not really looking for a new word to replace detente, and, if there was one, it would not have that kind of ring to it. It would be a word connoting process, management, predictability. The Americans left the summit believing that they had achieved a measure of predictability, a way of dealing bilaterally with the Soviet Union that should give continuity to the relationship, particularly as the U.S. goes through the electoral process.

Discussion

A German participant opened the discussion by applauding President Reagan's conduct of the summit, particularly his emphasis on human rights. The speaker recalled that it was Chancellor Kohl who, shortly after coming to power in 1982, had urged the President and the Soviet General Secretary to meet. His reasoning was that, first, there could be no progress in arms control as long as relations between the two superpowers were frozen, and second, Germany, and indeed the rest of Europe, had more room to maneuver in developing their relations with the Soviet Union and Eastern Europe when relations between the two superpowers were better. The speaker hoped that there would be more summits, on a regular basis, with less fanfare.

Other speakers were more cautious, even skeptical, about the real fruits of the summit process. A Frenchman observed a tendency for the West "to behave cyclically toward the Soviet Union". After a period of what might be called anti-Sovietism, the pendulum appeared to have swung, and now there was perhaps too much enthusiasm for the Soviet Union and its leader. "Gorby-mania" was spreading everywhere. But had the Soviet Union really changed? We should not rule out the possibility of a Leninist type of tactical move. It would be many years before the reality of change could be assessed. Certainly, the Soviet idea of democracy had nothing to do with the Western concept. In foreign policy, the style had changed, but not the substance. Soviet fundamental goals remained the same. The Afghanistan withdrawal was really a response to a military defeat. And the INF treaty

was really favorable to the Soviet Union. The West had to remain cautious.

A British participant worried about the effect of President Reagan's summit conduct on the Western electorates. He recalled his early impression of Reagan as a President "who would never make dangerous proclamations of peace", and would avoid the kind of "lower your guard" message that was flashed to the people of the West during the 1970's. But Reagan had changed, especially in the wake of the recent summit. He had provided a "giant endorsement of Gorbachev's internal control" and had furthered in Western public opinion Gorbachev's external objectives without asking for a commensurate price in proof of intentions or actions from Gorbachev, such as a change in the Soviet position in the Middle East or Nicaragua.

We should be more focused on external manifestations of the Soviet Union and less on the practice of its internal affairs, added an American. Another American argued that the West had to "establish a baseline of what it believed Soviet aggressiveness meant in the past". We had to develop criteria by which we could judge what change in the Soviet Union had an impact on foreign policy.

Other speakers were more hopeful about the reality of change in the Soviet Union. It was true, said a German, that they would probably never change fast enough to suit us in the West, but nonetheless change was afoot, and we should welcome it. An International participant argued that the mere acknowledgement by the Soviet leadership that things could perhaps be done differently signified that fundamental change had already taken place. We in the West had to view this with a combination of "hope and prudence". We would be making a serious mistake to approach the Soviet Union with a "Maginot Line complex".

An American felt that, regardless of whether the Soviet Union had really changed or not, the formulation and implementation of Western Alliance policy "could not await the finding". We ought to be able to protect and advance our interests in a way that could accommodate either outcome in the Soviet Union. We could not postpone a dialogue while we waited for answers.

In a German's view, Reagan had done well to emphasize human rights at the summit. The American president was far better suited than a European leader to press the Soviet Union on this issue. He was respected by the Soviets as the only counterpart to their own leader. It was easier for the Soviets to accept such challenges from the U.S. than from Western Europe. The emphasis on human rights had already born fruit in the form of changing laws on such things as religious practice.

From the point of view of a Canadian, Reagan's emphasis on human rights was the only way to avoid vulnerability to Gorbachev's tendency to produce "propagandistic and oversimplified" arms reduction proposals, and to avoid having the summit appear a fiasco or a non-event. It also put pressure on Gorbachev to satisfy some of the world's hopes for him.

But, warned an American, we should not overestimate our impact on Soviet internal policy. We were supposed to be "diplomats, not social reformers". With respect to the Russian Orthodox Church, it had been a tool of the state for 400 years. It was hardly an organ of liberty. Perhaps

Gorbachev had decided to strengthen his hand by including it in the political process. The speaker wondered how wide an audience the discussions on human rights had inside the Soviet Union. Were they perhaps designed mainly for Western consumption?

A countryman responded to this by saying that the American public demanded progress in the area of human rights. Experience had shown that the concept of a dialogue with the Soviet Union that did not include human rights would not have the necessary public support.

In the area of arms control, a number of speakers urged the West to develop a comprehensive concept of where it wanted to go from here. A German felt that the task before the Alliance was to discuss and agree on an overall concept of security and arms control in order to reach a sense within the Alliance on the next priorities of arms control and security measures.

A French speaker agreed, warning that the immediate danger for the West was the Vienna negotiations on conventional stability. The Soviets knew exactly where they wanted to go politically--namely to achieve the denuclearization of Western Europe by using the process of conventional negotiations to "catch" the dual capable systems. They might well be successful if the West did not know what it was doing. Thus, the West had to develop a conceptual framework for the arms control process. But it must be careful not to use this *Gesamtkonzept* as an excuse to do nothing in the short run. The Soviets must not be allowed to block the modernization process in Europe. The speaker worried that current policy did not appear to be translating words into vision.

An American decried the Soviet practice of floating at summits conventional arms control proposals that the U.S. had not yet seen. Doing this raised the danger of misunderstandings or mistakes. It should be standard practice at summits that neither side put forward proposals that the other side had not yet seen.

In a Greek speaker's view, the Russians scored propaganda points by putting forward a conventional arms proposal at the summit, and the U.S. missed an opportunity by not calling the Soviet bluff and agreeing to discuss it in principal.

A French participant saw a hidden danger in conventional arms control negotiations. Afghanistan had shown that the Soviet Army's heavy reliance on manpower and on tanks had failed. Demographic trends in the Soviet Union would make it increasingly difficult to rely on motivated manpower, and tanks were fast becoming obsolete. Thus, the Soviets could use a conventional arms control agreement to modernize their army.

Addressing some of the points raised about conventional arms, an American said that the U.S. could not respond to every Soviet conventional arms control proposal because there had been so many. As for the Soviet Army's experience in Afghanistan, it had learned some valuable lessons, and had not done all that badly; it would be a mistake to sell it short. Yes, it was time for the Alliance to form a position on conventional arms. But it was also true that Gorbachev "did not have the faintest idea" of what he would do when perestroika and glasnost began to have an impact in Eastern

Europe. Until the Soviet Union had a clear idea of its future relationship with Eastern Europe, it was doubtful that there would be any meaningful Soviet conventional arms control proposals or participation in the conventional process.

Turning to strategic arms control, an American questioned what he saw as a "logical contradiction" in the American position of opposing mobile ICBM's because of the problem of verification, while mobility was the key to survivability of its land-based strategic arsenal. At the same time, the U.S. was prepared to let sea-launched weapons "run free" because we could not verify them.

A Canadian was concerned that there appeared to be no verifiable way to include sea-launched cruise missiles in a START agreement. Could such an agreement, leaving outside of formal controls such accurate and potentially destructive weapons capable of being deployed off both U.S. coasts, ever be ratified by the Senate? Would not the exclusion of SLCM's give START opponents a useful club to use against an agreement?

Addressing the apparent contradiction between the U.S. position on mobiles and SLCM's, an American pointed out that the U.S. did not yet have a national choice on a mobile system. The American military leadership had to stand on a ban when it did not have a system itself. With respect to SLCM's, it was not clear how to apply to navies some of the verification concepts being talked about without destroying the effectiveness of the navies. But there were some natural, observable limits with respect to SLBM's upon which some predictability could be constructed.

A number of European speakers were interested in what impact the U.S.-Soviet dialogue might have on regional issues. Was there an opportunity, wondered an Austrian, for some kind of joint efforts at crisis management in such areas as the Middle East and the Gulf? In a German participant's view, negotiations on regional issues were as important to the Soviets as arms control negotiations, because such negotiations were an acknowledgement that there were two equal powers in the world. Unfortunately, Europe had little to contribute to that process at present. The time had come for Europeans to "harmonize" their foreign policies and create appropriate instruments by which to involve themselves in regional issues.

Did we in the West really know what was going on in Gorbachev's mind, wondered several speakers. We certainly did not know everything, said an American, but we knew some things. It was very apparent at the summit that Chernobyl, for example, was very much on his mind. He spoke passionately about the experience with Reagan and was clearly emotionally affected by it. We knew Gorbachev had concluded that the Soviet Union was no longer economically competitive, and that he was struggling with the question of how to make it so while preserving the political structure. We knew he was concerned about the Soviet Union's geopolitical position, especially with respect to an emerging China.

Focusing on the question of whether the Summit process was setting off waves of euphoria in the West that would erode support for defense policies and budgets, the American speaker felt that that was a risk that had to be run. Politicians in the U.S. and in Europe had to be responsive to the desire of their peoples to see something different in the U.S.-Soviet dialogue and the East-West dialogue. To have support for defense budgets, leaders had to be able to point to progress, to some end to the process in which so much money was spent on defense. They had to maintain a balance between hope and prudence.

VI. THE IMPACT OF GLASNOST

Introductory Remarks

I.

What is in Gorbachev's mind? What is he up to? We have to recognize that he is improvising to a great extent, that even he is not sure of what the content of perestroika is, or what the effect of glasnost will be. He is caught in a vicious circle--the more resistance he meets to economic reforms, the more he tends to open up the debate via glasnost; the more glasnost there is, the more resistance. After three years in power, his position has become more precarious, and his chances for survival over a long period have declined. The outlook for perestroika in particular is very gloomy. There has actually been very little in the way of change in the basic economic structure. The basic legislation which took effect this year is a compromise document which defies expert analysis. As a result of all this, Gorbachev has turned increasingly to foreign policy as an area where he has greater flexibility and freedom of maneuver, and he is looking for compensation for what has turned out to be a stalemate internally.

If one rereads Gorbachev's speeches from 1984 and 1985, there is very little that foreshadows what is happening now. The code words in those days were discipline, not openness, and acceleration of economic growth, not perestroika. He came to perestroika because the economic crisis was so bad that he had to look for new ways, and, in doing so, he enlisted the aid of some very innovative economists. They sold him on perestroika, and they understand it. They admit that it is a difficult, long-term concept, the key to which is price reform--the last thing they want to confront.

As Gorbachev has pressed on, the opposition has begun to take shape, and has come out into the open. The attack on perestroika that appeared in the publication *Sovetskaya Rossiya* in March was an extraordinary document. In fact, it was about glasnost and democratization, and was a statement of Russian chauvinism startling in its content. It was sharply pro-Stalin and anti-Semitic. It did not say Stalin did not commit crimes, but that Stalin made the Soviet Union into a great power, just as Peter the Great did. It falsely quoted Churchill as saying that Stalin took Russia "from the wooden plow to the atomic bomb".

The document was counter-attacked in *Pravda*, in the course of which Gorbachev turned the situation to his advantage by pinning the blame on Ligachev and reducing some of his duties. Neither Ligachev nor Yeltsin have been totally purged. Indeed, Yeltsin appeared during the summit in a television interview in which he called for Ligachev's resignation. The point is that the political struggle in the Soviet Union has greatly intensified, and it bodes ill for Gorbachev. He is on a train he cannot get off. He must press ahead with perestroika and glasnost, and he does so at his own peril. He probably has a majority in the Politbureau, so he is not likely to be overthrown, but if he persists in his program over the next two or three years, he will encounter the kind of political cabal that overthrew Khrushchev.

In foreign policy, there has been a debate about the nature of Soviet foreign policy and what happened in the past, in order to provide some prescriptions for the future. Their general notion is that, while the general objectives of policies pursued by Stalin and Brezhnev were correct, the way they were pursued caused the Soviet Union a great deal of damage by provoking a Western reaction. They forced the West to re-arm, first in the 1950's and then again in the 1980's. What they are doing now is taking away the image of an enemy, depriving the West of the opportunity to point to the Soviet threat. In practice, we are beginning to see the fruits of new thinking. In Europe, there has been a change in Soviet policy. Compared to Brezhnev and Gromyko, who wanted the U.S. to remain in Western Europe to guarantee the German settlement reached with Brandt, Gorbachev wants the U.S. out of Europe, which he wants denuclearized and neutral.

The withdrawal from Afghanistan is more difficult to explain. He may have created a situation of a potential stab-in-the back legend that the politicians would not let the military win the war. It was a shrewd move, however, that opens up an avenue for Soviet policy in the Persian Gulf and Iran. Gorbachev appears to be looking for a way to buy the Soviet Union back into the diplomacy of the Middle East.

Most important is the opening to China. Gorbachev differs from Brezhnev and Gromyko on China in a significant way. Brezhnev felt China was a real threat to the Soviet Union; Gorbachev does not have that fear. He is prepared to deal with the Chinese and make concessions. Gorbachev is operating to try to reduce the threat on both the eastern and western fronts at the same time. He has said there is a close linkage between foreign and domestic policy, and that linkage appears in his quest to buy some time in his dealings abroad.

For the West, the Gorbachev regime means that, if he is sincere in wanting a period of relaxation with the West, this offers strategic opportunities to the West to suggest to him the price he must pay in terms of regional arms control, settlement of regional conflict, and also in bilateral relations and human rights. The West is not really ready for that kind of dialogue, but there has been some progress made in making the agenda broader than simply arms control.

On arms control, we are deluding ourselves if we think Gorbachev is interested in conventional arms control. There has been a development in Soviet military doctrine that has downgraded the nuclear aspect and upgraded the conventional. This is a significant development whose outcome is that the Russians recognize they cannot prevail in a nuclear competition. But in a conventional one, they have significant advantages. If they can shift the balance in that direction, they will gain decisively. That explains why they were willing to reach an INF agreement and why they are eager to reach a START agreement.

There is some reason to be apprehensive that the whole process we are witnessing in Russia may be miscarrying. For the first time in three or four decades, a basic metamorphosis of East-West relations might be possible: the transition from an adversary and sometimes hostile connection to a more relaxed, cooperative, and stable affiliation. It is not in our interest to keep the enemy image intact. But, in the words of the Greek poet, "what are we going to do without the barbarians?" We do not need the barbarians, and it is hoped that, in our case, they will turn out to be gone.

We are talking about glasnost, perestroika, and new thinking. Glasnost is the introduction of a measure of public discourse hitherto unknown in the Soviet Union. Perestroika is an attempt to reform the Soviet economic structure. New thinking is a reformulation of some fundamental concepts, including foreign policy concepts.

The change with respect to glasnost is most obvious. In Moscow these days, one can feel a headiness; there is debate, muckraking, exposure, revelation, even an almost Western type of journalism. It might be said that this is most easily reversible, but some in Russia say it has already gone too far, and can't be reversed. It is true that glasnost is strictly limited to intellectuals; it does not affect many people. It is basically an attempt on Gorbachev's part to create a public opinion, to mobilize the masses against the inertia of the bureaucracy, and to mobilize support for perestroika. It is visible, audible, and very popular amongst the intelligentsia. This kind of glasnost is in our interests. It lets fresh air into a country grown stale in 70 years of Communist rule, and it closes the gap between myth and reality.

Perestroika is an attempt to overcome the glaring economic shortcomings of the Soviet Union, whose growth has been stagnant for almost two decades. Since the mid-1970's it has been falling behind the capitalist countries with regard to most key indicators. There is deplorable waste, and the Soviet capacity for innovation is limited. So perestroika is absolutely indispensable. It is not necessarily popular because it tells the Soviet people that they must tighten their belts before they reap any rewards. No one knows how it is going to work and it is hard to say what its chances of success are. There is little the West can do to help this process; at least we should do no harm.

New thinking, especially in foreign policy, is evident in many things that Gorbachev has done. This new thinking is very much linked to his person; he embodies the mellowing of Soviet power more than any other Kremlin leader in history. He is shaking up the drowsy economic machinery of his country. He has abjured the old dogma that war between capitalism and communism is inevitable. He no longer considers the post-war era as a pre-war period. He recognizes the link between Soviet security and the security of others. He speaks about economic interdependence. He recognizes the European Community as an entity in its own right, and he talks sensibly about the global challenges of the future. His human rights record, while still wanting, is better than that of his predecessors. He preaches moderation in foreign policy, and he seems ready to translate his words into actions.

There are some uncertainties. Maybe Gorbachev will be gone in three years, and maybe not. His record at getting rid of his adversaries is quite formidable. He may turn out to be more durable than anyone today might think. The second uncertainty arises from the political and economic situation in Eastern Europe. Given the endemic state of unrest there, Eastern Europe poses the most dangerous threat to both Gorbachev's program and to the improvement of East-West relations. There is still a danger of spontaneous uprisings against Soviet oppression and domination of the kind that have occurred in the last 40 years. There is nothing to suggest that the Soviet determination to preserve their rule over Eastern Europe has weakened in the least. Neither the retreat from Afghanistan nor the recent Belgrade declaration can be construed yet as a clear repudiation of the Brezhnev Doctrine. Moscow would probably not hesitate to move in and crush any rebellion within its orbit. That might end the process of "detente, round two".

Discussion

In a Finnish participant's view, the key question about glasnost was to what degree it represented a new way to govern the Soviet Union in place of the old pattern. Certainly, it had become somewhat easier to see how decisions were made, and that led to a greater degree of accountability. Heretofore, Soviet bureaucrats had enjoyed total freedom from control from below--they had been appointed bosses, rather than leaders with accountability.

Since the material fruits of perestroika were still only a hope, continued the speaker, glasnost was to some extent a concession given for the hardship economic reform would exact. But glasnost was creating some new problems by reopening old, long-buried issues, such as the nationalism in the Baltic states, upon which a tight lid had been kept for a long time.

The real effect of glasnost depended on how deep it went into Soviet society. So far it was primarily an elite phenomenon, limited to the upper classes. But it would be different if it went to a lower level, and affected the education process in the Soviet Union. So far, glasnost represented mainly cracks in the old monolithic structure, but not very deep ones. It was still possible that the safety valve of glasnost could be closed off.

A Greek agreed that it was possible that things could "turn sour" in the Soviet Union. But glasnost was not just on the surface. The cracks in Soviet society were already very deep. Thus it behooved the West to look beyond the short term in its dealings with the Soviet Union. The intelligentsia in Russia believed that Marxism had been discredited, and this was vitally important for the long term. No matter what one thought of the Russian Orthodox Church, it had been locked in a battle with Marxism, and many of the intelligentsia were on its side. There was a growing view, openly expressed, that Marxism was an amoral system. With respect to the environment, people were openly talking about the disasters of the Marxist model of development, as embodied in the Chernobyl incident. Gorbachev was responding to this public opinion. It was very important for the West to

have a dialogue with the Soviet intellectuals, who, having discredited the Marxist model, were searching for alternatives.

While there was a general consensus among participants that the West should take steps to help Gorbachev achieve economic reform in the Soviet Union, several speakers expressed doubts about how successful he could be. A Swedish speaker observed that the gap between Russia and the West was increasing. Perestroika was necessary to modernize the country and make it competitive with the rest of the world. The Soviet Union was only a superpower in the sense of having nuclear weapons and military strength. Its military burden was huge, amounting by some estimates to 25 to 30 percent of GNP. There could be no change in the Soviet society and economy without a reduction in this spending; hence Gorbachev's interest in arms control. But perestroika would be a long time in producing results. Meanwhile, would the old guard be willing to give up its power?

An American argued that the development of a market economy in the Soviet Union would be much more difficult than in China. For one thing, the Soviets had never in their history had a market economy. If price reform was the key, it would certainly be "a flop" in the industrial sector in both countries. But China was largely agricultural, and so price reform was working; this was not true of largely industrial Russia. In the area of foreign exchange, both countries were commodity exporters, but China had the potential to be an exporter of manufactured goods. The Soviet Union did not. Finally, the capital requirements of reform in the Soviet Union would be enormous, with long grace periods, and this presented Western commercial banks with potential difficulties far worse than they were experiencing in South America at present.

In another American's view, what was going on in Russia today underlay nothing less than the "abysmal failure of Communism". Gorbachev believed that Communism could be reformed by such things as incentives and other elements of a free market economy. but it was likely that these efforts would fall far short of what really needed to be done. Free market incentives sprang from an entirely different conception of human nature and what motivated human beings and society. What the Soviet Union really needed was not reform, but revolution.

An International participant observed that there were other failures in the Soviet system--in education, public health, environmental protection, urban planning, and economic infrastructure. To correct these, the introduction of decision-making independence for enterprises, or a reasonable pricing system, would not help, because a market economy could not really take care of these areas. The reason for the failure was the political system--the lack of accountability, appointments from within the party, slowness in decision-making, and a lack of checks and balances. To correct these problems, political reforms were necessary, but it was unlikely that the political system could be changed.

In the realm of new thinking in the field of defense, an International speaker acknowledged that there had been some changes--the withdrawal

from Afghanistan and a reduction in the operational activity of the Soviet Navy, especially in the Norwegian Sea. there could also be other changes, such as Soviet retrenchment in the Third World. But these changes were limited, and did not necessarily bode well for Europe, as the Soviet Union could focus its military resources toward Europe, especially if there was a normalization of Sino-Soviet relations.

There had been no change with respect to Soviet conventional forces in Europe--lots of talk, but nothing had happened. There could be some modest Soviet unilateral force reductions for essentially political reasons, such as an overture to a new U.S. administration, but nothing of any consequence. The risks of major force withdrawals for the Soviet posture in Eastern Europe militated against deep asymmetric reductions. Indeed, the Russians had great difficulty in defining their interests in terms of reductions of military budgets and forces. It was likely to take a long time before they could do so, and there was not much the West could do about it.

Some speakers held out the hope for changes in foreign policy that the West could take advantage of. Were we losing a common enemy? An American felt the West had to change "its own entrenched thinking". He saw a "kind of complacency" on the West's part in watching the developments in the Soviet Union. We had to start thinking about reformulating our foreign policy if we no longer had the convenient frame of reference of the cold war. We might also have to re-examine our tendency to think that international organizations like the U.N. had ceased to be useful because of the predictability of the Soviet exercise of its veto power. Parallel action through international organizations might become possible.

Another American warned against attributing major foreign policy changes to Gorbachev. Present Soviet foreign policy was not a Gorbachev initiative, but developed when Gromyko and Chernenko were in power. This was not to say that Gorbachev had not made important decisions, such as the withdrawal from Afghanistan.

It was generally agreed that Gorbachev faced great challenges and difficulties that could drive him from power. Among the threats to him were a failure of economic reform, uprisings in Eastern Europe or within the Soviet Union itself, and internal opposition from the bureaucracy, the KGB, or the military. A German speaker felt his greatest threat came from the inertia and resistance to change of the Soviet people themselves.

Several participants wondered, if Gorbachev were to fail, what sort of leader would replace him, and whether glasnost and perestroika disappear or stay. A German speaker felt it was hard to imagine a better alternative to Gorbachev from the Western point of view. He would probably be succeeded by "a young, iron-eating marshall or a young Gromyko". An American observed that what usually happened was that a liberal was succeeded by a conservative who then adopted the programs of the liberal.

A German speaker observed that, throughout history, power struggles had taken place between countries, irrespective of their state of economic development. It would be unwise for the West to assume that the people and

politicians in a reformed Soviet Union would be less inclined to exert military pressure if they had more to lose economically. The Soviet Union should be allowed to become a civilized, economically efficient country, trading, manufacturing, and consuming as the West did. But we should not forget that a civilized country was not, per se, a peaceful one. Just because the Soviet Union might become more developed and more civilized did not necessarily mean it would then be more peaceful.

A fellow German agreed that, no matter what happened, the Soviet Union would remain a superpower and would continue to be a rival to the West. It would be a mistake to believe the Soviet Union was in an irreversible decline; rather it was in cyclical decline, much as the U.S. went through after Vietnam and Watergate. An American observed that the current cycle would probably end with the revival of Soviet power, but, in the meantime, there would be a great deal of turmoil.

VI. THE FUTURE STRATEGY OF THE ALLIANCE

Working Paper

The Future Defense of Europe

I. Challenges

1. Despite a good deal of brave talk and a number of interesting initiatives (the Western European Union's "Defense platform" or the French-German Defense Council), after the surrealistic Soviet/American summit in Reykjavik and the INF treaty, the "European pillar" of the Atlantic Alliance remains essentially an abstract concept. Yet in view of the challenges confronting Europe's defense, the traditional status quo is probably not sustainable:

(a) the Soviet Union, having replaced intimidation by seduction, is well placed to pursue its traditional security objectives (notably the denuclearization of Europe, leading to Euro-American decoupling). Although the USSR may, at last, be ready to cut back its massive military expenditure through conventional force reductions in order to bolster perestroika, Moscow will, naturally enough, attempt to secure denuclearization in the process.

(b) The United States has entered a cycle of retrenchment in military spending with cumulative reductions of more than 10% in budget authority by FY 1988, with further cuts to come. The next U.S. administration will probably not be in a position to spare forces earmarked for the defense of Europe from the effects of budget austerity. Such measures will be accompanied by an exacerbation of the burden sharing debate, with a potentially grave outcome in political and strategic terms if it is mismanaged.

2. Western Europe remains a set of nation-states characterized by limited economic unity - division being particularly prevalent in defense economics, with the bulk of armaments expenditure remaining confined to nationally based ventures under the aegis of national procurement bureaucracies - and substantial political and strategic fragmentation, despite recent attempts towards rapprochement (particularly between France and the FRG).

II. The "European Pillar"

1. Extreme scenarios may become plausible: e.g.

- Soviet proposals directed at our public opinions, leading to a "third zero" in West Germany, and ultimately to the denuclearization of all or part of Europe, and an ensuing U.S. and U.K. force withdrawal from the continent ("no nukes, no troops"); and/or:
- a fractious burden-sharing debate, exacerbated by protectionist measures, leading to unilateral U.S. force withdrawals and ensuring fissiparous reactions in Europe ("finlandization" being one type of response, nuclear sanctuarisation - in the case of France for example - being another); and/or:
- deliberate measures by some or all of the Europeans to build up a military potential outside of existing Alliance structures, such as former Chancellor Schmidt's proposal to merge the French and West German armies under French command. Although such a step may in time become an acceptable outcome, it would under present conditions accelerate U.S. - European decoupling.

None of these scenarios is particularly appealing.

2. For geographical reasons - the lack of Western Europe's strategic depth - and given the painful lessons of this century's history, Europe's defense and that of the United States should continue to rely on a substantial physical U.S. force presence within the framework of a political-strategic alliance between the U.S. and Western Europe. Therefore the rationale for the "European pillar" can be summarized as the following:

- . An instrument for improving and unifying European defense efforts (not least in the field of arms procurement), thereby contributing to a better balance in terms of burden-sharing and compensating, at least in part, the attenuation of the U.S. physical commitment.
- . A means to provide a unified European response to Soviet attempts to split the European allies, with the FRG being at the center of this challenge.
- . A logical corollary to parallel ventures in the broader economic field (the 1992 single market).

III. Four Practical Steps

In order to build a "European pillar" capable of meeting these requirements, a number of steps, achievable within a relatively brief time span (3 to 4 years), could be taken:

1. *"Harmel II"*. The challenges of the present age should compel the Atlantic Alliance to embark on a difficult, potentially divisive, rethinking of

its political aims and its strategy. Such an exercise should be undertaken at the political level and cover the same sort of political ground as the Harmel report of 1966 as well as the strategic ground of MC 14/3. If successful, this effort would help re-make the Alliance relevant to our public opinions.

2. *Abolishing the D.P.C.* France will not rejoin the integrated military commands. Yet, as Paris proclaims the existence of a single European "strategic area", France will have to associate herself more closely with allied defense planning. The procedure to achieve this could be simple: have Defense Ministers meet in the framework of the Council, thereby short-circuiting the D.P.C. The bodies run from the D.P.C. would go back to the Council, with various forms of French involvement.

3. *A Coordinated British-French-German Defense Review.* The three principal European countries will be forced, in the next few years, to embark on fundamental reviews of their defense priorities: France is burdened with an over-ambitious 1987-1991 Military Programme; Great Britain had put off a number of hard choices as a result of the South Atlantic war which will have to be revisited soon; West Germany is faced with a convergence of drastic demographic constraints and new programmes (e.g. EFA). It would make sense to have Bonn, London and Paris, coordinate the timing and the content of such reviews. This would be a major breakthrough towards a "better defense" and real European pillar. In the present economic and political climate, we cannot expect to increase defense spending beyond current rates, but at least we could rationalize our expenditures.

4. *Europeanized Arms Procurement.* With the same objective in mind, the European defense ministers should give new impetus to the two basic proposals put forward at the IEPG meeting in Seville last year:

- Competitive bidding for defense procurement should progressively become the norm, beginning with the least politically sensitive items (subsystems, spares, ammunition). Such a decision to establish a European defense industrial marketplace would be in the logic of the 1992 Single Market.
- The setting up of a military version of ESPRIT a European DARPA as it were - to avoid duplication of military R & D. This would entail the pooling of a fraction of national R & D resources. This will be painful for the bureaucracies involved. However, in this field, as in others relating to the European pillar, the alternatives look worse.

Introductory Remarks

I.

Our greatest danger at present is that of euphoria. Our great task is to be able to take advantage of the opportunities which the present situation offers, and to protect ourselves against the possibility that Gorbachev is not what we hoped, that he reverses course, or that he fails.

Alliance strategy since 1952 has been to rely on the threat of nuclear weapons to deter Soviet expansionism and to compensate for the conventional inferiority which the Alliance has faced since its inception. NATO history since then has largely been one of attempts to bolster the credibility of deterrence, and therefore to bolster that strategy, pushed principally by the U.S. against some European reluctance to build conventional strength to the point where it would be possible to defend Europe conventionally. The INF deployment was the last step in the building of that credibility and the filling out of the strategy of flexible response.

The INF Treaty has, at least temporarily, been something of a reversal of that process. It is not clear what strategic purposes either the INF or the START treaties serve, aside from getting rid of categories of weapons and equating deep cuts with arms control. That aside, what the INF Treaty did was to reduce NATO's reliance on nuclear weapons in Europe in favor of several alternatives, among which we must now choose.

One alternative is greater reliance on U.S. strategic forces, something the Alliance has been trying to get away from, and which would put an additional burden on strategic forces at a time when START is reducing those forces significantly. For example, 400 SLBM warheads are assigned to NATO. After a START agreement, that would represent 35 to 40 percent of all U.S. SLBM warheads in the Atlantic.

Another alternative would be to bolster NATO nuclear weapons: modernization, avoiding the third zero. But if we had started arms control rationally in Europe, we would have begun with the short-range and the battlefield weapons. These are of utility mostly now to demonstrate that we are resisting the slippery slope toward denuclearization. They are hardly adequate for deterrence.

Sea-launched cruise missiles present another opportunity. But there are significant problems, including verification, how START will handle them in a strategic role, whose vehicles would such missiles be on, and how would they be managed.

Another route is to enhance our dual-capable aircraft. Again, that is a mission we have been trying to get away from for some time, because our tactical aircraft are needed for the conventional battle. To have them sitting off the end of the runway, reserved for a nuclear mission, is a difficult trade-off.

Conventional build-up is another possibility--to reduce the imbalance which resulted in our dependence on a nuclear strategy in the first place. This would be a very difficult process. The U.S. faces a budget crisis, and the arguments for burden-sharing are getting louder. But this alternative has to be seriously examined.

The last alternative is conventional arms control, to reduce the

imbalance by asymmetrical Soviet reductions. Many believe the Soviets would never agree to this, but that is not necessarily so. They do not have to resolve their Eastern European strategy before they decide on conventional arms control. They don't need all those forces to keep Eastern Europe pacified. Moreover, they used outside forces, not forces on station, to put down both the Hungarian and Czech uprisings. Conventional arms control would require fairly deep asymmetries in order that NATO forces not be reduced below that point where they are able to constitute a viable defense, and still be sufficiently deep for the Soviets to have any interest. Conventional arms control is likely to take a very long time because it is not nearly so simple as nuclear arms control, where the effects are more easily calculable.

The Alliance has to decide what it wants. In START, the implications of missile cuts down to 4900 missile warheads are to increase the vulnerability of our strategic forces, both ICMB's and SLBM's. We might well be down to 17 or 18 Trident boats, perhaps only five or six on patrol in each ocean--a very small number of boats carrying a very large number of warheads. We ought to distribute those warheads on a large number of boats--an expensive proposition. We will significantly increase the vulnerability of our ICBM force, or allow its attack by a lesser proportion of the Soviet hard-target capable force. The only response we really have is mobility, also very expensive. Defense is another option, further in the future, and also expensive. We are looking toward mobility, but we are asking the U.S. Air Force to decide between a mobile missile and a new fighter aircraft; it's not hard to figure out what the Air Force will choose.

The clear consequence of these treaties is increased defense spending. That will be counter-intuitive to the country and the Congress, which will expect some kind of monetary dividend from the successful completion of arms control. This will come at a time of severe budget crunch. The U.S. defense program at present has been built on an estimate of an increase in defense forces of eight to ten percent a year. The result will be calls for burden-sharing with troop withdrawals almost inevitable. How will Europe take the notion of burden sharing while the U.S. is reducing its defense budget?

The political situation is paradoxical. We potentially face the greatest opportunity for progress in negotiations with the Soviets since the beginning of NATO. But the Alliance also faces its most dangerous period. Can we do what is required? We first must decide what is required. The recent NATO summit failed to address most of the serious problems facing the Alliance. What do we want, in conventional forces, in nuclear forces, in arms control? How do we get more bang for the buck? How do we deal with the cost-sharing issues in a cooperative rather than an acrimonious way, especially at a time when the Soviets and many in our midst are saying the threat has vanished?

Strength and determination--plus Gorbachev and economic problems--have brought the Soviets to the table. The question is, will the West give away this opportunity through euphoria or indecision, or will we move into a period of real progress?

Introductory Remarks

II.

The European-American relationship has never been an easy one, but the difficulties should not make us forget Churchill's admonition that the only thing worse than fighting with one's allies is fighting without them.

A simple extension of the status quo is probably not tenable, in view of the existence of an agile, professional, creative Soviet leadership; the reduction in U.S. military spending; the trend toward delegitimization of nuclear deterrence; and, more importantly, the fading perception of the Soviet threat--a trend that no doubt will have been encouraged by post-summit euphoria. All of this exists notwithstanding undiminished Soviet conventional capabilities whose relative weight will have been enhanced by the INF and START treaties.

A number of new Alliance initiatives, along with measures leading toward the construction of the European pillar, are a necessity. European initiatives can provide positive inputs to the Alliance, and allow operations which would not have been as readily feasible without such a European inspiration. One recent example is the recent European participation in the Gulf alongside the U.S. fleet. This can be compared to the rather lamentable spectacle of the overt split between the Allies during the de-mining operations in the Red Sea in 1984. In the security field, the Western European Union platform on European security interests which was adopted last October in the Hague provided direct positive input into the NATO summit last March and into its communique.

In time, progress in such European initiatives will lead to competition with the discussion drafting process within NATO, and this understandably makes a part of the American body politic somewhat nervous. But these sorts of reactions can be managed if it can be proven that there is enough gained for the Alliance when there is European cooperation.

There are four short-term initiatives which can be undertaken between now and 1992. These initiatives assume that the principal of reactivating the Western European Union is a given. If this reactivation is not a success, the present attempts at building a European pillar will end as did previous efforts in the 1950's and 1960's, with the rubble of so-called European defense strewing an unchanged Alliance landscape. Nor is the issue of European institutions in the field of security and defense raised. There are many of them, and thus no compelling reason to create new ones. The problem of harmonizing the institutional landscape is one that cannot be resolved in the short term, until the effects of 1992 are clear. We should see what can be done with what exists at present, without closing options.

Each of the four initiatives can be undertaken on stand-alone basis, but it would be better to do them in a coordinated fashion.

The first suggestion, Harmel II, is not intended to destroy or dismantle Harmel I as it was drafted in 1967. It remains a remarkable document, and perhaps updating it might be sufficient. But something more is probably required: an in-depth, comprehensive, political, strategic review. This sort of review should initially be conducted by a wise-man's group and should cover a broader agenda than did Harmel I, with a considerably larger arms control

segment. This sort of exercise will be highly divisive. But we need to have the debate and to arrive at some political common ground. The alternatives to not doing so are worse. We would be condemned to reacting helter-skelter to whatever proposals may come out of the Kremlin.

The second suggestion is the proposal to abolish the DPC. The bottom line is that France should, and probably can, participate in the NATO defense-planning process under certain conditions. Conversely, France has few incentives to reintegrate the military command as such.

The idea of a trilateral defense review is a target of opportunity, not an attempt to create a *directoire* among the French, the Germans, and the British. Rather, it flows from the fact that it will be necessary for each of these three countries to deeply revise the present structure of their defense. Resources are simply not adequate vis a vis existing force structures or plans. This will, of course, be difficult. But, the net effect would be a major rationalization of defense expenditure.

The fourth proposal--already endorsed in principal by the ministers of defense of the Independent European Program Group countries--is to open arms procurement within Europe to competitive bidding.

The hardy perennial of burden-sharing will blossom quite spectacularly during the new U.S. administration no matter who is elected. The budget crunch will filter down and severely affect the American force structure. Keeping that debate under control will be difficult, and anything the Europeans can do to show that their efforts are contributing to improving allied security will help. That is a clear rationale for the European pillar.

These initiatives taken to confront the short-term challenges can provide a basis for more ambitious ventures in the future. But these will depend on meeting the short-term challenges to our security and defense. Later on, we may consider building on the success or coping with the failure of the process of European economic unification--the 1992 objective, whose potential effects on the security landscape can only be guessed at at this stage, but will certainly be of great importance, not least with respect to Eastern Europe.

Introductory Remarks

III.

The Alliance faces a great many challenges, both internal and external. Certainly, one can be optimistic about the West-West relations because we have had a period of great success. Regardless of the strategic implications of the INF agreement, the Alliance demonstrated cohesion and consensus in its pursuit of the agreement. One of the major challenges now being faced is where do we go from here.

There is a post-INF agenda which includes halving the strategic arsenals, arriving at a stable conventional balance at a lower level, banning chemical weapons, and reducing testing of nuclear weapons. There is a consensus on these elements, but achieving them will be difficult. One of the Alliance's highest priorities is the drawing up of a comprehensive concept of

arms control on the one hand and defense posture on the other. If we do not succeed in presenting to our people exactly why we still need some nuclear weapons and why we can do without others, then we will be in political trouble. We need to address this problem, taking into account that, within the Alliance, there are a number of partners that have special geopolitical problems with nuclear arms.

This is particularly important with regard to the Soviet emphasis on denuclearization and the ability of Europe to resist it. It was interesting that, after the INF agreement had been negotiated, it was broadly accepted in the Netherlands, for example, that, even with the agreement, the Alliance would still be relying on a nuclear component for Western security. That would not have been true three or four years ago, because we could point to no practical success in arms control. The INF agreement has had a big impact, not only in raising popular expectations for more progress, but also because it has shown that dealing with security is not only dealing with a spiralling arms race. This is of political, psychological significance which should not be overlooked.

We should take a stand against denuclearization. One can share the lofty ideal expressed by Gorbachev and Reagan of a world that is totally nuclear-free, but it is not politically desirable to create such a political illusion at the present time. We should instead make it clear that, when Gorbachev says that a nuclear war is not winnable, he is right and that is exactly why the deterrent works and is credible. How you compose the deterrent arsenal is another question altogether that belongs in the discussion of establishing the comprehensive concept.

An issue which will certainly make West-West relations difficult in the coming years is the matter of burden-sharing. Still, it can be resolved, as long as the Europeans do not only think of burden sharing as sharing the political authority, and as long as the Americans do not think of burden sharing exclusively in terms of finance. European public relations in the United States seem to have lagged behind in the past years on the subject of the European contribution to the Alliance. Europeans should get in touch with American Congressmen, because, in the Congress, there is the feeling that the Europeans are lagging behind in their efforts. Actually, the level of the European contribution, as indicated in a recent publication of the IEPG, to the Alliance defense effort is quite impressive: 90 percent of the manpower, 90 percent of the artillery, 80 percent of the tanks, 80 percent of the combat aircraft, and 60 percent of the major warships. Furthermore, Europeans also share burdens and risks of nuclear deterrence, not only financially, but in terms of political burden sharing in the sense of having nuclear weapons on their soil.

Further, when speaking about burden sharing, we have to think of the European naval participation in the Gulf. There, the Western European Union has shown one of its reasons for existence. What they did is, for the first time in history, to identify a vital, out-of-area interest that affected their own security, and moved to protect that interest. This bodes very well for the West-West relationship, and contributes to solidarity, not only against certain widely acknowledged threats, but also in other global issues for which Europeans have tended to take too little responsibility. There is much more similarity in the interests of the U.S. around the world and those of

Europe than one tends to think.

Another point of contention may be the American troop commitment in Europe. The Europeans would much regret a reduction in this number without any significant progress having been made in the conventional stability talks in Vienna. Europe highly values the American contribution, but an American threat to reduce this contribution unless Europeans contribute more would be unacceptable. The freedom and security of Europe is a common interest shared by the U.S.

Of course, Europeans must make the utmost effort to overcome these bottlenecks. But it is true that the budget constraints faced by the U.S. are also being faced to a large extent by the Europeans. Our margin of manoeuvre is extremely small. We must all commit not to reduce defense spending further, because that tendency is present in Europe as well. We must at least maintain the level of what we are doing, and we must explore closer defense cooperation among the Europeans, including the creation of one industrial defense market in Europe.

It may be that, in the coming years, we will be more preoccupied with West-West relations than with East-West relations.

Discussion

The view that the Alliance needed to develop a comprehensive concept on which to base its future strategy in response to change in the Soviet Union was widely endorsed by participants in the discussion. This was particularly important, many speakers felt, as the Alliance moved toward the next generation of arms control negotiations: START, short-range, and conventional.

Our experience in the arms control area over the past five years, said a German, underlined the need for a comprehensive concept. There had been no systematic basis to the arms control proposals put forward by the West during this period; proposals involving different systems had been advanced at different times, without due consideration of their interrelationships. We had to have a concept of what systems we needed for our security before we made decisions about the next arms control priorities. In particular, worried an International speaker, we had not yet determined what we wanted in terms of arms control in the strategic area. An American added that we had to stop making proposals to the Soviets on the basis that they would never accept them. It would not be surprising, he continued, if, early in the term of the next U.S. president, Gorbachev proposed a conventional arms proposal along the lines of two-for-one asymmetry and a unilateral withdrawal of two or three divisions from Eastern Europe. We had to get our house in order promptly if we were to be in a position to respond to such a proposal.

A comprehensive concept of our minimum defense needs was also essential in political terms, said a Dutchman. Only with it could we convince our peoples and parliaments that these minimum defense requirements had to be kept up to date. It was also needed if we were to educate our publics

about the role of nuclear weapons in our collective security, said a Canadian. It was an American's view that we had to think out together our options and decide what kind of balance we needed 'militarily and politically to maintain the vigor of the Alliance.

As to the appropriateness of convening a wise men's group along the lines of the Harmel Report to chart a comprehensive concept, there was some division of opinion. An International participant admitted he was uneasy about "getting into a high-profile huddle" to decide where the Alliance was going. If the future was not a logical extension of what we were already doing, then we were going to have problems with our public consensus. In an American's view, Harmel II ran the risk of becoming "divisive and irrelevant". Any study, the outcome of which was already apparent, would not be very useful, and would end up not so much a road map as a "wiring diagram for an explosion". In defense of the concept of a Harmel II, an International speaker observed that the original Harmel report was done in a period of change, and a strong case could be made for repeating the effort.

In thinking about the future of the nuclear force structure in the U.S. and Europe, said a German, the basic question was what structure we needed to deter the Soviets and to reassure the Europeans about the U.S. commitment. When discussing denuclearization, many in the security elite mirrored the psychosis of the peace movement; what people in the peace movement hoped for, people in the security elite feared. The issue in deciding the future of land-based nuclear weapons in Europe was not denuclearization. Even if we got rid of all land-based nuclear weapons in Europe, there would still be air- and sea-based weapons with which to deter a Soviet attack. Indeed, the U.S. commitment would be more reassuring to many Europeans if it relied less on short-range and battlefield weapons. Germany would certainly be less exposed without them. Most short-range weapons deployed in Eastern Europe were conventional, anyway. Thus it would be to the West's advantage to eliminate both the nuclear and the conventional option. Therefore, the speaker concluded, he supported the third zero.

An American responded that it might be right that air- and sea-based weapons would be enough to deter. But the Alliance had been trying to bolster the ability of deterrence to make and Soviet strategy unwinnable. Were we now going to test how much we could eliminate before deterrence failed? A Dutch participant agreed that it would be unwise to get rid of battlefield nuclear weapons unless we had an idea of what we were going to do without them, or with what we were going to replace them. A Canadian argued that elimination of short-range nuclear weapons was not even an adequate form of conventional arms reduction. It could produce a decoupling between U.S. nuclear and conventional forces in Europe, resulting in the isolation of American forces in Europe. It would tend to confine the U.S. response to a Soviet attack to firing weapons from its own soil or from international waters; this was not a fair sharing of the risk. The instruments of nuclear deterrence should be spread fairly among the principal areas we were trying to deter the Soviets from attacking.

An American underlined that Western strategy was deterrence, and that nuclear weapons were a part of that strategy because they created "uncer-

tainties of such a gross nature" that no one could rationally calculate objectives in a conflict. Conventional deterrence, on the other hand, was notoriously unreliable, as the Europeans well knew. Another American warned that, as we discussed nuclear and conventional weapons and the need to strengthen them, we had to make sure the debate did not present nuclear weapons as a compensation for the conventional imbalance. Otherwise, the goal of the Alliance would become conventional balance without nuclear weapons, and we would end up denuclearizing ourselves.

Most speakers agreed that conventional arms negotiations would be difficult, complex, and fraught with danger. An American warned that we had to be careful in negotiating asymmetries in terms of such things as establishing troop ratios, which might be attractive to the Soviets. It was better to concentrate our efforts on hardware.

A British speaker agreed with the notion that the Soviets were unlikely to agree to conventional reductions in Eastern Europe before Gorbachev had decided on the future of his policy there. The Soviet Army stationed there was an instrument of social and political control. It was also a very offensive army. There were no natural defenses in Eastern Europe, and there was an enormous military infrastructure. All this made for a very unstable military situation, compounded by the NATO doctrine of forward, mobile defense.

The Soviets relied heavily on the tank, a weapon seriously out of date, and vulnerable to a certain kind of defense--namely an obstacle large enough so that a tank could not cross it. The West ought to get across the idea to the Soviets that it would construct this sort of defense on the main Soviet routes of advance into Western Europe unless they began removing their forces. In addition, the military infrastructure should be included in negotiations. If the Russians left behind in Eastern Europe a large infrastructure, they could always return. We had to bargain for a demilitarization of Eastern Europe.

An International speaker doubted that such a conventional deterrent would work. He went on to say that he feared the inherent complexity of the conventional negotiating process. There was no certainty that conventional negotiations could run along the same lines as nuclear negotiations. It was not possible to define what was a stable conventional balance. Indeed, if there was such a thing, we would not need nuclear weapons.

The view that Eastern Europe could provide the real danger of East-West conflict was expressed by a Canadian, who felt that NATO's strength had limited the danger of a premeditated Soviet offensive against Western Europe. In Eastern Europe, however, the instability brought about by change could lead to the inadvertent escalation of a crisis into war. One of the West's great challenges was going to be how to manage change in Eastern Europe.

A German participant argued that the West, in defining its interests in arms control, should give certain guarantees that we would not disrupt the security relationship between the Soviet Union and its Eastern European satellites. An American responded that he was troubled by the idea of persuading the Russians to get rid of or redeploy some of their conventional

weapons in exchange for the West's promise not to undermine the Soviet military position in Eastern Europe. In this context, an Austrian wondered what the balance would be in an East-West conflict, in view of the fact that many people in these countries hated their own leaders and the Soviet Union.

A Dutch speaker felt reassured that Gorbachev was, at present, further ahead in his thinking than the leaders of the satellites. The best strategy for Western Europe to follow was to capitalize on the common cultural heritage with Eastern Europe. These countries had a great interest in trying to enhance cooperation in scientific, economic and cultural fields, and to soften the consequences of the division of Europe. We should join in this kind of cooperation without giving the Soviet Union the idea that we were trying to drive a wedge between them and their satellites.

In the area of West-West relations, burden sharing was seen by most speakers as the most challenging issue. Several American participants addressed this matter. One urged that any formulation of a comprehensive concept had to take burden sharing into account. It was bound to be a major issue in the current year's elections. It was possible that the issue of burden-sharing in the U.S. was more political talk than anything that would be translated into budget action, but it had to be taken seriously.

Because of the fiscal situation in the U.S., said another American, the next president would face the uncomfortable choice among raising taxes, revising the budget, or simply allowing the deficit to rise. Burden-sharing was a phrase American candidates could use to answer the question of what to do about defense spending. It was a way of pointing the finger at someone else.

A third speaker from the U.S. pointed out that the Congress was motivated by more than just budgetary considerations. Many Americans were asking why defense spending should be increased at all. Even with a balanced budget, increasing military spending would be very difficult. Among the reasons he cited: a skeptical view of the separateness of France within the Alliance; questions about European unity; atrociously expensive U.S. weapons procurement, with huge cost overruns and lack of controls; interservice rivalries; a "frittering away" of the Packard Commission reforms. Much needed to be done to retrieve the confidence and support that existed six years ago in the U.S. for adequate defense spending.

Marshalling Western public opinion in support of the objectives of the Alliance was widely seen as a vitally important component in forging the Alliance's future strategy. How, asked a Canadian, could we maintain adequate public support for our defense policies and expenditures? We had become victims of our own rhetoric by portraying the Soviet threat and danger as a direct function of the size and strength of its military forces. The image that Gorbachev now was projecting made that increasingly hard for our publics to understand as a source of danger. We had to find ways to get across to our publics a deeper understanding of the security problems that existed in Europe. An American agreed, suggesting that we undertake a

"massive education program" on the nature of the Soviet Union.

A participant from Norway expressed particular concern about how to arouse public support for the increased conventional expenditure that would be brought about by a reduction in nuclear weapons. While the reality was a huge Russian buildup in the Kola Peninsula and total control by the Russians of the Polar Sea, Norwegian public opinion was becoming convinced that the old enemy was disappearing.

An Austrian said that Europeans no longer believed that their security and stability were sufficiently safeguarded by a large arsenal of weapons, nuclear or otherwise. Indeed, there was an aversion to nuclear technologies, whether military or non-military.

The answer, said a Dutch speaker, was to show that there was no current alternative to nuclear weapons. At the same time, leaders had to demonstrate that they are sufficiently concerned by the risks that they were working to bring it down to the lowest possible level and still assure security and stability.

NATO's challenge in the coming years was summarized in this discourse by an International participant. The real problem we faced was change and our perception of change. We in the West and our collective security were inextricably involved in a process of change. We had to look at how much had really changed in the Soviet Union, and how much only appeared to have changed. Gorbachev did not want the West to fear the Soviet Union. He had seen that saber rattling against Western Europe had produced only Western unity.

The INF treaty was far simpler in its specifics than a negotiation on conventional arms would be. It was, at the same time, enormous in its ramifications--an unravelling of many of the rationales the West had accepted for its security. For the Soviets, the INF agreement was the first step toward the denuclearization of Europe. That, along with the disappearance of NATO, and the U.S. departure from Europe, were Gorbachev's objectives.

It was significant when Gorbachev said war was not inevitable, but it was not an indication that Soviet external goals had changed. Perhaps there was new thinking, but there was the same old military structure, with its doctrine, organization, deployment, equipment, etc. There had been no changes in Soviet production of armaments since Gorbachev came to power. The Russians were proceeding to build new classes of nuclear submarines, new carriers, and other weapons systems. All this indicated that it would be hard for Gorbachev to change the military situation even if he wanted to.

What, then, could the West do? Most important, it had to provide stability in a time of transition by supporting and maintaining our strategy of deterrence and defense. Otherwise, we would be contributing to the dangerous aspects of the transition. We had to present to our adversaries something they could understand as a stable position. The strategy of forward defense and flexible response was not an orthodox one; it had to be continually re-examined. But there was no alternative to flexible response; nothing else would collectively satisfy the Alliance. We had to remain stable and cohesive in order to face the Alliance's most difficult challenge.

In order to face a threat, we had to have a strategy, and a strategy was no good without the resources to back it up. We had to modernize and to restructure. We would not have the resources without public consensus on the danger. Now, the public consensus was wavering, even about whether the danger was there in the first place. We needed to look at deterrence as a historical question--where it had worked and where it had not. And we needed a comprehensive concept of what we were doing. This concept should ask if we supported the strategy of flexible response and forward defense. Our answer must be that we wanted NATO, we wanted the U.S. in Europe, and we wanted nuclear weapons.

We needed to realize that disarmament was not peace. We need a reaffirmation of our principles. We needed to master change and transition. We did not need to greatly change our strategy, because there was really no alternative. We needed a comprehensive approach to deterrence and defense which took into account the common interest.

VIII. THE GULF AND AFGHANISTAN

Working Paper

Issues in the Iran-Iraq War

The political and military environment in the Persian Gulf has been transformed during the past eighteen months. After nearly eight years of brutal warfare between Iran and Iraq--and talk of a new Hundred Years War--even the most cautious optimism may seem misplaced. Nevertheless, present trends appear to offer the most serious opportunity for negotiation of a cease fire since 1982. The following is a brief review of key developments over the past year and a half:

1. *Failure of the Karbala V Offensive.* In January and February 1987, Iran mounted one of the largest offensives of the war in an attempt to break through Iraqi defenses at Basra. Karbala V had been meticulously prepared for more than a year, and Iran benefited from significant infusions of weaponry from the United States, Israel and China, among others. Karbala V was hailed in advance as the "decisive offensive" of the war by Iran. But, despite a supreme effort, it failed.

2. *Iran's Change of Strategy.* After this failure, the Iranian leadership was forced to ask itself whether still another offensive the following year would yield any different results. By June, the commander of the Revolutionary Guards announced a new strategy relying on a "series of limited operations" along the border and guerrilla raids with the Kurds in northern Iraq. Although Iran did not renounce its fundamental war aims, it acknowledged tacitly that the war could not be won in a single, decisive offensive. And some individuals in the Iranian leadership seemed to signal a new willingness to consider a cease-fire if the proper terms were offered.

3. *Entry of the Western Navies.* In the wake of the Iran-Contra affair, the United States undertook a more active role in the Gulf on the side of the Arab states by reflagging eleven Kuwaiti tankers and deploying substantial naval forces in the area. When Iran responded by placing mines in the shipping lanes, naval forces of Belgium, the Netherlands and Italy joined those of Great Britain, France and the United States in minesweeping and patrol duties. Although each country acted on its own, these deployments effectively represented the first introduction of a NATO presence into the Gulf.

4. *Resolution 598.* On July 20, 1987, the United Nations Security Council adopted a comprehensive resolution demanding a cease-fire and withdrawal of forces in the Iran-Iraq war. This was the first time in its history that the Security Council had unanimously invoked the mandatory

provisions of Chapter VII of the Charter. The resolution called for an immediate withdrawal of all forces to the international boundary before other elements of a settlement, e.g. reparations, were discussed. Since Iran was the only party holding territory outside its own boundaries, it was widely anticipated that Iran would reject the resolution, thereby triggering a second resolution imposing an arms embargo. For some U.N. members--particularly the United States--the arms embargo against Iran was the main objective.

5. *Iranian Counter-Proposal.* Contrary to expectations, Iran did not reject the resolution. Instead, Iran offered to observe a cease-fire if an impartial commission were established to determine who started the war. The concept of an impartial commission had been written into Resolution 598 as paragraph 6. Iran believed, with some justification, that Iraq would be identified as the original aggressor, thereby providing Iran with political vindication and legal grounds for seeking reparations. Iraq refused to consider any deviation from the original order of the paragraphs and sharply escalated its attacks on Iranian civilian targets. Secretary General Perez de Cuellar developed an "implementation plan" that provided for a commission to begin work simultaneously with the beginning of the cease fire and began consultations with the two parties.

6. *The Iran AJR Affair.* This diplomatic effort was interrupted by a retaliatory exchange between the United States and Iran in September and October 1987, after the United States attacked an Iranian minelaying ship in the central Persian Gulf. By late December, tempers had cooled and a new round of diplomatic efforts began. Through Syrian good offices, the Gulf Cooperation Council states opened direct discussions with Tehran.

7. *Iran Moderates its Position.* By February 1988, Iran indicated to the U.N. Secretary General its willingness to accept all provisions of Resolution 598, including a formal cease fire with U.N. supervision and the initiation of troop withdrawal from Iraqi territory, on condition that these moves be paralleled by the formation of a commission to fix responsibility for starting the war. However, Iraq remained unwilling to consider any departure from the original order of the paragraphs of the resolution. The United States (president of the Security Council in February) insisted that Iranian offers were merely a stalling tactic and redoubled its efforts to impose an arms embargo on Iran. The U.S. efforts were supported by France and Great Britain but encountered resistance from China and the Soviet Union, as well as many of the non-permanent members of the Security Council, including German, Japan and Italy.

8. *The War Escalates.* On March 1, Iraq initiated a new phase of the war of the cities by firing nearly 100 modified SCUD missiles at Iranian cities during a two-week period. Iran responded to this attack by launching a ground attack in Kurdistan. As Iranian forces approached the town of Halabjah, Iraq bombed the town with mustard and nerve gas, killing up to 5,000 of its own citizens as well as Iranian military personnel.

9. *The Samuel B. Roberts Affair.* In early April, Iranian units placed approximately 8-10 mines in the central Persian Gulf, one of which struck a U.S. Navy ship on April 14. Four days later, the United States retaliated by demolishing two Iranian oil platforms and sinking or damaging six Iranian vessels. After this exchange, China announced that it would not participate in an arms embargo against Iran, thereby removing whatever lingering hopes the United States may have harbored about passage of a second resolution.

10. *The Taking of Fao.* On the same day as the U.S. attack, Iraqi forces in a lightning thrust succeeded in retaking the Fao Peninsula, which Iranian forces had occupied since February 1986. Except for the incursion in Kurdistan, this effectively removed all Iranian troops from Iraqi soil.

This highly abbreviated summary of a complex series of events points toward several general observations:

- As of mid-March 1988, the ground forces of both sides were roughly back to where they started when the war began in September 1980.

- Over the 18-month period, the level of ground combat was desultory. The war of the cities and the tanker war were entirely at the discretion of Iraq, with Iran in a reactive mode.

- The United States, by its naval presence and support for Iraq, restored much of its credibility in the eyes of the Arab states of the Gulf after the Iran-Contra debacle.

- Iran, which relied entirely on the Strait of Hormuz to export its oil from the Persian Gulf, could not challenge the naval supremacy of the United States and its NATO allies in the region.

- Despite the most recent clashes, Iran maintained its formal offer of a conditional cease fire in the war. The seriousness of Iran's offer has yet to be tested.

On the surface, this set of conditions would appear to offer a promising basis for a new diplomatic effort, perhaps the best opportunity since 1982 when Iran drove Iraqi forces out of Khuzestan. The "implementation plan" of the U.N. Secretary General in pursuance of Resolution 598, now approved by the Security Council, appears to provide an appropriate basis for such an effort.

Both the United States and the Soviet Union seem to have concluded that the continuation of the war is contrary to their own national interests. The Soviet Union, given its overwhelming internal problems and its disastrous experience in Afghanistan, is showing signs of renewed interest in multilateral diplomacy through the United Nations. The practical possibility of superpower collaboration on regional issues through the U.N. was recently demonstrated by their co-signature of the Geneva accords on Afghanistan.

Both Iran and Iraq are war-weary. Iraq is deeply in debt and, not

unlike England after World War I, has sacrificed the flower of an entire generation to this war. Iran is struggling to maintain its critical oil exports and has begun to experience serious difficulties in mobilizing public support for a war that it no longer believes it can win. Iran's failure to mount more than a token defense of Fao in April seemed to be more a reflection of futility than incompetence.

All that being said, it is difficult to be even modestly optimistic about the prospects for an end to the fighting. Iran, which has just completed its third parliamentary election since the 1979 revolution, is in the midst of a severe factional struggle for power. Khomeini is the essential glue that holds the Iranian revolutionary system together, but he is now approaching his 86th birthday. Over the past year, those individuals in the Iranian leadership who prefer a more traditional foreign policy have proved to be surprisingly durable in the face of internal and external challenges, but that is no guarantee of their survival even in the short term. Moreover, in a revolutionary society, any evidence of accommodation with external enemies is regarded with suspicion. Can Iran make good on its offer of observing even a conditional cease fire? It is impossible to tell until it has been tried.

Iraq to date has refused to consider Iran's proposal of a commission to determine who started the war. After its recent victory in Fao, Iraq would appear to be in a better position to be magnanimous. However, victory is seldom a prelude to compromise. It is likely that Iraq will require some measure of persuasion if it is to modify its stance. The United States and the Soviet Union would seem to be perfectly positioned to make such an appeal, but neither superpower has been willing to make even the slightest gesture in that direction in the past, for fear of yielding a temporary advantage.

The history of the Iran-Iraq war, like other conflicts in the Middle East, has been a history of missed opportunities. If this moment is to be an exception, it will require an exceptional measure of diplomatic skill and more than a little luck. Those are commodities that have lately been in short supply in the Persian Gulf.

Introductory Remarks

I.

In confronting the Iran-Iraq war, the states of the Gulf Cooperation Council, although they do not often achieve the reality of coordinating their policies, are moved by some principles or emotions which they hold in common. First, they all are predominantly Arab states, and their ethnic and cultural instincts draw them to support Iraq, even at the risk of endangering their own national interests. Arab-Persian antagonism goes back a long way and has been reinforced since the Second World War by the growth of the Arab League and the trend toward the idea of Arab solidarity.

At the same time, these states are all, to some degree, suspicious of Iraq and nervous about her long-term ambitions in the Gulf. They see her as a populous, potentially powerful and potentially rich neighbor with a

revolutionary, so-called progressive, socialist regime fundamentally different from and opposed to their own monarchical, traditional constitutions.

These states are also nervous about Iran, her revolution, her form of Islam, her potential for subversion through the Shi'ite population in several of the states. They fear that, in the short term, Iran might expand the war to include them, and they know that in the long term, they will have to find some means of living alongside Iran in peace and cooperation when the war is over. So they try to avoid provoking Iran.

These common factors apply with different force and different qualifications to the different states. The instinct of Arab unity which leads Saudi Arabia and Kuwait to feel obliged to support their fellow Arabs in a fight against the Iranians, is felt less strongly by Oman, for example, which is on the periphery of the Arab world and has often followed an independent line. Moreover, it, and the U.A.E. are more geographically remote from Iraq, and hence feel less nervous about future danger from Iraq. Saudi Arabia has a common frontier with Iraq, which lies in a desert plain and offers no military line of defense. Kuwait is even more vulnerable and knows that Iraq has territorial claims against her.

With Iran, the U.A.E., especially Dubai, have close and profitable commercial ties, including shared oil production. They also have a large Iranian population, and clearly it is in their interest to cultivate a friendly relationship with Iran. Oman has reached the same conclusion. Kuwait and Saudi Arabia have accepted that it is impossible for them to have a friendly relationship with Iran. In the case of Kuwait, her geographical position has made it impracticable to avoid helping Iraq or to conceal that help; this is so partly for Saudi Arabia, and partly because they are ideological and political enemies. Iran views Saudi Arabia as the stooge of the West. Saudi Arabia has shown forbearance in the face of provocative Iranian attacks, but seems now to have decided that patience and conciliation will not work. She is dealing with Iran more confidently, no doubt in part because of the Western naval presence in the Gulf.

As perhaps an offshoot of that confidence, Saudi Arabia may now be preparing to establish diplomatic relations with the Soviet Union. The Russians would welcome such a move, and there is a body of opinion in Saudi Arabia which has favored it for some time, if only to show the U.S. that it is not true that the Saudis do not need to be wooed or humored because they have nowhere else to go; or if only to vent the Saudis' indignation at what they see as the humiliations imposed on them by Washington over the negotiations on arms supplies. But King Fahd has so far resisted any move toward Moscow, and it is unlikely the new mood of confidence will help to change his mind. Saudi policy, both foreign and domestic, has traditionally been very cautious. The Saudi purchase of Chinese missiles should satisfy their indignation against Washington for a while, especially as they are grateful for the American naval presence in the Gulf. Still, the establishment of relations with the Soviet Union is a possibility.

Two other small states in the Gulf are Bahrain and Qatar, both of which are close to Saudi Arabia and would likely follow the Saudi line. At the moment, each has a reason for lying low and avoiding any action provocative to Iran. Bahrain has a large Shi'ite population, and Qatar's oil production is dependent on an island exposed in the Gulf. Anyway, neither

state is of great importance.

These differences in outlook are not necessarily a handicap to the GCC. They enable it to keep open a channel of communication and negotiation with Iran through some of its neighbors even though Iran is openly hostile to others. They also make it difficult for Iran to adopt a monolithic policy toward the Arab states of the Gulf.

Another factor makes it impossible to ascribe to the Gulf states a single, consistent attitude to the war. In Saudi Arabia, at any rate, the government sees the war as a disaster. It is constantly aware of the danger of escalation, of the threat to its own security, of the cost of financial assistance to Iraq, of the future cost of post-war reparations and reconstruction, much of which is bound to fall on the Saudi treasury. The Saudi people, on the other hand, who, because of the absence of democracy and public debate, are much less aware of costs and dangers, are inclined to see the war as a tolerable circumstance in which two potential enemies of their country are exhausting themselves and thereby diminishing their power to cause trouble in the future.

In the U.A.E., especially Dubai, the war is actually bringing commercial and financial benefits in the form of semi-illicit trade with Iran and useful business for the ports and shipyards.

Though it has never been publicly declared, what in effect has happened is that the NATO countries have taken sides in the war for Iraq and against Iran. First, officially these countries are neutral. Second, none has any great admiration for the present Iraqi regime. Third, the intervention is ostensibly in defense of freedom of navigation, and yet it is Iran that wants and needs free navigation and Iraq who wants to stop it. Finally, the intervention was ostensibly at the request of Kuwait, which is far from an ally or even close friend of the U.S. and the Western powers and, while seeking this intervention, is also embarrassed by it.

So why have the NATO powers intervened in so one-sided a fashion? Presumably because they have concluded that the one outcome of the war that must be avoided is an Iranian victory, that although the Iraqi case is far from being proven just, and although Iraq is far from being an agreeable regime, it is at least predictable and can be dealt with and talked with. Iran, meanwhile, is irrational, unmanageable, revolutionary, fanatical, etc. And of course, we have been pressed into intervention by our friends King Hussein and King Fahd, whose friendship is important to us and whose friendship might have been lost and whose own position might have been weakened had we not intervened.

This intervention has, in some respects, been realistic and hard headed and probably right, but it has involved the West in inconsistencies and convolutions. It is not clear how long it will last and how we should bring it to an end.

The Iranian revolution is running out of steam. Iran decided a year ago that it could not win this war. This has had a significant effect not only on the conduct of the war, but of the revolution itself. In the early days, Iran believed that the world needed Iran, and not vice versa. Like most revolutionary regimes, it was out to totally change the world. In the succeeding ten years, the Iranians have learned that the reverse is true. Iran's revolution is maturing in the sense that they have discovered that they have problems of their own.

Since December, the focus of Iranian politics has shifted from the external to the internal. Iran today is much more concerned about its stagnant economy, the absence of progress on a whole series of social issues that were promised during the revolution and which have never been fulfilled, and an internal agenda that remains unmet. There also is a great lack of popular enthusiasm for the war that has extended from the leadership level down to the average man, to the point that it is now difficult to mobilize the kind of support the war had in the past.

Iran has just been through an election process. Much publicity has been given to the fact that the so-called radicals won. That is true, but the radicals who won are radicals on the internal agenda who want to save the revolution. The war is an obstacle; it is no longer something that holds them together, or serves their purpose.

In addition, Khomeini is getting older. He is not as firm as he was in the past in his leadership, and there is a sense in Iran that he is fading, and that they better get their house in order before he disappears. In short, after ten years, it is safe to say that the Iranian revolution is concerned with building clericalism in one country, rather than exporting the revolution.

The war has now been turned over to the foreign ministry to try to deal with it diplomatically. Over the past year, Iran has made a series of quite forthcoming offers on the negotiating side. These have largely been disregarded, primarily because the Western nations were more concerned with imposing an arms embargo on Iran than with pursuing a genuine ceasefire. Are the Iranians serious about these offers to obey Resolution 598? We won't know until we try, and so far we haven't been willing to try. The U.N. Secretary General has proposed proximity talks between the two sides to come up with a date of a ceasefire and the terms of reference of a commission to look into the causes of the war, as well as other issues. To date, the Iraqis have refused, and it looks as though the Iranians are going to accept.

Islamic fundamentalism was overstated as a threat from the beginning, although it was real. Many religious groups in the Arab world were aroused by the image of Iran and its successful revolution. Those days are over. The religious groups remain, but are no longer a political threat. The danger of an Iranian victory in this war is close to zero, so the political implications of Islamic fundamentalism are no longer what they were.

Because of Iran's shift to an internal agenda, there is a good possibility

that the war will end, maybe this year. This will require some diplomacy, and a demonstration of will on the part of the countries involved that they want the war to end. There have been many voices saying this war should continue.

Pressure is going to grow over time for the U.S. and the other Western countries to reduce their military presence in the Gulf, partly for economic reasons, but also partly because we are trapped in an escalatory cycle. The U.S. presence was useful to prove that we had not shifted to the Iranian side, but the policy no longer makes much sense. We are presently at the mercy of two abominable regimes. Whenever either decides to escalate the war, we end up picking up the pieces after them, to no particular effect. Is this now worthwhile?

Iran is quietly pursuing a set of openings to the U.S. and to the West, trying to open up lines of communication. This is a continuation of its policy during the Iran-Contra affair, when the connections began to get very serious. The Iranians continue to pursue this connection.

With the Soviet withdrawal from Afghanistan, the one lesson they have learned is that unilateralist adventures abroad have lost their appeal. The Soviets have, in the process, rediscovered the United Nations. Thus, there is a window of opportunity in the next several years when one might think of using the U.N. in the way in which it was intended. Certainly if the Gulf conflict is to be brought to an end, it will be the U.N. that does it. It is relatively cost-free for the superpowers to support the Secretary General.

Many things could still go wrong. We are not talking about a good guy and a bad guy in the Gulf, but rather two bad guys. To be on the side of one and give up the possibility of doing a deal with the other is to shoot ourselves in the foot. We should be more evenhanded and try to bring this war to an end.

Introductory Remarks III.

The Soviet withdrawal from Afghanistan can be explained by three factors: the military and political stalemate in Afghanistan; the shift from an active third-world policy to an emphasis on East-West and European issues; a lesser emphasis by Gorbachev on the non-capitalist way of development for third-world countries.

Why did the Soviets leave Afghanistan? From the beginning, they wanted to avoid the Vietnam syndrome by keeping the Afghan war as a low-level, local conflict, thus avoiding any escalation or direct spillover into neighboring countries.

To keep the war at a low level meant not to go beyond a certain level of involvement in number of troops, human and economic costs, and political and diplomatic costs. That meant no more than 120,000 Soviet soldiers in Afghanistan, no hot pursuit, as few casualties as possible, no diplomatic isolation and, most important, consolidation of the Kabul regime, both militarily and politically.

But, by 1986, it became obvious that it would be impossible to keep the war within the framework of this "Afghan postulate". The regime was not consolidated, Kabul's army was unable to fight without Soviet involvement, condemnation by the U.N. General Assembly was getting increasing support, Pakistan was not destabilized, and delivery of the Stingers and the growing efficiency of the resistance foretold an increasingly bloody war, even if Soviet troops were not yet endangered in their bases. Thus, the Soviets faced either escalation or negotiation. In fact, they did neither; they decided to withdraw.

The first consequence of their withdrawal is not necessarily that the conflict will cease, but that the East-West dimension of the conflict will fade away in the face of local, sometimes parochial, interests. The Geneva Agreements are not a Peace Treaty. They do not settle any future regime in Afghanistan. They are an agreement on the Soviet withdrawal, made possible only because the Soviets decided not to link their withdrawal with the consolidation and legitimization of the Kabul regime.

The U.S. has indicated that it does not have strategic or vital interests in Afghanistan, except not to have Soviet troops or a Communist regime there. One of the consequences of Soviet withdrawal will be that American influence in the area will probably decrease, and a new tension between Pakistan and the U.S. over the nuclear issue will arise.

There will be a soft Soviet presence in the area. For the first time, as far as governing Communist parties are concerned, the Soviets made no linkage between their strategic interests and an ideological commitment. The establishment of a Communist regime on the Soviet border is no longer seen as the best asset for implementing not only the security of the Soviet borders, but also the strategic breakthrough of the empire.

But this does not mean that the Soviet Union will give up its interests in Afghanistan. Soviet policy will be based on three objectives. First, they will try to adapt very closely to the political situation that will follow the withdrawal, without being bound to predetermined goals. The Soviets will support the Najib regime as long as it survives; if it collapses, the Russians will withdraw the remaining Communist forces to a security zone in the north of Afghanistan that they will maintain as long as there is no strong mujahedeen government in Kabul. Second, they will not risk being re-involved militarily in Afghanistan. They will generally avoid any initiative that could make them lose the political and diplomatic gains of the military withdrawal. Third, they will seek to retain economic and cultural influence in Afghanistan by using such factors as proximity, influence of Soviet-trained students, cheapness of Soviet goods, and availability of scholarships.

There follow three hypotheses. First, Najib will not remain in charge, but will collapse in less than a year. Second, a civil war along ethnic lines is possible, but it will not be fundamentalists against moderates. Rather, it will be Persian-speaking people against Pashtun-speaking people, or within Pashtun-speaking groups. The third possibility is that there will be a nominal but legitimate mujahedeen government in Kabul. The choice between the last two hypotheses is mainly in the hands of the Pakistani Army, which determines Pakistani policy. Pakistan has two objectives in Afghanistan. First, they want to control the tribal area in order to reverse the old Pakistan-Afghan issue. Second is to have a friendly government in Kabul--

that of the party of Gulbuddin Hekmatyar. The problem is that this party is the most extremist of all the Afghan parties, has little support inside Afghanistan, and is mainly Pashtun. The coming to power of this party would automatically trigger the outbreak of civil war in Afghanistan, the consequence of which would be Lebanonization of Afghanistan. If that happens, Pakistan will control the tribal Pashtun area, the Iranians will dominate the Persian-speaking people, and the Uzbeks in the north could find some protection from the Soviets. It is strange that the U.S. supported the Pakistani policy almost from the beginning.

For the Soviet Union, the Afghan issue is a military defeat, but it could mean a diplomatic breakthrough in the area. The conservative Arab states are ready to talk with the Soviet Union. The ties between the Soviet Union and Iran will also improve. Afghanistan was one of the few bones of contention between them. Pakistan will also try to find some support from the Soviet Union, especially if there is new tension between it and the U.S. on the nuclear issue. Indeed, the Lebanonization of Afghanistan is in the Pakistani interest because it needs to have a continuation of the tension in Afghanistan in order to retain American support.

As for the pro-Soviet regimes, they might be worried about the Soviet withdrawal. But it fits with Gorbachev's "do it yourself" policy toward pro-Soviet countries. The only real danger for these regimes from the Soviet withdrawal is internal. One lesson of the withdrawal will be that Communism is reversible. Second, it is that Communism has been beaten by Muslims. This is of consequence to all Soviet Muslims in the long term, and to other nationalities within the Soviet Union.

Discussion

A Turkish participant opened the discussion by giving an overview of the Gulf conflict. The prolongation of the war was causing great instability in the region. Neither side had been able to establish decisive superiority over the other, and both were hurting. The war of the cities had seriously damaged the morale of the Iranian people. Adding to the growing pressure on Iran was its isolation internationally. Iran's military capabilities had been damaged by the Iraqi attacks on the Fao Peninsula and by U.S. retaliation in the Gulf. And Iran's economy was in a shambles. As for Iraq, its advantage was in superior equipment and financial backing from other Arab states. But its own resources were limited, and it was deeply in debt.

Iraq realized it could not force a military victory, so its aim was to force Iran to the negotiating table. As for Iran, it seemed determined not to renounce its fundamental war aims, but it was apparently seeking a peaceful settlement, in part because it sought to regain international sympathy. Hence, it had accepted Resolution 598. What was needed to achieve a settlement was a new, more pragmatic and realistic approach than had been tried. A formula based on the consent of both parties should be negotiated with both sides confidentially. Turkey, which had good relations with both

sides and had remained strictly neutral, was ready to assist in reaching such a solution.

What were the obstacles to the present efforts by the U.N. Secretary General to reach a settlement? In the view of a Briton, the point had been reached where all parties wanted an end to the war without victor or vanquished. But Iran was still imposing conditions. Another potential obstacle was that the presence of the Western navies in the Gulf caused an imbalance that might deter Iran from coming to the conference table.

An American disagreed, saying that Iran had now accepted the new negotiating plan put forward by the Secretary General. This plan included the establishment of a commission to determine the blame for the war. The Secretary General had modified Resolution 598 in a way that made it satisfactory to Iran, so that the Iranians were showing signs of being ready to talk. Meanwhile, the Iraqis were being stubborn.

An Austrian speaker worried that the war would not end soon because there were too many who did not wish it to end. As long as the two sides were bleeding each other, they presented less of a threat either militarily or in terms of Islamic fundamentalism. A Briton responded that this might have been so on the part of some Arab governments in the early days of the war, but now all the Gulf countries were nervous and frightened by the war, and wanted it to end.

With respect to Western bias toward Iraq, a longtime Bilderberg participant from Switzerland, who was unable to attend the conference, put the following views before the conference via a telex. It was Iraqi President Saddam Hussein who bore primary responsibility for four aspects of the Gulf conflict. First, he started the way by invading Iranian territory. Second, he started the attacks against oil shipping in the Gulf. Third, he started the bombardments of cities and civilian populations in Iran. Fourth, he started the use of chemical weapons in the conflict.

In spite of Hussein's "deplorable role," the West had supported him throughout the conflict. This was due more to antagonism against Iran than to admiration for Hussein. Western support should continue for Iraq as a country, for its army, and its people--but not for its president. It seemed likely that, if Hussein stepped down or was otherwise removed, the door to a peaceful settlement would open. Thus, the West should "terminate all support for Hussein".

A British speaker said this view "filled (him) with unease". The West could not afford to return to the days when it tried to engineer the disappearance of leaders in other countries. We could not support Iraq and not at the same time support its leader, however much we disapproved of him. We could not get involved in conspiracies, no matter how much we wanted to achieve a settlement.

An American argued that the West's support of Iraq was "essential and proper". It was true we had no common interests with Saddam Hussein. Indeed, he recognized that his interest was in not having the Iranian threat totally removed. But getting rid of Hussein would not have ended the war; rather, it would have given the Iranians a new incentive to pursue it. With the war petering out, however, we should be thinking about how to

disentangle ourselves from Hussein, who might well turn into the "bully of the region".

Participants in the discussion expressed considerably more interest in the future of Western relations with Iran than with Iraq. A Swiss speaker, whose view of Soviet foreign policy was that it aimed to "encircle China and Europe", felt that the Soviet Union had an essential incentive to establish friendly relations with Iran. This could put the Gulf war in an East-West framework. Was it possible that a *modus vivendi* could be reached between communists and Islamic fundamentalists for strategic reasons?

In an American's view, if the war ended without victor or vanquished, the two superpowers would "start out essentially even" in the area. But the Iranians were more threatened by the Soviet Union than by the U.S., and they knew that. They would have to balance their superpower neighbor to the north with the other superpower; they had nowhere else to go than to reach an accommodation with the U.S. It was inevitable that some sort of relationship would be resumed. But there was a tremendous internal power struggle going on in Iran, and Khomeini's death could result in civil war, in which the Soviets might be tempted to take sides in order to guarantee an outcome they would prefer. So the potential for an East-West conflict over Iran was there.

In another American's view, it made no sense for Iran and the U.S. to be enemies. Besides China, Iran had the longest frontier with the Soviet Union. And there was no logical American geopolitical objective in Iran. Why then, was it so difficult for Iran and the U.S. to establish a dialogue?

It was difficult, came the answer from a countryman, because of three factors: the Iranian revolution, the hostage crisis, and "Irangate". These factors had fundamentally colored American attitudes toward Iran. We faced a culture that had used the U.S. as a whipping boy, as a means of mobilizing internal support. The result was a sense of hostility toward Iran on the part of Americans.

Iran had made two "catastrophic errors in judgement". First, the hostage crisis had immensely complicated its ability to conduct foreign relations with the rest of the world, and with the U.N. Second, in 1982, Iran did not stop with its successful repulsion of Iraq back to the original boundaries. It could have claimed victory, but instead, Iran crossed the border, and the result was total failure. Despite all this, the U.S. and Iran had come close to establishing a relationship before the effort erupted publicly in the form of Iran-Contra affair. Contacts stopped dead, and the result had been a "trauma" in Washington which would have to be overcome before new initiatives could be undertaken.

Several speakers wondered about what obstacles were presented by Iran's apparent involvement in hostage-taking in Lebanon and its sponsorship of international terrorism. An American responded that, in his view, the connection between Iran and the hostage-taking in Lebanon had been exaggerated. It was true that Shiite groups in Lebanon received training, money, and political support from Iran, but Iran's actual degree of control over these groups' activities was only moderate. The real problem in Lebanon was the state of anarchy there. As for international terrorism, the idea that

Iran was "terror central" was overdone.

An American participant wondered what effect the outbreak of peace in the Gulf might have on oil prices. Physical obstacles to the transportation of oil would largely be removed. The need for resources for reconstruction would be great. The need for financing for military purposes would be reduced. So might some of the obstacles to OPEC political cooperation. The probable result would be an increase in production and a decline in prices. Oil planners expected a significant reduction in non-OPEC oil in the nineties, and thus a significantly increased reliance on production in Saudi Arabia, Iraq, and Iran. The West would be back to a state of great dependence on the Gulf region.

A Briton agreed that the West would be substantially dependent on oil from the Gulf by 1995. Therefore, the Western industrialized countries should start talks with OPEC now. OPEC was in disarray. By 1995, it would not be, and would be reluctant to compromise.

Peace would mean downward pressure on prices, agreed an American, and a marginal increase in production. But he foresaw no collapse in oil prices. Indeed, oil prices had shown remarkable stability in ten years of instability in the Gulf-war, revolution, and attacks on shipping. The focus on the Gulf as the primary source of supply did not mean a big increase in oil prices in the next 20 years. We were not facing an oil crisis.

This prompted a Briton to suggest that now would be a good time for the U.S. to impose a \$.50 a gallon tax on gasoline as a means of attacking the budget deficit and limit oil consumption. Two Americans responded that such a measure made good sense on both counts, but was politically impossible at the present time. One said that it would be more feasible if it were phased in gradually. The other felt a gasoline tax would probably have to be part of a package that included an oil import fee. Another American worried about the impact a gasoline tax would have on the American manufacturer.

The discussion of the Soviet withdrawal from Afghanistan focused on two themes: what sort of government might come to power there, and what effect the withdrawal might have on Pakistan.

An American wondered if the West had "helped create a new monster" in the form of a radical Islamic regime coming to power in Kabul. But a French speaker felt this was not a matter of great concern. There was no common strategy among Islamic fundamentalist groups in the region. Afghanistan's government would certainly be Islamic, but there were some moderate fundamentalist groups that were pro-Western. What was more important was the political shape and strategic alliances of the next Afghan regime.

As far as Pakistan was concerned, an American felt that the obligations placed on her by the Geneva accords could lead to pressure on Pakistan. The Soviets might blame Pakistan if the civil war in Afghanistan continued. Another American said that, although the Russians had charged the Pakistanis with breaking the accords by continuing to supply the mujahedeen, the pace of Soviet withdrawal had not slowed.

A third American expressed the view that one of the ironies of the

Soviet withdrawal from Afghanistan was that Pakistan could become less stable. There was a danger that the U.S. might cut off aid. A countryman observed that the combination of non-proliferation sentiment, Indian pressure, Soviet complaints, and inconclusive civil war in Afghanistan could separate the American perception of its interests in the area from Pakistan's perception of hers. If the U.S. sooner or later abandoned or lost interest in Pakistan, this would bolster the image of the U.S. as an unreliable, even dangerous friend.

In a French speaker's view, the Soviet Union could pursue two different courses with respect to Pakistan. First, it could try to foster the disintegration of Pakistan along ethnic lines by exploiting ethnic divisions. The pro-Soviet parties in Afghanistan were almost all ethnic parties. Second, the Soviets might try to befriend Pakistan. Western policy toward Pakistan should be to press for democratization. If the West was seen as supporting General Zia, the opposition could become radicalized, and the army might then court the Russians. As for the nuclear issue, it was too late. Pakistan certainly already had the bomb. We could not let this determine the future of Pakistan's relations with the West.

CLOSING

In closing the conference, Lord Roll expressed his view that the standards of the Bilderberg Meetings had once again been well maintained and that the purposes of Bilderberg had been well served.

On behalf of the participants, Lord Roll thanked the Austrian hosts, in particular Chancellor Vranitzky. He also thanked all those who had made the conference a success, including Dr. Georg Zimmer-Lehmann; Dr. Diemut Kastner and her staff; the management and staff of the Interlpen-Hotel Tyrol; the security staff; the Bilderberg Secretariat; and the interpreters. He acknowledged with gratitude the contribution of the working paper authors, the panelists, and the moderators.