

**BILDERBERG
MEETINGS**

**SALTSJÖBADEN
CONFERENCE**

11-13 May 1984

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NOT FOR QUOTATION

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LIST OF ABBREVIATIONS:

| | | | |
|-----|--------------------------|------|--------------------------|
| AUS | Austria | IT | Italy |
| BEL | Belgium | LUX | Luxembourg |
| CAN | Canada | NETH | Netherlands |
| DEN | Denmark | NOR | Norway |
| FIN | Finland | POR | Portugal |
| FRA | France | SPA | Spain |
| FRG | Fed. Republic of Germany | SWE | Sweden |
| GRE | Greece | SWI | Switzerland |
| ICE | Iceland | TUR | Turkey |
| INT | International | UK | United Kingdom |
| IRE | Ireland | USA | United States of America |

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INTRODUCTION

This report was prepared by Charles Getchell and Grant F. Winthrop, joint rapporteurs. The various individual interventions summarized in the "Discussion" sections have been grouped according to subject matter, and do not necessarily follow the exact chronological order of the discussions.

* * * * *

The thirty-second Bilderberg Meeting was held at the Grand Hotel, Saltsjöbaden, Sweden, on May 11, 12 and 13, 1984, under the chairmanship of Mr. Walter Scheel.

There were 116 participants from 19 Western European countries, the United States, Canada, and several international organizations. They represented a variety of fields: government and politics, industry, trade unions, diplomacy, the press, the military services, banking, the law, transportation, education, and institutes specialized in national and international studies.

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

The agenda was as follows:

- I. *Western Power and the Middle East:
A Case Study in Atlantic Relationships*
- II. *The State of Arms Control Negotiations*
- III. *Future Employment Trends in the Industrialized Democracies*
- IV. *The Soviet Union, the West and the Third World —
A Case Study: Central America*

In addition to this formal agenda, there was a session devoted to a discussion of current events, concentrating on the topic "Continental Drift: Economic and Political."

In opening the conference, the Chairman expressed, on behalf of all the participants, their special gratitude for the presence of their majesties King Carl XVI Gustaf of Sweden and Queen Beatrix of the Netherlands, of their Royal Highnesses Crown Prince Harald and Prince Claus, and of Prime Minister Palme. The Chairman noted that the Grand Hotel, Saltsjöbaden, had been the setting for three Bilderberg conferences, more than any other place, and that the meeting hall of the present conference had been named in honor of the late Marcus Wallenberg, who for many years had been an interested and active member of the Bilderberg Steering Committee.

The Chairman went on to say that, in today's sharply polarized world, we needed understanding among the members of the free world, particularly between the free part of Europe and North America. For many reasons, there was a marked tendency among Europeans to seek friendship with their North American partners. Western Europeans attached great value to that understanding and were sensitive to developments across the Atlantic. A glance at the newspapers or television programs on either side of the Atlantic would illustrate that sensitivity.

Europeans were paying increased attention to the relationships of the U.S. with countries of the Pacific basin. Some Europeans likened U.S.-Atlantic and U.S.-Pacific relationships to a hyperbola in a coordinate system, and were concerned—not for economic reasons alone—about a movement along the hyperbola toward the Pacific. Indeed, the fast-growing economies of the Pacific had overtaken Western Europe about four years ago as the main trading partner of the U.S.

The Chairman felt that the shape of future developments, both economic and political, would depend primarily on Europe. He was also convinced that, given the political competition between the differing social systems in East and West, there was no alternative to the firmly-established partnership between North America and Western Europe.

I. WESTERN POWER AND THE MIDDLE EAST:
A CASE STUDY IN ATLANTIC RELATIONSHIPS

Working Paper Prepared by The Rt. Hon. Denis W. Healey,
Member of Parliament, (UK)

"Decisive action in the hour of need
Denotes the hero, but does not succeed".

—Hilaire Belloc

The recent fiasco of President Reagan's policy in the Lebanon is not the first failure of Western power in the Middle East. In 1956 Britain and France were even more drastically humiliated at Suez. Nor is official doubletalk an American monopoly. Many of the Near East's present problems spring from contradictory commitments made during the First World War by the British Government to the Arabs, the French, and the Jews.

Plain ignorance has been responsible for many Western blunders; Foreign Secretary Herbert Morrison thought Kuwait was an island in the Persian Gulf. But President Reagan has added a new dimension to misunderstanding by claiming that "the Soviet Union underlies all the unrest that is going on. If they were not engaged in this game of dominoes, there would not be any hot-spots in the world." So it was America's "duty to stop the cancerous spread of Soviet influence" in the Middle East, and the continued presence of American troops in Lebanon was "central to our credibility on a world scale."

The background. In fact the Middle East has been ravaged by war and revolution for three thousand years long before the Bolsheviks stormed the Winter Palace. Religion has played a major role in the Middle East for the second half of that period. Like the Christians in Europe, the Moslems were often more cruel to those who espoused another sect of their own religion than to the Christian and Jewish minorities among them. The Christians themselves in the Middle East often shared the prevailing savagery. When Warren Austin appealed at the United Nations to the Jews and Arabs to behave like Christians, did he foresee the massacre at Chatila camp?

Since the Crusades, Western attempts to establish a physical presence in the Middle East have never lasted long. The collapse of the Ottoman Empire gave Britain and France the opportunity to create new states to serve their national objectives. But the frontiers of the new states have always been disputed, and sometimes divide peoples, like the Kurds and Syrians, who have a strong sense of national identity.

By the end of the Second World War loyalty to these artificial states was being challenged by the new concept of pan-Arab unity. Oddly enough this concept was first developed by American missionaries in Nineteenth Century Beirut, and derived new impetus in the late Thirties from the writings of Christian Arabs. For 20 years President Nasser inflamed the imagination of the Arab masses throughout the Middle East with his appeal to "Arabiya". But he failed to make a reality even of Egypt's union with Syria. The Arab League today is torn by internal strife; only the fight against Israel provides a narrow basis for unity.

The new Muslim fundamentalism. In 1984 both the traditional monarchies and the military dictatorships in the Middle East are threatened by a new form of Muslim fundamentalism which has gained massive reinforcement from the revolution in Iran. Small conspiracies of Muslim fundamentalists had already produced the bloody uprising in Hama against the Assad regime in Syria, had assassinated Sadat, and had captured the Grand Mosque in Mecca. The new type of fundamentalism, which looks to the Ayatollah Khomeini, may well become a mass movement of social revolt in many Muslim countries since it appeals to the Shi'a Muslims, who, though numbering only 90 million as against the 650 million Sunni, form a majority in Iran, Iraq, Bahrein and Lebanon. It was the Shi'a who provided the most effective terrorists in Lebanon, and in the end took over Southern Beirut with their Amal militia—who wear Khomeini badges although their leader is a Westernised moderate. So far the Shi'a in Iraq seem loyal to the regime, but if Iran looked like winning the Gulf war they might well change sides, and the effects would be felt in most of the Gulf states, including Saudi Arabia.

Muslim fundamentalism is already absorbing pan-Arab nationalism in much of the Middle East; but it spreads far beyond the Arab world, witness the recent riots in Eastern Nigeria and the burning of the American Embassy in Pakistan. It is profoundly xenophobic, hates the Soviet Union as much as the U.S., and has a curiously mixed attitude to Israel, which it treats on the one hand as an outpost of ungodly Western imperialism, on the other as an example of what can be achieved by a politicised religion which can mobilise the masses.

Working Paper Prepared by Eric Rouleau, Editor, "Le Monde" (FR)

The impotence of external powers. This brief caricature of the Middle East, past and present, may serve at least to explain why Western policy has had so many defeats there since the war. But Soviet policy has fared no better. Russia's alliance with Egypt collapsed like the Western alliances with Iraq and Iran. Soviet influence in Damascus is no more absolute than American influence in Jordan—or in Israel. Moreover the ability of the Middle Eastern states themselves to exert effective power beyond their own frontiers is severely limited. Syria has been unable to produce an internal settlement in Lebanon. Israel's attempt to control Lebanon by force has reduced her security and cost her nearly 600 dead, compared with nine killed in cross border raids in the previous three years. The idea that Moscow could "incorporate the region into the Soviet bloc" is as fanciful as the idea that America could incorporate the Middle East into NATO.

The most that external powers can hope to achieve is to prevent the instability endemic in the area from jeopardising their major interests. For the West those interests include continued access to oil from the Gulf and the security of Israel behind recognised frontiers. Neither of these interests is shared by the Soviet Union. But Russia has one major interest in the Middle East which she shares with the West: to ensure that the superpowers are not dragged into direct conflict with one another by the action of Middle Eastern states which they cannot control. And she has one major interest which the West does not share: to prevent a victorious Muslim fundamentalism from rousing the Muslim peoples of Soviet Central Asia and Afghanistan. I believe these shared interests could form the basis of limited cooperation between Russia and the West at least in the Gulf area if not, immediately, in the Near East.

The Threat to Gulf Oil. The war between Iraq and Iran could lead to the interruption of oil supplies from the Gulf at any moment. The West might survive an interruption of some weeks by drawing on existing stocks, including America's strategic reserve. If the interruption lasted some months, it would be a disaster, not only for the countries which need Gulf oil, particularly Japan, but for the whole economic and financial system of the Western world. The debtor countries could not survive the consequent increase in the price of oil to some \$100 a barrel, and a further rise in the value of the dollar. Widespread default could then bring down the whole of the private banking system. The West would have to take physical action at some stage before that to reopen the Gulf. But the Gulf is part of Russia's backyard. Bahrain, like Beirut, is only half as far from the Soviet frontier as Grenada from the American. It would be essential to secure Moscow's understanding and at least her acquiescence in advance of any Western use of force. Otherwise fighting between Russia and the West could not be excluded. It is by no means inconceivable that Russia would give the necessary understanding. In principle she has a major interest in freedom of passage through inland seas, since her access to the oceans depends largely on passage through the Baltic and Mediterranean.

Controlling the arms traffic. Talks between the West and Russia on keeping the Gulf open might well be broadened to consider other aspects of great power policy in the Middle East. If neutralisation of the region was too difficult to start with, the great powers should at least discuss the possibility of controlling arms supplies. All the dangers presented by instability in the Middle East are increased by the recent unbridled competition between the external powers in supplying arms. Russia, America and China have supplied both sides in the Gulf War. The most likely scenario for closure of the Gulf assumes that Iraq fires French Exocets from French Super Etendard aircraft to destroy the Iranian oil terminals on Kargh Island and that Iran retaliated by sowing French mines in the Gulf from French torpedo boats. There are already signs that Western powers may be supplying Middle Eastern states with what they need to produce chemical and nuclear weapons.

In an area so unstable, where loyalties are so fragile, the political damage caused by such behaviour must outweigh any economic gain. Soviet cooperation in controlling arms supplies is a sensible objective for the West. Russia did not attempt to overturn the postwar Tripartite agreement between Britain, France and the U.S. to limit arms supplies to Israel and her Arab neighbours until the West challenged Soviet security by bringing Iraq and Iran into the Baghdad Pact.

The need for Soviet cooperation. In 1977 Secretary Vance offered Gromyko the prospect of cooperation in the Middle East. The Russians were ready to accept until the Camp David agreement undermined the basis of their understanding.

Perhaps now is the time to try again. With the multinational forces finally withdrawn from Lebanon, a greater United Nations' role is highly desirable. But that requires support from the Soviet Union. King Hussein may be right in believing that the forthcoming elections in Israel could create a window of opportunity for a new attempt to achieve a Palestinian settlement. Such a settlement too would be far easier with Soviet understanding than without it. Experience should have taught Russia as well as the West that the application of external power in the Middle East is rarely successful and never for long—particularly while the region is the theatre for competition between the superpowers. The collapse of existing policies should give us all a chance to think again about the scope for cooperation rather than confrontation as a means of securing our interests.

The interests defended by the West in the Gulf are, of course, both strategic and economic in character. The region, which contains over half the world's oil reserves and enormous deposits of gas, provides Western Europe with half its crude and a quarter of its gas. It contributes equally to the prosperity of the industries and to the balance of payments of the Western powers.

The countries of the Gulf differ from the other petroleum producers because of the marked contrast between their financial resources and their small populations; this phenomenon enables them to devote a relatively high proportion of their investments to imports of consumer and capital goods, as well as to the purchase of almost exclusively Western-made armaments. Their surpluses, which are almost entirely invested in the U.S. and Europe, are a factor making for monetary stability.

The Gulf has the reputation of being the biggest market for armaments in the Third World and absorbs roughly half of all the West's exports to the whole of Africa, Asia and South America. In world terms, five Gulf states are among the first seven in military expenditure per head. In descending order, these states are: Qatar, Saudi Arabia, Israel, the United Arab Emirates, Oman, Brunei, Kuwait, the U.S., the USSR and France.

The main suppliers—the U.S., the USSR, France and the United Kingdom—thereby keep their armaments industries going, hold down unemployment, improve their balance of payments by recycling a proportion of the petrodollars and, as a bonus, are able to wield a sometimes decisive political influence in their client-states. Deliveries of armaments are accompanied by technicians and advisers, sometimes numbered in their thousands, who install themselves in the nerve centres of their host countries.

Soviet interests in the Gulf are different in character from those of the Western powers, at least in the medium term. According to a report by the Defense Intelligence Agency published in the autumn of 1981, the USSR is still the world's leading oil producer and will remain a net exporter well into the foreseeable future. Should this forecast be borne out, for example through tapping a giant new field in Siberia and developing other sources of energy, access to the Gulf would not become a vital objective for Moscow.

Nevertheless, the Gulf is on the southern periphery of the USSR, which has a frontier with Iran 1,250 miles long. The Kremlin's ambition is clearly to be able to defend this "front" in the event of a war, to prevent hostile bases being established in the region and thereby loosen the links between the countries of the region and the Western powers.

The efforts of the USSR in this direction have not been outstandingly successful. Of course, its presence in Afghanistan and Southern Yemen provides it with useful strategic positions, but they are far from being of decisive importance. And of course, the fall of the Shah has deprived the U.S. of a first-rate operational base, but even so the USSR has not thereby secured a willing partner, let alone an ally. Paradoxically, the Khomeinyite republic is an even greater ideological and political obstacle to the growth of Soviet influence than the Iran of the Pahlavis.

All in all, the USSR has a weak hand in the Gulf. It is not very familiar with the region, not having the historical links possessed by Great Britain and unlike the U.S., it has not managed to obtain a foothold in most of the countries there. With the exception of Iraq, Iran and Kuwait, all the other Gulf states refuse to maintain diplomatic relations with the USSR. Nevertheless, Moscow has hitherto been a model of caution and—as far as is known—has not made the slightest subversive move in any of the Gulf states. It is true, however, that it cannot rely on any local communist party and is not in a position to enlist the support of the Islamic movements, which for the most part are just as anti-Soviet as they are anti-Western.

Most of the rulers of the Gulf states have declared repeatedly both in private and in public, that they are not conscious of any Soviet threat, whether political or military. They do not believe that the invasion of Afghanistan, which they regard as a very special case, will be repeated elsewhere in the region, unless there is a third world war in the making.

They are far more concerned over two regional conflicts: in the medium term, they fear that the deterioration of the Palestinian problem will have repercussions in the Gulf, where 600,000 of Mr. Yasser Arafat's fellow-countrymen are living and serving in key posts in the civil service, education, business and the professions; in the view of many observers, the failure to solve this problem amounts to a time-bomb the explosive power of which is not properly appreciated in Washington.

However, the Gulf rulers are mainly anxious in the short term about the outcome of the Gulf war. Even though they doubt whether the Iranians can win a military victory, they are afraid that the Iraqi government will be worn down, which would amount to a victory for the Islamic republic. If that were to happen, it would probably be a mistake to worry about the "Persian expansionism" that the Baathist republic is constantly denouncing. A change of regime in Bagdad will not lead to the

annexation of Iraq by Iran, and it is not even certain that an exclusively Islamic government would replace that of Mr. Saddam Hussein.

The threat facing the other Gulf States would in all likelihood come from within, i.e., a victory for the Khomeinyite republic would give a strong new impulse to the Islamic movements throughout the Arab world. The Shiites in the Gulf states, whether of Persian origin or not, are regarded as potential carriers of revolution. Treated everywhere as members of a minority and discriminated against, they are usually on the side of change and provide the left-wing or Islamic organisations with their leaders and organisers. This is the case in Bahrain, where about half the population is Shiite. The three opposition movements in the country, the Islamic Liberation Front, the National Liberation Front and the People's Front (the last two lay, left-wing movements) are largely dominated by Shiites.

The same is true of the Eastern province of Saudi Arabia, where the Shiite towns are in the middle of the oil fields. In the United Arab Emirates, some 100,000 inhabitants (out of a population of 1.2 million) are co-religionists of the Imam Khomeiny. Roughly 10 per cent of the population of Kuwait also belong to this branch of Islam.

But over and above these religious affinities and political links with Iran in the Gulf, there is a more serious consideration—the forces making for destabilisation of the established political and economic systems. Ambitious, over-hasty modernisation projects have undermined these traditional societies, projected nomads and peasants into the electronic age and weakened the values conferring authority upon the sheiks and emirs. Given the political vacuum as well, Iran offers an attractive alternative to peoples who have been traumatised by imported "progress"—a cultural identity derived from their history and traditions; a puritanism that will stamp out the corruption of their governments; an egalitarianism that will put an end to social inequalities; and mistrust of the "infidels", who are regarded as the cause of all the ills afflicting Islamic society.

In order to cope with the challenge of the petrodollars, the region's governments have decided to form a Gulf Co-operation Council to preserve the established order. The joint—essentially policing—arrangements they have made have proved effective. But will they last? The case of the Shah should help to make the West more cautious and realistic. Some Western powers behave as if any change is bound to be a mortal threat to their interests. Of course, this reasoning is not always wrong, and it becomes self-fulfilling if the normal course of events is opposed too long and by every means.

The U.S. is making the two-fold mistake of simplifying the nature of the threat by laying stress on the Soviet peril, and of concentrating its efforts on the security aspect. As a result, it has met with scepticism from the rulers, who have refused, for example, to endorse the "strategic consensus" put forward by Alexander Haig. It is true that this scepticism is sometimes displayed in public by men who, in private, welcome American activism. However, it is significant that it is the line taken to avoid upsetting sections of the educated classes which are genuinely mistrustful of the U.S.' motives and power to act.

It is politically unrewarding, in the Arab world, to appear to be under the wing of a power that is so closely bound to Israel and has moreover forfeited a good deal of its credibility. The failure to implement the Reagan Plan for a settlement in the Near East and the inglorious withdrawal of the marines from Lebanon have caused concern among those who were relying on the U.S. to enforce peace and stability in the region. As a result, the ostentatious movements of the Seventh Fleet in the vicinity of the Gulf to safeguard the Strait of Ormuz, while necessary, were not exactly well timed.

More generally, the attitude of the U.S. towards the Gulf war has been sufficiently equivocal to raise questions. A declared policy of neutrality is in itself suspect in that a great power claiming to discharge world-wide responsibilities can hardly remain indifferent to a war that has caused hundreds of thousands of casualties and endangered the stability of one of the most vital regions of the world. It is also fair to ask—and the question has in fact often been asked in the Gulf press—how Iran has managed to obtain supplies of American-made arms and spare parts. The claim that Teheran has bought them on the open market is only half convincing. It is known that the direct or indirect suppliers include South Korea, Taiwan, Spain, Turkey, Brazil, Japan and Israel. Was it really beyond Washington's power to prevent Israel—from delivering military equipment to the Islamic republic?

The same questions might be raised about Soviet behaviour. Is it conceivable that countries such as Poland, the German Democratic Republic, Syria, Libya and North Korea could have supplied arms to Iran without Moscow being involved?

Two assumptions are worth considering. Either the two superpowers are helping Iran along in the interests of future good relations with a country in a vitally important strategic position. Or else they are trying to bring about a "drawn game" which would have the advantage of not upsetting the political map of the Middle East one way or the other. These two assumptions could complement each other.

For political and commercial reasons, most of the European allies are well represented in the Iranian market. The Federal Republic of Germany delivers Mercedes trucks and tank transporters;

Belgium produces rifles under licence there; Italy maintains the fleet and delivers spare parts for Bell helicopters; and Great Britain supplies spares for the Centurion and Chieftain tanks. This is probably only a small part of the deliveries being made to the Islamic republic.

France appears to be Iraq's sole ally. Naturally, she would have preferred to follow a more evenly balanced policy enabling her to act as a conciliator if not as a mediator. But its dispute with Iran and the sums owed her by Iraq have forced her to take a very different line. The debts incurred by Baghdad, amounting to between three and eight billion dollars, depending on the estimate, of which one billion are guaranteed by the State (the COFACE), leave France with virtually no alternative but to back its principal debtor up to the hilt, especially since a number of Gulf states are increasingly grateful to her on that account.

Between 1980 and 1983, the countries of the region purchased arms from France at an annual rate of 32-42 billion francs (\$4-5 billion) and in return supplied her with an appreciable proportion of her oil imports. In all, the Gulf countries absorbed over 80 per cent of French arms exports last year. Early this year, Saudi Arabia signed a contract for its air defence amounting to 35 billion francs, i.e., more than the total French sales to the region in the whole of 1983.

Over and above these commercial considerations, political concerns are at work. France, to a greater extent than its Atlantic allies, considers that the defeat of Iraq would set off a chain reaction that might endanger stability and peace throughout the region. These fears are perhaps exaggerated, but they are real enough. On the other hand, it is probably pointless to bank on an Iraqi victory or even on a compromise between the two apparently irreconcilable enemies.

What then should be done? At the time of writing—the second half of March 1984—the wise course would be for the Western powers to take joint economic, political and diplomatic measures to put an end to the Gulf war, the most cruel and devastating conflict the world has known since the end of the Second World War, and whose outcome and consequences are liable to make a mockery of the apparently most logical calculations and forecasts.

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Major Developments. Three major developments in the Middle East and the Gulf are affecting Western interests. First, sectarian violence continues to dominate within a Lebanon largely ungoverned, unreconciled, fractionalized, and occupied by Syrian and Israeli forces. A fundamental solution and unity is most improbable in the foreseeable future, and Lebanon will be under increased Syrian influence. Secondly, the broader peace process has become moribund with no prospect for early renewal. Third, the Iran-Iraq war remains stalemated; see-sawing on the ground tactically, each side focussing increasingly on the other side's economic infrastructure, bringing about widespread concern of a possible stoppage or slowdown of the flow of oil from this critical area. How much longer can Iraq hold out against a stronger, more populous and zealous foe? A decisive Iranian victory over Iraq and a collapse of the Saddam Hussein regime cannot be excluded, despite Western military intelligence predictions of a continuing stalemate.

Another Mid East war resulting from violence and disunity in Lebanon and a defunct peace process would seriously threaten Western interests. In the Gulf, Western interests could be adversely impacted by an Iranian victory in two ways: by radical regimes, which are anti-legitimacy and anti-nationalist, eroding or replacing moderate structures; and the shift in the balance of power which would make regular access to oil unacceptably uncertain.

The key thrust of this paper can be summarized succinctly; trends in the area are worrisome, but do not call for new U.S. initiatives at this time as much as for careful preparatory diplomatic efforts in close collaboration with our allies. At the same time, the U.S. and its allies must be ready to move quickly to defuse and/or exploit crises if they become dangerous. This is not a prescription for passivity, but for lowering expectations that the U.S. has solutions to offer to intractable problems.

Sober Resignation In The Area. Many of the Middle Eastern regimes in the area seem to be marking time with a deep sense of foreboding as to what time might bring. We face a prolonged period of malaise, despondency, uncertainty, and instability in the area in which drift and intractability intensify and sober resignation becomes even more widespread.

The temptation to let events largely run their own course and to disengage from Middle East diplomacy for at least a period of time, by necessity if not by choice, is considerable. The frustration level in Washington is high these days in recognition that its credibility in the area has been shaken as a result of the reversal in Lebanon, the frozen diplomatic landscape, the environment of continuing distrust and animosity, the enhanced opportunities for the USSR, and the sober realization that the

West's leverage to bring a satisfactory end to the Iran-Iraq war is marginal, at best. On the U.S. domestic front, the recent Lebanese experience has re-ignited a debate focussing on whether, how, and in what circumstances the U.S. should involve itself in unstable Third World countries. While the focus is on Central America, the U.S. peacekeeping role has added fuel to the executive-legislative disharmony. However, U.S. disengagement is not to be expected since it is broadly understood that this would add to demoralization in the area, further dampening hope, and leave a vacuum for the Soviet Union.

Familiar Patterns. In the short run familiar courses of action are apt to prevail—Lebanese fighting rather than reconciling; Syria flexing its muscles, but brinkmanship within limits and with its eyes primarily on its own internal situation; Egypt adhering to the treaty with Israel while reducing its isolation in the Arab world, preoccupied with its own economic development, and with security measures to keep Islamic fundamentalist and opposition forces in check, and at the same time launching a delicate democratic experiment in allowing opposition parties to contest seats in a parliamentary election; Jordan hunkering down; Saudi Arabia and the Gulf states discussing ways under the umbrella of the Gulf Cooperation Council to cooperate in mutual security measures in the face of the Khomeini threat; Israel scarred by the Lebanese debacle and in difficulty economically, even more skeptical that any further diplomatic solutions are possible with its neighbors; a weaker and more divided PLO with no independent base seeking to keep politically alive its separate identity by perpetrating terrorist attacks; a U.S. that has backed off for the time being diplomatically, but seeking quiet commitments from Saudi Arabia and the Gulf states that their facilities can be used in the event of a Gulf crisis; Western Europe and the U.S. slowly tilting toward Iraq hoping, but not confident, this will prevent a Khomeini victory; the USSR pursuing a limited policy of tactical exploitation, insisting upon being included in any future Mideast diplomacy, but remaining essentially cautious because it has found the Arabs unreliable, Israel too frequently the military victor, and because it is preoccupied with a Soviet orbit in acute difficulty.

Lebanon: "Too Crumbly A Cookie To Hold Together." The failure in Lebanon was in policy and peacemaking, not peacekeeping. The multinational force in its first phase was key in achieving the peaceful exodus of the PLO. In the second phase, after the massacres in the Shatilla and Sabra refugee camps, the peacekeeping force gave time for diplomacy to work. *The conventional wisdom that the Lebanese would unite if the PLO was removed proved erroneous.*

In addition, two key policy mistakes were made. First, there was insufficient pressure on Gemayel to put forward a reasonable reconciliation plan or alternatively the U.S. failed to press one of its own. While strong Christian opposition would have had to be overcome, such a diplomatic effort would have put the Western powers on the side of a more equitable sharing of power and be seen by the Moslems and the Druze as a serious political move to bring about fair and peaceful change in circumstances where Syria could exercise little influence since it was still reeling from the Israeli mauling in 1982.

Second, *the Lebanese-Israeli withdrawal agreement* was also a factor. A Syrian-Israeli-PLO withdrawal was a sound objective. The weakness of the agreement was three-fold: it took too long to negotiate, giving Syria time to recover; it miscalculated Syrian intentions; and it went too far by including provisions for normalization and trade, which predictably gave the Syrians an opening to exploit Moslem-Druze opposition. In these circumstances, Syria achieved the exodus of Western force and has allowed a Gemayel government to remain formally in place as long as it is under its influence.

Major Syrian Influence Over Lebanon, Not Total Control. The short-run outlook is for the current military equilibrium to be maintained largely because Syria seems to want and need a period of relative stability due to a serious power struggle which has begun following President Assad's illness. Currently Assad is not seeking a fundamental solution in Lebanon for two reasons: it cannot be fully imposed and maintained by Damascus; and the principal parties are not ready. The existing fragile political and military equilibrium in Lebanon is sufficient for Assad for the time being, allowing him to continue to apply pressure for unilateral Israeli withdrawal. Syria is likely to keep the PLO in the Bekaa valley away from southern Lebanon, while at the same time to aid or not to interfere with the strategy of PLO guerrillas to carry out terrorist attacks inside Israel itself; there is a some hope that under Israeli threat the Shiites in southern Lebanon will not actively assist PLO terrorists, though they will continue to attack the Israelis from time to time; and Israel will have made some progress towards developing a local buffer using the core of Haddad's forces under a new commander. Assad may be helped inadvertently by Israeli public opinion, which increasingly favors an early total withdrawal provided its northern borders are free of threat. This issue will become a focal point of the July 1984 Israeli elections.

Syrian influence is likely to be consolidated, but within limits. The West is going to have to live with this situation for the foreseeable future. *This is a loss for Western interests, important but not necessarily vital, nor should it be assumed to be a permanent state of affairs.* The cycle of violence and

counter-violence is apt to continue, mercifully perhaps with less frequency and intensity. While a united Lebanon is even less of a potential reality than in times past, the situation is fluid, the alignments fragile and already shifting. Both Lebanese and Syrians have begun to change emphasis in their relations with various factions as evidenced at the recently concluded Lausanne Conference. Syria's internal problems need attention. It was not in Syria's interest to press matters at Lausanne to the kind of breaking point which could have caused a disintegration of the current constitutional structure in Lebanon with nothing to replace it.

There is no Western diplomatic involvement in the Lebanese situation at this juncture that offers the prospect of early resolution. However, the U.S. has continuing interests and influence, despite the Marine withdrawal. A change of emphasis and priorities in policy would be helpful: Lebanese reconciliation over withdrawal of extraneous forces; diplomacy over use of force; on local and regional trends over U.S.-USSR strategic preoccupation. While in the end no real progress can be made until the principal factions in Lebanon give priority to reconciliation over violence, the U.S. and its allies can encourage trends to this end.

Internal Difficulties In Syria. Assad's number one priority is survival and sustaining the legitimacy of his minority Alawite regime. Support for the Moslems and Druze in Lebanon has been viewed by Assad as a way to strengthen Syria's role as defender of Arab interests against Israel. Two basic tensions are at work in the potential internal power struggle in Syria. First, the Alawite-Sunni rivalry has been a long-standing source of difficulty in Syria. Vice President Khaddam and Chief of Staff Hikmat Shihabi are Sunnis. Second, there are also tensions and different aspirants within the Alawite group itself. Facing its own religious and tribal feuds, Syria may well like to see at least a temporary easing of warfare in Lebanon. This in part helps to explain Assad's temporary embrace of Gemayel and helped catalyze some of the tactical shifts between Lebanese at Lausanne.

A major Soviet inroad in Lebanon is not likely, though the opportunities remain as long as the country is divided and unstable. The Soviets will continue to bulwark Syria within the framework of the Treaty of Understanding, whose formal terms do not go beyond Syria's borders. Syria is dependent on the USSR, but is not its hostage, and it is making decisions regarding Lebanon in its own perceived national interest, relatively free of Soviet influence.

Moreover, an early Syrian-Israeli war is improbable despite the fact their respective forces confront one another in Lebanon. The danger may well be further on the horizon. A fundamental reckoning over the next several years between Israel and Syria could be the next phase in the convoluted history of the Middle East, and the potential for direct and dangerous U.S.-USSR involvement cannot be discounted. It is in the Western interest to influence the direction of any such reckoning in political-diplomatic channels rather than a full scale bloodletting which could take place ultimately, despite the fact that neither side wants this at this juncture.

Peace Process: Can It Be Revived? There is no prospect of meaningful negotiations on the Arab-Israeli-Palestinian problem before 1985. The Presidential elections are only one factor. Of equal importance is that the area needs time to adjust to the changes that have taken place. None of the principal actors are ready to chance new departures.

American influence in the Middle East over the past decade has been based primarily on its demonstrated capacity to produce political results. For more than 30 years following the creation of Israel, there was no contact, no negotiation, no recognition between Israel and the Arab states. Then in the 1970's, two Egyptian-Israeli disengagement agreements, one between Syria and Israel, the Egyptian-Israeli Treaty, and the Camp David accords came about under the aegis of the U.S.

While no American diplomatic initiative is possible or desirable this year, a fresh coherent strategy has to be developed for 1985 by whichever administration is in power if American influence is to be rebuilt. Western Europe has a strong interest in such a strategy and a reassertion of effective U.S. leadership in the area because in the end there is no adequate substitute for the third party role and influence of the U.S.

Israeli Elections. Progress in the peace process between the two sides in the Middle East has been in the past and remains dependent on close U.S.-Israeli relationships, and Washington's capacity and willingness to exercise influence. There have been shortcomings and successes in this regard. Israel faces elections in July of this year. The economy will be the principal issue, but foreign policy will not be unimportant. The results of that election could provide a possible opening for renewed U.S. explorations.

Differences exist between the Labor party and the Shamir government. There is an overwhelming majority in Israel today, transcending political parties, which insists that Jerusalem must remain united and be the capital of Israel. There is also a large majority that opposes the establishment of an independent Palestinian state. But the country is split between those favoring *de facto* annexation of the West Bank and Gaza and those favoring territorial compromise with Jordan.

The Labor Party, under the leadership of Shimon Peres, has been more explicit in favor of unilateral withdrawal from Lebanon than the current government, though neither group will be able

to carry this out unless there are satisfactory arrangements assuring security of Israel's northern borders. Moreover, Labor favors the "territory for peace" formula with Jordan, whereas the Shamir government holds to the policy of *de facto* control of the West Bank and the Gaza. On the whole, Labor is apt to be more openminded regarding the renewal of the peace process under U.S. aegis in 1985 than the current government.

Some Elements To Be Considered In Any New Strategy. Any future strategy, on which there should be close consultations between the U.S., Western Europe, and Japan, will have to take into account the changes which have occurred in the area. First, any American explorations will have to be pursued quietly and privately through diplomatic channels. There are enough plans around: the proposals put forward at the Arab summit conference in Fez, Morocco in September, 1982, the Reagan Plan, Camp David, and various revised versions of UN Security Council resolution 242. There is no point to elucidating new formal peace plans and launching them publicly to be shot down on all sides before they get off the ground. *Any new diplomatic round must be prepared carefully, otherwise Washington should stay out.* There has been too much cosmetic diplomatic activity for its own sake.

Second, close U.S.-Israeli relations helped achieve progress in the peace process over the last decade. A substantial part of the Arab world long ago gave up on any notion of extinguishing Israel's existence by military means once the U.S. had made clear its full commitment to Israel's security and survival. But *American-Israeli strategic cooperation cannot be limited to the military sphere and must be broadened to include political components.* For years, America has disagreed with Israel's settlement of the occupied territories and its *de facto* annexation policy, preferring instead the "territory for peace" formula, which is also favored by the Israeli Labor Party. There are continuing differences in the American and Israeli approaches, and the coming year should be a time of deep questioning and consultation, reminiscent of earlier years in order to harmonize positions consistent with UN Security Council resolution 242. The new mood of sobriety in Israel offers the U.S. a fresh opportunity.

Third, the focus of any future diplomacy must go beyond Jordan. Consideration should be given to how best to test Syrian future intentions. Syria has spurned current Israeli overtures to work out a *de facto* separation of forces in Lebanon. Is it satisfied to maintain the Syrian-Israeli confrontational status or is there an interest in diplomatic negotiations with Israel aimed at coexistence and mutual security between them? As for Israel, the Syrian position has taken on a more serious dimension in view of Soviet assistance and support and could lead to a sober reevaluation, particularly under U.S. nudging.

The Palestinian Question. Important changes have occurred. The PLO has lost its independent base, but Palestinian nationalism is not dead. For a period of time the PLO had a conventional army, but today scattered fragments (Democratic Front and Popular Front) are not under the control of the PLO umbrella. Infiltration into Israel proper and terrorist attacks there will continue. Now that Israel has destroyed the PLO superstructure, there is no longer any "return address" to which they can send a retaliatory message. These guerrilla group attacks are also signals to Arafat and King Hussein.

The PLO is more divided than ever. Who represents the Palestinians? Is it Syria and Jordan on their behalf? Is it Arafat who still has the loyalties of many Palestinians in the occupied territories and throughout the world, but has no military clout, has been unable to unite the organization, and is fighting to survive politically? Is it the West Bank Palestinians, who while professing loyalty to Arafat, have their own independent interests with respect to the occupied territories and retain links to Jordan? Or is it the PLO under the control of Syria? Is the Arab summit decision at Rabat, Morocco in 1974 designating the PLO as sole representatives as realistically relevant as it might have been in the past? Who in the Palestinian leadership can take the hard decision to give priority to negotiations over the armed struggle?

A divided Arab world and Palestinian movement have been unable to resolve these issues, and the burden has been put on the U.S. At the same time, U.S. insistence that the PLO must recognize Israel's right to exist and accept SC resolution 242 is apt to be maintained either under a Republican or a Democratic administration. There is no clear foreseeable break on this issue, *but the best hope still is West Bank Palestinian-Jordanian cooperation and representation with the tacit approval of the PLO.* The U.S. can be expected to work to this end.

U.S.-USSR Dialogue. Finally, there is the Soviet Union. *Whichever administration emerges in November is likely to make renewal of a serious overall Soviet-American dialogue focussing primarily on arms reductions, its number one priority.* The Middle East and the Gulf will be secondary unless a crisis develops. Nevertheless, informal exchanges between the U.S. and the USSR regarding the area are inevitable as part of any renewed dialogue, if for no reason other than to reduce the risk of confrontation, either by miscalculation or by design. It will be crucial to strike some delicate balance between Syria's insistence that the Soviets and the PLO be included in a Geneva conference and past U.S. and Israeli opposition to their participation. *The U.S. success or failure to achieve a compromise*

acceptable to both sides will have a decisive influence on whether the peace process can be renewed at all sometime in 1985 or whether the area will drift towards another major bloodletting.

Iran-Iraq War: More Immediately Dangerous Than Other Mid-east Problems. Of more immediate concern is the Gulf. While there has been much bluff and exaggeration in communiques, the fighting between Iran and Iraq has increased sharply, and as this is written, a major Iranian spring offensive is expected. The more populous Iran, with greater economic capacity, has a long range advantage in the war of attrition. While most intelligence analysts predict a continuing stalemate, a major Iranian breakthrough cannot be excluded, nor can the internal collapse of Saddam Hussein, who has not yet paid the price for starting the war. But internal stress has become evident, *increasing Saddam's vulnerability markedly* as the 40-month war has sputtered inconclusively and reached a new phase of attacking one another's economic facilities.

The war has been difficult to terminate because for *Khomeini*, in particular, it is more ideological than strategic. He *must demonstrate that his brand of Islamic fundamentalism can triumph in the first test of strength outside Iran.* He is insisting, therefore, on Saddam's resignation, pressing for ultimate replacement of the regime with a friendly revolutionary Shiite fundamentalist leadership. Iranian failure would have adverse repercussions internally and weaken the legitimization and *raison d'etre* of his revolutionary regime. Strategically, both powers have aspired to regional leadership. *Khomeini* has been able in large measure to insulate Iran's internal troubles from the war, Iraq has less capacity to do so.

Up to now, it has been an Iran-Iraq war, it has not involved the Gulf states directly. The danger that this next phase can embrace the entire Gulf has increased. Despite the escalation in the war, *the closure of the Strait of Hormuz remains unlikely.* Not only is it technically difficult, but it would injure Iran at least as much as the other. The psychological impact at this point is more immediate and serious on Saudi Arabia and the Gulf states, on insurance rates, and on dependent Japan and Western Europe, even though conservation, availability of non-OPEC oil, reserve buildups, and a sluggish world market have lessened Western vulnerability.

Washington and Moscow have responded to the war in similar ways because they find themselves in strangely parallel positions. Neither side is deeply committed to either combatant, both powers have limited influence or ability to control the course of the war or to end it. Neither superpower has any particular desire to see one side win decisively, even though both the U.S. and the USSR see Iran as the priority strategic prize. The economic capacity of the Persian Gulf and the Western dependence on it provide Moscow with a potential political lever to promote a decline in Western influence and an increase in its own, but Moscow has not been able to exploit the current situation: its occupation of Afghanistan has been costly in the Arab world; the Tudeh Party has been outlawed by *Khomeini*; internal problems at home are limiting factors.

If Iran should begin to hit oil facilities in Saudi Arabia, Kuwait, or the Gulf states, the U.S. and certain European powers would inevitably have to become involved in a supportive capacity to friendly states. *If naval forces are required, it is near certain the U.S. would take the lead, if for no reason other than to remind global and regional friends and foes that U.S. power is still relevant, despite the setback in Lebanon.*

Moscow is apt to act on the basis that it considers itself a party with regional interests as significant as those of the U.S. If it should decide there is opportunity to undermine what has been the singular Western guarantee of the Gulf, there could be a challenge, not necessarily a confrontation, but at least Soviet naval involvement which would signal to Gulf states that *Moscow has vital interests and considers itself a party and guarantor.*

The U.S. and Western powers, particularly France, have tilted somewhat to Iraq as its danger increases and the Gulf states feel more threatened. This trend should be continued wherever feasible. Moreover, the U.S. has counseled restraint on Israel and others in providing military assistance to Iran. Trade between Japan and Western Europe with Iran has boomed.

No clear-cut overall Western strategy is evident or effectively feasible in the current situation. But three things are clear: it is essential that in any crisis there be the closest consultation between the U.S., Western Europe and Japan to arrive at a complementary and coordinated action and avoid serious divisions; that the West act resolutely in support of Saudi Arabia and the Gulf states; and that contact be maintained with the USSR so to reduce the possibility of miscalculation by either side.

Consultations And Coordination. Common Western interests are vitally involved in the Middle East and Gulf. There have been serious differences between allies. In light of the recent U.S. setback in Lebanon, increasing instability and polarization in the area, and the potential threat to Western energy sources, the case for closest possible coordination is ever more compelling. The dangers in the Gulf and Middle East will be long and drawn out, and neither the U.S. nor the Western powers can be found "short of breath" as Syria's *Khaddam* indicated in the Lebanese context. Neither NATO nor the U.S.-Japanese security agreement deals with vital Mideast and Gulf interests. More needs to be done to develop added Western military capacity for use in this vital area without drawing down

unduly on forces stationed in Europe. What is essential is a sustained involvement is essential and less divisiveness, if not harmonization. If Western Europeans are dissatisfied with U.S. policy, *the most effective means to influence change is through confidential diplomatic channels, not public initiatives which will strain relations further and may give the Arabs some temporary solace, but no effective results.* Moreover, Western Europe has paid its dues as peacekeepers, and it is entirely understandable that, within the limits of its influence, it should play a significant role in any overall strategy.

DISCUSSION

Moderator: Winston Lord

Participants in the discussion of the Middle East agreed that the situation was as volatile as ever and that the likelihood of progress in the near future was minimal. We were faced with the challenge of developing new policies to deal with two intractable situations—the Arab-Israeli conflict and the war between Iran and Iraq. The U.S. and Europe had much at stake in the region, but lacked a cohesive, effective approach to either situation. The dilemma was exacerbated by the need to find some framework for consultation and cooperation with the Soviet Union, which had its own interests in the Middle East.

It was a Frenchman's assessment that this was a "time of disillusionment and loss of control" in the Middle East. Israel was in a deep, unprecedented moral crisis resulting from its failure in Lebanon. The Palestinians were in a state of total disarray, having shown themselves to be incapable of solving their own problems and with no prospect of doing so in the near future. The Western powers, too, had failed to accomplish anything positive and had no new strategies.

Several speakers believed the West had lost considerable influence in the Middle East, and the credibility of the U.S., in particular, as an intermediary and negotiator had been seriously undermined. A British participant argued that the problems in the region were largely internal, and outside powers, even the superpowers, had little influence over the course of events. There would be a "fairly long pause" before the West again attempted to produce any "grand designs" for the Middle East.

An American sought to provide a perspective on what was behind the current unsettled state of affairs. No regime in the Arab world, including Syria, was today stronger or more self-confident than it had been five years before. Why? The petrodollar era had ended, and the notion that dollars would be translated into effective development and enhancement of Arab self-confidence had disappeared. Inter-Arab divisions following Camp David had persisted and had eroded self-confidence. The Lebanese crisis had proved to be a great blow to those Arab regimes that had hoped an era of relative political moderation might emerge from the developments of the 1970's. For them, the situation in Lebanon portended growing sectarianism and intensifying internal conflicts.

The implication of all this for the West, the speaker continued, was that the relatively stable Arab system of the 70's, in which regimes had been in power for several years and were starting to practice pragmatic politics, would probably not remain intact all through the 80's. The regimes that survived would be under pressure from two political trends. One was Islamic fundamentalism, whose political influence would be seen in two ways: a tendency of regimes to distance themselves from Western values, and the re-emergence of opposition to Israel and to Jews on a religious basis. The other trend, which the speaker viewed as positive in the long run but troublesome in the short run, was growing agitation among the political and intellectual classes for democratization. They were becoming increasingly disillusioned with the authoritarian regimes that had dominated the Arab world for so long. This trend could be seen in Egypt, for example, where President Mubarak was taking certain positions to demonstrate, as he sought to establish his legitimacy in the upcoming election, that he was in touch with currents of opinion in his country, some of which were anti-Western and anti-Israeli. This sort of development did not bode well for near-term peace prospects. Initiatives would not be forthcoming from the Arab world, and Western initiatives would be greeted with passivity, if not hostility.

A Greek agreed that we had to take very seriously the phenomenon of Islamic fundamentalism. It was not, he warned, confined to Shiites, but was increasing in strength in Sunni countries like Jordan, Saudi Arabia, and Egypt. Its roots included a basic resentment of the West and a feeling of "mingled envy and disgust" with Western consumerism and the corruption and inequality it had spawned. The movement stemmed, in addition, from what was seen as the "Israeli insult" to Moslems and to Islam in

general. Its political force could be blunted only by Western support of political and economic reforms and of democratic states in the region, combined with a major effort to seek a solution to the Palestinian problem.

A German speaker supported the notion that some of the more moderate Arab states were becoming increasingly neutral toward the West. These regimes were particularly disillusioned by Europe's failure to influence the U.S. to pressure Israel for a change in its policies. Europe needed to "get its act together" and develop a common policy toward the Middle East.

It was widely acknowledged that the major immediate threat to stability in the Middle East arose from the war in the Persian Gulf. The irony, said a British speaker, was that none of us in the West, nor most of the Arab states, wanted to see either Iran or Iraq win. There were dangers both in a continuing war and in decisive victory for one side or the other. The war posed a threat to Western oil supplies, while defeat of either Iran or Iraq would likely lead to the collapse of the governing regime, which would have grave implications for stability. But the West appeared powerless to bring the war to a halt.

It was an American participant's opinion that the war had not been settled because, from the point of view of Ayatollah Khomeini, it was more an ideological struggle than a strategic one. It was the first test of his brand of Islamic fundamentalism outside Iran, and, as such, had great significance for the future of the Iranian revolution. The speaker agreed that Western influence in persuading the two antagonists to negotiate a settlement was marginal. From the Western point of view, the most satisfactory outcome would be to have neither side win or lose decisively and to establish an equilibrium in which the West's interests in the region's energy resources could be protected.

How vulnerable was the West to an interruption in the flow of oil from the Gulf? An International speaker felt that, in the unlikely event that the Straits of Hormuz were closed, much of the impact could be softened by tapping spare production outside the Gulf and by routing oil through the underutilized Saudi pipeline. While the dimensions of the supply shortfall—in the range of three million barrels a day—would exceed that of 1979, the effects on the market would be lessened by the fact the current energy consumption was increasing only moderately, and Western governments had built up substantial reserves that could be committed.

A Briton considered it a more likely scenario that, if Iraq continued to attack tankers in the Gulf, Iran might retaliate by bombing Kuwaiti or Saudi oil export terminals. But even in this situation, the net effect on Western supplies would be bearable. More worrisome might be the effect of an early end to the Gulf war. In this case, both Iran and Iraq could be expected to want to quickly increase oil exports, thereby putting considerable strain on the cohesion of OPEC, which had, with difficulty, been holding a ceiling on production. If Iran and Iraq increased production and pressed for larger quotas, it was doubtful that OPEC could maintain the current price of oil.

A Norwegian felt that it was unrealistic to expect a stalemate, with no winner or loser. The West had to choose between two evils. The most severe threat to its interests, at least in the energy field, would come from Iranian victory. OPEC had become "quite a responsible organization," holding a price level that was in equilibrium to supply. But, if Iran should win, it was likely to become the dominant force in OPEC and was not apt to be very cooperative. Oil prices might decline in the short run if Iran won, but they would increase drastically in the long run. An American agreed, saying that victory would give Iran "substantial control" over access to energy supplies in the Gulf and would allow it to replace Saudi Arabia as the area's "swing state."

In addition to control over oil, Iran, in another American's view, had other incentives to keep the war going. In terms of internal politics, it kept the army at the front and out of Teheran, where it might become involved in political maneuverings. Other Iranian strategies were the destabilization of moderate regimes and the promotion of Islamic fundamentalism in the region. The West, while it was not interested in Iraqi victory, could not afford to be neutral about Iraqi defeat. Iranian victory would be the worst possible outcome.

A British speaker questioned even more directly the assumption that Iran should not be defeated. To define the Western objective as maintaining a stalemate was "to fool ourselves." A stalemate was unrealistic; it was better that a "respectable Moslem power" win, rather than a radical one. In any event, Iran's defeat was not apt to cause any more internal disintegration and external destabilization than was going on already.

A fellow Briton challenged the view that Iraq was a "responsible power." Five years ago, he argued, it had posed the main danger in the Gulf. It was a country that had indulged in atrocities and had used chemical weapons. This latter point was especially disturbing to a Swede. The tendency for some Western countries like France and the U.S. to side with Iraq had dangerous implications for the use of chemical weapons. Unless there was a strong international condemnation of Iraq's using them, it

would be unavoidable, given their relative cheapness and ease of manufacture, that they would be used in future Third World conflicts.

If Iran were completely isolated, continued the Swedish speaker, a negotiated settlement should be that much harder to achieve. Although Iran appeared at present to want to settle the conflict on the battle field, it was still possible that a climate for negotiations might develop. Iran had problems of internal stability and economic development that might ultimately force it to the bargaining table.

A Turk believed that the climate for negotiations was already improving. The political situation in Iran was changing, he said. There had recently been elections, and Khomeini had indicated a desire to leave more and more decision making up to the parliament. The war had taken a terrible human toll, and the people in both countries wanted an end to it. The opportunity for a settlement was getting closer. Indeed, Turkey was uniquely qualified to play a major role in negotiating it. Turkey shared with both Iran and Iraq borders, extensive trade, and historical, traditional, and religious ties.

Other participants wondered whether there was a role in the Gulf situation for Japan, with its heavy dependency on the region's energy supplies. An international speaker pointed out that a military response from Japan was out of the question, and that Prime Minister Nakasone's ability to take any action was constrained at present by domestic political considerations. At best, some sort of economic development involvement on Japan's part was a possibility.

Turning to the Arab-Israeli dimension in the Middle East, an American said that, in the case of Lebanon, things would "continue to muddle along, with no fundamental solution." U.S. policy there had been a "failure of peacemaking, not of peacekeeping." The U.S. had made mistakes in judgement in thinking that Lebanon would unite once the PLO was removed and that the agreement between Lebanon and Israel would work without Syria being included.

Lebanon would be, for the short term, under Syrian influence, but not domination, continued the speaker. Syria had its own problems, notably a succession struggle. President Assad was trying to preserve the Alawite regime. There was a contest going on within that regime and between the Alawites and the Sunnis that limited Syria's freedom to act outside its own borders for the time being.

The problem of U.S. policy in Lebanon, in another American's opinion, was not that it was wrong, but that it was "no policy at all." It was more a "reaction to an Israeli military adventure" that sought to destroy the PLO as a political force and to establish some sort of partnership with the Maronites in Lebanon. In pursuing the latter goal, the Israelis had hoped to help the Maronites establish their dominance and to then make a peace treaty with them. These, the speaker went on, were incompatible objectives inasmuch as the Maronites could never have consolidated their power if they had made a treaty with Israel. The U.S. had followed this misbegotten Israeli policy without really knowing what it was doing, and, after Israel gave up its "grand design," the U.S. kept blundering along.

A third American speaker took issue with his countryman's contention that the U.S. had supported Israel's objective of destroying the PLO. The Multinational Force had in fact permitted the peaceful withdrawal of the PLO from Lebanon and had saved the leadership of Yassir Arafat.

Looking ahead, a Greek participant felt that a solution in Lebanon was still possible. As long as there was an Alawite regime in Damascus, the West had some common ground with Syria, which did not want Lebanon to become a base for Islamic fundamentalist attacks on it. The Western goal should be to foster a settlement in Lebanon involving less Maronite domination. What was needed was a new constitutional arrangement with a more just internal balance among the various groups.

On the issue of Palestine, an American suggested that the Reagan Plan, put forward in 1982, was a casualty of the divisions within the Arab world over the Lebanese situation, the Gulf war, and the Egyptian-Israeli treaty. The plan had required the support of King Hussein, who had backed off because he had not gotten "a green light" from the other Arab countries.

The speaker agreed that the rest of 1984 would be a period of adjustment to new realities, with no major new moves. But there was real hope for a revival of the peace process in 1985. This depended on a Labor Party victory in the Israeli elections in July, 1984. Labor policies could be expected to be quite different from those of the current regime. While a substantial majority of all Israelis wanted Jerusalem to remain the capital and were opposed to creation of an independent Palestinian state, there was a sharp difference of opinion as to whether the policy of de facto annexation of the West Bank and Gaza should continue. Many Israelis favored some form of territorial compromise with Jordan, allowing for Palestinian participation.

A British speaker felt that there was "at least a chance of progress" if Labor were to win, but he worried that the "minimum Arab demand" might be greater than even the Labor Party would be willing to accept. A Labor government would have to do more than make minor adjustments if there was to be a possibility of a serious negotiation.

If, on the other hand, Likud were to win, continued the speaker, there would be a "major test of American will and prudence" in restraining Israel from another war. If the U.S. failed, the result would be the end of all Western influence and possibly the collapse of those regimes that had been friendly to the West. It was not unreasonable to question American willingness to pressure Israel. The Reagan Plan had failed in part because there had never been any indication that the U.S. was willing to make Israel do its part in seeking a solution. The speaker worried that the Reagan Administration saw the domestic political price of getting Israel to accede to a settlement acceptable to the Arabs as too high.

An Austrian thought that there had been too little follow-up to the Reagan Plan. The moderate Arabs had a right to be frustrated and disillusioned. If negotiations were ever to resume, Israel had to send a signal in the form of stopping its settlements policy, which increasingly looked like a policy of full annexation.

An American worried that the "point of no return" on the settlements question was fast approaching. Some in Israel were saying that it was already too late to change the policy because so many Israelis had been settled. This suggested that even a Labor victory would make no real difference and that there was no possibility of a settlement of the Palestinian issue that involved giving land on the West Bank to Jordan or the Palestinians.

Others were more hopeful that a settlement could be achieved. An American felt it was not too late for an interim solution involving a partial Israeli withdrawal from the West Bank. It would take a substantial enough Labor victory so that a strong government could be formed, and it would require the support of King Hussein. The plan would call for Israeli withdrawal from 60 per cent of the West Bank, which would return 85 per cent of the Arab population there to Arab control. The speaker believed the Israelis would insist only on demilitarization as a condition. Hussein might be interested if he got Egyptian and Palestinian backing and strong U.S. support. Such an interim solution would give the moderate Arabs more credibility and time to pursue a full diplomatic solution.

Another American pointed out that things had changed considerably since the Reagan plan was introduced. Israel was now suffering from a "post-Vietnam syndrome," its strength and arrogance greatly diminished. The Israeli withdrawals from Lebanon signalled to the Arabs that perhaps Israel could not stand casualties. There had also been an erosion in confidence that the U.S. was capable of achieving its objectives or even knew what it was doing. If the U.S. was to commit itself again to seeking a solution, it first had to decide what it wanted to achieve and then secure Jordan's approval and support. There was no point in the U.S. starting a new initiative without meeting these two minimum requirements.

It was a Greek speaker's view that support for Israel was not a vital Western interest, but rather a matter of principle—that of supporting legitimate, democratic states. If this was true for Israel, it had to be true for the Palestinians, for they, too, had an identity. In the long run, the West could best secure Israel's survival by prodding the Israelis to accept the emergence of Palestinian identity. Time was indeed running short. The Islamic movement was gaining strength. One had to hope for a Labor victory in Israel and, in the West, a willingness to prod the moderate Israelis and Arabs to get together.

Continuing on this line, an American said the balance in the U.S.-Israel relationship had to be broadened from the military sphere into the political sphere, with as much emphasis on securing a peaceful settlement in the Middle East as on military strength as a means of guaranteeing Israel's security and survival. But one had to acknowledge that the American-Israeli relationship had brought about great progress in the last decade. It was only after it had become clear that the U.S. commitment to Israel was firm that many Arabs had opted for the conference table over the battlefield.

A British speaker warned that the real danger posed by the various conflicts in the Middle East was that the superpowers might be dragged into a confrontation resulting from the actions of other countries over whom they had no control. Neither the Soviet Union nor the U.S. really controlled their clients, Syria and Israel. It was essential that a dialogue be opened with the Soviet Union in order to develop mutual confidence. A serious attempt by the U.S., Europe, and the Soviet Union was called for to establish ground rules for dealing with instability in the Middle East, and to limit the supply of arms to the region. Some participants expressed skepticism about the latter possibility, to which the speaker replied that it could be done if the Americans and the Russians got together. It was in the interest of neither of them to provide arms to unstable regimes which could become hostile at any time.

An American pointed out that there was a basis for Soviet interest in preventing turmoil in the Middle East. Though the Russians were not net energy importers, they did have an interest in oil and gas purchases from the Gulf. They had shown "great caution" in not becoming involved in the war. The Soviet Union wanted to be part of any settlement in the Middle East because of its general desire to be seen as a superpower. But its influence in the area was limited. Its "capacity for making mischief," however, was great, and it was more inclined to make trouble when it felt excluded.

Stabilization in the Middle East required Russian cooperation. In spite of their competitive relationship with the West, the Russians did not want an explosive situation in the Middle East any more than we did.

A French participant agreed that there was a mutual East-West interest in preventing local crises from spilling over into major confrontations. Certainly, the Russians had the capacity to undermine any Western attempt at a solution. But we were wrong to think we could find a solution with the Russians that we had been incapable of finding ourselves. We needed to "do our homework" about what we expected from Soviet cooperation.

The question of how to involve the Russians was a hard one to solve, an American said. Did they want a stable peace, or was uncontrolled tension acceptable to them? It was appropriate enough to have a dialogue with them about the peace process, but the problem was that, in the Arab-Israeli dispute, they always adopted the most radical version of the Arab position. The Geneva format was doomed. There were other ways for the U.S. to establish a dialogue with the Russians without giving them a "veto over progress."

A British speaker summed up the challenge that the West faced in seeking a solution in the Middle East by saying that we had to deal with "a lot of very unpleasant people in a cruel and disorganized part of the world." We needed to "apply reason" to the problems and avoid taking initiatives unless we could reasonably expect they would succeed.

An American felt the correct approach was for the West to work together "quietly, within the confines of diplomatic channels," and to avoid making public declarations. The situation in the Middle East was neither as bad nor as good as it sometimes appeared. It was always "fluid and changing." True, the West had suffered a setback in Lebanon, but not "permanent enfeeblement." The Soviets were not the wave of the future. New opportunities were possible in the coming months. It was essential that the West remain involved.

Note: Eric Rouleau, author of the French working paper, was unfortunately prevented from attending the conference because of a journalistic assignment.

II. THE STATE OF ARMS CONTROL NEGOTIATIONS

"Forging Ideas for Effective Arms Control"

*Working Paper Prepared by Kenneth L. Adelman,
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A standard saying in Washington runs something like this: "Negotiating with the Soviets is not really all that bad compared to the ordeal of negotiating or, to be more accurate, battling within the U.S. to get a position in the first place."

That is said only half in jest. The disagreements that take place over the bargaining table in Geneva can sometimes pale compared to the debates over arms control purposes and policies that take place in Washington. The Executive Branch, the Congress, the press, and the public all partake to varying degrees, depending on the issue.

Having a general understanding of how the system works in the West, the Soviets frequently assume that if they sit back and wait long enough, they can count on the West to negotiate with itself and come up with new concessions to try to move them. It is an age-old strategy. Unfortunately, experience has shown the Soviets that it is a safe and at times useful strategy for them to pursue.

This underlies the need for constancy and consensus, or at least a strong measure of support, if our arms control efforts are to be successful. The Reagan Administration has put great effort into building bipartisan support at home and greater consultation and coordination with U.S. allies. This underlies the need to try to look ahead, farther down the road, to see how we can achieve our basic arms control objectives and strengthen the public's confidence in them.

All of us here have a good grasp of where the different arms control negotiations stand today:

- Before the Soviets walked out of the INF talks, we introduced a number of initiatives, working closely with Allies. It is uncertain whether and when the Soviets will resume negotiations on these weapon systems.
- The Soviets have indefinitely suspended the START talks, but I am confident we have not seen the last of strategic arms negotiations. We have made a number of proposals there as well, to seek significant reductions and trade-offs.
- The U.S. is actively reviewing issues in these areas to ensure that when the Soviets do come back, we will be ready to meet them half-way.
- Multilateral arms control negotiations will be where much of the action is this year—in the Conference on Disarmament with the new draft treaty for a total global ban on chemical weapons proposed by the U.S.; in the MBFR negotiations with the West's recently tabled proposal offering new flexibility on the data question, if the East will be flexible on verification issues; and in the CDE where we have tabled several proposals aimed at reducing the possibility of surprise attack in Europe and at increasing openness.

Rather than focus on specific issues in these negotiations, I would like today to discuss two different approaches toward achieving our arms control objectives which I believe should be considered over the longer term.

Looking down the road is important. In arms control, as in other areas, deciding *where* to go is often just as difficult as *how* to get there. In this sense, arms control may be as similar to a Raskolnikov (who took a lot of action without knowing what was right to do) as to a Hamlet (who knew what was right but just could not do it).

I wish first to address the need to seek ways by which we can, over time, reduce dependence on nuclear weapons in our defense posture while sustaining a balanced deterrent. Second, I wish to offer a few personal thoughts on the need to consider various ways by which we might advance arms control objectives.

De-Emphasizing Nuclear Weapons. Nuclear deterrence will, for as far as we can see into the future, need to be a central element in U.S. security policy. The U.S. commitment of that deterrent to the protection of U.S. Allies in Europe is at the heart of NATO and Western security. Whatever else we do, we must not cast doubt on the strength of that commitment and strategy, particularly in the face of the Soviet military build-up. Such doubt only increases instability and the chances of miscalculation.

But a number of factors argue for examining further steps for strengthening our conventional forces and thus reducing the extent to which we must rely on nuclear weapons in U.S. and Western security strategy. For one, the U.S. no longer has the strategic nuclear superiority that it enjoyed up

until the late 1960's. In fact, the Soviets have advantages in several aspects. For another, the prospect that the effects of a nuclear war could be devastating beyond imagination is being driven home more and more.

Finally, but not least, public confidence in our deterrent strategy will be undermined if we are perceived as placing too much emphasis on nuclear weapons. While the overall U.S. nuclear firepower has decreased over the past two decades, the nuclear firepower in the world today is still some 5,000 times greater than the firepower used by *all* sides in World War II.

These factors highlight the need for a credible and balanced deterrent strategy. It is both reasonable and possible to provide decision-makers with the necessary range of capabilities to counter different levels of aggression. We need to present options other than the Hobson's choice either of early use of nuclear weapons, with the danger of further escalation and annihilation—or inaction, with the danger of surrender and loss of freedom.

New conventional weapons technologies offer one way to ensure a balanced deterrent and reduce dependence on nuclear weapons. Effective nuclear arms control can also help.

Significant opportunities are opening up in conventional weapons systems that could enhance security while decreasing reliance on nuclear weapons. Conventional weapons that could effectively assume military roles that up until now have been achievable only by nuclear weapons may not be far away.

These systems are based on technologies for improved ways of finding and distinguishing targets on the battlefield and in the rear; on more sophisticated command, control and communications systems; and on more effective conventional munitions—the so-called smart weapons. They include, for example, "self-homing" artillery munitions and infrared submunitions.

Our efforts in START and INF would reduce nuclear weapons to far lower and more stable levels. Our proposals are consistent with our nuclear deterrence strategy, and reflect a willingness to reduce the emphasis that has been placed to date on nuclear weapons.

The West has also taken several unilateral steps to reduce nuclear weapons, unilateral steps that we hope the Soviets would in turn replicate. The U.S. nuclear stockpile today is a third below its 1967 peak and the megatonnage has been reduced 75 per cent over the last two decades.

In Europe, Alliance decisions over the last four years will result in a net decrease of 2,400 weapons in the nuclear stockpile there. Even with full INF deployment, this would mean five nuclear warheads withdrawn from Europe for every new one introduced.

These efforts, combined with improvements in our conventional capabilities, can help set the stage for a security policy that provides a better balance between nuclear and non-nuclear alternatives. Some of these conventional opportunities and programs are, admittedly, still in the early stages of development. They will also cost some money. But we need to look at them now in terms of how they can enhance our deterrent posture and public confidence in it.

Strengthening the conventional element of our defense posture does *not* argue for a change in NATO's strategy of deterrence and flexible response. That doctrine, carefully crafted in the 1960's, has served the Alliance well and remains valid today.

Moreover, conventional improvements should clearly *not* be entertained as a way to make possible a policy of "no first-use" of nuclear weapons. Such a policy would be both unwise and dangerous. To qualify the U.S. commitment to its own defense or to the defense of Europe with a "no first-use" posture would lower the Soviet calculation of the risks and potential costs of aggression against NATO. That clearly would not serve our fundamental policy objective of deterring war. The Europeans, who have borne the overwhelming brunt of two large-scale conventional wars this century, grasp this point better than we.

Flexible response—supplemented by an integrated policy for conventional force improvement that would offer a better balance of options, including the option of no *early* first use of nuclear weapons—would preserve an effective deterrent and go a long way to reassuring our publics. And, as Oxford Professor Michael Howard has noted, "reassurance" of Western publics and political structures has been as important in maintaining our freedom and security as has "deterrence" in its narrower sense.

De Facto And De Jure Arms Control. Looking down the road from another angle, I believe some future arms control efforts might usefully take a slightly different shape. To date arms control has been largely in the form of formal agreements establishing specific legal obligations binding on the parties. We should, of course, continue to seek such arrangements where possible to reduce and otherwise limit arms.

At the same time, we should be alert to possibilities for engaging in arms control by mutual restraint, mutual example, or "mutually agreed unilateral policies." This could consist, for example, of unilateral statements of national policy which may be negotiated and confirmed in exchanges. These would in effect be reciprocal, not unilateral, undertakings.

These kinds of *de facto* arrangements would not, obviously, apply to all situations. In weighing the relative merits of a *de jure* or *de facto* arrangement in any given case, certain considerations come to mind.

Comprehensiveness is one of them. This is both a virtue and a problem. It is a virtue in the sense that it is best to limit all critical categories of armed forces. Otherwise, systems that are not limited have a tendency to be built up and exploited. Arms control in this respect is like wage-price controls, or other controls for that matter. When squeezed in a few areas, the other areas that are not so constrained tend to grow excessively, thereby diminishing or even undercutting the overall impact of the controls.

While more comprehensive agreements are more likely to limit real military capability, they are by definition more complex and difficult to negotiate. They are also, in many respects, much more difficult to verify.

De facto arrangements would have a tendency to be less comprehensive, and to focus on areas or systems where verification presents fewer problems. They should, in theory, be easier to negotiate and possibly quicker to attain. By being less formal, *de facto* arrangements would also be more easily modified if circumstances changed than would legally-binding treaties or agreements. That, as well, can cut both ways depending on the circumstances.

I am not suggesting that we should turn our attention away from the long and arduous negotiations on arms control agreements. That would not serve Western interests or likely be successful. But I am suggesting that, as we look down the road at arms control, we should also not ignore the possibilities of it advancing or achieving our objectives in some areas by other means.

Conclusion. Barbara Tuchman once observed that "a problem that strikes one in the study of history, regardless of period, is why man makes a poorer performance of government than of almost any other human activity."

In the advanced nuclear age, we cannot afford poor performance in our security and arms control strategies—not to mention other fields. Nor can we afford not to try to look down the road to possible new, or at least different, horizons. I have tried to outline a couple of those today. More obviously exist and will warrant our attention.

*Working Paper Prepared by Christoph Bertram
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The present state of arms control is characterized by three disturbing features: the political willingness is absent between the U.S. and the Soviet Union, the only countries which really count in this respect; the technical problems for effective arms control are fast outstripping the traditional instruments for limiting the arms competition and for verifying the agreed limits; and practically all the proposals presented in the current debate, while often intelligent or well-meaning or even both, offer no more than highly inadequate directions for how to emerge from the present deadlock. My own proposal in these circumstances is two-fold: to do everything to maintain what agreed restrictions on arms competition exist, and to proceed, if necessary unilaterally, towards a more rational concept and a more stable arsenal of nuclear weapons than we have at present.

1. The Political Environment. Compared to public rhetoric only a few months ago, it is amazing how routine and tired the call for arms control has become in the Western political debates. To some extent this is the product of emotional exhaustion, caused by the feverish controversy over NATO's nuclear modernization programme in 1983; to some extent it follows from the realization that the world is not on the brink of nuclear disaster.

Moreover, the successful implementation of the first stages of NATO's nuclear programme has had a decelerating effect on the attitudes of the two major powers. The Soviet Union, by demanding up to the last minute of the Geneva negotiations a *de jure* recognition of its monopoly in land-based medium-range nuclear systems, has painted itself into a corner from which it will not emerge for a long time.

This might be different if the U.S. under its present leadership were willing to provide even modest incentives to the Soviets, not in the sense of eager concessions (which would clearly be wrong) but in that of offering to the Communist leaders in the Kremlin, embattled as they are by economic squeezes and by the fear of being left behind in the technological race, some perspective for a mutually acceptable agreement in the not too distant future. But the Reagan Administration has so far refused to do just that. It has interpreted the firmness of most European governments over the NATO modernization programme as further proof that one needs to be tough with the Soviets; it has dismissed the SALT II Treaty in a cavalier fashion (although it has observed some of its stipulations); it is, through its fascination with space-based anti-missile defences, signalling its disregard for the ABM-Treaty (which forbids ballistic missile defence in space as elsewhere and is of indefinite duration); it is adamantly opposed to any restrictions on American technological innovation, such as

anti-satellite warfare. Moreover, in all its proposals for strategic arms reductions (START), the Reagan Administration has indicated that it seeks not a mere regulation of the nuclear arms race but a restructuring of Soviet strategic forces—an objective which is understandably both attractive to the West and unattractive, if not plainly unacceptable, to the Soviet Union. Whatever one may think of the intrinsic merits of current American arms control proposals, they offer not much incentives to a suspicious, diplomatically cornered and politically uncertain Soviet Union. What is more: the Administration makes few bones about the fact that this is precisely the message they want to convey to the Soviet leadership.

As a result of both attitudes, and despite the popular guessing-games about impending moves for some kind of breakthrough in Soviet-American relations as well as the popular professions of West European governments for a new initiative towards the Soviet Union, it is wise to assume that there will be neither for a considerable time. Although it is difficult to imagine that Moscow and Washington will never again sit down and negotiate in earnest over how to regulate the arms competition, this is likely to be a matter of years rather than months. It is true that a change in the White House would also produce a change in the official U.S. attitude towards a more constructive search for arms control possibilities. But this is not very likely and, if it should occur, the new team would need until well into 1985 to define a considered negotiating position. And even then it is uncertain whether the Soviet Union would be able (another succession crisis?) or willing (a bigger role for the military?) to respond constructively. Arms control, clearly, is not for today, only possibly for tomorrow.

II. The Technological Dynamics. What arms control there may be will have to contend with the trends in military technology visible today which are likely to complicate, regardless of political will, the task of arms regulation and crisis prevention.

The first of these is the trend towards ever shorter reaction times. The flight-times of intercontinental missiles from launch to target lies at about twenty minutes, that of intermediate ballistic missiles at about ten minutes. The growing accuracy of delivery systems—towards a medium error of zero in the 1990's—means that reaction times, too, are being shortened drastically: if you want your missiles to survive an attack, you must fire them before they are destroyed by the attacker. This applies to nuclear as well as non-nuclear conflict. The main arms race today is less about numbers than about speed: who can hit, who can react more quickly.

Current speculations about a space-based anti-missile system underline this race for speed. If you want to destroy an enemy missile from space *before* it has left the atmosphere and discharged its separate warheads on ballistic trajectories, you currently have no more than a few hundred seconds to identify, trace and destroy it; that boost-phase could be reduced to 40 seconds! And if you want to destroy incoming warheads from the ground, you have to deal with an attack which approaches its targets at the speed of 5 km per second. The risk that computers, not human beings, will take the fateful decision of whether or not to launch a nuclear war, will become real, even if today it does not yet exist.

The second trend is towards the interchangeability of military systems, particularly of nuclear and non-nuclear weapons. To compensate for the low accuracy of delivery systems, nuclear warheads were needed in the past to assure destruction of an enemy target. Now, precision-guided non-nuclear missiles and rockets have attained an accuracy rate which makes it possible for non-nuclear warheads to have the intended effect. However, the *delivery* systems of both nuclear and non-nuclear munitions look very much alike to the attacker, and they will be targeted not only against conventional, but also against nuclear, objectives. The modern cruise-missile is a case in point: the same missile is envisaged both as a nuclear and as a non-nuclear carrier. And General Rogers' plans to deal more effectively, in Europe, with the enemy's second-echelon forces are based on delivery systems which, for the attacked, look very much like nuclear weapons before they explode. The Soviet Union is known to have concentrated increasingly on non-nuclear options to destroy the theatre nuclear potential in Western Europe—again through means which, before impact, look very similar to nuclear delivery systems: missiles and aircraft. As a result one of the few thresholds of warfare, the "fire-break" between non-nuclear and nuclear weapons, is rapidly turning from a relatively clear-cut borderline into a fuzzy grey area. Will the defender take the risk of assuming that an attack which *could* be nuclear is only going to be conventional?

The third trend is towards dependence on highly sophisticated but also highly vulnerable command, control and communication in the conduct of war. As the means of information-gathering abound, and as modern weapon systems depend increasingly on sophisticated inputs of data to perform their missions, the gathering, evaluation and decision points become the nerve centers of warfare, not only for strategic but also for theatre and local conflict. This raises a new and troublesome problem of vulnerability, much more serious than that of major weapon systems: while even missiles can hide behind the screen of mobility, major command centres are critically limited in their ability to evade attack. Redundancy may make up in part for this deficiency, but the basic dilemma

persists: modern warfare is becoming increasingly dependent on the survival, in war, of highly vulnerable command and control.

III. The Proposals. If these are the major qualitative developments—the reduction of time, the disappearance of clear distinctions between nuclear and non-nuclear attack, and the dependence on vulnerable command and control—then the arms control of the future must seek to address these issues. However, most of the proposals debated today, among governments, experts and the media, still refer more to the past than to the future. While they may have value in promoting agreement or in raising particular problems in the public debate, this limitation has to be kept in mind.

Most of the current proposals concern nuclear weapons. They range from incremental approaches such as merging the INF (Intermediate Nuclear Forces) negotiations with the talks on strategic forces (START) and a build-down of nuclear arsenals through mutual agreement, to more radical suggestions such as a nuclear freeze or even regional de-nuclearization by the creation of nuclear-free zones. None of these proposals, I believe, can point the way to a more promising arms control future.

Linking INF and START is a popular idea for those who regard both strategic and long-range theatre nuclear weapons as belonging to the same category. By the rules of geography, the advocates are likely to be situated in Moscow and, possibly, in Western Europe—but they are not in the U.S.

Indeed, to link both types of negotiations would present the U.S. with a choice that the Western Alliance has been determined in the past to avoid: that of a trade-off between strategic and theatre nuclear forces which a joint ceiling for both would imply. To call for combining the two sets of—currently inactive—negotiations would mean to invite the U.S. to decide whether the strategic deterrence of attacks against the U.S. is more important than the strategic deterrence of attacks against Western Europe. It would at best be an awkward and, in any event, a potentially highly disruptive choice for the political cohesion in the West. In addition, the combination would not speed up the negotiations but rather protract them further.

The "build-down" proposal which is now integrated in the American START position is an ingenious method to ensure that weapons modernization should not lead to ever larger nuclear arsenals, and that weapon systems with many warheads are discouraged in favour of those with fewer warheads. Each new warhead installed would oblige the parties to eliminate, at different ratios, more than one warhead from their inventory. (For a full description of the concept see Alton Frye: "Strategic Build-Down: A Context for Restraint?", *Foreign Affairs*, Winter 1983/84, pp. 293-317.)

As a proposal for START, however, it is suffering from the deficiencies of earlier negotiating positions presented by the Reagan Administration: the Soviet Union rightly regards it as a means to impose on Soviet strategic forces a new and different structure. Because of the ratios favouring a shift away from land-based missiles to submarine-based missiles, the Soviet Union would have to pay an extraordinarily high price for its heavy reliance on land-based missiles. It is conceivable that the ratios might be revised to apply the same reduction factor across the board for all categories, and thus become more negotiable for the Soviet Union. But the best the build-down would achieve under those circumstances would be to correct one of the misguided developments of the past, namely the multiplication of warheads on every missile.

The nuclear freeze, like all freezes, gambles on the future being worse than the present. It freezes nuclear arsenals in their present, highly unsatisfactory configuration—of large, fixed, vulnerable land-based weapons packed with nuclear warheads—and prevents any modernization, even modernization towards a more stable structure of nuclear forces. It is thus a desperate proposal and a profoundly apolitical one: since things can only get worse, let us stick to what we have. There is no doubt that what we have is more than what we need, but also that it is badly configured and in need of reform if the mistakes of the past should not stay with us indefinitely. Moreover, a nuclear freeze, if it wants to prevent any qualitative change, is simply not verifiable; to call for a fully-verifiable nuclear freeze is simply a contradiction in terms.

Nuclear-free zones are, in the first and possibly only instance, a device not for arms control but for a change of political affiliation. A Nordic nuclear-free zone, limited to the Scandinavian countries, would have little military effect—unless it included the Soviet bases in Northern Europe as well, which is totally unrealistic to expect. Instead, it would loosen the political links between the Nordic countries that are members of the Western Alliance and their partners in NATO. A nuclear-free corridor of 150 km on both sides of the East-West divide, as proposed by the Palme Commission, would, above all, serve to crystallize German nostalgia for a neutral zone in the center of Europe. Its desired military effect would be much better served by unilateral withdrawal of short-range nuclear weapons from the Western arsenal than by protracted and complex negotiations between East and West.

Omitted from this critical appraisal are three non-nuclear negotiations: The Vienna talks on the reduction of conventional manpower in Europe, the Geneva negotiations on banning chemical warfare, and the Conference for Disarmament and Confidence-Building Measures in Europe which is taking place in Stockholm. All three have produced interesting approaches, such as the notion of confidence-building and of verification-by-challenge, and progress has been made through Soviet

readiness to accept a measure of on-site inspection. However, even if one or all of them should succeed in the near future, the effect will be measured more in terms of political symbolism than of a significant control of arms. However valuable it would be to be able to demonstrate, for the first time since 1974, that East and West can agree on certain measures of military detente, this would remain peripheral to the major problem of regulating the nuclear competition.

IV. The Priorities. The description of the state of East-West arms control presented here is not a cheerful one. The political will is absent for any major initiative, the dynamics of military technology threaten to reduce the political control over events in war, and the set of current proposals are either not promising or irrelevant to the new problems or both. What, in these circumstances, should be the Western priorities in arms control?

First, we should try to maintain the treaties and agreements that have been negotiated in the past. True, none of these agreements has been perfect. But each has been helpful—even the much maligned SALT II Treaty has served to provide a basis for holding the other side accountable, so much so that the U.S., which refused to ratify the Treaty is now accusing the Soviet Union, which was willing to ratify, of having failed to observe some of its stipulations! The Anti-Ballistic Missile Treaty of 1972 remains in force although both sides, in particular the U.S., are displaying signs of restlessness—and yet it provides the only available yardstick for constraining the search for active missile defences.

But there is another, important reason why these agreements should not be dismissed by the West. International order will only develop through the respect of open covenants arrived at by both sides; it cannot build on broken contracts. And not even Soviet violations would justify an abrogation by the West unless these violations were of such magnitude as to deprive the whole agreement of any sense; this is not the case in any of the American claims made recently against the Soviet Union.

Second, the West must rethink the importance that it attributes to the verifiability of arms control agreements. The trend in Washington at the moment seems to go in the direction of making the ability to monitor perfectly the compliance by the other side the supreme criteria for even entering into arms control negotiations; witness the recent refusal to talk to the Russians about controlling military competition in space. This is a questionable approach for two reasons. For one, it tends to discourage the search for a mutually acceptable verification regime before negotiations even begin; as the SALT II Treaty has shown, verification depends on the constraints agreed, and it would be disturbing if verifiability became the alibi for rejecting the search for such constraints in the first place. For another, there is the danger of confusing verification and the response to non-compliance; as the recent statements by the U.S. Defence Department on alleged Soviet violations have indicated, the problem has not been to identify violations so much as to decide how to respond if the explanation offered by the Soviets were deemed unsatisfactory.

The real questions about verification are different: what degree of uncertainty is tolerable? And what response to non-compliance is warranted?

Third, it will be necessary to halt the trend towards shorter and shorter reaction time: arms control must seek to regain time for crisis management. This can be done through the negotiation of arms limitation: such as a regulation of military competition in space, agreements on lower warhead ceilings per missile, even through an agreed increase in the number of missiles permitted to each side provided they carry no more than one warhead. It could also be done through the agreement of certain crisis procedures between East and West: a more reliable hot-line as proposed by the Reagan Administration; nuclear risk reduction centers in Washington and Moscow, as suggested by a group of U.S. Senators; and permanent communication through Standing Commissions between the major powers as well as in Europe.

But both these steps have to wait until the political climate between East and West has improved to make such bilateral or multilateral agreements possible. In the meantime, there is no reason why the West should not undertake unilaterally those steps that could lead to a more robust nuclear posture, and that can be afforded in terms of security. Indeed, unilateral arms control is probably the most promising approach that is left. After all, arms are designed and deployed by unilateral decision. It is easier to decide oneself that one can do away with some weapon systems or do without some others, than to negotiate about weapons limits with a military rival!

To reintroduce time into the military decision unilaterally can mean a number of things. It can mean to strengthen conventional forces in Europe, capable of meeting but not conducting a surprise attack in order to weaken dependence on the early use of nuclear weapons. It can mean to dispose of all but a few short-range delivery systems for nuclear weapons in Europe—regardless of whether the Soviets follow suit. An American decision to forego the MX-missile programme of multi-warhead fixed ICBM's and to speed up instead the "Midgetman" project of one-warhead, mobile missiles would be a contribution to strategic stability even if the Soviets should persist in maintaining their present nuclear programmes.

Would effective ballistic missile defence help to gain time? This is doubtful for two reasons. For one, no such system can be "leakproof", and offensive weapons can still, at much lower cost,

overcome the defences that are conceivable even in the more distant future (although some protection for command and control centers could be desirable). For another, ballistic missile defences, such as the currently much-discussed space-based variety, depend themselves on such short reaction times that they do not gain time for the defender but increase the pressure for ever faster and more automated responses.

Would a unilateral undertaking by the West not to use nuclear weapons first help to gain time? Probably not, because such a commitment is inherently incredible in the nuclear age. Nuclear weapons are weapons of last resort—and herein lies their deterrence value. Deterrence means precisely that you cannot be sure that the other side will not use nuclear weapons if pushed, and no formal undertaking will provide certainty to the contrary.

As these last two examples show, not every unilateral restraint helps to gain time. But there are those that do. A Western effort to increase the margin of time for political control, evaluation and crisis communication would, I believe, be a major contribution to arms control in the 1980's and one that does not have to wait until East-West agreements become possible again.

It would also contribute to rebuilding the much strained political consensus in the West over the reliance on nuclear weapons for our security. One of the driving fears of the anti-nuclear movement which also has affected many in our societies who used to be uncritical towards nuclear weapons is precisely that political control over nuclear decisions could be replaced by computer control, that the loss of time implied by modern technology leads to an abdication of politics in favour of automated programmes. If we do nothing to halt the current trend, we risk not only losing the time we need to deal responsibly with international crisis and nuclear deterrence, but also the public support we need in order to maintain the credibility of deterrence itself.

*Working Paper Prepared by The Rt. Hon. Michael Heseltine,
Secretary of State for Defence, Member of Parliament (UK)*

I take as read the current position in the various arms control fora. Nor do I intend to state the obvious on the immense value of effective and verifiable measures of arms control, and preferably of arms reduction. Instead I wish to comment briefly on the context in which arms control negotiations take place.

A decade ago, the arms control process was seen both as a major element in a more constructive political relationship between East and West and, at least in the public perception, as exercising a genuine restraint on the pace of weapons development and the scale of deployments on both sides. The DEAMB (Anti-Ballistic Missile) and SALT I Treaties were the cornerstones of this edifice: but there were perceived successes elsewhere, particularly the NPT (Non-Proliferation Treaty). Ten years on nearly all is gloom. It is tempting to look back to an earlier golden age. But perhaps success was always limited.

The SALT process constrained launch vehicles but by then the focus of technological development was switching to warheads and accuracy. The ABM Treaty represented a major step in maintaining strategic stability: but it also reflected the realities of the effectiveness of defensive systems in the early 1970's. As we now see, it did not eliminate aspirations in this area on both sides. The goal of a comprehensive test ban treaty—which unlike the earlier PTBT (proposed test ban treaty) would have constrained the weapon designers—has so far proved elusive (for well known reasons associated with verification). It is perhaps naive even to make these points. We all recognise the weight of the military, scientific and industrial interests driving forward the development and production of new generations of equipment in the Soviet Union. We tend to play down the significance of such pressures in our own societies. But it is the job of military planners the world over to make worst case assumptions about their potential opponents, and of scientists and industrialists to push weapons technology to the limit.

Where are the countervailing pressures?

There are certainly economic constraints at work on both sides but we should not exaggerate their general significance. The arms control process has tended to focus on nuclear systems both because of the consequences of their use and because counting problems are more manageable. For those in the superpower league, or even for substantial medium powers, the reality is that nuclear systems are not so expensive that costs are a crucial constraint. The resource costs involved in an arms race in some high technology areas, and the Russian fear that they will lose out to a superior western—especially U.S.—capability, may provide some incentive towards agreement.

Ultimately, in this area as elsewhere, the countervailing pressure to the interests involved rests upon the exercise of political leadership. Within the Soviet Union, the evidence is of an obsessive concern for national security which dominates both the party and the armed forces: but the party leadership are not subordinate to the military interest. They will be ready to strike a bargain only if they believe that they cannot obtain an equally good or better result without giving anything away. Western unilateralist gestures will not be reciprocated. Perhaps because they have an unrealistic idea of the influence of Western "peace movements" the Russians seem to put their faith in the ability of these movements themselves to impose one-sided constraints. Maybe political developments in Western Europe and hoped-for increased East-West contacts will lead them to put less faith in this. A major unanswered question is whether they will draw the right lessons from the deployment of INF (Intermediate Force weapons) on time in Britain, the F.R.G. and Italy, and from the outcome of last year's elections.

But we should not ignore the institutional pressures in the West and their implications. We rarely seek to analyse the world as it might be seen from Moscow. The need to engage in a public debate with vocal groups wholly opposed to the needs of defense at all has its own over-simplifying and distorting effects—as in the quite disproportionate attention given to the narrow question of the SS20 versus Cruise/Pershing II. We should not underestimate the significance of the turnover in the political leadership in the Western democracies and the "need" to take initiatives to retain public support. These processes generate changes in the Western negotiating stance at a pace which the slow moving, ultra-cautious Soviet leadership must find very difficult to assimilate. And the essential overwhelming human, financial and industrial resources involved in the defence commitment dwarf those devoted to the less tangible and definable quest for arms limitations.

Arms control is a seductive subject for "think tank" solutions which are technically elegant and would lead to a better and fairer world as we construe it. At this level it can be pursued in isolation from the wider "political" question of the underlying relationship between East and West. The underlying reality is that we have to seek agreements with the present political leadership in the Soviet Union on terms which they can comprehend and on the basis of mutual accommodation and acceptance. The crucial question of verification cannot be tackled without some basis of trust. A dialogue has to be developed across a broad front, within which arms control discussions can play a part. But we cannot put the cart before the horse.

DISCUSSION

Moderator: Donald S. Macdonald

Why arms control negotiations had become derailed, who was to blame, and what initiatives and proposals should be put forward to get talks back on track were the subjects of this discussion. Some participants despaired that the West had lost sight of what it wanted to achieve in arms control negotiations. Others felt that the challenge of arms control had become greater than ever because of the rapid pace of technological developments in the arms field. All speakers agreed that the Western interest lay in returning to the negotiating table. But there were varying degrees of both pessimism and optimism that this would happen any time soon.

A British participant observed that progress in arms control was difficult because there was no real momentum in that direction in the general processes of government. The pressures on government leaders in the West—and, he supposed, in the Soviet Union—were to go in the opposite direction. Momentum was on the side of the "vast military apparatus that surrounds us." Most decisions of government were directed toward enhancing the West's military capability, not cutting it back. Progress in arms control, the speaker lamented, had never gone beyond limiting future expansion; it had never brought about actual reductions. In spite of agreements like the ADM Treaty, SALT I, and SALT II, the momentum of the arms race had never slowed down. It was unlikely that it ever would, unless the negotiating initiative started at the top level of government.

An American participant agreed that the prospect for arms control progress in the near future was not good. This was largely due to Soviet disincentives to act. First, they did not want to do anything that might help President Reagan in the November election; they viewed any "high-level dialogue" as potentially helpful to him. Second, there was an uncertainty in the decision-making process in the Soviet Union due to the succession of leaders in the past three years. And third, the Russians still hoped to divide the U.S. and Europe over the question of INF deployment.

This analysis, in one German's view, was not correct. The arms control problem was not only related to Soviet action or inaction. Relations between the U.S. and the Soviet Union were at a low ebb, and nothing, not even the U.S. election, was going to change that soon. There simply was no "climate of accord." The speaker foresaw a "long hibernation period" before any major breakthrough could be expected.

Another American argued that it was a mistake to think that arms control negotiations required as a precondition a better atmosphere. The U.S., after all, had negotiated SALT I while bombing Hanoi. A British speaker felt that a change of climate probably would make little difference anyway. The "kaleidoscopic" change of leadership in democracies put the West in a difficult position when trying to negotiate with the "monolithic permanency" of the Soviet Union.

Nevertheless, negotiate we must, said an American, or we would be faced with a higher level of military competition and a lower level of stability. Current U.S. proposals were of a "public relations nature" and did not offer the basis for productive negotiations. Meanwhile, new weapons systems were in various stages of development and deployment, which made for greater instability and gloomier prospects for any kind of arms control agreement. On one side in the U.S. were those who were "committed to confrontation," who believed that regaining Western military superiority was more important than arms control negotiations. On the other side were those who foresaw increasing political problems stemming from the relationship of confrontation. That relationship was creating in the Soviet Union an "attitude of mobilization" that made it more intransigent internationally and more repressive at home.

East-West tensions did make it hard to get back on the arms control track, agreed an International participant. It was time for the U.S. to "cut the rhetoric" and press ahead with confidence-building measures and crisis management techniques while there was still a degree of openness in Soviet attitudes toward arms control. An Austrian supported the idea that there could be no agreement without a minimum basis of confidence. This could be achieved by building confidence from below through some kind of modest agreement, or from above, by a recognition of the principle of parity. Neither side, an American added, had in practice accepted parity, stability of systems, or deterrent balance. There was a "lack of rationality" in the defense planning of both sides.

On the U.S. side, said a German speaker, a major problem was that the Reagan Administration gave the impression that it "didn't give a damn about arms control." It ought to be presenting itself as an administration that considered arms control a high priority and was ready to do business with the Soviet Union on the assumption that there were areas where agreement could be reached.

Specifically, continued the speaker, the U.S. should not continue development of the "Star Wars," or space-based, defense, which risked violating the ABM Treaty. Nor should it be so preoccupied with the issue of verification. Verification was not the be-all and end-all of arms control. The view that there was no point entering into an arms control agreement when compliance could not be absolutely verified was wrong.

Several other participants were critical of the "Star Wars" program. A Canadian called it "highly destabilizing." A British speaker worried that the economic cost and the military opportunity of this next step in the escalation of the arms race might be so great as to prevent its ever coming under control. Development of space-based systems by both the U.S. and the Soviet Union would lead to mutual apprehension that both sides were seeking to achieve a first-strike capability. The inevitable result would be a new range of weapons that abrogated the ABM Treaty.

The U.S. plan to deploy a new generation of nuclear-armed, sea-launched cruise missiles was another source of concern. This deployment, said an American, would make virtually impossible an accounting of nuclear missiles and would mean an end to any effort to achieve verifiable arms control. A compatriot agreed that the program might have "a fatal impact on the arms control process." In addition, it made little sense to encourage the development of a weapons system that exposed 75 per cent of the U.S. population and only 10 per cent of the Soviet population to attack.

Another American spoke in defense of the Reagan Administration's policies. Verification was not that crucial an element for the U.S. Indeed, the American interim proposal in the INF negotiations that crucial an element for the U.S. Indeed, the American interim proposal in the INF negotiations that would have presented significant verification problems. In the case of the ABM Treaty, the Soviets had themselves jeopardized it by constructing a major radar installation in the central part of the Soviet Union. In any event, research was permissible under the terms of the ABM Treaty, and, indeed, the percentage of the Pentagon budget allocated to the program was insignificant. In other areas, the Reagan Administration had actually scaled back programs supported in earlier administrations. The current MX missile proposal, for example, was smaller and less complex than the Carter version. In Europe, the administration was moving toward less reliance on nuclear weapons. There had been

reductions in both the number of missiles and in megatonnage. Finally, the various proposals aimed at breaking the deadlock in the INF negotiations underscored the administration's seriousness about arms control.

Of the various alternative arms control proposals that had emerged in the West, a German was concerned that none of them addressed the real challenge, which was, in his words, "the implosion of time." The arms race was moving technologically to ever shorter reaction times. In ten years, political control over military events might no longer be possible. This was especially disturbing in view of the fact that future wars were not as likely to result from careful planning as from things going wrong.

Such proposals as no first use, nuclear freeze, and nuclear free zones were not useful, the speaker went on. The notion that nuclear weapons would only be used in the last resort was "inherently incredible." The mere fact that such a concept had been talked about in the West had "facilitated the task of Soviet military planners." The Russians had increasingly enhanced their capacity to deal with Western military installations by non-nuclear means. Nuclear-free zones had a minimal impact on reducing the chance of nuclear war. They were not nuclear-safe zones and would not change the military situation. Their only relevance was political. An American added that most arms control proposals today were significant only in their political or symbolic impact. They had lost their relationship to strategy and had become almost an end in themselves. We needed a "new intellectual framework for arms control" which would enable us to judge whether a proposal made any sense beyond being acceptable to the Russians.

The German speaker thought that unilateral action offered the greatest hope for arms control in the near term. Given the absence of agreement and the worrisome technological trends, the West needed to "look more courageously in this direction." We at least ought to put our own house in order. Had we exhausted the possibilities of structuring our own military forces in a rational way? Our heavy reliance on short-range battlefield nuclear weapons suggested that we had not. Perhaps it was easier to make arms control progress without negotiating with the other side. Reciprocity in the end was not so important. What we did unilaterally, we could always undo unilaterally.

A Swede agreed that, given the present deadlock, the unilateral approach "had some attraction." But we had to be careful how the Russians perceived unilateral actions on NATO's part. What was intended in the West to be stabilizing might be perceived in the Soviet Union as threatening. As for no first use, the speaker wondered if the NATO nuclear option was any more credible. A pledge of no first use coupled with force planning might build confidence, enhance stability, and reassure domestic constituencies.

A British speaker was reluctant to dismiss a nuclear freeze as an arms control option. The specter of nuclear winter, in which all life in the Northern hemisphere might be wiped out by a single 100-megaton blast, argued powerfully for a freeze. To contemplate using nuclear weapons was suicidal. A freeze would give both sides time to plan more stable systems. If we in the West failed to seize the initiative, public support for NATO would erode.

Two Germans endorsed the view that public support for the alliance depended on arms control progress. One speaker warned that, if the alliance paid only lip service to arms control, it would lose its political cohesion. We could rely on nuclear deterrence only if we made a "constant and credible" effort to reduce the chance that nuclear weapons might be used.

The other German pointed out that arms control was a subject that "concerned and agitated" millions of people. We needed to "brighten up the arms control horizon" if we expected to conduct the necessary debate about our security and defense problems. We were going to have to address the questions of force structures, weapons procurement, and changes and adjustments in our strategy—such as conventionalizing our defense—in the coming decade. This would be impossible unless a parallel effort in arms control was going on. The measures we needed to take were expensive and politically awkward and required public support. Arms control had a "legitimizing function" for our future security and defense programs. Public opinion would not support these programs unless we legitimized them with a "sustained, studied, and serious effort in arms control."

Some participants were more optimistic about the prospects for a resumption of arms control negotiations. An American felt there was "too much gloom" being expressed. There were considerable pressures on the Russians to return to the conference table. They were concerned about Western defense efforts, their economy was "a mess," the technology gap with the West was increasing, and they faced serious problems in Afghanistan and in East Europe. They had seen the West stick together in the INF deployment and the election and re-election of conservative governments there. Regardless of what party won the U.S. election, the Russians would have to return to the negotiations in 1985. The only requisite on the West's part was unity and an intelligent policy.

Another incentive for the Russians to resume negotiations was, in a German's view, their desire to have good relations with Europe. Clearly they viewed Europe and the U.S. differently. They had no desire to cut off all ties with the West. In addition, they were being pressed by East Germany, Hungary, and Rumania not to deploy more weapons in East Europe and to adopt a more flexible attitude toward arms control.

In terms of a unified and intelligent policy, an American participant found it encouraging that both the President and Congress had approved the recommendations of the Scowcroft Commission. That meant that the U.S. had one policy for the first time in many years. If the U.S. could stick to that policy, there was hope for new negotiations that might "lead us out of this morass."

Working Paper Prepared by Max Geldens,
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"Nothing could be more certain than the fact that every improvement in machinery contributed to the improvement in the conditions of the persons manufacturing the machines, there being in a very short time after such improvements were introduced, a greater demand for labor than ever before."

The Earl of Lauderdale, House of Lords, 1811

Ever since Hephaestus, God of the mechanical arts, created "two female statues of pure gold which assisted him and accompanied him wherever he went," the world has been going uphill or downhill depending on: whether you view a glass of wine as half-full or half-empty; whether you believe in R2D2 or Frankenstein's monster; or whether you study employment or unemployment statistics.

Unemployment and underemployment have become emotionally and politically charged words. A clinical treatment of the matter is likely to be misunderstood or misquoted because it concerns ideological differences and voters with widely varying interests. For example, to assert that many people are voluntarily unemployed and subsidized by their deluded countrymen, will evoke a storm of protest from both injured parties; to contend that automation and robotization can, in the long run, create many more jobs than will be destroyed, surfaces waves of disbelief from everyone except the inventors of such technology.

In theory there is employment opportunity for everyone who wants to be employed. Theory and practice come apart because cultural and political barriers, imposed by society, retard or interrupt the natural employment process. If people are not employed—or are underemployed—the causal factors must be found in how society has trained, motivated, and priced labor; blaming advancing technology as the reason for unemployment avoids realities, injects a scapegoat, and diverts attention from what needs to be done.

The demand for work is infinite but the supply of workers is restricted—not the other way around. Workers are restricted, first, by natural and unavoidable constraints (i.e., age, health and sleep) and second, by individual and collective choice (education, mobility, retirement, subsidized non-participation, and leisure time preferences).

Consequently, if large numbers of people are involuntarily unemployed or underemployed, the constraints placed by society on the supply of workers must be studied, not the demand for work. The demand for work is always there but not always at the levels of compensation the unemployed have been persuaded to consider as either adequate or justified. Shoe-shine boys are hard to find in Scandinavia and the Benelux but the demand is certainly there. Similarly, there is always demand for skills that are not immediately available. Thus, the problem lies in the mis-match between changing but ever-present demand and supply that cannot or will not respond.

Focusing on half-empty glasses and unemployment levels is not likely to be as fruitful as eliminating or ameliorating the impediments and constraints on the employment process. Yet most elected officials (politicians, union and industry association leaders, members of representative bodies, elected members of boards of directors, and so forth) have pursued the paths of least resistance in trying to solve unemployment problems. The paths selected include such programs as overly generous unemployment benefits, financial aid for inefficient industries and obsolete plants, reductions in the number of hours worked each week (not as a way to raise the quality of life but to redistribute the jobs still available), trade restrictions, production quotas, and similar schemes.

Work is a negotiable commodity. The time people can make available to work—to be a worker—is measurable and finite: it is simply the population of a country (city or region) adjusted by the unavoidable constraints on work imposed as signalled above. Human behavior, when confronted with the choice of working or not working, is broadly predictable and can be influenced. The problem is not that someone has been thrown out of work, but that circumstances prevail prohibiting the *immediate* reemployment of that person. In a dynamic society, people will and should be "thrown out of work" continually—simply because the nature of the work performed must fundamentally change for standards of living to fundamentally improve.

FACTS AND FIGURES. Historical evidence for the assertions put forward above is quite persuasive. However, the evidence—taken in the aggregate—does not do justice to the seriousness of unemployment problems faced by many countries and particularly many cities like Liverpool, Detroit, and Rotterdam. There are currently 34.8 million people unemployed in the industrial democracies; there are likely to be 39 million people registered as looking for work by 1985.

The half-full glass is this: employment has been rising steadily among the industrialized democracies for at least the past 100 years—this is the period of history for which reasonably reliable statistics are available. Over this same period, employment as a per cent of population has increased—which is a better way of saying that the percentage of the population not working has been decreasing. There have been brief periods of discontinuity in the job formation process—particularly in some parts of Europe—but these have generally been followed by periods of rapid expansion in employment.

Exhibit 1 illustrates: (1) the steady growth in the U.S. labor force; (2) the steady growth of the labor force as a percentage of population; and (3) the steady decline of the percentage of the population not employed.

Employment participation rates in the OECD countries—which are primarily the industrialized democracies—was stable in the 1970-1975 period, increased from 68.0 per cent in 1975 to 69.2 per cent in 1979, and remained stable again till 1982. During this 13-year period, employment increased steadily (by about 30 million) except in 1982, when total employment declined from 330 million registered jobs to 328 million.

The Netherlands—together with Spain—has the highest unemployment rate in Europe—approximately 17 per cent. More importantly, nearly half the registered unemployed have been unable to find work for over a year. Yet today there are 267,000 more jobs in the Netherlands than in 1977—a five per cent employment increase over a seven-year period. In contrast, Sweden has enjoyed one of the lowest unemployment rates in Europe—3.5 per cent in 1983. However, total employment in Sweden did not expand—in either absolute or relative terms—much faster than it did in the Netherlands (120,000, or a three per cent employment increase). This fact suggests that unemployment and employment statistics can be studied separately and are for a large part unrelated.

The aggregated statistics provided above mask a number of important positive and negative trends among the individual countries that make up the industrialized democracies. At the same time, they fail to highlight an important social change: unregistered work, a change that significantly distorts the employment rate actually reported over the past decade. Both facts require some elaboration.

First, overall OECD statistics are flattered by the rate of employment growth in the U.S. and Japan, and are depressed by substantial declines in the U.K. and Spain. Despite the statistical influence of these four countries on the aggregate, the general conclusion may be drawn that the employment creation process has succeeded in absorbing an increasing number of people in nine out of every 10 years since the turn of the century and an increasing percentage of the total population in nearly every five-year period except the early 1930's.

Second, the frequently cited unemployment statistics of the late 1970's and early 1980's fail to recognize the growing number of unregistered workers. For purposes of clarity, it is useful to identify three forms of employment: self-employment; unofficial employment; and official employment. Only the latter is reported and registered. The self-employed and unofficially employed may account for as much as one-third of all the work performed. If there was a convenient way to trace and register all work performed and compensated (in one form or another), employment and unemployment statistics would have looked quite different. It is, therefore, reasonable to conclude that the employment process may have faltered in most industrialized democracies in the early 1980's but, in the aggregate, it did not decline to the extent reported.

The unregistered worker is not necessarily idle; he or she could be the "do-it-yourselfer"—called the "prosumer" by Alvin Toffler (i.e., the producer-consumer). Prosumers are rapidly increasing their share of the work that used to be registered, in the 1960's, as work performed by third parties for monetary reimbursement.

In addition to prosumption, the unregistered barter transaction is becoming a significant but unrecorded factor in the employment process (e.g., the carpenter who repairs the leaky roof of his dentist in exchange for dental work for his son). The advantages of transactions consummated in this form are obvious and the number of such transactions is likely to increase in the coming years. Based on several studies on the subject, prosumer and barter transactions may already represent 10 to 20 per cent of all the work performed in the industrialized democracies. The percentage is growing but there is, of course, some overlap with prosumption data.

Unofficial employment is simply defined as untaxed or illegal transactions conducted on an arm's-length basis for money. Depending on the country, unofficial employment probably represents between 10 and 25 per cent of all the work performed.

The implication of the estimates put forward above is this: (1) the Gross Domestic Product of all industrialized democracies is significantly understated; (2) the level of real unemployment is overstated; and (3) a larger percentage of the non-institutionalized population is currently working than ever before—if all forms of work are counted; and (4) the possibility of enticing the unofficially employed and self-employed to return to the registered economy, without a fundamental change in the tax structure, is negligible.

REVOLUTIONS AND DISCONTINUITIES. When they were first observed, five important employment revolutions and work structure discontinuities were predicted to have the effect of dislocating massive numbers of workers: (1) the agricultural revolution; (2) the industrial revolution; (3) the entry of women in the labor force; (4) the energy price revolution; and (5) the informational revolution. The predictions were incorrect. The rate of increase in the number of jobs may have hesitated, causing elected officials to rant, exonerate, and condemn, but at no time did the employment process really suffer to the extent predicted.

Agriculture. Although data is obviously sketchy, marketable employment (or paid-for work) has been increasing ever since 3000 BC. The practical maximum man is physically able to work is about 5,000 hours per year or about 100 hours per week. Before 3000 BC, nearly everyone was employed about 5,000 hours per year hunting, fishing, building shelters, weaving cloth, and harvesting rudimentary crops. Those who did not or could not work did not survive unless they were provided for by some unusually productive and magnanimous benefactor.

The invention of the ox plough, somewhere in Mesopotamia around 3000 BC, fundamentally changed the prevailing concept of work: more could be produced than could be consumed by the individual or the family, with the result that excesses were either saved or traded. Saving introduced the concept of wealth and trading encouraged a division of labor that favored efficiency or talent. The most rewarding form of work was farming and farmers quickly outnumbered hunters and producers of goods or services.

Farming remained the dominant form of employment until about 1880, when advancing agricultural technology began to significantly reduce the labor content of a ton of harvested produce. Today less than five per cent of the labor force in the industrialized democracies are able to produce 20 to 30 per cent more agricultural products than can be consumed by these nations (*Exhibit 2*).

The critical lessons to be learned from the so-called agricultural revolution and the employment discontinuities it provoked, are these: First, it was a relatively gradual and unpublicized change that started in the early 1800's and stabilized in the 1970's. Second, the retraining necessary for most factory jobs was clearly modest. Third, the incentive to be mobile—to leave the farms and move to the cities or come from abroad—was apparently substantial. Fourth, it was not economically attractive to most countries to import agricultural products from low-cost foreign suppliers. And most importantly—from the perspective of farmers—labor and capital remained together so that income could be derived from both. In fact, income from farm work itself has probably remained relatively stable in constant dollars, while the farmer's income from labor and capital together today exceeds national averages for all forms of work.

Industry. The industrial economy began in the early 1700's but did not attract large numbers of farmers, tradesmen, women and children until the mid-1800's. By the 1880's, industrial employment exceeded all other forms of registered employment in what were then the industrialized democracies.

Unlike farming, which underwent only two fundamental changes (increasing farm size and increasing output per worker through mechanization) industry introduced three additional and more threatening changes: the separation of labor from capital; competition from foreign-made products; and the introduction of organizational forms that centralized, specialized, synchronized, functionalized, and institutionalized labor while concentrating, maximizing, and standardizing output.

Instead of largely self-sufficient families or communities, the overwhelming bulk of foods, goods, and services were made available for sale or exchange. Everyone became dependent on the production of someone else. But, in so doing, a division of labor dramatically increased productivity and, therefore, per capita income (*Exhibit 3*).

Despite frequent and widespread resistance, labor-saving technology has prevailed because, in the long run, the beneficiaries of real advances in productivity will always outnumber the victims. Although evidence is somewhat inconclusive as to when resistance breaks down, a factor of 5 to 1 seems not unreasonable. In other words, when a machine can replace at least five men, at an investment of no more than the lifetime wages of one man, technology will ineluctably surmount whatever forms of resistance may have been placed on its path.

Technology generally follows the same path of least resistance favored by elected officials. It takes the form of gadgets, toys, and other strength- or mind-extension devices. Subsequently, it will replace unpleasant or hazardous work. Thus the pocket computer, video game, compact disc, sewage disposal apparatus, and robots that spray toxic paints are as welcome today as the wedge, catapult, wine press, lever and hoist were in the 17th century. But transfer lines, industrial robots, numeric controls, and assembly lines are just as threatening as tower mills, Jacquard looms, water frames, and steam pumps were at the birth of the industrial revolution.

Unfortunately, an orderly or evolutionary changeover from one technology to another technology is seldom possible in a competitive world. And, if competition takes the form of foreign producers, employment discontinuities, due to the delayed introduction of new technology, may never be repaired.

The European steel industry, for example, has suffered serious and probably permanent damage from what in hindsight appears to have been a singular lack of vision and resolve in the early 1960's. At its peak in 1970, the European steel industry employed nearly 500,000 workers and operated through more than 100 very profitable corporations. By 1980, only one or two of these companies are able to make ends meet, the remainder are supported by the state and the EC is waging a heroic war to repair the damage.

The rise of the Japanese steel industry and the dramatic impact their unfinished and fabricated steel products (cars and ships) have had on the European steel industry, and Europe's traditional export markets, is well known and need not be described again in this paper. What is less well known is that it could all have been avoided for less money than will ultimately be invested in protecting jobs in obsolete plants and charging buyers of steel premiums above "fair market" prices.

Using a large and powerful computer-based steel industry simulation model, it was possible to determine the size and shape of a European steel industry that could not only satisfy internal European demand and compete on a cost basis with the Far Eastern imports (despite higher European wages), but could also provide an adequate return on invested capital.

In one particular configuration, the European steel industry would be structured around eight (instead of 38) integrated plants, producing eight to 10 million tons of steel each; 20 (instead of 80) cold rolling and coating facilities; and 90 (instead of 205) mini-mills for plates, profiles, bars, and wires. By using the most modern technology available today, the industry would employ 150,000 rather than 470,000 workers to produce between 85 million and 100 million tons of steel, competitively insulate Europe from imports, and provide lower-cost steel to the European metal fabricating industries than they can purchase abroad. The capital required is \$70 billion and the arrangement promises \$14 billion in annual cost improvements (\$6 billion in labor and \$8 billion in energy, supplies, and maintenance) over the current method of production.

The important point, however, is that all the European countries together have already invested roughly an equal sum* simply trying to keep the current, largely obsolete, production configuration in operation. In view of the violent strikes organized in France, England, and Belgium to keep obsolete mills and pits open, the decisions being taken by elected officials are expedient and therefore understandable—but in the longer term severe damage will have been done to the shape of the industry.

The labor-reduction opportunities in steel are pertinent, because various studies prepared by David Birch, Marc Porat, and others estimate that only nine to 20 per cent of the population in industrialized democracies are producing all the manufactured and industrial goods demanded by these nations. By 1990, all the manufactured products needed by the U.S. will probably be produced by less than 20 million workers or about nine per cent of the population. Thus, it is not unreasonable to speculate that by the year 2000, there will be as many workers in factories as there are on the farms. The remainder of the labor force will be active in the service sector of the economy.

The lessons to be learned from the industrial revolution are these: First, the observations of the Earl of Lauderdale, captured at the outset of this paper, were prophetic—technology has indeed created many more jobs than it displaced. Second, not only were more jobs created and an ever-increasing percentage of the population was involved, but per capita income rose steadily during the entire period. Third, the separation of capital from labor and the failure to reallocate income to form a community of interest, provoked the misunderstandings that sparked revolts and demonstrations. Fourth and most important, the failure to apply new technology exposed many of the industrialized democracies to imported goods for which the exporting nations did not enjoy natural advantages—except entrepreneurial initiative—opening permanently circuits that had remained largely closed during the agricultural revolution.

Women Workers. From the perspective of the male worker, women are labor-saving devices. Women cost significantly less per hour to employ, confirming again that work is available if workers are prepared to enter the labor force in an economically attractive fashion. Many new professions (telephone operators, secretaries, teachers, and so forth) were added in a revolution that exploded silently and did not directly displace male workers. The bulk of the female work force entering the factories and mines did, however, reduce the number of opportunities for males but not to the extent that male participation rates were impeded—at least not until the late 1970's.

Female participation rates in the OECD countries have risen to nearly 50 per cent and to nearly 56 per cent among the seven largest economies of the OECD. From 1870 to 1950, male participation rates rose from 75 per cent to 87 per cent—the period when female participation grew the fastest—from 14 per cent to 35 per cent.

*\$33 billion has been provided in direct Article 54 & 56 subsidies, \$25 billion in hidden subsidies for premiums above the equilibrium price—or fair market price—and roughly \$10 billion is currently being given in direct or indirect subsidies granted to steel mill operation, coal and iron ore mines, transportation companies, and electricity suppliers.

Recently, female participation rates increased sharply, presumably because housewives are again entering the labor force to supplement the earnings of families with unemployed males. For example, in the Netherlands, the country with one of the highest unemployment rates in Europe, male participation rates declined from 78 per cent to 70 per cent between 1977 and 1982, while female participation rates suddenly rose to 37 per cent after many years of stability at between 32 and 35 per cent.

The primary lesson from the women worker revolution and the discontinuities described above is that if changes in the employment structure are understandable and inarguable, they seem to take place silently and without resistance.

Energy. Many economists have observed that the industrial revolution was fueled by cheap energy. Until 1973, the world price of oil (in constant dollars) declined from \$9.82 to \$1.95 a barrel. In 1974, oil prices rose to \$7.92 and in 1980, they rose to \$12.75 (*Exhibit 4*). Between 1900 and 1973, the number of hours needed to pay for a barrel of oil declined steadily from 4.8 to 0.6 hours (*Exhibit 5*). Between 1973 and 1980, the trend was reversed. After the 1973 oil price increases, real wages in the U.S. declined despite increases in employment. Between 1973 and 1982, average wages paid in constant dollars were down by 16 per cent, suggesting that the first important effect of oil price increases was declining per capita income, not a reduced rate of employment. The second oil price increase in 1980 seems to have interrupted the employment rate which, in the U.S., at least, did not resume until 1984.

Since 1973 and 1980, industry has taken giant steps to reduce the energy content of finished goods. Cars are lighter and use less fuel, houses are more effectively insulated, and consumers have become energy-conscious. World consumption of oil has declined by 1,100 billion barrels and should stabilize at 20,000 million barrels per annum till it is exhausted. The Mellon Institute estimates that the U.S. can reduce the amount of energy used to produce a GNP dollar from 55,000 BTUs required in 1973 to 27,000 BTUs by the year 1980 and remain at that level as different forms of energy emerge.

The lessons learned from the oil price revolution are these. First, cheap energy has been the driving force creating employment but even a 400 per cent increase in oil prices (oil represents 80 per cent of all fuels used) failed to halt the job-creation process. (In contrast, the 1980 increase in oil prices of 60 per cent seems to have broken the camel's back momentarily.) Second, when prices of any part of a business transaction rise disproportionately, technology is immediately applied to use significantly less of that part of the transaction cost—whether it is labor, energy, raw materials, transportation, or capital. Third, it has not been the application of new technology that has caused a job-formation problem but the relative cost of energy and the relative cost of labor, which were permitted to rise—often because new technology was *not* applied.

Information. The fifth revolution and discontinuity in work structure deserving consideration, is the growth of the service sector of the economy and the displacement of cerebral instead of manual labor by informational technology.

Until 1970, technology had only a modest impact on the employment rate in the service sector—an observation equally applicable to the formative years of both the agricultural and industrial sectors. After 1970, technology began to have a significant impact. To understand how, requires segregating the service sector into two parts: the classic or traditional purveyor of consumer and industrial services (retailers, utilities, wholesalers, hotels, travel agents, restaurants, and so forth) and a vaguely classified part, loosely called, the "information worker" or the "information sector" (programmers, teachers, accountants, stock and insurance brokers, lawyers, bureaucrats, and so forth).

The traditional part of the service sector has remained stable in terms of employment and may even—depending on definitions—be declining together with industry. The informational part of the service sector is growing very rapidly. According to Daniel Bell, the information or knowledge worker accounted for 17 per cent of the labor force in 1950 and may have risen to 65 per cent in 1980.

Dr. Marc Porat in a well-known, but somewhat dated, study for the U.S. Department of Commerce, using different definitions—he includes computer manufacturing, telecommunication, and printing—concludes that 42.6 per cent of GNP and 53.0 per cent of personal income was developed by the information worker. The informational worker probably represents 50 per cent of the U.S. and European GNP today.

During the 1970's, 19 million new jobs were created in the U.S. Five per cent were in manufacturing, 11 per cent in goods producing, roughly 12 per cent in the traditional service sector, and possibly 72 per cent (± 14 million) in the informational sector of society, including 3 million persons employed by state and local governments.

At the moment, the rapid decline of employment in the industrial sector—augmented by the increase of imported products with a significant labor content—is being absorbed by the burgeoning informational sector. However, the massive acquisition of computers will exact a toll on the employment rate. For example, prior to 1980, there were only one million programmable computers available to knowledge workers. By 1983, nearly two million were sold annually. Dataquest estimates that global sales in 1990—of computers with substantially greater power—will exceed 11.5 million a year.

To date, however, displacement of knowledge workers by machines has been modest. A recent Austrian study estimated that white collar workers in all industrial and service sectors were only modestly impacted by automation, mechanization, or computer application. With the exception of banks, insurance companies, and government agencies—where the percentage of jobs affected can be compared with what was predicted for blue collar workers—white collar positions potentially displaced by technology ranges between one and 22 per cent, depending on the industry (*Exhibit 6*).

The lessons to be learned are these. First, unlike the agricultural and industrial revolutions, technology known today does not promise to massively displace information workers in the foreseeable future—thus employment growth rates should remain unabated until at least the year 2000. Second, in the informational sector capital and labor are coming somewhat together again, promising a less tumultuous close of the century. Third, the ability of the informational sector to quickly absorb displaced industrial workers is far more limited than factories were able to absorb farmers and, as a result, massive retraining programs will be needed by all the industrialized democracies.

CONSTRAINTS AND IMPEDIMENTS. In rough order of importance, the primary reasons underlying employment demand and supply mismatches are these:

1. Functional skill
2. Price
3. Mobility
4. Status
5. Counter-incentives
6. Disillusionment

In April of 1983, the National Commission of Excellence in Education prepared a report entitled *A Nation at Risk* and pointed out that the number of "functional illiterates" in the U.S., who will have difficulty finding employment, ranges between 18 and 64 million people. Comparable estimates have been prepared in Europe by various ministries of education. For example, various reports estimate that 75 per cent of all administrative jobs in 1985 should be performed with the help of a computer but no more than 25 per cent of the employees holding such jobs will be computer-literate.

Exhibit 7 illustrates the dramatic increase in gross wages per hour—actual and in constant 1980 guilders—in the Netherlands since 1895. While far more pronounced in the Netherlands, comparable trends have been experienced in all industrialized democracies. The unemployment rate in the Netherlands is also shown in *Exhibit 7* and the correlation between price and demand is indicative.

It is broadly accepted that the price of labor—particularly the price of labor in many threatened industries—is far too high. Not only is the employer persuaded to avoid taking on new workers but transaction costs have risen to the point demand falters. For example, the demand for oil dropped when prices escalated by 400 per cent; a comparable development can be detected with regard to labor.

The industrial revolution attracted farmers from the country, immigrants from agricultural societies, and commuters from neighboring townships. The term mobility also includes the flexibility enjoyed by employers to separate redundant, incompetent or unwilling labor. In this regard, the U.S. and Canada still enjoy a significant competitive advantage over the European democracies and the inevitable restructuring of the work force in Europe is likely to cost more, take longer, and culminate in a less economically attractive palette of jobs than, for example, Japan and the U.S.

There is a disturbing correlation between unemployment allowances and benefits and the length of time the unemployed remain inactive (*Exhibit 8*). Generous unemployment benefits permit the inactive members of society to be more particular and selective about accepting a new position—particularly if wages and job status are less attractive than in a previously-held position. In Europe, the job-seeker can remain a ward of the state for at least two years, and in some countries longer, before economic pressures become really serious.

Finally: disillusionment. The majority of displaced workers are re-employed within 12 months and cannot be classified as either disillusioned or disenfranchised. But an increasing number of unemployed are becoming discouraged, hopeless and have lost self-confidence and self-respect. Although there are many self-help arrangements and therapy centers, few long-term unemployed seek assistance or participate in unpaid community service projects just to keep busy.

The partial elimination of the constraints and impediments described above would be beneficial in boosting the employment rate. However, legislation in this regard would be enormously unpopular. In fact, the most pronounced advantage of a democracy—elected representation—is working against the formulation of the tough, unpopular, measures needed to regain momentum and competitive success.

IDEAS AND SUGGESTIONS. It is obvious that many of the policies and programs instituted by the industrial democracies to reindustrialize, preserve employment, and restrain the migration of industrial activity to foreign countries, have been far less than satisfactory. Taken over the long term, many of the policies adopted may have done more harm than good, although at the time they were applied there may have been few practical alternatives. Enormous sums of money have been invested with no return—either financially or in employment—and large numbers of workers have been frozen into positions with limited prospect.

Possibly the most useful contribution a paper such as this can make is to put forward uninhibited and unconventional thoughts that may stimulate further thinking and discussion with the expectation that *practical* policies and programs will ultimately be conceptualized and implemented by the industrialized democracies. The term "practical" is used in recognition of the fact that long periods of time are necessary to change direction and permit the adoption of what are fundamentally different ideas on how to manage society.

1. **Tax raw materials and energy—not people.** Rather than taxing the incomes of most workers, the idea would be to tax energy (fossil fuels), non-regenerable raw materials (iron ore, bauxite, clay, certain types of rare timber, and so forth), in addition to transaction values (sales taxes, value added taxes or other taxes on consumption), corporate profits, capital gains, high incomes (to redistribute income), and property.

The advantages of the idea are obvious, but the implications are somewhat mind-boggling. The advantages would be a refocusing of technology on reducing raw material and energy content rather than labor content. In other words, potatoes could become a raw material for semi-synthetic fibers rather than petrochemicals. Tax avoidance and the administration of taxes would be significantly reduced, individual incentives would be enhanced (the incremental effort to work would not be taxed disproportionately), and many similar benefits.

The process of applying such an unconventional tax system is not too complicated—for example, progressive tax application would start at possibly three times the existing national average wage level. Excise taxes would be applied to imported and domestically extracted raw material and fossil fuels; imported goods would be taxed on their raw material content, and exported products would be tax-reimbursed.

There would obviously be the same level of confusion in pricing products as when oil prices increased by 400 per cent and when European value added taxes of 10 to 25 per cent were imposed after the Second World War. In most countries, after-tax income would increase by 25 to 50 per cent, but the purchase price of goods would rise significantly while the price of services would remain almost stable. If the system works effectively, workers would neither come out ahead nor behind, but they would be given far greater freedom on whether to save or consume.

The U.S. government collects roughly \$600 billion in taxes annually. Of that amount, \$286 billion are derived from individual income taxes. The remainder is broken down as follows: \$61 billion corporate taxes, \$183 billion social security taxes, \$41 billion excise taxes, and \$29 billion in other taxes.

Assuming that progressive taxation would only begin at \$40,000 to \$50,000 a year, roughly \$200 billion in tax revenues would be foregone. Approximately \$220-250 billion was paid in the U.S. for domestic and imported fossil fuels, minerals and other non-regenerable raw materials. Assuming the import/export of raw material content is in balance, the excise tax on raw materials and fossil fuels would amount to about 80 to 100 percent. This is obviously a significant increase, but in terms of the final price of the end product somewhat less—about 40 per cent, because energy and raw materials average 40 per cent of the cost of goods sold.

As industry seeks to reduce the cost of a transaction by minimizing energy and raw materials, tax revenues will obviously decline. The same phenomenon occurred when labor prices increased: unemployment rose, but with the added burden that unemployment allowances had to be paid. Rather than continuing to increase taxes on raw materials and fossil fuels, the funds needed by national and local governments will need to be obtained through increases in value-added taxes. In the U.S., a 10 per cent sales tax would deliver between \$100 billion and \$150 billion, depending on whether food is or is not subjected to taxation.

Excise taxes would not be imposed on regenerable raw materials such as agricultural or fishery products, harvested timber, and so forth. Neither would taxes need to be levied on the price of intermediates (electricity, synthetic fibers, and so forth).

While nearly all the tax reform bills in the U.S. (Bradley-Gephardt, Hall-Rabuska, Kemp-Kasten, and so forth) are designed to stimulate the economy, few proposals are focused on reducing the relative cost of labor in the cost of goods sold. It is the labor part of the transaction, however, that requires urgent attention.

2. **Import duties based on wage differences and operating subsidies to industry.** A variety of factors have, over the years, determined the nature and amount of duties imposed on imported goods. The primary factor has been to protect local industries, even though such industries might have been operated in an inefficient manner. Since the Tokyo Round of discussions aimed at reducing trade restrictions, the number of restrictions has increased by 500 per cent.

The business strategy of many nations has been to exploit low-cost labor and heavily subsidize certain industries to create export markets while at the same time insulate local consumption from foreign-made goods. While any national development plan is the sole prerogative of the nation that wishes to impose such a plan, it is questionable whether other nations should contribute to the cost of such plans. In other words, an arrangement which results in the loss of jobs domestically through the

import of goods and services that are produced by significantly lower paid workers and subsidized by a sponsoring government, will interrupt the employment process in the importing country. Sometimes import restrictions take that fact into consideration, but more often than not there is little relation between the labor content of a product imported and the duty imposed. Thus, the current arrangements also restrict goods made in an economically sound manner—steel from Japan is a good example.

Consequently, a thorough review of the arrangements established under the GATT might be considered within the context of the ideas put forward in this paper.

3. *Restrict the availability of people under 25 years for employment purposes.* To directly combat the problem of unemployment among youth, the minimum school-leaving age should be raised to 18. Many countries are considering such a step already. But more importantly, upon graduating or dropping out of the education system, the youth should be given three options: (a) military service, (b) community service, or (c) post-secondary school education. While they would not be forced to accept one alternative or the other, the state would not be obliged to pay unemployment benefits if they do not make a selection.

All three forms of training would heavily accentuate the development of functional skills needed by society. Thus, post-secondary educational programs would need to be dramatically restructured to provide the practical skills and talents needed, particularly by the informational sector of the economy, and the more philosophical—job-unrelated—subjects provided in profusion by most universities in the industrialized democracies should be de-emphasized or at least not provided at the expense of the taxpayer.

The military could provide not only the classic skills needed for defense, civil order, health, and behavioral discipline, but should focus primarily on teaching the mechanical skills to maintain and operate equipment for the agricultural and industrial sectors of the economy. Community service could permit "apprenticing" young men and women to the construction companies, hospitals, police and security agencies, public utilities, local governments, and so forth. The purpose of such apprenticeships would be to learn the skills necessary to ultimately perform administrative and community tasks as well as tasks in the nonprofit sector.

The idea put forward above makes maximum use of existing institutions—the military, the service industries, and the universities. These institutions would need to be organized and funded to educate the youth, bring them through the difficult years of adolescent life, and prepare them for the prime employment years of 25 to 45. Further, if implemented, the idea would reintroduce the more senior members of society who would be called upon to act as teachers. Finally, the three forms of employment provide an opportunity for the "disillusioned" workers who represent between one and three per cent of the labor force. It is a way for them to get started again.

4. *The incentives to work must generously exceed the incentive to withdraw from the labor force.* While a dramatically changed individual income tax program should contribute to making work financially more attractive, unemployment allowances—which remain important in a civilized society—must be so restructured that they do not form a viable alternative to work (*Exhibit 8*). Whether such a program includes a very rapid build-down of allowances, coupled with non-negotiable arrangements such as food stamps (the U.S. approach), or far more rigorous policing of workers who habitually refuse to either accept certain types of employment or move to centers of entrepreneurial initiative where jobs are available needs analysis.

The problem has become very serious in many places and policies in this regard must become far more effective than they have been. In certain countries, for example, there is little incentive to take on part-time work when part-time work pays no more than unemployment allowances. In such countries, income from part-time work must be deducted from unemployment allowances and the arrangement obviously dilutes the incentive to even seek part-time employment, much less accept it if offered.

Employers must obtain far greater freedom in their ability to restructure the labor force—although it seems only fair that employers primarily fund the cost of retraining technologically redundant personnel. In fact, taking on a new employee should place an obligation on the employer to immediately start a fund for the retraining that employee when the tasks performed are displaced by advancing technology.

Similarly, employers should be given greater freedom to deal with employees who may be cautiously classified as "unwilling" or "uncooperative." This should not be interpreted as a suggestion to reintroduce the intolerable and inhuman social arrangements that existed at the peak of the Industrial Revolution. At the same time, it is fair to point out that it will be difficult to regain momentum, worker enthusiasm and pride in work, if *too large* a proportion of the population misuses the law and avoids the spirit with which such laws were enacted in the first place.

5. *The economic yield from labor and capital must be combined for the largest possible number of workers.* Although Ned Ludd found it necessary to smash his machine—it did not belong to him—workers are not likely to destroy the robots they personally acquire to do their work. Certainly

housewives have not been known to smash their washing machines, mixers, and vacuum cleaners. They might be inclined to do so, however, if such labor-saving devices tend to threaten their livelihood.

The idea is to find a more acceptable way to compensate the employee *directly* for the incremental yield delivered from investments in new technology.

Since 1920 per capita income has doubled, confirming that workers have benefitted from the application of labor-saving devices. On the other hand, such *indirect* rewards are seldom as effective as "instant" compensation paid with the monthly paycheck.

The idea is to establish an arrangement to allow the employees of a corporation to become important co-owners (together with outside investors) of new technology. This does not suggest that enterprises in the future should become necessarily either cooperatives, worker-owned, or union-owned. Rather, it suggests a more balanced arrangement should be found which would result in employees directly benefitting from the application of devices that significantly increase *their* productivity. For example, paychecks could include a portion in cash and a portion in common stock issued to purchase labor-saving devices. The income and the dividends from the shares together should provide an adequate compensation level.

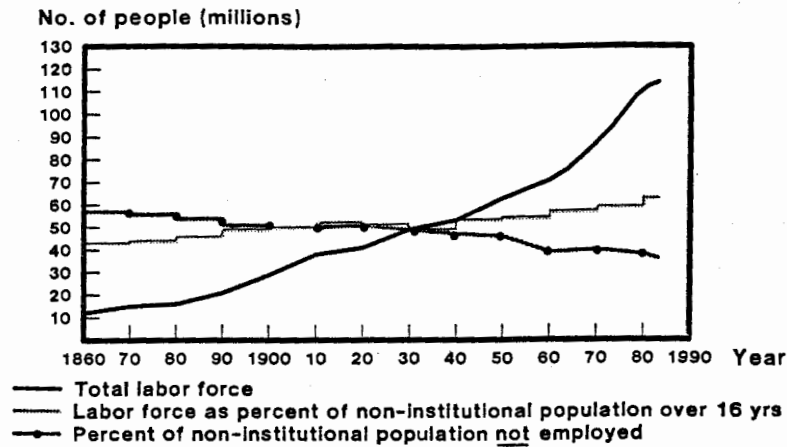
Through the ownership of substantial blocks of stock, employees should expect representation on outside boards of directors. If this occurs, a community of interest would be formed encouraging the acquisition of the labor-saving devices needed to secure an optimum blend of wages and dividends. Interestingly enough, many of the 600,000 new enterprises popping up in the U.S. each year are providing stock ownership options to their "knowledge workers". And all over Europe, legislation is being proposed to increase employee representation on boards of directors. But few of these proposals provide for common ownership of new technology.

The introduction to the final section of this paper cautioned the reader about unconventional and uninhibited ideas and suggestions. It is, of course, impossible to put forward ideas about national economics that are really new or that have not been thought or written about by hundreds of economists and political theorists.

What may be new is the notion this paper puts forward that the systems of employment in the industrialized democracies must change to provide for the "informational society." Doing nothing is clearly not the right answer because that is what happened to the U.S. and European steel industries. Waiting for the problem to solve itself could result in a growth of employment with a concomitant decline in the per capita standard of living. These are not predictions but suggestions about urgency.

Exhibit 1

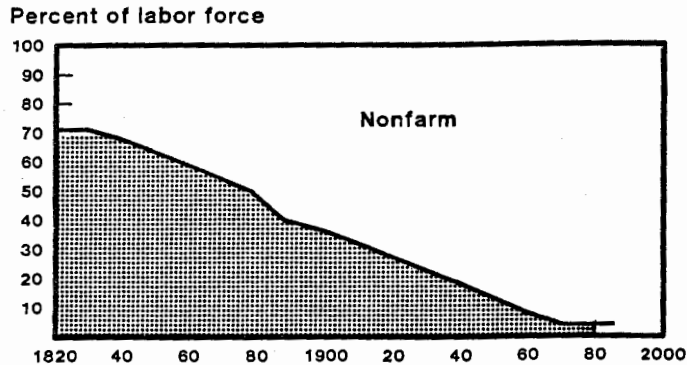
**U.S. LABOR POPULATION
1860-1983**



Source: Statistical Abstract of the United States, U.S. Department of Commerce

Exhibit 2

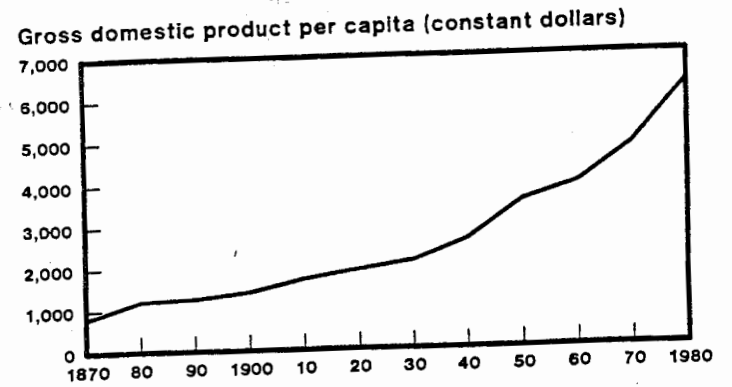
**U.S. LABOR POPULATION
1820-1983**



Source: The Mechanization of Work, by Eli Ginzberg

Exhibit 3

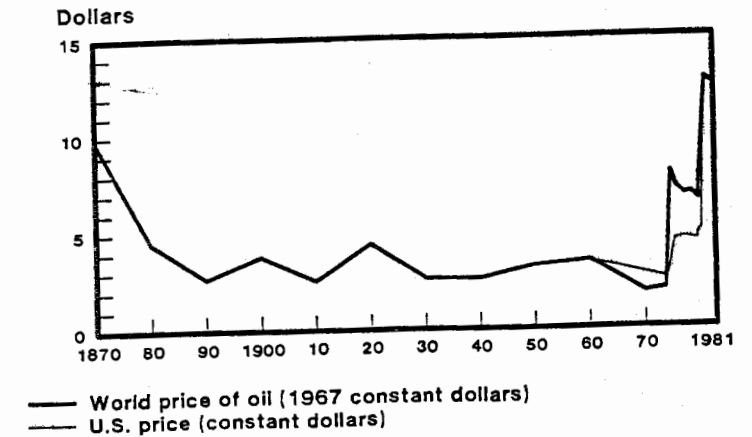
U.S. LABOR POPULATION



Source: Statistical Abstract of the United States, U.S. Department of Commerce

Exhibit 4

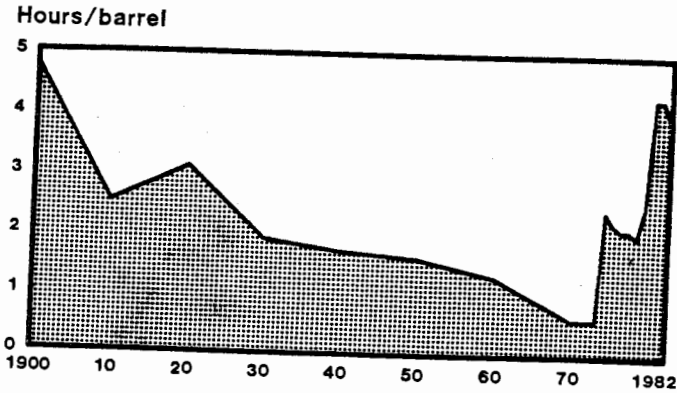
ENERGY PRICES



Source: The Next Economy, by Paul Hawken

Exhibit 5

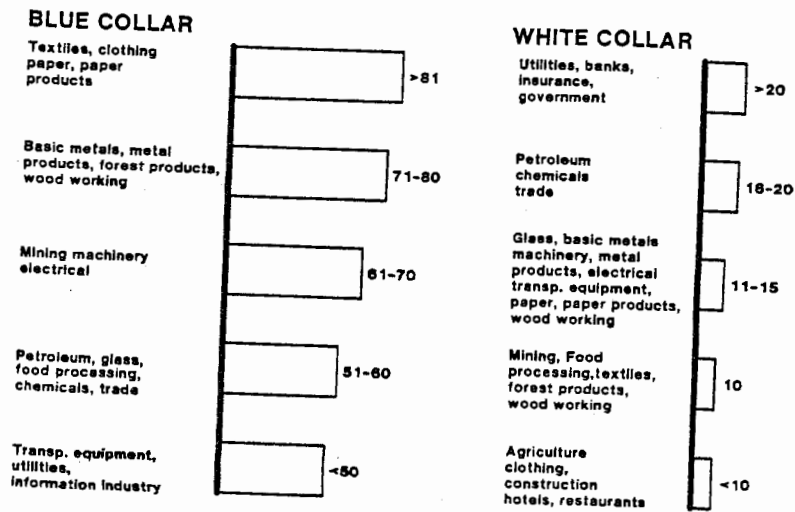
HOURS NEEDED TO PAY FOR A BARREL OF OIL



Source: The Next Economy, by Paul Hawken

Exhibit 6

PROJECTED IMPACT OF MECHANIZATION ON AUSTRIAN ECONOMY
Percentage of jobs potentially affected

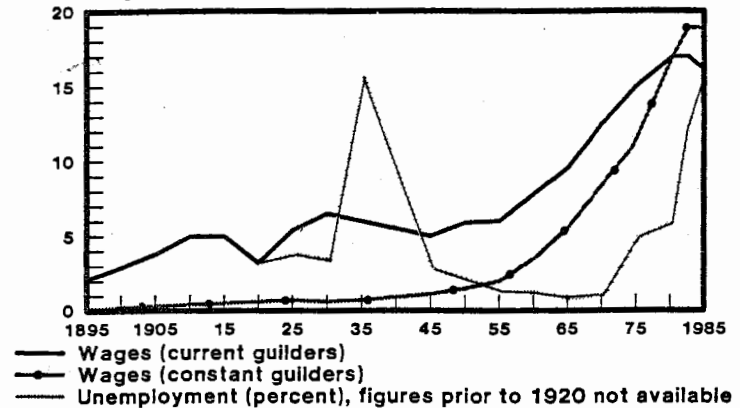


Source: The Distribution of Work and Income, by Wassily W. Leontief

Exhibit 7

GROSS WAGES PER HOUR AND UNEMPLOYMENT RATES NETHERLANDS

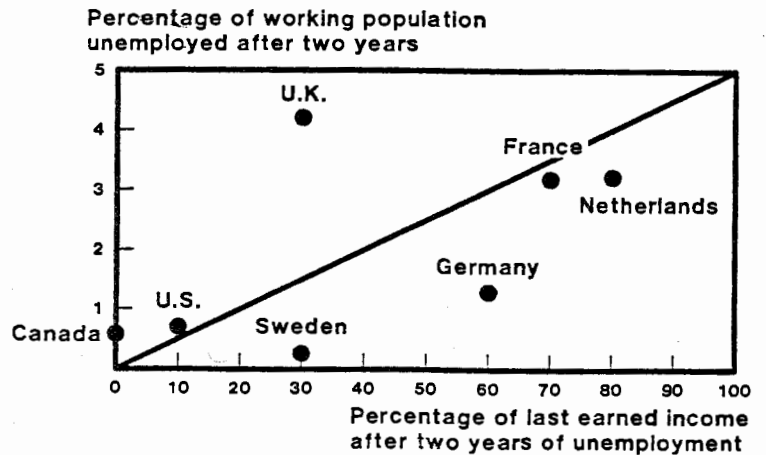
(Excluding social security premiums paid by employer)



Source: Prijsindexcijfers: Nat. Rek. 1982 tab 61

Exhibit 8

RELATION OF UNEMPLOYMENT BENEFITS AND LONG-TERM UNEMPLOYMENT



Source: OECD, Employment Outlook, page 66; Statistical Abstract of the United States, U.S. Department of Commerce; CBS.

"The Outlook For The Economy And Employment In The United States"

Working Paper Prepared by Alice M. Rivlin
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* This paper is an adaptation of the summary chapter of *Economic Choices 1984* (Alice M. Rivlin, Editor) to be published by the Brookings Institution in late May 1984. The author is indebted to the other contributors to that volume: Henry Aaron, Barry Bosworth, Linda Cohen, Harvey Galper, William Kaufmann, Lawrence Krause, Robert Lawrence, Robert Meyer and Louise Russell.

High deficits in the U.S. federal budget together with high interest rates are endangering the future growth of the U.S. economy and undermining the ability of American industry to compete in world markets. Change is needed. The federal deficit should be drastically reduced—indeed it should be eliminated by the end of the decade—and interest rates should be lowered. Reducing the deficit will increase the resources available for investment and improve the chances for healthy economic growth. It will also allow interest rates to come down, reduce the value of the dollar in foreign exchange markets and make American products more competitive with those of other countries.

Cutting the federal deficit will be painful. Spending growth must be reduced and taxes raised. But the need to reduce the deficit also creates an opportunity to reassess the priorities of the federal government. The domestic spending programs of the federal government can be made more effective, defense objectives can be attained at substantially lower cost and a thorough overhaul of the federal tax system can make it both fairer and more favorable to economic growth than the present system.

The U.S. also needs new policies to facilitate economic change. In a growing economy, people and resources must move from less productive to more productive pursuits. Public policy should make these changes less painful, not retard them. It should foster innovation and help dislocated workers find new jobs. It should help the poor and the less skilled to move into the mainstream of American society.

Factors Favorable to Growth. The rate of growth in real output in the U.S. is currently strong as the economy emerges from the deep recession of the early 1980's. Yet there are grave doubts that the expansion can be sustained in future years and fears that the economy could return to the weak growth and poor productivity that characterized the 1970's.

Actually, however, there were several factors that contributed to poor economic performance in the 1970's that seem unlikely to recur in the near future. One such strain on the economy was the rapid increase in the labor force which grew by about 50 per cent between 1965 and 1980. Most of the newcomers were untrained young people—the baby boom generation growing up—and others were married women with relatively little job experience entering the work force in increasing numbers. The economy absorbed this influx but at some cost to productivity growth.

Two rounds of energy price increases in the 1970's raised costs and necessitated considerable industrial retooling to save energy. The energy price rises precipitated rapid inflation as business passed on costs to consumers and workers sought higher wages to compensate for rising prices. Inflationary expectations caused consumers and businesses to act in ways that further aggravated inflationary pressures and inflation proved extremely hard to control.

At the same time the economy was absorbing an explosion of regulation designed to protect the health and safety of workers and consumers, to reduce environmental pollution, to conserve energy and promote equality of opportunity. The increased regulation accomplished many of the intended objectives, but at the cost of some slowing of industrial growth and some aggravation of inflation.

These four factors—labor force increase, energy price shocks, increased regulation, and stubborn inflation—are by no means the whole explanation for the slow increases in output and decline in productivity growth that affected not only the U.S. but most of the major industrial countries of the world in the 1970's. But they contributed and, fortunately, they seem unlikely to recur in the near future. For the next few years, the U.S. will have an increasingly experienced labor force with relatively small numbers of untrained new entrants. Energy prices seem unlikely to rise rapidly unless there is all out war in the Middle East. Moreover, the U.S. now uses energy more efficiently than it did a decade ago and is far less dependent on imported oil. No major increases in regulation are in sight; indeed, regulation is being reduced in some areas. Inflation has been brought down from the double digit levels of the late 1970's to moderate rates of 4-5 per cent a year. The reduction in inflation was purchased at great cost in unemployment and lost income in the 1980-82 recession, but it did occur. Barring outside shocks or accelerating economic growth, inflation seems likely to remain in the moderate range at least for a couple of years.

With respect to these four factors, the outlook for growth in the next few years is more favorable than it was in the 1970's. Unfortunately, the favorable outlook is threatened by unfavorable policy: high federal deficits that reduce national saving, put upward pressure on interest rates and prevent the accumulation of private capital necessary to sustain the expansion of output in future years.

The Outlook: High Deficits and High Interest Rates. For the last several years, monetary and fiscal policy—the two principal instruments by which the federal government affects the overall state of economy—have worked at cross purposes. Monetary policy has been predominantly restrictive; fiscal policy, predominantly stimulative. The result has been high interest rates and high deficits which will continue in the foreseeable future if policy is not changed.

Beginning in 1979, the monetary authorities, deeply concerned about the high inflation of the late 1970's, restricted the growth in the money supply assiduously. Interest rates rose to extremely high levels and the economy went into a deep and lengthy recession from which it did not begin to recover until the end of 1982. Not surprisingly, the interest rate sensitive sectors of the economy were especially hard hit. Unemployment rose to over 10 per cent of the labor force, while inflation dropped dramatically.

Meanwhile, fiscal policy, which had not been used to restrain inflation, was dominated by the major reductions in personal and corporate income taxes enacted in 1981 and taking effect over the years 1981-83. The revenue cuts were not matched by spending cuts, although the mix of spending shifted away from domestic programs and toward spending for defense and interest on the rising debt. As a result both of the recession and of the fact that taxes were cut without a corresponding cut in spending, the federal deficit soared to \$193 billion, or six per cent of the GNP, in fiscal year 1983.

Since the end of 1982 the economy has been experiencing a healthy recovery which has affected all major sectors except net exports. This growth is expected to continue. The government is anticipating a five per cent real increase in GNP in 1984 with declining unemployment and inflation remaining at a moderate rate of four to five per cent.

Even if the economy continues to grow, however, the deficit in the federal budget will not decline. Although revenues will rise as the economy expands, spending will rise even faster unless current policies are changed, and the deficit will continue to grow. Even if the economy grew steadily through 1989, as assumed in the projections of the Congressional Budget Office, and unemployment fell to 6.5 per cent and interest rates declined, the deficit would still climb from about \$300 billion in 1989 (5.7 per cent of GNP). This prospect of a rising deficit in an improving economy makes the situation very different from any experienced in the past. High deficits since World War II have been associated with recession.

These projected deficits are not attributable to the Social Security and Medicare trust funds, which, taken together, are expected to be roughly in balance through 1989, thanks to recent increases in payroll taxes. Rather, the problem is in the general fund. Spending for programs other than Medicare and Social Security will total about 17.2 per cent of GNP in 1985 and will rise faster than GNP, with defense and interest dominating the increase. The corresponding revenues, however, which were sharply reduced by the income tax cuts passed in 1981, will be only about 12.7 per cent of GNP in 1985 and will rise more slowly than GNP. Hence, the large and widening gap.

Government borrowing to finance the deficit is contributing to the high level of interest rates and can be expected to exert more upward pressure in the future. As workers and factories become more fully employed, the monetary authorities will have to keep a tight rein on credit to avoid a reescalation of inflation. The conflict between stimulative budget policy and restrictive monetary policy will intensify and interest rates are likely to rise further.

Why Policy Must Be Changed. Budget deficits in the anticipated range will absorb about two-thirds of the net private savings expected to be available leaving less for capital formation. To put the matter slightly differently, federal government dissaving will offset a large part of the saving of other sectors of the economy. While it is possible that increased saving of other sectors will offset the dissaving of the federal government, private saving has been a remarkably constant fraction of GNP over several decades. It is more likely that federal dissaving of such unprecedented magnitudes will diminish the domestic resources available for investment in plant and equipment and housing and drive up interest rates.

High deficits and high interest rates do not necessarily mean immediate disaster for the economy. The deficits will continue to stimulate the economy generally while the high interest rates tend to slow particular types of spending, especially housing and business investment. The result will be a shift in the mix of total spending—more resources for consumption, less for investment and housing. A low level of investment in plant and equipment is likely to reduce productivity increases and economic growth in the longer run. Penalizing investment is borrowing from the future to increase consumption now.

Moreover, high interest rates have already had devastating effects on the ability of U.S. industry to compete in world markets. High rates have attracted a large inflow of capital from abroad. This foreign capital has helped finance the federal deficit as well as private investment, but has added to the demand for dollars on foreign exchange markets. The exchange value of the dollar has risen sharply in the last several years, which makes U.S. exports expensive for foreigners and foreign goods and services cheap for Americans. As a result, the U.S. has been running a huge deficit in its balance

of trade, and output and employment in industries facing foreign competition have suffered. Borrowing from abroad is also borrowing from the future for current consumption.

High interest rates in the U.S. lead to high interest rates around the world and greatly aggravate the precarious international debt situation. As interest rates rise, Third World countries find it increasingly difficult to meet the interest payments on their debts.

The Necessity for Political Compromise. The economy would greatly benefit from a major switch in monetary and fiscal policy in which low deficits and low interest rates would replace high deficits and high interest rates. Making the switch, however, will be a severe test of U.S. governmental institutions. The painful actions necessary to cut the deficit will arouse strong political opposition. While concern about the deficits is widely expressed, specific proposals to raise taxes or cut domestic or defense programs are likely to encounter far more vocal opposition than support. It will take political courage, ingenuity, and vision to fashion a deficit-reduction plan which will be widely regarded as fair and worthy of support even if specific elements are painful.

Moreover, making the policy switch will not only require compromise between the President and the Congress, it will necessitate an unusual degree of coordination between monetary and fiscal decision-makers. If the switch is to be made without slowing the economy unduly as the deficit falls, the monetary authorities will have to allow a substantial reduction in interest rates and the exchange value of the dollar.

While a strong economic case can be made for reducing the deficit, the choices among ways to do it depend on value judgments about federal spending priorities and the desirable size and role of government. Moreover, the required changes are so large that approaching budget balance solely by increasing taxes would require unprecedented tax rate increases, while accomplishing the goal solely by cutting defense spending would threaten national security and attaining it solely by reducing domestic spending would gut basic government programs on which millions of people depend.

Hence, for political and practical reasons, reducing the deficit requires fashioning a compromise that involves three elements: cuts in domestic and defense spending and increases in revenues. The compromise should be seen as fair and evenhanded, requiring sacrifices from the broad range of taxpayers and beneficiaries of government programs, but not bearing too heavily on any one group.

The necessity to cut the deficit should be an opportunity to reassess priorities and endeavor to make government programs more effective. The requirement to raise more revenue creates a strong impetus for reforming the federal tax system, since raising substantial additional revenue without reform would exacerbate the inequities and inefficiencies of the present system. Nevertheless, reform and reassessment take time, while action to reduce the deficit should be taken soon. Therefore, a two-stage plan seems in order: a set of simple evenhanded measures should be taken quickly, followed by more thorough efforts at reform.

A Compromise Plan. The plan offered here is an attempt by a group of Brookings economists to lay out a blueprint for bringing the federal budget close to balance by 1989. It involves reduction in the growth of both domestic and defense spending and increases in revenue. The proposals for domestic spending and tax changes are in two stages. A short-run freeze on domestic spending to save money quickly would be followed by more basic restructuring of domestic programs. Similarly, tax changes designed to raise more revenue quickly through broadening the tax base and a surtax would be followed by a thorough reform of the federal system. The defense spending proposals, while not formally in two stages, also involve immediate cuts in weapon systems deemed duplicative or related to questionable objectives and a longer-run shift to a more moderate and sustainable pace of defense investment.

The bare outlines of the plan are shown in the attached table. The Brookings economists who worked on the plan regard it as an example of a feasible, fair way to balance the U.S. federal budget in five years. Some of the elements can be defended on their merits, others make sense only as part of a compromise plan to cut the deficit. All the elements would face strong political opposition from some quarter. But cutting the deficit is so important that normal political differences must be submerged in a common effort to achieve a goal that will benefit not only the U.S. economy but other nations to whom sustained growth in the U.S. is important.

Proposed Deficit Reduction Plan¹
(in billions of dollars)

| | 1985 | 1986 | 1987 | 1988 | 1989 |
|-------------------------------|--------|------|------|------|------|
| Baseline deficit ¹ | \$ 197 | 217 | 246 | 272 | 308 |
| Proposed Legislative Action | 40 | 80 | 120 | 160 | 200 |
| Cuts in Spending Growth | 17 | 41 | 59 | 77 | 92 |
| Non-Defense | 15 | 30 | 36 | 41 | 46 |
| Short run (freeze) | 15 | 21 | 22 | 23 | 23 |
| Long run | | 9 | 14 | 18 | 23 |
| Defense | 2 | 11 | 23 | 36 | 46 |
| Required Tax Increase | 23 | 39 | 61 | 83 | 108 |
| Interest Saving | 12 | 28 | 42 | 66 | 88 |
| Resulting Deficit | \$ 145 | 109 | 84 | 46 | 20 |

1. Congressional Budget Office, *Baseline Budget Projections, 1985-1989* (Washington: GPO, February 1984), and subsequent revisions.

DISCUSSION

Moderator: Sir John Sainsbury

After brief introductory comments from the authors of the working papers, discussion of this agenda item began with a response from a Swedish speaker, whose intervention dealt especially with the experience of his own country. The present level of unemployment in Western Europe—nearly 20 million—was a serious threat to social justice and to the entire democratic political system. It was a terrible waste as well as a cause of human suffering. Therefore the speaker disagreed with his inference from the Dutch paper, that if, say, 83 per cent of the work force were employed, we should not be overly concerned with the 17 per cent who were not. But we could not return to short-sighted pump-priming, which produced only temporary decreases in unemployment. For small countries dependent on foreign trade, traditional one-sided expansion of domestic demand was bound to have detrimental effects on the current account and the inflation rate, and thus on long-term competitiveness and employment. Some theorists recently in vogue had advocated a stringent "unemployment bath" as the only way out of our structural ills, to squeeze out inflationary expectations and wage claims. But this was based on an unrealistic model of perfect competition, in which unemployment was seen simply as the result of too high wages. In fact, prices and wages in the modern economy were generally inflexible downwards and in the short run. As Arthur Okun had put it, the "invisible hand" of the market had been replaced by the "invisible handshake" between employers and skilled career workers. Therefore the burden of demand contraction would fall mainly on the weaker people in the labor market: women, youngsters, the uneducated, handicapped, minorities, etc. The mass unemployment produced by demand-slashing policies risked producing an embittered, cynical and despairing generation of outcasts. This problem was aggravated on an international scale when a number of countries became locked in a "grotesque escalation of demand contraction," diminishing each other's export markets and paving the way for protectionism.

To attain a lasting economic recovery with the possibility of full employment, the speaker foresaw two tasks. First, each of our countries had to seek a "third way" between excessive restriction and expansion, an intelligent combination of demand-management and supply-stimulating measures, of fiscal and monetary policies. Discussion about this had already been going on in Sweden since the late 1940's, when trade union economists had proposed a mix of fiscal restrictions to curb excess demand and selective long-term supply-stimulants, mainly in the form of active labor market policies. Other noninflationary supply-side stimulants could include tax credits, accelerated depreciation,

encouragement of research and development, training and retraining, profit-sharing, wider share ownership, etc.

The second task was that of coordinating the individual national policy measures—particularly among major countries—to stabilize global demand and promote investment activity. We should not delude ourselves that the present economic recovery made such coordination unnecessary. Unless we acted now, protectionist measures might be impossible to withstand in the next downturn. Cooperation was also essential between governments, central banks and other institutions on the international debt crisis.

This speaker concluded by describing Sweden's active labor market policy, which was conducted along "employment lines" instead of "cash benefit lines," so as not to encourage the passive preservation of unemployed people. Feeling that it was a disgrace for a society to have teenagers on the dole, the Swedish government had recently radically restructured assistance to jobless youth. "Youth teams" had been created through local government authorities to offer people under 20 four hours of work a day, at a daily wage of 120 crowns vs. 100 crowns of unemployment benefits. Some 30,000 young people had joined these youth teams. Moreover, vocational training had been introduced as an experiment in the defense forces for those between 18 and 24. This reflected a growing recognition of the importance of education and training, especially in the light of new technology. With regard to work-sharing as a response to unemployment, a study had shown that every cut in the weekly work week in Sweden in this century had been preceded by years of marked rises in take-home pay; therefore working hours would not likely be cut soon again. (This did not mean, however, that workers were not choosing different schedules, including voluntary part-time work.) Instead of looking to work-sharing as a cure-all, we should seek to create greater resources to meet unsatisfied needs and improve social conditions.

An International participant, who agreed with the American author about the improved performance of the world economy, discussed the prospects for consolidating this recovery into durable, job-creating growth. The OECD countries in general had to reduce the substantial structural budget deficits. In Europe, deficits were beginning to decline, but even so it was not clear that employment would pick up. Compared with the U.S. and Japan, Europe had had a poor record of job-creation in the 1970's, attributable in part to rigidity in labor markets. This was a complex and sensitive issue, which touched directly on potential conflicts between social policy (with its aims of stable incomes and employment) and economic policy (efficiency and innovation). Tackling the problem of labor market inflexibility should not be seen as wage cutting or as a dismantling of the social welfare system, but as seeking a better balance between social and economic policies, to generate more jobs through increased investment and productivity.

Labor market flexibility had three dimensions: (1) the macroeconomic (general wage levels, and their relation to capital costs); (2) the microeconomic (wage differentials, youth unemployment as affected by inadequate minimum wage legislation); and (3) manpower flexibility (regulations inhibiting layoffs, obstructing the movement of labor from less to more productive sectors). There was general agreement on the need to tackle these issues, but progress could only be made with a social consensus, which the speaker hoped could be achieved.

An American participant said that, as a labor leader, he had found his constituents much more interested in the "micro" than the "macro" numbers. During the past three years, 100,000 fewer people were employed in his industry in the U.S. and Canada, and many plants had been closed or cut back. It was hard to tell people that wages of \$5-7 an hour were too high, or to explain to them that they were unemployed because of budget deficits or high interest rates. Approaching our problems on such a macroeconomic basis lacked the compassionate concern that ought to be the benchmark of our society. A national unemployment rate of 6-6.5 per cent did not appear "acceptable" to the 40 per cent of minority youths who were unemployed, nor to their elders who were without jobs. We had to address the problems of structurally hurt industries on a sectoral basis through national industrial policies. That had been done, for example, in the case of U.S. agriculture, which had been transformed from a disaster in the 1930's to a "winner industry," through federal measures such as soil conservation, aid to land grant colleges, research, and continued multi-billion dollar annual subsidies.

Talk of free trade in today's world was self-delusion. Seventy per cent of the shoes worn in the U.S. were now imported, compared with 40 per cent a few years ago. Textile apparel imports had grown 25 per cent in 1983 and were up in the first quarter of 1984 at an annual rate of 40 per cent. We needed a trade policy related to reality. In textile apparel, an internationally managed program, under the Multi-fiber Arrangement, had proved successful for the developing world over the past two decades. It had given the LDCs a mushrooming industry, and for the developed world had provided a market for plant and equipment, as well as apparel at attractive prices. If this had been left entirely to the free market, a disastrous trade war would have ensued. Internationally managed trade in a number of sectors was therefore the most sensible approach. A Frenchman intervened at this point to say that

the analysis of such issues as managed trade, protectionism, and the coordination of macroeconomic policies could not be separated from monetary issues, notably the overvaluation of the dollar.

A Swedish speaker emphasized the importance of new investment in combatting unemployment. He pointed out that, after the oil price rises a decade ago, most governments had braked their economies. The subsequent high relative price changes had rendered a large fraction of manufacturing capital economically obsolete. Replacement investment had not followed, so that the capital stock available to industry and business today was too small to provide for full employment. It could be restored only by providing incentives to profitability. An OECD advisory committee study had shown that, if the net return on equity did not exceed prevailing bond interest rates, employment would decline. If it were appreciably higher, employment would increase. With current high nominal interest rates, though, this meant that we would have to achieve net after-tax returns on equity of double the figures of the 1960's just to maintain constant employment. If we aimed to increase employment, returns had to be even higher. It would help, of course, if more employees held shares in their businesses, but unless they owned a stake individually, rather than as indirect beneficiaries, they did not feel it was part of their compensation. In many countries, investment could be increased only by tailoring consumption to fit it. This could be done either by lowering the wage share of the value added or by decreasing corporate taxes. The speaker did not agree that structural changes were bound to exacerbate unemployment, but the new technology intensified the need to build up our capital stock.

According to an Irish participant, we did not fear the effects of unemployment enough to take the necessary action. The cushion of unemployment benefits and the apparent absence of social unrest hid serious dangers. In many countries, there was a high degree of alienation that could be ignited by a spark and spread to neighboring countries, as had happened in 1848 and 1968. The problem was structural as well as cyclical, but many people—especially in the trade unions—were reluctant to face the implications of structural change, and tended to look to normal macroeconomic measures. The effects of unemployment varied widely according to demographic differences. In any case, it was easier to cope with structural change in periods of growth than in recessions. In small countries with open economies, reflation could not be accomplished without exporting most of the benefits in terms of encouraging imports, and this was true to some extent even in larger units. We had established the EEC as an economic unit, but we were failing to make good use of it. In such an enlarged unit, a given degree of reflationary action ought to produce for the unit as a whole a balance of payments deficit of a much smaller magnitude than would be experienced by any one of its parts acting individually. The logic of this was being frustrated, though, by ideological differences among member governments, which were exerting an unprecedented effect on world politics. Structural change was hard to tackle because it was complex, when people wanted simple solutions, and because it confronted cultural and social attitudes.

As for job-sharing, the logic of it derived in part from sociological factors we were not examining. Much of recent growth in the labor force had resulted from the entry of married women, and it was now common to have both husband and wife working. In other cases, neither was employed. Part-time work was the logical solution for such cases, as for the elderly and the very young. Also, as in Sweden, we could put the unemployed to work on community projects at little incremental cost. These things required a degree of trade union cooperation which was not easy to achieve when they were under pressure. One helpful step would be for governments to take a more constructive approach to trade unions than many of them seemed willing to do.

Unemployment was the most severe economic disease of our time, according to an Austrian participant. Since the 1970's, the number of employed in the OECD countries had increased substantially—in both the registered and the unregistered "parallel" economies—but the present level of unemployment was still unacceptable, for humanitarian, social and political reasons. We had not run out of work opportunities, so it would be wrong to resort to work-sharing or reducing hours. The common difficulty of finding enough trained and skilled people for the work available suggested insufficient mobility and flexibility in the labor markets, as well as inadequate educational facilities. Unfortunately, we were misallocating valuable resources through protectionist subsidies of the wrong areas of our economies, while funds were needed for R&D, capital formation, and training to create new opportunities. We thus risked creating a two-part society, which was unacceptable.

A similar theme was sounded by a British participant, who paraphrased Lincoln to say that our society could not long endure half employed and half idle. Concentrating too much on some of the cyclical factors, though, might engender a sense of complacency about unemployment. "Short-term gimmicks" were not the answer. What was needed were improved technology and productivity and new jobs and services. All this was easier to achieve in a climate of growth, and the speaker was worried about the threat to world economic recovery posed by the present U.S. policy mix. The main stimulant to American recovery had been the federal budget deficit, but the resultant high interest rates had a deleterious effect abroad, especially in the developing countries, who had to service their

debt with much more expensive dollars. Moreover, those who were currently supplying the U.S. with funds were worried about a sudden and abrupt fall of the dollar and a revival of inflationary pressures. That could lead to a cycle of still higher U.S. interest rates, with European countries defensively following suit. High unemployment, combined with payments imbalances and, in particular, the effects of the Japanese export surplus, had intensified protectionist pressures. This problem ought to be addressed by all the industrialized countries in some new approach in which the Japanese would be included.

A German participant agreed that unemployment was our most important domestic concern, but he suggested that the analysis of the problem was often not sufficiently penetrating. More jobs were available than were seen in the statistics, but not at official labor prices; a look at the "black" labor market in the Federal Republic demonstrated that. European unemployment had probably been exacerbated by the mistakes in the U.S. policy mix, notably high interest rates. The question now was whether the economic recovery would last, and the speaker confessed that he expected a U.S. downturn in 1985-86. To defend against the effects of that, he had recommended an early tax reform in Germany. This should provide not merely tax incentives, but should lower the tax burden as a whole, so as to take a smaller share of GNP. For the public sector to take as large a share of GNP as in Sweden would be a "nightmare," this speaker said. Sweden's answer to its problems had been a 16 per cent devaluation of its currency, a "beggar my neighbor" policy which would have resulted in severe international complications if pursued by a larger country such as the Federal Republic. The results had been lower comparative labor costs but higher real wages, interference of the government in wage negotiations and agreements, price controls, and higher inflation. A Swedish response to the preceding intervention was that the devaluation had been chosen at a time of acute currency crisis in preference to an extremely restrictive policy which would have created widespread unemployment. If such solutions were not available to larger countries, well then, "small is beautiful."

The comparison of oversimplified statistics between countries was not a sound basis for policy determination, according to a British participant. Different categories of unemployment, for instance, called for quite different remedies. Getting unemployed teenagers into the labor market was not comparable to getting adults who were working "underground" back into the tax net.

An American acknowledged that his government's deficits were using up too large a part of the world's savings, but he said that European governments were taking a larger amount from that pool in absolute terms and an even larger share as a percentage of GNP. Perhaps European deficits were less worrisome—being more cyclical than structural—but there was a degree of built-in inflexibility that was harmful to European employment. That point was addressed by a Belgian participant, who cautioned against confusing short-term effects with long-term social policy. Europe's rigidities were attributable to its three layers of social security. Individual social security, developed largely since World War II, had become a political tool for redistributing wealth in exchange for votes. This had provided the social consensus necessary for rebuilding the continent. Then had come social security for industrial firms, in the form of subsidies paid to protect employment. In effect, healthy companies paid taxes which were transferred to sick firms not likely to survive anyway. (In Belgium, more was paid out annually in industrial subsidies than was paid in taxes by industry.) Finally, there was what might be called social security for nations, or "hidden European protectionism." This involved a thicket of regulations and preferences which hindered adaptation and integration.

What should be done? In the case of individual benefits, the speaker suggested refocussing on the original social purpose of helping those who really needed it. If we did not go back to being selective, we would be unable to pay the bill. In the case of companies, employers' associations had to give clear signals that industry opposed subsidies. ("We have to sweep before our own door.")

A Spanish intervention suggested that Europeans tended to overlook some positive aspects of the present U.S. policies, such as the ability it gave them to compete in American and world markets and the high rewards of holding dollar assets. The willingness of foreigners to hold dollars gave the U.S. in turn the advantages of low inflation, low unemployment, good growth, and the means to finance its trade and budget deficits. It was not clear that this situation could be maintained indefinitely, and if a correction of the U.S. deficit was unavoidable, it was important that adjustment be achieved smoothly, to avoid speculative movements of capital and currencies that would disrupt world trade.

An Italian speaker remarked that the two working papers emphasized wide differences between Europe and the U.S. on the unemployment problem. The American author had prescribed a macroeconomic treatment, centered around a reduction of the budget deficit, from which the rest would follow almost automatically. In contrast, the Dutch author had concentrated on the structure of the labor markets. One implication was that an improved macroeconomic situation was, in the U.S., necessary and sufficient to solve the economic problem, and in Europe, necessary but not sufficient. With regard to the Dutch author's proposal to alleviate unemployment by shifting the tax burden from labor and energy onto raw materials, the speaker wondered if this would not have a significant adverse impact on exports of the LDCs, with a dangerous feedback to the industrialized countries. A

possible alternative was to alleviate the burden of social security contributions by bringing them into the general tax system. The Dutch author intervened here to say that, while his proposal would pose certain difficulties for the LDCs, it would result in much more careful use of raw materials. The American author then added that, in her view, a macroeconomic solution was necessary but not quite sufficient, in view of serious special problems, like that of unemployed teenaged blacks.

Another American participant saw a major new source of unemployment in the overvaluation of the dollar resulting from the U.S. policy mix. His country's trade imbalance would be \$120 billion this year and \$150 billion next, if the dollar continued to be 25 per cent overpriced, as seemed likely with rising interest rates. Historically, an overvalued dollar had been a prime source of protectionist pressures. Despite sincere free trade professions, the Reagan Administration had taken more protectionist measures in the past three years than any other administration since the 1930's and appeared headed toward more trade controls. If other countries followed suit, we risked a major disruption in the world trading system, which in turn would hamper the ability of the Third World to service its debt. It was therefore essential that the U.S. and its allies take urgent action to stem the protectionist tide and to open new trade negotiations.

A Swedish participant observed that many of the conservative prescriptions to improve employment called either for fundamental changes in our economy and society, which would take too long, or for wider scope for market mechanisms, which might increase social tensions. Sweden had demonstrated that flexibility could best be achieved by improved labor market policies. International trade unionists had been seeking a theory applicable to the so-called "third way" societies, which would not require far-reaching structural changes. Increased economic interdependence meant that only the very biggest countries could hope to shape policies on their own, but a recent report prepared jointly by the Council of Nordic Trade Unions and the West German Trade Union Confederation argued in favor of multilateral action. It purported to show that a stimulus to all industrial democracies equivalent to one per cent of GNP—in the form of more public and private investment, tax reduction, etc.—would, in two to three years' time, result in a four per cent increase in growth in those countries, 8.3 million more people employed, and significantly reduced budget deficits. All the negative effects of an expansionary policy pursued in isolation would be mitigated or avoided in the case of joint action. Such a program required essentially only the good will of political leaders.

A German speaker discussed what he called some "trivial facts" behind the decision-making process in business. Under a rational economic policy, factors of production and distribution were chosen on the basis of at least two criteria: cost and convenience. Accordingly, when interest rates were high and earnings depressed, new investment would be relatively low; when energy prices were high or rising, consumption would decline and new sources would be sought; and when labor was expensive or inflexible, levels of employment would be comparatively low. We tended to lose sight of the fact that a market economy was meant to serve the consumer, so that productivity gains should be used to reduce or stabilize prices in the market place. This was impossible so long as we distributed productivity gains exclusively to the production factors. (Gains from technological progress could also be passed along to the consumer through lower prices, resulting in enhanced purchasing power.)

A rational business decision-maker would always seek a cost mix of capital, material, energy and labor which would strengthen his competitiveness. Any action which hurt competitiveness was bound to lead to even greater unemployment. As far as labor was concerned, this meant that we had to pay for it in accordance with the development of productivity; that we had to improve its skills and qualifications; and that we had to increase its flexibility and mobility. All this had to be done in conjunction with lightening the tax burden on personal and capital income, to release funds needed for technological and structural development.

An American participant, while conceding the negative effect of U.S. budget deficits and high interest rates, argued that high, sustained unemployment in Europe was fundamentally a problem rooted in the socio-economic policies of most European governments since 1968. During that period, a combination of high wage rates, strong unions, and weak coalition governments had led to decreased competitiveness and a drop in labor mobility. Research indicated that, even with real growth of two to three per cent a year, unemployment in Western Europe would continue to rise to an average of around 12 per cent by the end of the 1980's. We were witnessing what the speaker called "Eurosclerosis," and the challenge was to boost Europe's competitiveness by facilitating labor mobility. A Swede intervened at this point to argue that, generally in the OECD countries, the higher the unemployment benefits, the more elaborate the social security system, then the stronger the trade unions, the lower the unemployment tended to be.

Another Swedish participant claimed that, on balance, American policies of recent years had benefited Europe. An economy starting from a very low level of capacity required a consumer-led upswing, which fiscal policy provided; high interest rates would not cause a noticeable drag in that phase. But the U.S. economy had now reached a stage where a change in the policy mix was needed

to lower interest and exchange rates, foster growth, and stem protectionism. The speaker agreed that European unemployment was solidly embedded in European rigidities: restrictive fiscal policies, wage rises out of proportion to productivity gains, and the prohibitive cost of dismissing workers. The only comparative advantages left to Europe, he concluded, were "old museums and the ability to blame the U.S."

A Spaniard said that solving the unemployment problem without changing the essence of our societies posed a challenge to Western moral decency. Seeking solutions in the industrialized countries at the cost of higher unemployment in the LDCs, though, would be explosive in the middle term for all of us. The speaker perceived the lack of a feeling of generosity and responsibility among Europeans toward the Third World, which was cause for concern.

A Canadian participant pointed out that the U.S. enjoyed benefits which were counterparts of the costs of its present policy mix. The capital inflow from Europe and Canada was financing a measure of U.S. domestic consumption, as well as industrial and defense expenditures. This served to shelter the U.S. from spending constraints, and made it hard to change the policy mix.

A Belgian outlined three aspects of the unemployment problem. Our first priority had to be growth if we aimed to create more jobs. That meant increasing world trade, which in turn implied easing the Third World's debt by enabling them to sell more to us. To do that, the LDCs would have to improve their own management and encourage private international investment. For its part, the EEC ought to make a renewed effort to create a true common market. Secondly, we had to reduce the huge part of our GNPs used inefficiently by the public sector. In Belgium, for example, if the figure 10 represented the cost of labor to an enterprise, gross income to the workers was only 5 and disposable net income was 2 1/2. So while workers complained that real wages were diminishing, employers felt forced by the high cost of labor to compress or reduce employment. Finally, while part-time work and flexible schedules were commendable, working more in the end meant more jobs. The Low Countries, where workers worked on average 1,500-1,600 hours a year, had the highest unemployment in the OECD. By comparison, unemployment was low or declining in countries like Japan (2,100 hours), Switzerland (1,910), and the U.S. and Canada (1,875). We all needed to emphasize education and training, and the speaker had been impressed by Sweden's accomplishments in that field.

At the conclusion of this session, the authors of the working papers offered some final reflections. The Dutch author said that too little attention had been paid to the problem of developing new skills in an informational society. The active producer was at the same time an active consumer, and being concerned about the employed was important in getting the unemployed back to work. The cost of labor of those employed was the most valuable part of our strength, and we ought to concentrate on that, either by reducing labor costs or raising the cost of other elements, so that labor's position would be less vulnerable. Moreover, we had to protect industry from unnecessary "unnatural" competition, and to invest heavily in technology.

The American author had welcomed the discussion of the additional disadvantages of the U.S. policy mix, notably the dangers of protectionism and difficulties with the Third World. Moreover, it was inappropriate for the U.S. to be a borrowing nation. She associated herself with all the interventions that had stressed the importance of training and retraining at every stage of life, and not just for the very young.

The final intervention from the floor was from a Swedish speaker who endorsed the notion of training people to adapt to new technology at any age. Only in that way could we achieve substantial productivity gains. We ought to rely mainly on the effectiveness of competition, but people needed the safety net of social security, so that they would not be left "to battle the market alone."

IV. DISCUSSION OF CURRENT EVENTS

Moderator: Vernon Jordan

This session dealt with the topic "Continental Drift: Economic and Political." The discussion began with remarks by an American, a German, and an International panelist, who approached the subject from their particular points of view.

The American led off by quoting a European diplomat who had likened transatlantic relations to the weather conditions over that ocean. On the surface, there were occasional storms, involving high seas, high winds and discomfort, but with reasonable seamanship one could ride out those storms. Below the sometimes stormy surface there was a deep layer of still water, where very little was going on. Beneath that lay the ocean bed, where the slow, gradual movement of continental drift was occurring. What was the evidence of that drift?

In the U.S., important changes in the nature of the country and its society could be included in the realm of continental drift. The speaker cited the rise of the "Sun Belt," far from the Atlantic coast. If California were an independent nation, it would rank about tenth in the world in GNP. That state had 50 of the 435 members of the House of Representatives. Los Angeles had become the third largest Spanish-speaking city in the world, and the U.S. might soon become the second largest Spanish-speaking nation in the world; by 1990, Hispanics would be the largest minority in the U.S. In 1978, U.S. Pacific trade had surpassed Atlantic trade for the first time; by 1982, the gap had widened to \$13 billion. There was, too, a growing awareness of America's western border with the Soviet Union in Alaska.

Beyond these objective causes of continental drift, with all their political implications, there were subjective causes, including the deceleration of progress toward European unity, which had confused Americans; a certain disillusionment about the U.S. among some groups of young Europeans; differing estimates about detente; and the latent American impulse towards isolationism, which had been affected in some measure by recent experience in Lebanon and Central America.

One thing which had not drifted, in the speaker's estimation, was the basic commitment to mutual defense. This was underscored by the continuing, low-key "Mansfield debate" in the U.S. Senate. Although that resolution was dead, the debate which it had inspired went on. It was significant, though, that the emphasis had shifted from how many troops the Americans would bring home from Europe to how many they would leave there.

There would continue to be differences between Europe and America, notably about burden sharing, and the gap might even be seen to widen. The speaker concluded that the way to handle this continental drift was not to deny the gap, but to extend the bridge.

The German speaker began by noting that there were in the Federal Republic of Germany ("FRG"), just as in any country, groups who were fundamentally opposed to their country's foreign policy. But there was no movement of any political significance in Germany flying the banner of neutralism. There was nothing there, for example, corresponding to the 15 to 20 per cent of Communist voters in France, supporting a party basically pro-Soviet and hostile to NATO. (That situation, the speaker said, only increased his respect for the firm stand of the French government on security matters, and the same could be said for Italy.) The overwhelming majority of Germans in the FRG—including the opposition in the Bundestag—supported the Western alliance, and in particular the alliance with the U.S. Only extreme fringe groups were calling for withdrawal from NATO or its military organization.

This generally shared consensus could readily be understood against the background of the FRG's geopolitical situation and global postwar developments. A position as intermediary between East and West, such as that occupied by the German Empire under Bismarck, was impossible for the FRG. As a consequence of the second World War—unleashed by the German National Socialists—the political balance in Europe had been completely and irrevocably transformed. The Soviet Union had become a superpower, ruling all of Eastern Europe and a good part of Central Europe. It would have been able to extend its reign over the entire continent had the U.S. not acted after 1945 to restore the balance of power and save at least the Western European nations from a Communist regime.

Under those circumstances, the German interest was clear. If it were left on its own, it would soon be drawn into the wake of Soviet hegemony after a brief transitional phase of self-isolation, or it would become the apple of discord between the superpowers. Only as a full partner in the Western community could it guarantee its security and pursue an active policy (not least of all the policy supporting genuine detente between East and West). Whatever weight the FRG possessed in the world derived from its membership in the Atlantic alliance and the European Community. The great majority of Germans instinctively understood that integration with the West provided the indispensable foundation of German security policy and of the FRG's foreign policy. The speaker therefore was at a loss to understand why the threat of a "new Rapallo" was served up to the public in the West year after year.

Against this background of broad consensus in the FRG, the few neutralists there took on the appearance of exotic creatures, and attracted public notice far in excess of their political importance. These small groups seemed to believe that the FRG, although it was in the heart of Europe, could withdraw from the arena of international affairs and thus escape all its dangers and tests. Behind that hope lay a rather diffuse feeling of uneasiness about the high-profile exposure of the FRG, and not a well-defined program with fixed foreign policy goals.

Another current phenomenon involved a tendency to place the two superpowers on the same plane and to judge them by similar moral and intellectual standards. This remarkable inability to differentiate was irritating to all who believed that the Western Alliance embodied common values as well as interests, but it did not represent a political force capable of influencing German foreign policy.

At the same time, there was a growing awareness of the German and European interests in the Atlantic alliance, which was visible in three major fields. First, Europe as a divided continent and Germany as a divided nation both had a vital interest in a peaceful *modus vivendi* between the two blocs and in the process of security and cooperation in Europe. The West Germans attached paramount importance to maintaining and expanding contacts with the German Democratic Republic. Second, Europe was interested in ensuring that the West did not undermine its economic and social stability through disproportionate arms spending. Such stability was essential for long-term competition with the Soviet Union. Finally, Europe had a vital interest in controlling and resolving regional conflicts in the Third World, to keep them from becoming East-West conflicts or otherwise threatening European stability.

This new, clearer awareness of inherently European interests was expressed, not by questioning the need for the Alliance, but by calling for greater balance within the Alliance. Europe's role as the second pillar of the Alliance needed to be strengthened. This was in line with U.S. interests, too, as it would enhance the ability of the Alliance to secure its defense and to continue a political dialogue with the East. Greater weight in the Alliance could not be obtained free of charge, though, and the Europeans would have to put forth increased efforts if they hoped to speak with one voice. Europe had to reduce its dependence on the American nuclear deterrent and assume greater responsibility for its own security.

Such a shift in emphasis would not be to the detriment of the Alliance if the U.S. took the new developments into consideration. The only dangers were that the Americans might confuse informing their allies after the fact with truly consulting them, or that they might yield to the temptation of unilateralism and present the Europeans with a *fait accompli* in matters of common interest.

The speaker concluded by emphasizing that neutralism was not a danger to be taken seriously, either in the FRG or in Europe as a whole. Consideration was being given in Germany to the interests of, and the role played by, Europe in the Alliance with the U.S., and in the framework of East-West conflict. This inevitably called into question cherished habits of thought, but it also betokened the vitality and adaptability of the most successful "alliance for peace" in modern times. (To a Norwegian who intervened to ask what he foresaw as the eventual relationship between the two German states, this speaker replied good-naturedly that he could not answer that question in less than three-quarters of an hour.)

The International participant addressed the subject especially from the vantage point of the European Community, or as a spokesman for what had been described humorously as "Eurosclerosis." He began by referring to recent changes in European self-assessment, especially in economic and technical matters. There was a new awareness that competitiveness had to be measured, not among the various European countries themselves, but at the world level. The rapid introduction of new products and processes in the world implied that one was either "with it" or "out of it." There was no third way. Moreover, the Europeans' habitual complacency about this problem had given way to a recognition that they had failed in a major way over the past decade by not generating the spontaneity needed for the creation of new enterprises. Instead, Europe had sought to maintain its global competitiveness through productivity gains. As a result, the consumption of new products and services was much lower in Europe than in the U.S., Japan and Southeast Asia.

Europe now accepted that it would not become a dynamic society without greater flexibility. It was no mean achievement for the old European countries to move away, as they were doing, from their postwar consensus about the balance of activities of the state and the private sector, in which it had been a "cultural reflex" to turn to the state for economic security. But as Europe became more dynamic, it also became more concerned about its dependency.

In the same spirit of dynamism, the European Community had tackled for the first time a serious reform of its Common Agricultural Policy (CAP), after having "fiddled" for a number of years at trying to reduce its cost without altering its structure. The EC was now seeking to limit production in the dairy sector while reducing guarantees for that limited production. If this succeeded, it would introduce a valuable element of flexibility while retaining an agricultural policy which was an indispensable political link among members of the Community.

Europe was also concentrating on the importance of an enlarged market—which was one of the underpinnings of American dynamism. The Europeans had a market which was more or less as big as the American market, but they were not using it adequately. They would need to find the delicate balance between deregulation and regulation, and to draw lessons from the U.S. and Japan about the role of public procurement in stimulating activity, such as in the field of telecommunications. Improved mobility in training within Europe was also essential, not just for economic reasons but to produce a network of young people with common experience and knowledge, which was so important for innovation.

Were conditions right for the success of Europe in these various efforts? The speaker was optimistic at the Community level, as the macroeconomic policies of the various member states were less different than at any time since the "oil shocks." Some of the areas of progress needed would come from market forces rather than from the traditional "push technique" of government. At the world level, though, a major obstacle was presented by Japan, which had not yet been integrated into the dialogue about the responsibility for the functioning of the international economic system. European efforts to discuss individual issues with the Japanese or to participate in their market had not been marked by much success, and the Japanese were being allowed to get away with "steps in the right direction" in the form of small packages of token liberalization coinciding with the world economic summits.

The speaker felt that European-American cooperation in all these areas was insufficient in scope and imagination. Although there had been an explosion of exchanges at the company level in the industrial and service sectors—as was emphasized in a later Swiss intervention—there were no grand joint projects in fundamental research with public funding, such as in nuclear fusion. Nor were we working together imaginatively on the multilateral rules for trade and services. With respect to the current U.S. debate over the Export Administration Act, it was unrealistic to deny that there were important security aspects to the international transfer of high technology. U.S.-European trade dealings were bedeviled by uncertainty about the applicability and duration of export controls. This was the one factor that could push European industries into "working out their own problems" instead of adhering to a more general program, and that would be unfortunate.

Military procurement was another area in which there was inadequate cooperation, and this had negative effects from military, industrial and political standpoints. Cooperation was not likely to improve until the Europeans demonstrated that they were serious about their own affairs.

In conclusion, this international speaker called for Europeans and Americans to shift their focus beyond the perpetual "muddling through" in the short run to some fundamental problems with longer run implications. Cooperation in the short run was essential for credibility, but if it were to be sustained one had to look farther ahead than we were doing now.

In responding to the foregoing panelists, an American participant substituted a military simile for the oceanographic one. He said he was inclined to be optimistic about the tactical aspects but pessimistic about the strategic ones. We had fewer short-term problems than many people thought, but perhaps more worrisome long-term concerns. The current situation could not be discussed without reference to the difficult INF problem we had been through. We were still living in the shadow of that debate. The fact that the Soviets had left the negotiating table and that there were no nuclear negotiations underway made people anxious and uneasy about the future of the East-West relationship, despite the absence of a clear crisis to point to. The end of the INF debate in Europe at large had had an effect on the more general transatlantic debate. Last year, governments had tended almost to suppress disagreement on other issues to create the cohesion necessary to move forward with INF deployment.

With the beginning of deployment, some of those other issues had been moved from the back to the front burner: the new importance of strengthening conventional defenses, for example, or the need for a two-way street in procurement. We were not likely to make progress with those issues over the next four to six months—in part because of the U.S. elections—but we could hope to achieve something in the next two or three years, thanks to some of the lessons learned in the INF debate. The Europeans' involvement in the successful implementation of the December '79 decision was evidence of their willingness to assume greater responsibility. Another example of this was the beginning of an important Franco-German security dialogue. In the economic area, we had successfully dealt with protectionist pressures.

The speaker was not as concerned as some others about the political effects of U.S. social and demographic shifts, but he was worried about the increasing polarization which seemed to be moving the U.S. toward global unilateralism and Europe toward regional parochialism and escapism. The loss of momentum toward European unity, and U.S. frustration about European defense contributions, could intensify this polarization. If, as the preceding International speaker had suggested, Europe were to "miss the boat" in this generation of technological progress, a number of negative results might ensue. Western Europe's capacity to underwrite its defense contributions would be

impaired; it might be led to look increasingly toward the East as a market in which it could be more competitive, intensifying the strains in the area of technology transfer; and chronic unemployment would turn its governments toward parochial matters at the expense of wider concerns. It was only to be hoped that the right people in the right places had already awakened to these problems and were working on solutions.

A British respondent alluded to the European tendency, on policy issues, to want to eat one's cake and have it. If the dollar were in fact lower, many European industries would be in even graver difficulties. If the U.S. were not so vigorously turning toward the Southwest and technological innovation, Europe would say that the New World was showing signs of growing old. If the U.S. were not turning its attention toward Asia and Latin America, Europe would be castigating it for its ignorant insularity. America had been overexposed in Lebanon, but had it refrained from intervening Europe would have blamed it for its neglect. Had the Reagan administration not insisted on INF deployment, Europe would be bewailing its weakness. If the EEC were not fighting over its budget and other internal problems, its foreign policy would be even more bankrupt. In short, the U.S. was a maturing continent that was still young, while Europe was too old to display signs of youth.

Nevertheless, the speaker expected that Europe would probably respond in a healthy fashion, and did not need to be too disturbed by the American challenge. There was indeed a sense of "Euro-sclerosis," of no growth and stagnation, of loneliness and resentment. But democracies, unlike authoritarian regimes, could afford such periods of worry and fear, and should thrive off them. In entrepreneurship and innovation, there were encouraging signs in Europe. The EEC crisis was concentrating the minds of Europeans in good ways, and there was the start of a debate about a European Defense Force. Through painful debate the Europeans were struggling to a definition of their own responsibility and their attitudes to nuclear and other defense. In this way, the peace movements had been constructive in questioning our assumptions and forcing us to analyze and defend them openly. Above all, Europeans had been made to get used to patience and pain in place of the era of automatic growth.

All these things related to the battle for opinion in the 1980's. Much of that battle was domestic, and would continue to be so, but some of it was Atlantic. It was important that Europe should win this battle for its own opinion. Although Europe was being forced to be more autonomous, one had to keep in mind that she was thereby made more dependent on the effects of the policies and public style of what happened in the U.S.

A French participant spoke of the uncertainty about security matters that was manifest throughout Europe, and especially in Germany, following the economic decline of recent years. Several million jobs had been lost in Europe since 1975, while the U.S. had created 15 million new jobs during that time, and Japan an equally high number. There was a similar gap in the fields of investment, industrial production and advanced technology (such as electronics, robotization and biotechnology). American primacy in these matters was attributable in part to a more flexible system and the absence of external constraints on its currency. The European countries seemed bound to follow "stop-and-go" policies, with the emphasis on "stop." Because of inadequate coordination among the member states, French expansion might coincide with German restriction. Moreover, Europe's growth was not facilitated by a socio/cultural/economic model comparable to Japan's. For these various reasons, Europe was vulnerable to an acceleration of its economic decline.

With regard to security matters, German youth had discovered in 1982 what General de Gaulle had known in 1960, namely that there was no absolute guarantee from the U.S. for European cities in case of war. Possession of their own deterrent force had rendered the French less susceptible than some other Europeans to pacifist pressures, and there was little neutralist sentiment in France today. The place of the Communist party in France, as in Italy, was mainly a cultural phenomenon among the electorate. It was true that Europe had to be more self-reliant in its defense; this goal could be advanced by increased Franco-German discussions and by Community-wide plans for industry and technology.

A Spanish participant observed that the gap between his country and its continental neighbors was narrowing. After many years in the "ghetto of neutralism" under Franco, Spain was moving back into the current of modern history. It was motivated by such diverse impulses as concern about its security and envy of the more advanced industrial societies.

A Dutch speaker said that we had to analyze the problem of continental drift unemotionally, remembering that a new generation of Europeans did not look at the U.S. through the same eyes as did those who had been America's allies during the war. But there was still an overriding desire among Europeans at large to cooperate with the U.S. Fruitful cooperation, though, ought to be achieved as equals, and this was where the trouble lay. The European countries had not yet developed the homogenous, standardized market necessary for economies of scale. There was abundant technology and talent, but they were not being applied to a big enough economy. Europeans had to resolve to tackle this problem as a community, and not on a country-by-country basis. One had to start

by dismantling the measures erected over the years by individual countries which hampered the growth of industry. Otherwise, one might see the fulfillment of a Japanese prophecy that, at the end of this century, the U.S. would serve as the world's breadbasket, Japan as its manufacturer, and Europe as its discotheque.

A German participant cautioned against interpreting closer relations between East and West Germany as a sign of neutralism or impending reunification. The division of Germany was unnatural, so that improving relations by small steps tended partially to normalize an abnormal situation. Such normalization was in the interest of the Western Allies, in that it lightened their burden as guarantors of the security of West Berlin and tended to damp the intensity of East-West conflicts. Beyond that, citizens of the Federal Republic felt a certain responsibility to ameliorate where possible the living conditions of their compatriots in the East. But the gradual strengthening of these fragile links between the two Germanies in no way involved a neutralist sentiment.

Two apparently incompatible trends were mentioned by an American. One was the increasing "nuclear allergy" among people in the U.S. as well as in Europe, a desire to decrease our reliance on nuclear weapons for deterrence. The other was the inability or unwillingness on the part of European governments to do substantially more for a conventional defense. In addition, several European opposition parties—notably in Britain, Germany and Denmark—seemed to be moving away from the security consensus of the postwar era. Since usually opposition parties eventually came into office, this trend had worrisome implications.

On the latter point, two Germans observed that, in recent history, moving back toward a centrist position on security matters seemed to be a prerequisite for being returned to office. On the other hand, a Briton recalled that the left wing opposition parties, including the SDP in Germany, had required long and careful "handling" before joining the security consensus at all. The British Labour party had been extremely hostile to the notion of German rearmament.

Generally, the precondition for left wing parties' support of the defense consensus had been the acceptance of detente as the other side of the coin. Whenever detente was attenuated, left wing support of the defense consensus declined accordingly. With the right wing parties, support of the alliance had always been primarily a function of European perceptions of the wisdom and consistency of U.S. leadership. Some of President Reagan's actions and rhetoric were testing the loyalty of his allies, and the risk of disaffection did not lie only among left wing parties in opposition.

Another American said that, even with increased conventional strength in NATO, he saw no alternative in this century to an extended deterrent based on U.S. nuclear arms and subject to escalation.

A German speaker acknowledged the existence of "nuclear allergy" in Europe, but said that he felt in good company, together with the Catholic bishops of the U.S. and Henry Kissinger. There were some 4,000 nuclear weapons in West Germany, two-thirds of which had a range of 25 kilometers. "They don't scare the Russians," he said, "they scare me." A lot had been done to improve conventional strength in his country and the Bundeswehr was a much better force than it had been a decade ago; it would be better yet a decade hence. Reservists were important, too, and the FRG could field some 1.3 million troops within 72 hours.

A Finnish participant intervened to say that the sort of neutral foreign policy practiced by his country had nothing whatever in common with pacifism, and involved no sympathy with it.

A U.S. speaker raised the question of how we should define security concerns of a geopolitical nature which were important to the alliance but lay outside its boundaries, such as in Central America, the Middle East and Africa. Should the U.S. be expected to respond to crises there while still maintaining its force levels in Western Europe, should Europe take a greater interest in those areas, or should there be a division of labor? Was there a disagreement among the allies about the importance of such areas, or how to deal with them?

An International participant took issue with descriptions of an "arms race" in Europe. To him, the Western European members of the alliance looked more like tortoises moving backwards. The Western countries were spending about half as much on defense as 20 years ago, expressed as a percentage of GNP. Another International speaker intervened to say that, on the other hand, the Warsaw Pact nations were like a "galloping tortoise." There was still an essential strategic equivalence between the two sides, but it was doubtful if we could hold our own without a considerable increase in defense spending.

To a speaker from the Netherlands, it appeared that the combination of Vietnam and Watergate had destroyed the foreign policy consensus in the U.S. American liberals seemed to have turned into noninterventionists and conservatives into unilateralists. It was to be hoped that a consensus could be restored on at least some of the major foreign policy issues, as this was essential to America's leadership role. The American panelist replied that many of his compatriots were deeply concerned about this problem and were working on it. There were indeed political and constitutional infirmities which tended to disrupt continuity in U.S. foreign policy.

A Canadian participant predicted that between now and the end of the century North America's economic relations with the Pacific rim countries would grow at a much faster rate than relations with Europe. Three factors would be instrumental in this. First, the European and North American economies, which had been complementary in the last century, were now much more competitive, particularly in agriculture. There would be substantially less opportunity for those blocs to sell goods to each other. Second, Canada and the U.S. were both Pacific as well as Atlantic nations, and the logic of geography was turning their attention toward the fast-growing economies that rimmed the Pacific. Finally, immigration from Asia in the 1970's had produced in Canada, as in the U.S., strong social and personal links with the Pacific. We would continue to see a shift of economic and political power to the western coast of North America. The consequences of this for the Atlantic relationship were not entirely clear, but the speaker hoped it was not a "zero sum game."

A Portuguese participant wondered whether it was wise for his country to continue seeking membership in the EEC, as it had been doing since 1976. Perhaps its strategic importance, as well as that of its Atlantic islands, combined with its experience in other parts of the world such as Africa, could open the way instead to a profitable and influential partnership with the U.S. The same might be true for other small European countries which were not members of the EEC. A German and an International participant responded to this by urging that Portugal persevere patiently in its discussions with the EEC. In the long run it was bound to be disadvantageous for a small European country to remain outside the Community. Portugal's case exemplified a problem of adjustment which had its parallel in many other EEC problems.

A Norwegian speaker felt that equating "Europe" with the EEC countries risked overlooking an important segment of public opinion among the youth of the non-EEC countries of the alliance. Many of them were especially concerned about the moral aspects of public issues, and were more susceptible to the peace movement and the "drift." If we wanted their support for the defense consensus, we would have to be seen to uphold certain moral and spiritual values.

An International participant felt that "Continental drift" was the wrong expression for the problem we were facing, which he would describe more as a "drying out" of notions of international order and structure. We were up against, not nationalism or neutralism, but provincialism and parochialism, of which the signs were manifold. For example, one noticed increasing signs of moral righteousness. (As one Dutchman had recently observed ironically, the new Calvinist motto seemed to be "God is dead; long live Zimbabwe.") European attitudes toward Latin American problems seemed to define who was "liberal" and who "conservative". There was a decline in the attraction of Community structures and procedures, and protectionism was getting more popular. One heard about "Europeanization" and "small is beautiful." The "me generation" had been translated into societies and become respectable. The speaker had no strategy for dealing with these trends. Much depended on the European political leaders, but also on what happened in the U.S., which he called the "think tank of the Western world." Unfortunately, the U.S. had not been interested in recent years in defining what could be the international order, but had tended to view world issues in a simplistic fashion, trying to organize its alliances on the theme of "those who are not with us are against us." The costs of that attitude had been profound. Part of the task of being a superpower was developing ideas of international structure. The Europeans were incapable of doing that alone, and their provincialism would be reinforced if America did not do it.

An American participant was disturbed that no reference had been made so far in the discussions to the forthcoming economic summit meeting. If, as some people had said, this demonstrated our low expectations, that was unfortunate, as we should avail ourselves of every opportunity to expand economic and broader policy coordination.

Another American expressed surprise at the implied complacency about economic relationships between the U.S. and Europe. He saw real continental drift in those relationships in at least four areas. On the monetary side, the current dangerously high level of the dollar on the foreign exchange markets was merely the latest manifestation of the severe currency imbalances that had plagued us for a decade, and of our unstable international monetary system. This was basically the responsibility of the U.S. and Europe, and one observed no efforts to improve the workings of the system. Closely related to that was the trade problem, with its outlook for large-scale disruption.

A third area of concern was the international debt problem. There were large differences between American and continental European banks about about how—or even whether—to respond to that problem in new ways. No contingency plans had been developed to deal with the crisis that might erupt because of a further sharp rise in interest rates, a new recession, or increased protectionism. Finally, big differences had emerged in recent years about support for the international financial institutions: the quota increase for the IMF, the IDA replenishment, and the role of the World Bank in filling the gap left by the private banks in the developing countries. Underlying all this was the fundamental question of whether we could continue to have the kind of meaningful international economic cooperation and efforts at policy coordination that had marked the last generation. Did the

neglect of the economic summit in these discussions evidence simply skepticism about summit meetings, or did it suggest a broader erosion of confidence in international economic cooperation? The observed continental drift was not just an economic problem. It was closely related to security: poor economic results would make it harder to achieve NATO spending targets. Economic hardships would exacerbate the "Mansfield problem." On the other hand, the economic opportunities arising from interdependence could provide at least part of the new constituency for the constructive U.S. foreign policy consensus that some of the European participants had referred to.

To another U.S. participant, though, one of the few encouraging signs was indeed that there had been no efforts to reform the present international monetary system, which he described as "the worst possible, except for all the others." Moreover, he was pleased that we had matured enough to realize that economic summits were a good occasion for mutual education but not the place to make fundamental international agreements. A British speaker expressed his agreement with that view.

An Austrian participant emphasized an area in which, he said, there had been no continental drift: the strengthening of the democratic system in Europe. For one thing, there had been a return to democracy in countries which had temporarily existed under non-democratic regimes. For another, the influence of the Communist parties had steadily declined in most European countries. (In the last Austrian elections, for example, the Communists had received only one-half of one per cent of the votes.) No continental drift was observable in the commitment to basic democratic values. The term "neutralist" was misleading when applied to neutral countries like Austria, however, as it implied equidistance from East and West. Austria and the other neutral European countries, he said, were firmly committed to the West—ideologically, politically and emotionally.

The final intervention from the floor at this session was by an International participant, who discussed the security implications of political and economic drift. To begin with, there had been an impairment of the alliance's military mission of credible deterrence, of both overt aggression and intimidation. We risked being seen as incapable or unwilling to defend ourselves. While Western Europe's defenses were stronger every year, the gap was unfortunately widening between the force exposed to pressure and blackmail from the Soviets. The speaker was more concerned about coercion and intimidation than overt military aggression. But if Western Europe were attacked conventionally today, the Allied Command would have little choice but to request the release of nuclear weapons fairly quickly, a situation which the speaker found most disturbing. The alternative was the adequate improvement of our conventional forces according to certain priorities, foremost of which was the improved use of existing forces to meet our standards. But this would require additional sacrifice, which had to be based on an understanding of the threat.

The speaker feared that the Alliance nations would be doing less with their next set of force goals than with the last, despite evidence of the widening gap with the East. NATO force goals for 1983-89, if fully met, would have required a real annual increase of an average of four per cent per nation. The anticipated new force goals would be closer to three per cent. Historically, though, only about 70 per cent of the force goals had been placed in national programs, and only some 70 per cent of the proposals from major NATO commanders had been accepted as force goals. This meant that we ended up with only half of what was needed anyway.

We all wanted peace with freedom, a lower level of international tensions, and reduced and balanced levels of forces of all categories. This would require successful negotiation with the Russians, and to achieve that we had to improve our conventional forces and continue to deploy the intermediate range nuclear forces, so that we could deal at the negotiating table from a position of strength and resolve. Weapons systems were so costly, though, that if we continued to do "business as usual" we would be effectively forced into unilateral disarmament through our inability to afford what we needed.

Duplication in military expenditures within the Alliance was costing us unnecessary billions. With GNP's equivalent to two and half times that of the other side, and more spending, we were nevertheless accomplishing less than they because of inefficient development and procurement efforts. In the U.S., better coordination among Congress, the executive, and industry was needed to open the way to greatly improved U.S.-European procurement efforts. On the European side, a forum had to be found—in the Independent European Program Group or elsewhere—to promote the exchange of technology, research and test data.

The speaker concluded with a reference to the requirements for short-range nuclear weapons, a problem with which SHAPE had been wrestling since 1980. By the spring of 1985, the political authorities of the Alliance would be presented with recommendations as to exactly how many warheads were needed, and where, for deterrent purposes. No single weapons system would be "sacrosanct" in the rigorous analysis of those needs. SACEUR was under a constraint from the Montebello summit conference to remove another 1,400 warheads from Europe in addition to the

1,000 sent home in 1980, and the number of warheads remaining would not exceed the ceilings prescribed.

The major challenge within the Alliance was to convince our people of the threat to their freedom, and to elicit from them a willingness to make some additional sacrifices.

The session concluded with remarks by the three panelists. The International speaker thought that any theoretical discussion about whether Europe was getting more or less parochial was a waste of time, but he had observed less despondency and more curiosity about industrial and technological innovation. The capacity to respond to this—whether in Europe, the U.S. or Japan—was a world problem, not a local one. With reference to the alleged complacency about long-range troubles, the speaker felt that we were unjustifiably smug about our ability to continue to "muddle through." Sometimes we were worse off after our muddling than before. Fundamental protectionist trends could explode at any moment, triggered by either the Japanese, the Americans or the Europeans. The economic summit meetings were a recognition of the link between political and economic questions and created an opportunity to overcome bureaucratic squabbles when forward movement was needed. A related problem was that we had not yet found a way to accommodate the growth of less-developed countries. As they grew in strength and found ways to repay their debt, the accompanying large excesses in their trade balances would create export pressures in the developed countries. But if trade overall was not growing, this would be a zero-sum game resulting only in a change in market shares. So the uncertainty in international financial institutions about the conditions for creating sensible overall growth was disturbing.

The German panelist frankly found the results of the economic summits disappointing, but since all our economies were now doing better, perhaps the upcoming London meeting would produce something meaningful. As for detente, he had always supported it but he disagreed that it had worked more to the advantage of Europe than the U.S. In any case, the Russians had misused it, leaving us all with serious problems. The speaker was optimistic about Europe, although he hoped to see it more open-minded, less protectionist, and more ready to accept worldwide competition. If it did not become so, it risked falling far behind in technology and industrial efficiency.

The American panelist contended that, if detente had not worked better for the Europeans than the Americans, it had at least worked differently, which pointed up the need for improved coordination of our approaches to the Soviet Union.

In both North America and Europe, there were elements in the younger generation whose background had not necessarily made them sympathetic to "the Atlantic culture" or European concerns. So a great deal of education about our common experience and problems would be necessary on both sides of the Atlantic. Finally, he said, we had to deal with the problems underlying the U.S. trade deficit, which was assuming "nightmarish" dimensions.

V. THE SOVIET UNION, THE WEST AND THE THIRD WORLD A CASE STUDY: CENTRAL AMERICA

*Working Paper Prepared by Miguel Angel Martinez,
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1. When two blocs are competing with each other, as is the case in the world today, it may seem logical for the USSR to seek a foothold in what might, a priori, be considered to be within the adversary's zone of influence. The logic will, of course, be even stronger if the zone in question has such cardinal strategic importance for the U.S. as Central America and the Caribbean.

2. Nevertheless, in recognising that the USSR has an interest in seeking influence in the region, we must not exaggerate its impact on the area up to the present. Nor should we view everything that happens there in terms of an obsession with the danger of a Soviet advance. Nor should we allow our actions to be basically guided—and even less justified—in the light of this danger. When all is said and done, the danger cannot be used to shield and mask a category of interests other than those that are openly proclaimed.

3. To begin with, it can hardly be disputed that neither the geography, nor the history nor the cultural tradition of the peoples and countries making up Central America contain anything that seriously favours, prepares or facilitates Soviet penetration or influence—or even Marxism-Leninism—in the region.

4. We must therefore analyse, if only cursorily, the characteristics of the current position in the Central American countries to see whether political, economic and social conditions there are such as to facilitate penetration by the USSR.

5. Underdevelopment is, of course, the salient characteristic of the societies of Central America and the Caribbean—with all that it means in terms of poverty, illiteracy, unemployment and disease. But it is also an underdevelopment which institutionalises social injustice through systems in which exploitation, repression and corruption are dovetailed into each other, producing an apparently stable and smoothly working status quo. In societies of this type, it is difficult to install regimes that respect human rights and fundamental freedoms. Their opposition to the interplay of democracy and the rule of law is equally great. The few cases in which such enterprises have succeeded therefore deserve all the more merit. Unfortunately, however, the tendency is for power to be in the hands of the oligarchies, which keep all the privileges to themselves while denying all the rights to their peoples. The facade shielding the exercise of this power is unimportant—personal dictatorship, dictatorship by the military establishment, or a parliamentary farce in which some consciences are lulled into acquiescence, but which are often less dangerous than open dictatorships because at least they do not confuse the issue or compromise the future of genuine democracy.

Another significant feature of the recent past and the present in the majority of Central American countries is the dominance of economic interests centred on the U.S. These interests have joined forces with the ruling minorities in each society, thereby helping to keep them in power, while relying on them to extract the maximum profit margins. It was probably in defending such private economic interests—and long before other criteria came into current use—that the U.S. came to adopt its traditional policy of treating Central America as its own backyard.

6. Given the—admittedly simplified—situation of the peoples of Central America described above, it is not hard to list their ambitions. All that is necessary is to review their history in this century—beginning with Mexico, for example—long before even the name of the USSR had been heard in these latitudes. The demands of the Central American peoples closely match the shortcomings listed above, in fact what they are being denied: social progress and justice; freedom and democratic rights; and national dignity.

7. Can it be asserted that the claims being advanced in Central America and the Caribbean do not reflect objectively established privation? Can the support for these claims be explained solely or fundamentally in terms of the possible—and indeed probable—agitation being carried out in the area by the USSR? Can these claims, as defined above, be identified with Communism, Marxism-Leninism or Sovietism? It would surely be more correct to state that there are deep-seated, genuine reasons why the peoples of Central America should refuse to accept the conditions they have endured hitherto, without any impulse from the USSR or indeed from the devil himself. It would be more correct to recognise that the claims of the Central American peoples are inspired not by Leninism but from the principles derived from the history of mankind, such as those of the great American democracy of George Washington and Abraham Lincoln.

8. And yet, through U.S. policy in Central America, with certain differences of emphasis and irrespective of the administrations replacing each other in the White House, there runs a constant thread of opposition to the claims that have just been listed. It must be acknowledged that this opposition runs absolutely counter to the principles underpinning the Western world by systematically subordinating these principles to the economic, political and strategic interests of the U.S. Moreover, this opposition has always proved counter-productive in its effects: on the one hand, it contradicts the consistency of these values and the confidence placed in them by the peoples of Central America and, on the other hand, it has enabled the Soviet Union to play a part which it would have found hard to adopt on its own merits.

9. An analysis of U.S. policy in Central America shows that it has pursued two objectives: first, to prevent a chain of events that sooner or later would inevitably harm private U.S. economic interests; and, second, to halt any process that would ultimately lead to greater independence by the countries in question from their great neighbour to the North. Until the 1940's, this policy needed no explanation or justification: it seemed legitimate and even proper that a powerful country should protect its nationals' interests even at the expense of the interest of other countries and peoples. But before long, the era of the great colonial empires showed every sign of coming to an end. That did not mean, however, that the U.S. made any significant change in its Central American policy. An effort was merely made to render it more presentable by arguing, from paradox to paradox, that it was defending freedom against the Communist advance and defending the West and the security of the U.S. against Soviet penetration and threats.

10. And so, hitherto, a clear case of North-South conflict has been presented as a part of the East-West conflict. This has been done so persistently that, while preserving its fundamental characteristics, it has—and sometimes in a very dangerous form—entered into the rivalry between the two blocs. This approach to the problem has the advantage for the U.S. that it blurs its responsibility as a Northern power for the crisis gripping the region. Moreover, it tends to commit the rest of the West in support of its North American allies and not only against the enemy to the East but also against the legitimate aspirations of the Central American peoples.

11. In such a situation, with open war breaking out on several fronts and Central America turned into one of the main danger points of current world tension, a heavy responsibility lies on us all and more particularly on Europe and perhaps most of all on Spain, to make every effort to, first, bring peace and détente to the area and, second, to set it on the path towards solving its problems. To do so, it is first or all necessary to unmask the conflict, to demonstrate its true nature and to try to find answers which are designed not simply to reserve privileges that are as unjust as they are outdated or to combat spectres which may turn out to be real if they are summoned up too often.

12. The concern that we in the West feel about Central America and the Caribbean should impel us to propose realistic alternatives based on solidarity, respect for the right of each people to choose its own path, and our joint responsibility to safeguard peace.

13. Unfortunately, the actions of the present U.S. government do not appear to be guided by these principles. On the contrary, Washington persists in interpreting—and therefore presenting—every libertarian, nationalist demand emanating from Central America as a direct reflection of Soviet penetration and therefore an immediate threat to the very security of the U.S. This in turn derives from the principle, shared equally by both superpowers, that they have areas of interest which are vital to their security and in which they are entitled to control events as they think fit.

In this particular case, there has been a mobilisation and influx—as disproportionate as it is unwarranted—of U.S. military personnel of all kinds in Central America and the Caribbean, as part of an openly declared policy of intervention, taking the form of constant harassment of Nicaragua, complete domination of Honduras (thereby weakening its institutions and undermining its sovereignty) by turning it into an un concealed base for anti-Sandinista operations), and increasingly compromising involvement in El Salvador (at this point, one wonders whether any lessons have been learned from the blatant mistakes committed in Viet Nam). This policy has been highlighted by the invasion of the tiny island of Granada which, to put it mildly, recalled certainly episodes of bygone days that we—naively, it would seem—thought were things of the past.

14. Neither the report of the Kissinger Commission nor the other alternatives it puts forward offer much hope or prospect of a solution to the crisis in Central America. This bipartisan Commission, appointed by the White House to devise a medium- and long-term policy for Central America based on consensus, does not depart in essentials from the policy of the Reagan administration for the area. In short, although the report shows an understanding at least of certain factors based on objective circumstances in the area, it is plain that whether in analysing the problems or defining the solutions, the crisis is once again diagnosed in terms of East-West rivalry, without any attempt to bring out the obvious relevance of the Central American situation to the North-South conflict.

This biased approach to the current problem is even more apparent in the attempts to trace the area's underdevelopment back to its early colonial history, ignoring the colonial-style exploitation

which has taken place and is still taking place up to the present time. This persistence in interpreting the situation in terms of the East-West conflict distorts the approach of the Kissinger report and leads it into contradictions that are difficult to sustain. For example, the underdevelopment of the area is regretted not so much because of the poverty and injustice it entails for the men and women of Central America and the Caribbean as—and above all—because it may provide a breeding-ground for Communist ideas and facilitate the growth of Soviet influence.

As a result, while acknowledging the need for peace in the area and for democratic systems of government in the countries composing it, as essential conditions for overcoming underdevelopment, the emphasis in the proposed solutions is on military cooperation and aid to enable each country to fight "subversion" at home and "aggression" abroad. It does not seem very consistent to aim for peace while promoting military escalation, or to try to establish democratic regimes by strengthening military governments which, in this part of the world, have always been distinguished by their anti-democratic character and proneness to coups d'état. Moreover, the policies proposed for overcoming the area's underdevelopment are not only unilateral and politically discriminatory but appear to assume a process of Americanisation of Central America and the Caribbean, and the maintenance, in many cases, of interests and patterns which are at variance with the requirements of the rational, balanced development of the individual countries concerned. If the proposed solution is to consist of creating a number of Puerto Ricos in Central America and the Caribbean, it might be more honest to say so openly; the problem may be what the peoples of the area think of the project. And what the rest of the international community thinks of it as well.

One significant point which helps to characterise the report of the Kissinger Commission is the mistrust it displays of the part that Europe might play in the settlement of the Central American crisis; the report places a positive construction on the fact that, in the words of its authors, European declarations on the Central American situation have "died down". This would appear to be a reversion to the old-established "backyard" doctrine.

15. Nevertheless, within the U.S. itself, there is growing concern over the crisis in Central America and great anxiety over the part that the Reagan administration is forcing the country to play in it. Public opinion generally, university and intellectual circles, the trade unions and, above all, the political media are demanding more information, debating and in many cases disowning a policy whose consequences are unforeseeable, to say the least. It has become a prominent issue in the current presidential campaign and, in any event, all the questioning of the policy pursued hitherto is leading to its rethinking and the putting forward of realistic, reasonable and progressive alternatives which afford grounds for optimism about a settlement of the Central American crisis.

16. These concerns and reactions in the U.S. itself are matched by the anxiety felt and the efforts being made in Latin America to put an end to the tension and suffering being endured by Central America and the Caribbean. One example is the admirable stand made by the governments of Panama, Mexico, Colombia and Venezuela, despite every form of pressure; between them, they have displayed tremendous political courage in launching the operation named after the island of Contadora, where it first took shape.

The proposals of the Contadora Group have been defined in a series of papers setting out clearly the principles on which peace and co-existence must be based in the area where tension is now greatest, together with the conditions that must be fulfilled if the tensions are to be eased and progress in the area consolidated without obstruction or interference. The proposals of the Contadora Group are so right, so candid and so incontrovertible that hardly anybody has ventured to criticise or oppose them openly. Quite the contrary, with more or less hope, with more or less enthusiasm, with more or less good faith, the governments and the majority of the political movements of the countries of the area have expressed their willingness to abide by the guidelines put forward in the Contadora plan for overcoming the crisis in Central America.

Naturally, this initiative by the Contadora Group has had determined, powerful detractors, in the main those who are defending interests that are incompatible with the social, political and economic progress of Central America. Since they cannot decently attack the plan, they have concentrated on underground operations, varying in their objectives, but with the common goal of trying to empty Contadora of its substance. Pressures and even destabilising operations have been directed against the governments of the Group; some have been reminded that their institutions are only relatively well established, and others of their precarious economic situation. Already there has been resistance on the part of countries in the area with conservative governments, which are failing to display as much conviction and despatch as would be desirable; while in the remainder of Latin America and Europe, there has been an organised campaign to ensure that demonstrations of support for Contadora are confined to lip service, without committing anybody to take any action. Every effort has been made to downgrade the proposals of the Contadora Group and strip them of their content—by obstructing their sponsors, by holding up the measures advocated and by cutting the project off from any form of international solidarity or commitment. Despite all these manoeuvres, the fact remains that the

Contadora project is still valid and is in fact the only reasonable one we have—and one which has aroused the necessary agreement and support to bring about a settlement of the grave crisis which is convulsing Central America and the Caribbean and endangering peace in the whole area and indeed the world.

17. Europe, as an essential part of the West, has a prominent part to play in all this, regardless of the consequences, and at two different though complementary levels, while also coordinating its efforts with our Latin American counterparts, within the framework of the Contadora Group's proposals and strategies. In the first place, Europe must make it clear to its ally, the U.S., that this alliance entitles us to demand some consistency between the democratic principles we have in common and our deeds, especially with regard to Central America. The U.S. must be made aware that it is in the interest of all—the Central Americans, naturally, but also Europe and the U.S. itself—to establish a pattern of relationships based on friendship and trust instead of the current, and in the medium-term explosive, satellite relationship. Secondly, Europe, observing the priorities set by the countries concerned, should launch practical projects with the widest possible participation—prompt, imaginative, generous, properly-backed projects which can serve as models of cooperation in the kind of development that Central America and the Caribbean need, without any exclusions or discrimination; it is obvious that this development will not only promote progress for the Central Americans but will do much to ensure the genuine independence of these countries and peace throughout the area.

18. And probably, without directly meaning to do so and therefore without making it a policy objective, we would through these programmes, this display of solidarity and—by virtue of its consistency—this reaffirmation of our principles, be acting effectively to deprive the USSR and Marxism-Leninism of the (in our view, limited) influence they have managed to acquire in the area, mainly by taking advantage of the clumsiness and selfishness of their opponents.

*Information Sheet on the Report of the
National Bipartisan Commission on Central America*

MAJOR THEMES

— The crisis in Central America is acute. Its roots are indigenous—in poverty, injustice and closed political systems. But world economic recession and Cuban-Soviet-Nicaraguan intervention brought it to a head.

— The crisis will not wait. It must be addressed at once and simultaneously in all its aspects. Ultimate resolutions depend on economic progress, social and political reform. But insurgencies must be checked if lasting progress is to be made on these fronts.

— Indigenous reform, even indigenous revolution, is no threat to the U.S. But the intrusion of outside powers exploiting local grievances for political and strategic advantage is a serious threat. Objective of U.S. policy should be to reduce Central American conflicts to Central American dimensions.

— U.S. has fundamental interests at stake: Soviet-Cuban success and resulting collapse of Central America would compel substantial increase in our security burden or redeployment of forces to detriment of vital interests elsewhere.

— As a nation we have deep and historic interest in promotion and preservation of democracy. Report concludes that pluralistic societies are what Central Americans want and are essential to lasting solutions. In this case our strategic interests and our ideals coincide.

— Central Americans desperately need our help and we have a moral obligation to provide it. The U.S. and other nations can make a difference. But in the end solutions will depend on the efforts of Central Americans themselves.

— Although there is urgent need for action, no quick solutions can be expected. U.S. must make a long-term commitment and stick to a coherent policy.

— That policy can and should be bipartisan. Commission found wide consensus on principles and objectives.

POLITICAL AND ECONOMIC DEVELOPMENT

— Central American economies grew substantially during the 60's and early 70's. But income distribution was highly inequitable, except in Costa Rica and Panama.

— Trend toward more pluralistic political systems in El Salvador, Guatemala and Nicaragua reversed in early 70's.

— World recession and rising political violence had catastrophic effect on region's economies in late 70's, early 80's. All have declined dramatically. El Salvador's gross domestic product is off 25% since 1978.

— Even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980.

— There must be substantial increase in outside assistance.

— Commission believes economic development cannot be separated from political and social reform. Objective must be parallel development of pluralistic societies and strong economies with far more equitable distribution of wealth.

— We propose a program of U.S. assistance designed to promote economic growth, democratization and greater social equity.

— We encourage the greatest possible involvement of the U.S. private sector in the stabilization effort. Recommend the formation of an emergency action committee of private sector personalities to provide advice on new private-public initiatives to spur growth and employment.

Recommendations: An Emergency Stabilization Program

— Leaders of U.S. and Central America should meet to initiate a comprehensive approach to economic development of the region and reinvigoration of the Central American Common Market.

— A \$400 million supplemental in FY84 over and above the \$477 million now in the budget for the seven countries. There is urgent need to stabilize economies now going downhill very fast.

— Focus this assistance on labor-intensive infrastructure projects and housing. Unemployment is a critical problem—politically and economically.

— Establish a program to provide U.S. government guarantees for short-term trade credits. External credit has dried up. Without it economies cannot be reactivated.

— Provide an emergency loan to the Central American Common Market to permit the reactivation of this vital organization. Lack of resources in the Market to settle trade accounts among the countries has stalled it.

— U.S. government should take an active role in the efforts to resolve the external debt problems of Central America and should encourage the countries that have not done so to seek multilateral rescheduling.

— Also encourage commercial banks to renegotiate at the lowest possible interest rates.

Recommendations: Medium and Long-Term

— Commission estimates \$24 billion in net external exchange inflows needed to 1990 to foster a growth rate of three per cent per capita, returning these countries to pre-recession levels of per capita wealth. About half—\$12 billion—is expected to come from international institutions, other donor countries, and loans and investments from private sector sources.

— U.S. government will have to provide as much as \$12 billion if these financing needs are to be met.

— We propose in this context a program of \$8 billion over next five fiscal years (FY85-89) in USG assistance. This would be divided very roughly into about \$6 billion in appropriated funds and about \$2 billion in contingent liabilities covering guarantees, insurance and the like.

— Compared with current projections for FY85-89, these contributions would constitute an increase of about \$2.8 billion in appropriated funds and \$.7 billion in contingent liabilities over the five-year period.

— Urge that Congress authorize multi-year funding of this program. Commission believes firm, long-term commitment is essential.

— To give form and structure to the development effort suggest establishment of the Central American Development Organization (CADO). Perhaps one-quarter of U.S. aid could be channelled through CADO.

— CADO would consist of the U.S. and those countries of the seven willing to commit themselves to internal democracy and reform. Continued membership would depend on demonstrated progress toward those goals. Adherence to regional security pact also required.

— Nicaragua could participate by meeting these conditions.

— CADO's principal body would be a Development Council with tripartite, ILO-style representation. Would assess program and progress toward economic growth, democratization, reform and preservation of human rights.

— Other democracies would be invited to join.

Additional Recommendations

- Expanded assistance from the U.S. government for democratic institutions and leadership training—neighborhood groups, cooperatives, binational centers and visitor programs for leaders of labor unions, local governments and other organizations.
- Require a firm commitment by the Central Americans to economic policies, including reforms in tax systems, to encourage private enterprise and individual initiative, to create favorable investment climates, to curb corruption where it exists, and to spur balanced trade.
- Urge extension of duty-free trade to Central America by other major trading nations.
- Review non-tariff barriers to imports from Central America with a view toward using whatever flexibility that exists within the framework of multilateral agreements, to favor Central American products.
- Establishment of the Central American Development Corporation—a privately owned venture-capital company which could initially be financed by a loan from the U.S. government.
- Recommend that the U.S. join the Central American Bank for Economic Integration.
- Technical and financial support for export promotion and a U.S. government review of non-tariff barriers to Central American imports.
- Expanded availability of insurance guarantees for new investments from the U.S. government's Overseas Private Investment Corporation.
- Increased focus in assistance programs on small business and accelerated agricultural development—particularly in production of food for domestic consumption.

HEALTH AND EDUCATION

- Democracy and prosperity in the region require accelerated human development. Hunger, disease and illiteracy sap a people's vitality and impede the growth of viable democratic institutions.
- Literacy rates are unacceptably low in several countries (e.g., Guatemala 45%, El Salvador 63%, Honduras 60%), handicapping education efforts seriously.
- Widespread malnutrition also handicaps education by sending physically and mentally underdeveloped children to school.
- Goals should include a reduction of malnutrition, elimination of illiteracy, expanded education, health, and housing opportunities.
- Initial efforts must be to increase food assistance to Central America through the PL 480 programs.
- Commission calls for formation, under direction of the Peace Corps, of a Literacy Corps and a Central American Teachers Corps.
- To meet needs in higher education, U.S. government scholarships should be raised to approximately 10,000 over 4-6 years, a level comparable to Cuban and Soviet Union efforts.
- Educational reform can also be encouraged in the areas of technical and vocational education, through the expansion of the International Executive Service Corps, and through closer cooperation with Central American universities to improve the quality of education.
- Judicial systems in Central America can be strengthened by providing resources for training judges, judicial staff, and public prosecutors.
- Continuation and expansion of existing programs for disease control and eradication, as well as immunization and oral rehydration.
- Training of primary health workers, especially nurses, should be expanded and the means developed to integrate private and public financing of health services.
- Assistance programs should target the area's severe housing shortage.
- Training of public administrators required to improve public service.
- U.S. government should provide more resources to meet critical problem of refugees and displaced persons—more than one million of them need help.

SECURITY ISSUES

- In El Salvador there are two separate conflicts: (1) between those seeking democratic reform and those seeking to retain their privileges; (2) between Marxist-Leninist guerrillas and those who oppose Marxism-Leninism.
- In discussing the latter we identify three general propositions about such guerrilla movements:
 - (1) They depend on external support. Without it they are unlikely to succeed.
 - (2) They develop their own momentum which reform alone cannot stop.
 - (3) Victorious, they create totalitarian regimes, even though they have enlisted support of democratic elements in order to project democratic, reformist image.

- External support comes from Soviet Union, Cuba and now Nicaragua. Cuba has developed into a leading military power through Soviet assistance. Since Sandinista victory, Soviets have come around to support Cuban strategy of armed road to power in Central America.
- There are serious strategic implications for the U.S. in Soviet-Cuban support for armed insurgency in the region.
- Triumph of hostile forces there could require us to devote large resources to defend our southern approaches.
- This could mean either substantially increased defense burden for the U.S., or a redeployment of forces to the detriment of our interests elsewhere.
- Threat to our shipping lanes in the Caribbean.
- Increased violence and dislocation in the area from which we could not isolate ourselves.
- Erosion of our power to influence events worldwide as we are perceived as unable to influence events close to home.

El Salvador

- The war is stalemated, a condition to the ultimate advantage of the guerrillas.
- U.S. military assistance is inadequate to permit modern, humane and successful counter-insurgency.
- Commission recommends that U.S. provide significantly increased levels of military assistance for greater mobility, more training, higher force levels and more equipment.
- Assistance is to be conditioned through legislation on terminating death squads, progress toward democracy and establishment of the rule of law.
- In Guatemala, such assistance should only be provided if the same terms are met.
- Increased military assistance also needed for Honduras to build a credible deterrent and to meet renewed efforts at insurgency.
- Commission concludes that U.S. security interests are importantly engaged in Central America. Larger program of military assistance needed, as well as expanded support for economic growth and social reform.
- Success will depend on an end to massive violations of human rights and the neutralization of external support for the insurgencies.

THE SEARCH FOR PEACE

- A successful U.S. political strategy in Central America requires resources to promote economic growth, vigorous efforts to advance democracy and reform; other inducements and penalties.
- General strategic objective of U.S. diplomacy in Central America should be to reduce the civil wars, national conflicts and military preparations to Central American dimension.
- Specifically, we should seek to stop the war and killing in El Salvador. Create conditions under which Nicaragua becomes a peaceful and democratic member of the Central American community. And open the way for democratic development in all countries.
- Commission calls for negotiations in El Salvador between guerrillas and the government to be elected in March to establish conditions for later legislative and municipal elections in which all could participate: electoral commission with FMLN-FDR representation, cease-fire and end to all violence; international observation of elections.
- Adequate economic and military assistance from U.S. can help to achieve such a settlement.
- Commission believes military stalemate works against rather than for a political settlement based on the popular will.
- In Nicaragua, consolidation of a Marxist-Leninist regime would create a permanent security threat. Nicaragua's mainland location makes it a crucial steppingstone to promote armed insurgency in Central America. Cuban personnel (2,000 military advisers and 6,000 civilian officials), several hundred Soviet, East European, Libyan and PLO advisers, extensive arms deliveries (13,000 tons in 1983) add an external dimension to the threat posed by Nicaragua to its neighbors.
- What gives the current situation its special urgency is the external threat posed by the Sandinista regime in Nicaragua, supported by Cuban military strength, backed by Soviet weapons, guidance and diplomacy, and integrated into the Cuban network of intelligence and subversion.
- Central American leaders believe pluralistic political orders are essential to long-term security.
- An alternative would be an attempt at containment. But that would threaten militarization of the isthmus—the creation of garrison states. Democracy would wither. And the U.S. could find itself as surrogate policeman.
- Commission proposes comprehensive regional settlement based on:
 - (1) Respect for sovereignty and non-intervention.
 - (2) Verifiable commitments to non-aggression and an end to all attempts at subversion—covert or overt.

- (3) Limitations on arms and sizes of armed forces. Prohibition of foreign forces, bases and advisers.
- (4) No military forces, bases or advisers of non-Central American countries would be permitted.
- (5) Commitment to internal pluralism and free elections in all countries.
- (6) Provision for verification of all agreements.
- (7) Establishment of an inter-government council to meet regularly to review compliance.
- (8) Adherence to the overall agreement would be required for membership in the Central American Development Organization.

— U.S. would support the agreement and provide assistance; and would commit itself to respect results of elections within countries as long as principles of pluralism at home and restraint abroad observed.

— Commission's proposal based on and amplifies 21 points of the Contadora Group.

— Commission fully endorses Contadora efforts.

— Finally, majority of Commission opposes dismantling existing incentives and pressures for the regime in Managua to negotiate seriously.

— As for Cuba, Commission sees little possibility of separating it from Soviet Union. But U.S. should be prepared to negotiate seriously if Cuba were to show itself prepared for genuine coexistence, dropping support for insurgency in Central America and revolutionary violence elsewhere in the world.

— As for Soviet Union, establishment of Soviet military base in Nicaragua is not the major concern. Before that could have happened the crisis would have reached proportions not containable in Central American dimensions.

— There is little promise in negotiating with the Soviet Union over Central America. Soviets would seek to cast such negotiations in terms of sphere of influence, an unacceptable concept for the U.S.

DISCUSSION

Moderator: Walter Scheel

In addition to the Spanish Working Paper and the Information Sheet on the Report of the National Bipartisan Commission on Central America (Kissinger Commission), discussion of Central America was based upon introductory remarks by an American about the report and about U.S. policy in the region in general. This section begins with a summary of those remarks.

The commission consisted of twelve Americans with widely divergent views and personalities. It was perhaps an indication that public opinion in the U.S. was not all that divided that the commission came up with a unanimous report at a time when there were very real incentives to divide along partisan political lines. From the point of view of American national and global interests, the range of policy alternatives in Central America was not great. In the commission's report were embodied the major outlines of the direction in which American policy had to go if the next administration, whether Republican or Democratic, was to command a consensus.

Some basic questions about the situation in Central America had to be considered. These were:

Did the U.S. have vital interests in Central America?

Was the problem an economic, a social, or a security one?

What was the relationship between diplomacy and the use of pressure?

What role could be played by other groups, such as Contadora?

Was the Nicaraguan revolution "incipient Titoism," or a cause of real concern?

An area as close to America's borders, to the Panama Canal, and to major shipping lanes as was Central America had to be a major U.S. interest. No administration could afford to ignore the geopolitical implications of a hostile presence in the region. Military questions aside, the impact of a "Cubanized" Central America upon other nations in the area would be profoundly significant, particularly for such countries as Mexico and Colombia, which already had internal difficulties. Throughout Latin America, the debt problem was becoming a "rallying point for political evolution," challenging free market economies and democratic values. The relationship of the U.S. to the Western Hemisphere was at stake.

The U.S. did not view Central America as mainly an East-West conflict. The origins of the problems there were not in Moscow or Havana; they went back many centuries. But the historical causes, including Spanish colonialism and more recent U.S. involvement, were today largely irrelevant. There were now legitimate social and economic causes of discontent that had to be dealt with. Yet these dissatisfactions had been translated into a guerrilla insurgency, organized and led by outside experts. Such guerrilla movements tended to develop a momentum which posed a security problem. While it was true that poverty was a cause of discontent, it was not true that the upheaval would cease with the eradication of poverty. The problem was that the "time scale of reform was different from that of guerrilla warfare."

The first two-thirds of the commission's report was devoted to the economic, social, and political problems in Central America. The commission had undertaken a systematic analysis of the external financing requirements necessary to alleviate "the current hopelessness." An average 30 per cent drop in per capita GDP since 1978, coupled with a rising birth rate, had made it impossible for governments to meet even the minimum aspirations of their people. The commission had determined that, to return the region to the 1978 level, it would require \$20 billion, of which \$8 billion would come from the U.S. and the remainder from Europe and from international institutions. Quite apart from protecting American economic interests, the commission's program sought to induce American companies to commit capital to the area, where currently there was very little flowing in. To accomplish this, the commission proposed a Central American Development Organization which would include both private and public sectors.

With respect to El Salvador, the U.S. had imposed a very difficult assignment on the government: to conduct elections, carry out land reform, and end abuses by the security forces—all while fighting a guerrilla insurgency. There was no "negotiating gimmick" that would end the war. Power sharing was not the answer; history told us that sooner or later one side in a coalition would throw the other out. The guerrillas in El Salvador had made unrealistic proposals—that a coalition be formed only after the army had been disbanded and the conservatives banned.

In the case of Nicaragua, the problem was twofold: the structure and convictions of the Sandinista government, and their importation of arms. The Nicaragua army numbered 100,000 men—ten times the size of Somoza's. Cuba was sending in more arms than the U.S. was supplying to all of Central America. The result would be a military imbalance in the area which ultimately could lead either to a policy of military containment, or to a collapse of the whole area. The commission's objectives were to "return Central America to Central American dimensions." That meant:

— reduce arms on all sides to an agreed upon level.

— remove all foreign advisors and bases.

— put severe limits on importation of arms.

— require the commitment of all sides to pluralistic processes.

Contrary to the belief of some critics, the U.S. did support the Contadora initiative. But the Contadora countries—Mexico, Panama, Venezuela and Colombia—were an "unnatural grouping" with internal problems that made them weak. Their initiative could be most effective if the U.S. pursued a serious, enlightened policy that was not identical to the Contadora position but was one to which the Contadora nations could offer a compromise. A blanket endorsement of Contadora by the U.S. would be counterproductive.

U.S. policy was hampered by a "spirit of abdication" at home and in the West in general that considered American setbacks not only the deserved result of ill-conceived policies, but also as necessary to "break the spirit of arrogance and interventionism with which the U.S. had conducted its affairs." If this attitude led to a collapse of U.S. policy in Latin America, there could be an American reaction leading to military intervention and an obsession with the Western Hemisphere at the expense of the Atlantic and Pacific regions. What was needed was a "mature realization" that there was a security problem in Central America and the development of a negotiating position that realistically addressed it. But if results could not be achieved through negotiation, the U.S. had to be determined to defend its security interests by any means necessary, including force.

The preponderance of European commentary on U.S. policy in Central America was critical. A Spaniard said the many Europeans shared a "profound disillusionment" with the U.S., which had lost credibility and respect because of policies that "contradicted Western principles."

A British speaker felt that the Reagan Administration "completely misunderstood the reality" in Central America and that its policies there were "doomed to failure." Perhaps it would do well to be guided by Spain, which had had more experience in the region. Other participants argued that the administration wrongly placed the situation in Central America in the East-West context. The U.S., said the Spanish speaker, exaggerated Soviet activity in the region. The demands of the people had nothing to do with Soviet or Cuban agitation. They were basic demands which deserved Western

respect and support—"progress and social justice, freedom and democratic rights, and national dignity." These were not Communist demands; they were being pursued through guerrilla warfare only because that was the only alternative.

The U.S., the speaker continued, opposed the legitimate demands of the Central American people because of "short-term economic interests and strategic obsessions." By dealing with Central America as an East-West problem, the U.S. was dangerously polarizing the situation into North and West versus South and East.

In one American speaker's opinion, his country's policy in Central America derived from the Reagan Administration's "obsessive hatred" of the Soviet Union. This attitude led to "distortions of judgement, improper analyses, and misconceived actions." The U.S. was "lowering itself to the standards of the Kremlin by imitating Soviet methods and practices." In its attack upon Nicaragua, the U.S. was forsaking its own values and instruments of influence—standards of freedom and justice and respect for the law. The inevitable result, warned the speaker, would be the alienation of future generations in the Third World.

It was a British participant's fear that the U.S. was "trying to contrive a pretext" for invading Nicaragua. He saw dire consequences of such an action. If the U.S. reserved the right to pursue its interests in Central America by military force, it would then legitimize a Soviet right to do the same thing in areas in its backyard. An American invasion of Nicaragua, furthermore, would place greater strain on the Western Alliance than any event since the Suez crisis. In Latin America, it would trigger a "tide of revolt" against what would be seen as a revival of Yankee imperialism. And that might lead to a repudiation of international debts which in turn could bring down the whole Western financial system.

A Swedish speaker's opinion was that the tactics used by the U.S. against Nicaragua—mining harbors and aiding the contras—were in contravention of international law. The U.S. tended to "create its own monsters." It had done that with the Sandinistas, who, in the speaker's view, had made mistakes, but were "uncorrupted and enthusiastic" and deserved to be given a chance. The contras, on the other hand, were "Somozist thugs."

Other participants expressed fundamental support for American objectives but questioned some of the policies used to achieve them. A Spaniard who was more sympathetic to U.S. aims than his countryman felt that it was right in defending democracy and trying to stop the spread of "Marxist totalitarian regimes" in Central America. But the U.S. was hampered by a poor record in the area. It was now in danger of making "another Cuba" out of Nicaragua. To avoid such a result, the U.S. should cease hostile acts, remove the Somozist elements opposing the Nicaraguan regime, and support the Contadora initiative.

The Western principles that the West should support, said a Greek participant, were that governments should depend on the support of the governed and that foreign invasions against the will of the governed should be opposed. Did not those principles argue for democrats around the world to support Duarte in El Salvador? And was it not in the West's interest that Nicaragua democratize and cease importing arms and supporting the insurgency in El Salvador. This, however, did not justify U.S. support of the contras, who were an undesirable element.

In defense of U.S. policy, an American pointed out that not all of the contras were Somozistas. Many had fought on the side of the Sandinistas and had later become disillusioned. We should also remember, he continued, that the Carter Administration had tried to accommodate the Sandinistas and had initiated a massive aid program, only to be "rewarded with intransigence."

Other speakers had a dim view of the Sandinistas. Their record on human rights was not much better than Somoza's had been. An American supported this view, inasmuch as his contacts among trade union movement leaders in Nicaragua had told of imprisonment and death threats.

In an International participant's opinion, the Sandinistas posed a threat to other countries in the region which ought to be resisted. He decried the "selective indignation" of those who criticized the U.S. while not mentioning Cuba and the Soviet Union. A German also saw hypocrisy in the fact that Europeans complained when the U.S. pursued its global interests but was quick to look to American help when their own interests were threatened.

An American said that too much time was being wasted in debating whether the causes of unrest in Central America justified one side or the other. We could all agree that conditions had been appalling in both Nicaragua and El Salvador, and that reform needed to continue. But it was also true that there had been considerable outside manipulation in both countries.

The question in Central America, the speaker went on, was not whether oppression justified taking up arms or whether outside manipulation justified opposition by force to those taking up arms. The coming together of internal protest and outside manipulation had created a dangerous situation. The issue was how to separate them.

In El Salvador, the U.S. goal was to provide sufficient military assistance to contain the insurgency while at the same time providing for land reform and democratization. The fact was that both efforts had made great progress. Some 23 per cent of the arable land had been redistributed and there had been three popular votes. In the case of Nicaragua, the American objective was to pressure the regime to renounce its support of the insurgency in El Salvador and to stop importing arms. The Central American crisis was solvable if the right policy mix of promoting reform and opposing outside manipulation was followed.

The Kissinger Commission, according to a speaker who had served on it, worked hard to address the social and economic concerns of the Central American peoples. It sought a wide diversity of opinions. It concluded that a military shield would crumble without social and economic progress. Another commission member said the report was not only based upon what the members thought, but also upon what they were told by Central Americans. He described it as "an attempt to rationalize our loftiest objectives with the messy realities of life."

But a Spanish speaker thought the report offered no effective solutions. While it contained some correct analysis, it was obsessed with Soviet and Communist influence in the region. The provisions for economic development were discriminatory, applying different standards to different countries. Moreover, the economic development aspects were centered upon the U.S. In any event, economic development, as the report acknowledged, required peace and democratic governments. How could it occur when the U.S. was promoting military escalation and supporting military establishments opposed to democracy? The report was, he concluded "acceptable music, but when it was played, it would sound differently."

A Swede agreed that the report concentrated excessively on the East-West issue and relied too heavily on military solutions. It made no sense, he argued, to build a shield "to protect the people against themselves." A German worried that the report might be "a figleaf for a different policy, one of creeping militarization."

New initiatives were required to deal with the situation in Central America, many participants believed. The involvement and cooperation of the U.S. was essential, but there were important roles for Europe and the Contadora countries to play. The Contadora initiative, which the U.S. had been ignoring and trying to discredit, provided the best solution. The European role, he added, should be to "bring the U.S. back into compliance with Western principles."

An Austrian felt that one useful political initiative was to pay more attention to Costa Rica, the only functioning democracy in the area. The U.S. was wrong to pressure Costa Rica to give up its neutrality in the Central American conflict. More should be done to strengthen Costa Rica politically and economically.

The economic plan embodied in the Mathias initiative introduced in the U.S. Senate was hailed by several speakers. As described by an American, the initiative proposed a five-year economic program whose main component would be a Central American Development Organization with representatives from the Contadora countries and the five Central American republics. It had no military aspect—that was left to Congress to enact on an annual appropriations basis—and it mandated an annual Congressional review and certification of progress in human rights and political development. Another American pointed out that the Mathias initiative "embodied the spirit and the details of the Kissinger Commission."

For some speakers, Central America raised new questions about how to deal with world problems. The idea that the U.S. had "a blueprint for all the world's ills" had long since been punctured, said an American. In the future, U.S. involvement around the world would have to be increasingly selective.

A German viewed Central America as "one of a series of insoluble problems, which included Ireland, Lebanon, and Cambodia." How should a superpower deal with such problems? Should it stake its prestige on dealing with them? Central America was not an East-West problem and therefore we did not know how to deal with it. It inherently had no solution. For the U.S. to present an insoluble problem as the "linchpin of East-West relations and of American policy" could not help but damage the Western alliance.

An American disagreed that the problem was insoluble. It could be solved if "a multi-faceted strategy," combining incentives and disincentives, were followed. The current U.S. approach had economic, political, military, and even covert elements. If it did not work, the U.S. would be faced with the difficult choice of either disengaging from the area or committing itself militarily. It was genuinely reluctant to follow the latter course because to do so would create major domestic problems, polarize Latin American opinion, and disrupt the Western alliance. Yet in the criticisms of American policy, the speaker saw a double standard. In El Salvador, the government had offered to bring the guerrillas into

the government if they would lay down their arms. In Nicaragua, the contras had said they would lay down their arms if they were brought into the government. A judgement had to be made as to who was right in each situation.

What, asked another American, did the critics of the U.S. want it to do? Should it agree to disarm those fighting against a totalitarian takeover? Why was it considered militarization to provide a shield long enough to pursue a negotiation that would lead to the disarming of all sides? True, the U.S. had made some mistakes in the region in the past. But the Reagan Administration's rhetoric had been infinitely worse than its policies. It had strenuously opposed the death squads and had insisted on land reform and free elections. Negotiated settlements in both El Salvador and Nicaragua were possible. The U.S. did not want a Cuban or a Soviet solution, but nor was it seeking an American solution. What it wanted, and what Europe should support it in achieving, was a center solution, one that reflected the aspirations of the people of Central America.

* * *

At the end of the last session, the Chairman thanked all those whose generous and efficient efforts had contributed to the success and enjoyment of the conference. He especially mentioned the Swedish hosts, headed by Sten Gustafsson, supported by the professional conference staff; the authors of working papers and moderators of discussion sessions; the interpreters; the Secretaries-General and the Bilderberg secretariat; and the hotel and security personnel.