

BILDERBERG MEETINGS

**EVIAN
CONFERENCE**

21-24 May 1992

NOT FOR QUOTATION

2560
1972

CONTENTS

INTRODUCTION	5
PARTICIPANTS	7
AGENDA	15
OPENING	17
I. PROSPECTS FOR THE FORMER SOVIET REPUBLICS	
Introductory Remarks, I.	19
Introductory Remarks, II.	20
Introductory Remarks, III.	21
Discussion	21
II. WHAT SHOULD BE DONE FOR EASTERN EUROPE?	
Introductory Remarks, I.	24
Introductory Remarks, II.	24
Discussion	25
III. WHITHER AMERICA?	
Introductory Remarks, I.	28
Introductory Remarks, II.	28
Discussion	29
IV. THE WORLD ECONOMY	
Background Paper	32
Introductory Remarks, I.	37
Introductory Remarks, II.	37
Introductory Remarks, III.	38
Discussion	39
V. WHITHER EUROPE?	
Introductory Remarks, I.	43
Introductory Remarks, II.	43
Introductory Remarks, III.	44
Discussion	45



93-142492

VI. PIERRE BÉREGOVOY, Prime Minister of France	
Introductory Remarks	48
Discussion	52
Conclusions	52
VII. SOVIET UNION: THE VIEW FROM MOSCOW	
Introductory Remarks, I.	53
Introductory Remarks, II.	54
Discussion	56
VIII. YUGOSLAVIA	
Lord Carrington's Remarks	58
Discussion	62
IX. THE MIGRATION ISSUE	
Introductory Remarks, I.	64
Introductory Remarks, II.	65
Introductory Remarks, III.	66
Discussion	67
X. THE EVOLVING WEST/WEST RELATIONSHIP	
Introductory Remarks, I.	70
Introductory Remarks, II.	71
Discussion	72
CLOSING	75

INTRODUCTION

The fortieth Bilderberg Meeting was held at the Royal Club Evian in Evian-les-Bains, France, on May 21-14, 1992. There were 121 participants from 18 European countries, the United States and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or their organizations. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference proceedings took place.

This booklet is an account of the 1992 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective future participants. Introductory remarks are reported essentially as they were presented, with only minor editing and without referring these texts back to the speakers. Comments and interventions made in the discussion sessions, as well as panelists' closing remarks, are organized and reported according to subject matter and not necessarily in the order in which they were made, nor in their entirety.

PARTICIPANTS

CHAIRMAN

LORD CARRINGTON

Chairman of the Board, Christie's International plc; Former Secretary General, NATO

HONORARY SECRETARY GENERAL FOR EUROPE AND CANADA

VICTOR HALBERSTADT

Professor of Public Economics, Leiden University

HONORARY SECRETARY GENERAL FOR U.S.A.

THEODORE L. ELIOT, JR.

Dean Emeritus The Fletcher School of Law & Diplomacy; Former U.S. Ambassador

I	GIOVANNI AGNELLI**	Chairman, Fiat S.p.A.
USA	PAUL A. ALLAIRE	Chairman, Xerox Corporation
USA	DWAYNE O. ANDREAS	Chairman, Archer-Daniels-Midland Company, Inc.
F	BERNARD ARNAULT	Chairman of the Management Board, L.V.M.H.
S	ANDERS ÅSLUND	Professor and Director, Institute of East European Economics, Stockholm School of Economics
USA	GEORGE W. BALL**	Former Under-Secretary of State
P	FRANCISCO PINTO BALSEMÃO*	Chairman, Sojornal sarl; Former Prime Minister
S	PERCY BARNEVIK	President and C.E.O., ABB Asea Brown Boveri Ltd.
P	ANTONIO BARRETO	Professor of Sociology, University of Lisbon; Former Minister of Agriculture
USA	LLOYD M. BENTSEN	U.S. Senator (Democrat, Texas)
F	PIERRE BÉRÉGOVOY	Prime Minister
D	CHRISTOPH BERTRAM*	Diplomatic Correspondent, "Die Zeit"
NL	ERNST H. VAN DER BEUGEL**	Emeritus Professor of International Relations, Leiden University; Former Honorary Secretary General of Bilderberg Meetings for Europe and Canada
TR	SELAHATTIN BEYAZIT*	Director of Companies

D	KURT BIEDENKOPF	Prime Minister of Saxony	GB	RONALD H. GRIERSON	Former Vice Chairman of General Electric Company
S	CARL BILDT	Prime Minister	BG	LORD GRIFFITHS OF FFORESTFACH	Adviser, Goldman Sachs International Ltd.; Former Head of Prime Minister's Policy Unit
USA	JAMES H. BILLINGTON	Librarian of Congress	S	STEN GUSTAFSSON*	Chairman of the Board of Directors, AB Astra
CDN	CONRAD M. BLACK*	Chairman, The Daily Telegraph plc	USA	PHILIP C. HABIB	Senior Research Fellow, Hoover Institution; Former Under Secretary of State
NL	MAARTEN C. BRANDS	Professor of Modern and Theoretical History, University of Amsterdam	GB	DENIS W. HEALEY	Former Defence Secretary and Finance Minister
D	BIRGIT BREUEL	Chairman of the Board, Treuhandanstalt	N	WESTYE HØEGH	Shipowner, Leif Høegh & Co. AS
GB	LEON BRITTAN	Vice President of the European Commission	USA	KAREN ELLIOTT HOUSE	Vice President/International, Dow Jones & Co., Inc.
P	ROBERTO CARNEIRO	Former Minister of Education; Consultant to the World Bank	SF	JAAKKO ILONIEMI*	Managing Director, Centre for Finnish Business and Policy Studies; Former Ambassador to the United States of America
GR	COSTA CARRAS*	Director of Companies	F	PHILIPPE JAFFRÉ	Chief Executive Officer, Crédit Agricole
E	JAIMÉ CARVAJAL URQUIJO*	Chairman and General Manager, Iberfomento	A	PETER JANKOWITSCH*	Member of Parliament; Former Foreign Minister
USA	JOHN H. CHAFEE	U.S. Senator (Republican, Rhode Island)	USA	VERNON E. JORDAN, JR.*	Partner, Akin, Gump, Strauss, Hauer & Feld (Attorneys-at-Law); Former President, National Urban League
F	BERTRAND COLLOMB	Chairman and Executive Officer, Lafarge Coppée	B	PAUL DE KEERSMAEKER	Former Minister of European Affairs
USA	KENNETH W. DAM*	Vice President, Law and External Relations, IBM Corporation; Former Deputy Secretary of State	F	CLAUDE DE KÉMOULARIA	Senior Adviser, Groupe Paribas; Former Chief Representative to the United Nations
B	ETIENNE DAVIGNON*	Chairman, Société Générale de Belgique; Former Vice Chairman of the Commission of European Communities	USA	DONALD M. KENDALL	Former Chairman and C.E.O., PepsiCo, Inc.
USA	ROBERT A. DAY	Chairman, Trust Company of the West	USA	HENRY A. KISSINGER*	Former Secretary of State; Chairman, Kissinger Associates, Inc.
DK	AAGE DELEURAN*	Editor-in-Chief, "Berlingske Tidende"	GB	ANDREW KNIGHT*	Executive Chairman, News International Plc
CDN	MARIE-JOSÉE DROUIN*	Executive Director, Hudson Institute of Canada	SF	JARL KÖHLER	President, Central Association of Finnish Forest Industries
INT	ARTHUR DUNKEL	Director General, General Agreement on Tariffs and Trade	INT	MAX KOHNSTAMM**	Former Secretary General, Action Committee for Europe; Former President, European University Institute
USA	WILLIAM T. ESREY	Chairman, President and C.E.O., Sprint	D	HILMAR KOPPER*	Spokesman of the Board of Managing Directors, Deutsche Bank A.G.
F	LOIK LE FLOCH-PRIGENT	Chairman, Société Nationale Elf-Aquitaine			
USA	RICHARD M. FURLAUD	Director, Bristol-Myers Squibb Company			
INT	JOHN R. GALVIN	Supreme Allied Commander Europe, SHAPE			
USA	DAVID R. GERGEN	Editor-at-Large, U.S. News and World Report			
TR	EMRE GÖNENSAY	Chief Adviser to the Prime Minister			
B	JOHN J. GOOSSENS	Managing Director, Alcatel Bell			

NL	PIETER KORTEWEG*	President and C.E.O. of the Robeco Group; Honorary Treasurer of Bilderberg Meetings	E	RODRIGO DE RATO FIGAREDO	Parliamentary Leader of the Minority Group (Partido Popular)
CH	ALEX KRAUER*	Chairman and Managing Director, Ciba-Geigy Limited	D	WOLFGANG REITZLE	Member of the Board, BMW AG
USA	HENRY R. KRAVIS	Founding Partner, Kohlberg Kravis Roberts & Co.	F	ANTOINE RIBOUD	Chairman, Soci�t� B.S.N. - Gervais Danone
F	MARC LADREIT DE LACHARRI�RE*	Chairman, FIMILAC	USA	ROZANNE L. RIDGWAY*	President, The Atlantic Council of the United States
F	PHILIPPE LAGAYETTE	First Deputy Governor, Banque de France	USA	DAVID ROCKEFELLER**	Chairman, Chase Manhattan Bank International Advisory Committee
INT	ALEXANDRE LAMFALUSSY	General Manager, Bank for International Settlements	BG	LORD ROLL OF IPSDEN**	President, S.G. Warburg Group plc
F	ANDRE L�VY-LANG	Chairman of the Board of Management, Paribas	I	SERGIO ROMANO	Columnist, "La Stampa"; Former Ambassador of Italy to U.S.S.R.
NL	RUUD F.M. LUBBERS	Prime Minister	I	RENATO RUGGIERO*	Member of the Board, Fiat S.p.A.
CDN	ROY MACLAREN	President, CB Media Ltd.; Publisher, "Canadian Business"; Member of Parliament; Former Minister of State (Finance)	D	VOLKER R�HE	Minister of Defence
USA	PHILIP L. MARTIN	Professor of Agricultural Economics, University of California at Davis	GR	ANDONIS SAMARAS	Former Minister of Foreign Affairs
USA	CHARLES MCC. MATHIAS*	Partner, Jones, Day, Reavis & Pogue; Former U.S. Senator (Republican, Maryland)	F	MICHEL SAPIN	Minister of Economy and Finance
CH	HELMUT O. MAUCHER	Chairman and C.E.O., Nestl� S.A.	A	RUDOLPH SCHOLTEN	Federal Minister for Education and Culture
IRL	MICHAEL MCDOWELL	Chairman of the Progressive Democrat Party	F	ERNEST-ANTOINE SEILLI�RE	Chairman, Compagnie G�n�rale d'Industrie et de Participation
F	THIERRY DE MONTBRIAL*	Director, French Institute of International Relations; Professor of Economics, Ecole Polytechnique	E	NARCIS SERRA I SERRA	Deputy Prime Minister of the Spanish Government
I	MARIO MONTI*	Rector and Professor of Economics, Bocconi University, Milan	USA	JACK SHEINKMAN	President, Amalgamated Clothing and Textile Workers Union AFL-CIO-CLC
F	PIERRE MOREL	Diplomatic Adviser, Presidency of the Republic	USA	SALLY A. SHELTON	Senior Fellow, Georgetown University; Former U.S. Ambassador to Grenada and the Eastern Caribbean
A	HEINRICH NEISSER	Chairman, Parliamentary Group of the Austrian People's Party (�VP) in the Austrian National Assembly	CDN	JEFFREY SIMPSON	National Affairs Columnist, The Globe and Mail
NL	H.M. THE QUEEN OF THE NETHERLANDS		D	THEO SOMMER	Editor-in-Chief, "Die Zeit"
ICE	DAVID ODDSSON	Prime Minister	E	H.M. THE QUEEN OF SPAIN	Former Chief of Staff, Office of the Prime Minister
CDN	JAMES PATTISON	Chairman, President and C.E.O., Jim Pattison Group Inc.	CDN	NORMAN SPECTOR	Executive Director, International Energy Agency
USA	CLAIBORNE PELL	Senator (Democrat, Rhode Island)	INT	HELGA STEEG	U.S. Ambassador to the Russian Federation
CH	DAVID DE PURY	Chairman of the Board of BBC Brown Boveri Ltd. and Co-Chairman of ABB Asea Brown Boveri Group	USA	ROBERT S. STRAUSS	Chairman, Social Democratic Party
			SF	ULF L. SUNDQVIST	Former Member, Commission of the European Communities;
			IRL	PETER D. SUTHERLAND*	Chairman, Allied Irish Banks plc
			F	JACQUES TOUBON	Member of Parliament; Former General Secretary of the R.P.R.

GR	LOUKAS TSOUKALIS	Jean Monnet Professor, University of Athens; President, Hellenic Centre for European Studies (EKEM)
F	HUBERT VÉDRINE	Secretary General and Spokesman, Presidency of the Republic
F	PHILIPPE VILLIN	Vice President, "Figaro"
USA	PAUL A. VOLCKER	Chairman, James D. Wolfensohn, Inc.; Former Chairman, Board of Governors of the Federal Reserve System
GB	LORD WEIDENFELD	Publisher
N	NIELS WERRING, JR.*	Chairman of the Board, Wilh. Wilhelmsen Limited A/S
USA	JOHN C. WHITEHEAD*	Chairman, AEA Investors, Inc.; Former Deputy Secretary of State
DK	NILS WILHJELM	Managing Director, The Industrial Mortgage Fund; Former Minister of Industry
USA	LYNN R. WILLIAMS*	International President, United Steelworkers of America
USA	JAMES D. WOLFENSOHN*	President, James D. Wolfensohn, Inc.
D	OTTO WOLFF VON AMERONGEN**	Chairman and C.E.O. of Otto Wolff Industrieberatung und Beteiligungen GmbH
INT	MANFRED WÖRNER	Secretary General of the North Atlantic Treaty Organisation
I	PAOLO ZANNONI	Vice President International Activities; Representative for Fiat S.p.A. in the Russian Federation

*Member of the Steering Committee

**Member of the Advisory Group

OBSERVER

B H.R.H. Prince Philippe

RAPPORTEUR

USA GRANT F. WINTHROP

USA ALICE VICTOR

Partner, Milbank Wilson Winthrop, Inc.

IN ATTENDANCE

NL	MAJA BANCK	Executive Secretary, Bilderberg Meetings
F	FÉLICIA CAVASSE	LPF Communication; Local Organizer 1992
GR	STEPHEN FARRANT	Managing Director, Newsfront Naftiliaki; Local Organizer 1993
USA	CHARLES MULLER	President, Murden and Company; Adviser, American Friends of Bilderberg, Inc.

LIST OF ABBREVIATIONS

A	Austria	ICE	Iceland
B	Belgium	INT	International
CDN	Canada	IRL	Ireland
CH	Switzerland	N	Norway
D	Germany	NL	Netherlands
DK	Denmark	P	Portugal
E	Spain	S	Sweden
F	France	SF	Finland
GB	Great Britain	TR	Turkey
GR	Greece	USA	United States of America
I	Italy		

AGENDA

I. PROSPECTS FOR THE FORMER SOVIET REPUBLICS

Moderator: Marie-Josée Drouin
Panelists: James Billington
Anders Åslund
Dwayne O. Andreas

II. WHAT SHOULD BE DONE FOR EASTERN EUROPE?

Moderator: Francisco Pinto Balsemão
Panelists: Philippe Lagayette
Birgit Breuel

III. WHITHER THE UNITED STATES?

Moderator: James D. Wolfensohn
Panelists: David R. Gergen
Philip C. Habib

IV. THE WORLD ECONOMY

Moderator: Denis W. Healey
Panelists: Alexandre Lamfalussy
Hilmar Kopper
Paul Volcker

V. WHITHER EUROPE?

Moderator: Thierry de Montbrial
Panelists: Michel Sapin
Leon Brittan
Theo Sommer

VI. Remarks of PIERRE BÉRÉGOVOY, Prime Minister of France

Moderator: Lord Carrington

VII. SOVIET UNION: THE VIEW FROM MOSCOW

Moderator: Henry A. Kissinger
Panelists: Robert S. Strauss
Paolo Zannoni

VIII. CURRENT EVENTS: YUGOSLAVIA

Moderator: Jaakko Itoniemi
Panelist: Lord Carrington

IX. THE MIGRATION ISSUE

Moderator: Christoph Bertram
Panelists: Philip Martin
Jacques Toubon
Volker Rühle

X. THE EVOLVING WEST/WEST RELATIONSHIP

Moderator: Lord Carrington
Panelists: Henry Kissinger
Etienne Davignon

OPENING

The Chairman of the Bilderberg Meetings, Lord Carrington, opened the Evian-Les-Bains Conference with a note that this is the 40th conference for Bilderberg. He extended a cordial welcome to everyone present, and thanked the French hosts for their selection of location, as well as extensive arrangements.

Lord Carrington reviewed the conference schedule and agenda, as well as the ground rules and procedures for participation in the discussions. After underscoring the importance of observing the private, off-the-record nature of the conference, he introduced the moderator of the first session.

I. PROSPECTS FOR THE FORMER SOVIET REPUBLICS

Introductory Remarks

I.

An unpredicted, unprecedented series of changes occurred in Eastern Europe in 1989 and moved to the western parts of the Soviet Union in 1990 and to the heart of the Soviet Empire -- Moscow -- in 1991. The transformation that has happened is not a revolution, because revolutions are generally violent, led by intellectuals from above in the name of a political program. What has been happening in the Soviet Union has been non-violent, with few leaders and no political program.

The Soviet Union lost the cold war and is now seeking to become a normal society and a member of the civilized world. The number one question is whether Russia, the current dominating survivor state, is going to be a Weimar Republic or a Federal Republic.

Right now, it looks much like a Weimar Republic, with widespread discontent, inflation, masses of demobilized soldiers, and a general feeling of humiliation. The former Communists are rapidly becoming radical nationalists.

Yet Russia could prove to be a Federal Republic if it can get through the next two or three years, because the Russians have acquired a new sense of pride, energy, and destiny. It was they, after all, who overthrew the Soviet regime and the Communist Party, while other republics hesitated. Also, the Russians formed, in the eyes of the people, the first legitimate government in at least 30, and more likely, 75 years.

There are at least three elements of transformation in this new government. First, there is a new generation of Russians who have been exposed to the west and, hence, have different expectations and behavior patterns. Second, there is the influence of the Siberians -- the sons and daughters of the gulag, the repressed minorities, the entrepreneurial types who have returned and now form the base of the Yeltsin movement. And third, there has been a recovery of the religious and moral values, the deeper traditions, of the Russian people.

Is Russia as a nation, with its long history of authoritarianism, really capable of a transformation to democracy and a free market system? It is a great time of unrest for Russia, in which authority has been delegitimized and where social confusion reigns as it did in the beginning of the 17th Century and in the beginning of the 20th Century, a the time of the revolution. The big difference is that there is no foreign invasion this time. On the contrary, foreign countries are supporting the changes. The educated youth of Russia, having lived through the catharsis of last August, have rediscovered the value and mobilizing power of moral choice.

Can the Russians build an administrative and economic infrastructure to get them through the next two or three years? Essentially, there are three layers of political actors: the reformers at the top; the 20 million or so former Communists who have some administrative experience; and a new civil society consisting of some 3,000 organizations that publish newspapers and such things. What is needed is for the top layer of committed reformers to bring into administrative positions members of this third layer, replacing the second layer of former Communists who have the ability but not the inclination to carry out the reform policies.

Finally, will the ethnic violence among the nationalities of the former Soviet Union cause regional instability that will lead to a Yugoslavia-type situation? There has

so far been no ethnic violence involving Russians versus other nationalities. There is the current question of relations with Ukraine. If this can be worked out, Ukraine could reinforce the democratic movement because it has the best democratic structure just beneath the top. The more serious, longer-term problem is that of the Muslim republics, which could be ignited by Azerbaijan.

The United States has a special role to play in the transformation of the former Soviet Union as a model for the continental-scale, multi-ethnic, pluralistic democracy that Russia could become. The United States needs to educate and train the lower-echelon Russians who must replace the old cadres if democracy is to take hold in Russia and then in the other republics.

Russia and the other republics are in a very vulnerable situation, and a vigorous, supportive response is needed from the West in general if the danger of disillusionment with Western models is to be avoided.

Introductory Remarks

II.

It is important to realize that it was Russia that ended the Soviet Union. Yeltsin and his young economics ministers did not want the republics; they wanted to get them out. This is a fact that is not often recognized.

As far as economic development goes, the former Soviet Union falls neatly into three categories: the most well off, the Baltic states, Armenia, and Georgia; then Russia, Ukraine, and Belarus; finally the Moslem republics, which are much worse off.

True democratization -- systemic change -- is essential for economic development. Only in Lithuania and Albania have the Communists really been thrown out of high office. Russia, Estonia, and Latvia are democratic, but there are still many senior former Communists in high offices. In Ukraine, Belarus, and Moldova, the Communist establishment merely changed its name, as in the former Yugoslav republics. In central Asia, the governments are mainly authoritarian. As for Georgia and Azerbaijan, it is unclear what will emerge.

In three states -- Georgia, Moldova, and Tajikistan, there are civil wars. Two states -- Azerbaijan and Armenia -- are at war. In these states, where there is no basic security, there is not much hope for reform.

Outside of Russia, the situation looks much like Africa in 1960. All major decisions were made in an imperial capital far away. Now, there are no policy makers, which is causing a major bottleneck. Also, there are many former Communists in high offices who are alienated and are attempting to grab what they can before they are thrown from office.

Only Russia has the human capital to formulate a reform program on its own. Contrary to expectations, the Baltics have not done so yet. They are likely to follow, but they need much foreign assistance. Ukraine has gone nowhere, and here, as elsewhere, much more Western assistance is needed if reform programs are to get going.

As regards currency, it is important that the situation gets sorted out. It appears that the three Baltic states, Ukraine and Moldova will opt out of the ruble area, and they should be asked to do so quickly. The ruble area must then be managed by one monetary agency, as with the West African Monetary Agency. The IMF is currently being too soft by allowing each central bank to issue currency with restrictions.

There will be significant adjustments in trade among the former Soviet republics which will hit the very trade-dependent smaller countries especially hard. Inter-republic trade will increase, as COMECON trade sharply declines.

All this suggests that much more Western involvement is needed. The IMF should be much tougher on the currency issue. Western experts should get more involved in all the republics, not just Russia. Heavy financial assistance is required, and the G-7 decision in April regarding support for Russia was a good one.

Introductory Remarks

III.

Gorbachev initially aimed for a twelve-year program to move toward a market economy. He intended to do it by reforming the Communist party. It took several years to realize he could not reform the Communist party, and he was frustrated in trying to bring about many of his reforms. Yeltsin is aiming to move to a market economy in two years or less. He is far less fearful of public opinion than Gorbachev was.

From a business point of view, it is important not to think of Russia as a third world country. It is not. It has many very good engineers, many well-educated people, and aircraft, space, and defense industries which are, in part, ahead of the West's. Russia has the resources; it is a question of organizing them.

Each of the republics wants to establish its sovereignty, but they are entirely interdependent and can't exist without each other. Once they have established their sovereignty, they will quickly enter into trade agreements with each other, out of necessity. This process will take some time, and things will get worse before they get better.

Yet it is a good time to get into business in the former Soviet Union. Everything is cheap and can only go up from here. But those planning to do business in the former Soviet Union must realize that the situation there is one of anarchy and chaos. Order will not come from the top down, but from the local level, from newly active and influential churches, from the black marketeers, who will become the businessmen.

The biggest risk facing the West is that the countries of the former Soviet Empire will one day say that they tried capitalism and it did not work. The West cannot afford to have that happen and should help in every possible way. There is a limit to what can be done with foreign aid, but new investment can help a great deal.

Discussion

A considerable degree of pessimism about the future of Russia and the other former Soviet republics characterized the discussion. Concerning Russia, a French participant expressed concern about corruption, unemployment, skilled workers fleeing a collapsing industrial base, and the political deadlock in Moscow, the seeming paralysis of Yeltsin, who, the speaker felt, would lose an election if were held tomorrow.

A speaker from Finland agreed that the picture inside Russia is gloomy, pointing to such problems as a population not used to hard work and with few incentives to work hard, a demoralized army, a lack of civil servants to carry out reform policies, and an unreliable banking system.

Another Frenchman noted that 13 of the 15 former Soviet republics are still being run by people who were Communists. As long as these nomenclatura are in power, it is unlikely that positive change can occur.

Yeltsin's apparent success as the result of the August coup attempt was a matter of some skepticism on the part of an Italian speaker. His view was that the coup was not really a coup, but an effort on the part of those who had been in power to reclaim it. Their effort failed because the nomenclatura waited, in the Russian tradition. They are still waiting, as is the population at large, to see if Yeltsin's programs work. Yeltsin has undertaken a series of overly ambitious programs with little public support, and now people are waiting to see the result.

Looking beyond Russia to the other members of the CIS, the prevailing view of speakers was also uncertainty. An International participant spoke of the total lack of stability -- economic, political, and social -- which leads in turn to a lack of predictability. Among the republics there is a thirst for independence at the same time as a growing sense of interdependence. One unifying sentiment among the non-Russian republics is a distrust of Russia and a fear that Russia might once again become expansionist. Yet the republics know that they and Russia need each other, and, hence, the CIS has a chance at least as a transitional entity.

An Italian who had recently visited Kazakhstan reported that the view from there is that Russia is in a state of chaos, with no true leader. Yeltsin's position is seen as very weak. There is no confidence in the future of the CIS, but there is a strong inclination in Kazakhstan to moderate conflicts between republics and to cooperate with Russia. Rich in resources and relatively stable, Kazakhstan has a good chance of success. Its leader, Nazarbayev, is opposed to Islamic fundamentalism and looks to Turkey rather than Iran.

Regarding relations between Russia and the other republics, a Briton expressed concern that, if Russia moves forward with economic and political reforms ahead of the other republics, there might be conflict between Russia and western republics, such as Belarus and Ukraine, and central Asian republics.

Another concern voiced by this speaker was the possibility of nationalism arising in some of the many autonomous republics and regions within Russia. In particular, there seems to be a strong possibility of a Siberian break-away unless Russian aid to Siberia is forthcoming.

Turning to the question of what the West should do, a Belgian speaker worried about the lack of an institutional framework to organize the Western response. What is needed is something like the Marshall Plan to establish rules and procedures, to set goals and priorities, and to monitor and respond to changing conditions. To bring order to the chaos in the former Soviet Union, the West must respond in an orderly fashion, and this has not been the case so far.

The former Soviet countries, said an International speaker, have no alternative but to look to the West for the kind of assistance they need. They look in particular to two Western institutions, the EC and NATO. On the other hand, there is a growing disenchantment with the West and a realization that the destiny of these countries depends on themselves. And while the West should seize the opportunity to assist the process of change, the possibilities are limited. Certainly the former Soviet countries cannot yet be accepted as members of the EC or of NATO, nor can they be given security guarantees. In the last analysis, success or failure of the reforms depends on the countries themselves.

A German expressed concern that the need for Western assistance greatly exceeds the means. The West must focus assistance where it is most needed, rather than attempting to bail out all the former Soviet countries. A Briton agreed with this assessment, and wondered where the money would come from. The US has shown no inclination to increase funds to the IMF, and the UK and Germany are opposed to increasing the budget of the EC. Germany is overcommitted as it is. Only massive cuts in Western defense budgets could free up the funds required.

Speakers listed a number of priorities for Western economic assistance, among them: stop capital outflows, achieve convertibility of the ruble, aid introduction of market economies, and provide educational assistance.

Panelists' Conclusions

In response to the discussion, the following points were made by the panelists:

- the process of change will come largely from the local level.
- maldistribution of food poses a serious challenge to Yeltsin.
- private investment, which will be stimulated by convertibility, will be more important than foreign aid.
- Yeltsin's popularity is reasonably secure because there is no strong alternative.
- unemployment is not yet a serious problem, but will be in two or three years.
- enormous entrepreneurial activity is springing up in Russia, and a new civil society is emerging.
- the August coup represented a moral mobilization, the rise of a new generation who will not blindly follow their elders.
- an important form of Western aid will be to bring members of this new generation of leaders to the West to see how the institutions of a free society function.
- Russia is the key to change in the former Soviet Union because it is the farthest along in the process.

II. WHAT SHOULD BE DONE FOR EASTERN EUROPE?

Introductory Remarks

I.

For both political and economic reasons, there must be a clean break with the command economy. There is no acceptable ground between a command and a market system. The Eastern European countries are not all exactly the same, so there is no single model that can be applied to all of them.

Any progress toward steady growth depends on the acceptance of the ground rules for a market economy: freedom of enterprise, freedom to set prices, freedom to trade, convertibility, a basic legal and institutional framework, accounting rules, and a banking system. Economic inequality, which undermines popular support for reforms and for business, must be minimized to avoid social and political unrest. There must also be reduced inflation, limited government deficits, and limited trade deficits.

Implementation of these measures (which the IMF has insisted upon) has caused sharp contractions in the economies. The reduction in GNP is about the same as the US experienced in the Great Depression -- about 30 percent. This harsh impact is due in part to the necessary elimination of certain economic activities and structures, and also to the contraction in trade between the countries of Eastern Europe.

A number of things can be done to soften the harshness of the process of change. First, the old economic ties between these countries should not be destroyed too hastily. The possibility of a multilateral payment system, which might be accomplished through commercial banks, should be studied. New economic structures must be built. Monopolies must be broken up, and privatization must ultimately occur, though gradually. Infrastructure must be rebuilt, and a sound banking system created. Efficient government agencies must be created, especially in the area of tax collection. The West can basically do two things. One is to open its markets; trade is better than aid. The second thing is to provide assistance, in the form of long-term investment and educational assistance in the area of management.

Two fundamental questions arise. One concerns links with the EC. These countries are not ready to join the community, but there is a political need for some kind of link. The second question concerns measures to make the process of change less harsh and less protracted. Whatever is done here should only facilitate and accelerate change, not prevent it.

Introductory Remarks

II.

The leaders of Eastern Europe have little time to find solutions to their economic, social, and political problems, and the West must help them. We in the West must organize our assistance and explain to our people why we must help the Eastern European countries. In this effort we need to have international cooperation and coordination under one single international organization.

Financial help is important, but it is more important to have help from experienced managers, administrators, and bankers. Managerial and technological assistance are the keys to the transition. Every Western corporation should send managers to Eastern Europe.

A legal framework is a precondition for success, but the laws in the West have become much too complicated and can be a hindrance. Simple and practical regulations should be developed for Eastern Europe. Rather than perfection, speed should be emphasized during the time of transition.

Eastern Europe should start with the privatization of small businesses. They should preferably be sold to the old managers, as long as they did not have major roles in the old governments. Also important is development of business plans and cooperation between management and workers.

For larger businesses, foreign investors are needed, to bring in capital and technology as well as international experience, which has been lacking for many years in Eastern European companies.

East Germany has had a great deal of experience in this kind of transition, and privatization will be completed there in the next two or three years. The Treuhand has begun to send some of its managers to Russia to help in privatization of retail shops in and around Moscow. This is something that it can do also in Eastern Europe.

To organize a successful transition to a market economy in Eastern Europe is a tremendous challenge for the West, and we should organize it intelligently. Otherwise, we will all be losers.

Discussion

An American led off the discussion by emphasizing the importance of Western involvement in the conversion of the Eastern European economies to free market economies. The West should concentrate first on the Eastern European countries before taking on the more difficult problems of former Soviet republics. If the Eastern European countries fail in their attempt to convert to free market economies, a very discouraging signal will be sent to the former Soviet countries.

There are five fundamental forms of assistance the West can render. First, the Eastern European countries must be assured that they will ultimately be welcomed into the West's institutions, such as the World Bank, the IMF, OECD, GATT, and even the EC itself. Second, the West must provide desperately needed technical assistance. Third, these countries need training in management, accounting, and other aspects of how business operates. Fourth, they need to be able to trade with the West, and we can help them do this by lowering our trade barriers. Finally, capital investment is needed both from government institutions and the private sector.

On the issue of training, another American said that this requirement could be assisted if Western governments would provide credits for small and medium-sized companies to enter into joint ventures in Eastern Europe. In addition, Western governments should provide political risk insurance as an added incentive.

A Dutchman spoke about the need for capital for infrastructure and suggested that the European Investment Bank could be utilized. In addition, public utilities, occupying a place between the public and private sectors, have a special role to play in providing training and organizational know-how.

As well as privatization, competition, a legal framework, and all the other elements of a free market economy, it is, said a Briton, important to encourage the development of shared values. This involves a corporation dealing with its work force in such a way as not to invite increased government regulation. As we import capitalism to the East, we must avoid also importing the quick profit mentality.

The issue of trade and open markets was one of concern to several participants. An Irish speaker pointed out that the Association Agreements reached with the EC were limited in the areas of agriculture and textiles, the very industries in which Eastern European countries have the best chance of competing. The EC has to be more open, but is further opening in these areas, particularly in agriculture, politically possible?

A speaker from the UK suggested a scheme for replacing the markets and trading links severed by the break-up of the Soviet Union and COMECON. A triangular trade could be created wherein assistance given to the former Soviet countries could be used to purchase needed, but heretofore unaffordable, goods from the Eastern European countries. As for opening Western markets further, this is fine, but there should be no subsidies which make the competition unfair.

Speaking in favor of more open markets, a Dutchman argued that open markets will encourage capital to flow into the Eastern European markets. An Austrian advocated the admission of the most advanced Eastern European countries, Poland, Hungary, and Czechoslovakia, into EFTA as a means of integration.

Implicit in the discussion of open markets is the issue of the Eastern European countries' ultimate membership in the EC. An Italian acknowledged that this is the fundamental objective of these countries. The West cannot build a new wall, but must declare its objective of building a larger community. This will take time and requires a transitional period of defining a new structure and building institutional and political links with these countries. A Portuguese speaker suggested that some kind of special membership status, short of full economic membership, might be established for this interim period. No matter what, the EC should not send the message that these countries would not be welcome in the community.

A point strongly made by several speakers was that, in addition to economic assistance, the West must give political assistance to the countries of Eastern Europe. There is, said an Austrian, an obvious lack of political culture in Eastern Europe, and the West must help create a political culture that is capable of solving conflict and providing stable democratic government. Without political stability, the chances of economic progress are greatly diminished.

Among the necessary political reforms listed by a Portuguese participant are streamlining budgetary procedures, introducing new mechanisms of social consultation, sharpening the focus of legislation, and coordinating external aid. The West must help public policy makers create new standards and streamline administrations. Otherwise, there is a danger of economic reforms moving ahead of government reforms.

A Briton called for parliaments, political parties, and trade unions to intensify their contacts with the countries of Eastern Europe. The need is urgent because the danger of increasing conflict is great. Besides the cataclysm in Yugoslavia, there is the threat of Hungarian nationalism, the real possibility of the breakup of Czechoslovakia, the political paralysis in Poland, to mention a few of the threats to stability in the region.

Panelists' Conclusions

The German panelist emphasized the immediate need for human capital, the need for a single organization to coordinate Western assistance to Eastern Europe, the rationale for concentrating aid initially in Poland, Hungary, and Czechoslovakia, but not at the exclusion of Russia, and the definition of a simple legal framework for these countries.

The French panelist agreed that assistance needed to be coordinated, but did not feel that it could appropriately be done by one organization. In the days of the Marshall Plan, the situation was different. There were no international organizations and only one country in a position to give aid. Today there are many international organizations and many countries able to help. All their efforts must be coordinated.

The EC must be open to membership for the Eastern European countries, but it is too early to make a timetable. In answer to the question of where the capital will come from, it must come from all of the Western countries, and they must be prepared to increase savings and cut budget deficits to provide it.

III. WHITHER AMERICA?

Introductory Remarks

I.

The Presidential elections in America are unusual this year because a third candidate, as yet not officially announced, has joined the race. He, Mr. Perot, has captured the interest of the American voter for a number of reasons, most particularly because Americans are frustrated and angry with the President, the political establishment, their own standards of living, and the outlook for their future.

President Bush, although very successful on the side of foreign policy, has been weak in his domestic programs and has lost the confidence and trust of many of the voters. The American voters were supportive of his leadership through the Gulf crisis but are angry with his lack of response to domestic issues, such as the Los Angeles riots and the state of the economy.

At the same time, his Democratic opponent, Bill Clinton, although initially impressive as a candidate with a demonstrated knowledge of both domestic and world affairs, has portrayed a weak character which has placed him, as well, in low esteem among the voters. This has overshadowed his own commendable record as governor of Arkansas, and his well-informed stands on education, racial issues and other vital voter concerns.

The overall lack of confidence in the current leaders, and the political system in general, has proven ideal for a third candidate to join the race. Ross Perot, a Texan, a businessman with no political experience but enough money to cover his own expenses at least for the initial phase of his campaign. At another time such a candidate, especially one with no political background, would not be taken seriously, no matter how much money he had at his disposal. But that limitation seems to be more than compensated by a solid self-confidence and a convincing rhetoric of solutions for the nation's problems. He is a proven, successful businessman, and his speeches reflect the thinking of a large portion of the American voters. They see in him what they believe is not visible in either Bush or Clinton: someone who is strong, direct, and candid -- traits they feel have been lacking in politicians in recent years. The fact that he is weak on issues is not important to these Americans. What is important is that he represents a refreshing change.

In the final analysis Bush is likely to win. But we should take seriously the Perot candidacy and, further, we should view it as a refreshing change to the voting process and one which may well bring the voters together as never before.

Introductory Remarks

II.

The events in the Soviet Union and Eastern Europe have had a tremendous impact on the American people from many angles. The end of the cold war, and the concurrent joint efforts with Europe to fight communism, have caused the American people to shift priorities from foreign affairs to problems more related to domestic issues. For instance, America is no longer interested in playing a major role in a European problem such as Yugoslavia. This is not to say America wouldn't support the efforts

the UN or the European Community, but they will no longer take the lead. On the other hand, they do maintain interests in countries which are important to their well being, such as the Middle East -- both because of oil and their relationship with Israel -- and in Latin America, which is next door and where they have a tremendous economic interest.

Americans are so concerned with problems closer to home, including economic growth, education, drugs, crime, environmental issues, and population problems, that they almost don't pay attention to foreign policy. They don't listen to a candidate's speech on foreign policy, and they are not even aware of an important election in Israel about to take place. This does not reflect a neo-isolationism. Americans do recognize and enjoy the position the United States holds in the world, especially since the end of the Cold War. But even there, the American public is more interested in tackling world-wide problems in the environment or population control, for example, than helping Yugoslavia work out its border problems.

Americans are looking at their relationships with other countries in a new light, and that is with less of a geo-political interest and more of a concern for human rights. In the future, Americans will want their foreign policy to be based on coordination, cooperation, moderation, and stability, as well as some progress in the quality of life and the well-being of the individual.

Discussion

The discussion began with an American giving his evaluation of the recent riots in Los Angeles. He represented a view widely held by a large segment of America which is discouraged by not only the Administration's lack of response to the riots, but its unwillingness to recognize -- and address -- the underlying causes behind the outbreak.

Several participants agreed with this criticism of the current Administration. One American attributed the unrest to the economic illness which pervades the industrial community. There has been no governmental effort to alter the nation's economic course, and the workers are being rewarded for short term benefits, rather than long term gains. Another American added that while other nations have devoted their best scientists and engineers to building competitive civilian products, the US government has devoted theirs to military consumption. There is even a cynicism towards the college graduate who chooses to become a teacher rather than a bankruptcy lawyer, or the worker who strives for high quality rather than quantity. Only with increased cooperation between government, labor, and management, will there be an upswing in the American economy. Only when Washington gives the problems at home the same amount of energy it gave to the Persian Gulf, will there be a chance for hope. The direction of this process will be determined in the November elections.

An Irishman suggested that the weakening of the relationship between America and Europe was due to a decline of cohesion which had existed throughout the mutual battle against Communism. Only by strengthening the relationship in the areas of trade and economic policy, and a sharing of sovereignty between the US and Europe, will there emerge a constructive and mutually beneficial program for the two continents. He went on to say that the US must be convincing in its support of a multilateral system in the areas of trade and economic policy, and move away from the perceived ambivalence in its evolving relationship with Europe. This view was shared by a number of Europeans, one of whom went further to imply that Europe would have to take up some of the

responsibilities heretofore held by America. An important example of this was, the unwillingness of the United States to continue primary defense responsibilities for a country such as Yugoslavia. One Canadian sounded a positive note on America's important role in the end of the cold war, and noted it was a victory without any gloating from anyone -- the President, Congress, or the American public.

Several participants elaborated on the first panelist's discussion of the race, including the frustration and cynicism felt toward political incumbents. One American said that President Bush's basic weakness is that he is not trusted by his public that his stated commitments are not convincing. There was also a widespread concurrence on Mr. Perot's limited qualifications for the presidency and the feeling that his popularity would wear thinner and thinner as Americans would eventually focus on the real issues rather than his superficial ideas for improvements. Another American phrased this differently; Americans are listening to Perot now because they are frustrated and sensible. They are also sensible enough to get frustrated with Perot, which will most likely happen. At the same time, Perot has proved to be a valued outlet for the frustration in the American voter, and this is probably very healthy.

The relationship within the Atlantic alliance was the subject of several interventions, beginning with an American's analysis of the difference between an American and a European view of foreign policy. The US has never had foreign occupation, and any American involvement in a war has taken place far from its shores. Americans are, most likely, less familiar with the difficulty of establishing democracy in a country with a different history and culture, such as Russia and other members of the former Soviet Union. A Dutchman asked if the panel would comment on America's potential role in the Ukrainian/Russian conflict as an example of its role in world affairs. This concern was also expressed by an American who suggested that the same problem could spread to other areas in the former Soviet Union.

Panelists' Conclusions

The panelist who spoke on American foreign policy addressed an underlying theme of the discussion, namely America's ability to refocus its foreign policy in relation to domestic issues which were becoming increasingly important: the economic situation, environmental issues, human rights, and others. He was optimistic about progress in this area, because the Americans are better able to prioritize their responsibilities to themselves and to their friends abroad. He used Yugoslavia as an example, saying that the US was not disregarding Yugoslavia, but felt that it should no longer play a leading role in solving this conflict. Yugoslavia is a European country and its European neighbors should be the first to determine whatever international involvement should take place.

Responding to a question as to whether the US is led by the elite, this panelist felt that if at all, this is certainly less true than in earlier years.

The other American panelist elaborated on the previous speaker's remarks by underscoring his encouragement with the depth of American involvement in current domestic issues. He said that Americans spend too much time debating the merits of Presidents, when they should focus more on the body politic overall. The US should remain engaged in Europe, both militarily and otherwise, but not to the degree it has

the past. This leaves more room to focus on coming to grips with the needs of the American public. Where we might see frustration and anger in the presidential election, there are encouraging signs of a grassroots effort permeating the population throughout: American manufacturing is stronger, the quality of goods is better; productivity is up; exports are up. The Los Angeles riots have led to a real focusing on this problem and a coalition is building. The members of the business community are taking a stronger look at how they can help to improve education. If one were to look at the presidential elections alone, one could become very discouraged. It is much more encouraging to look at what is going on underneath.

IV. THE WORLD ECONOMY

Background Paper

Global Savings

Is there a global shortage of savings? If the answer is yes, what are its potential consequences? Are they aggravated by a "credit crunch"? What can be done about this state of affairs? These are some of the questions I shall try to answer in this paper.

Saving Rates: The Statistics And Their Interpretation

The attached table shows various saving rates from 1960 to 1990 in the G-7 countries. Let me make a few observations prompted by the figures, starting with the obvious and moving on to the controversial.

1. There has clearly been a downward trend in gross national saving expressed as a percentage of GNP, particularly since 1970. There have of course been differences between countries and between sub-periods, but the trend seems to have been quite general, albeit with some cyclical variations. Preliminary figures for 1991 do not contradict this statement.

2. The downward trend in net saving rates has been more pronounced. One has to bear in mind, however, that the netting-out procedure is somewhat unreliable, both for conceptual and for statistical reasons. But the figures are too consistent to be dismissed as irrelevant.

3. Arithmetically speaking, the responsibility for the decline in global saving rates rests with the public sector, which has moved from positive net saving towards dissaving. The striking exception to this general rule has been Japan, where public sector saving remained positive throughout the period and even reached a peak in 1990. The turnaround in the United Kingdom was another, albeit less striking exception. It is, however, unlikely to last. Figures relating to general government net lending as a percentage of GNP broadly confirm these observations.

4. Statistical coincidence does not, of course, amount to causality. Some economists have made much of the so-called "Ricardo equivalence" -- which states, roughly speaking, that changes in public sector saving ratios are offset by changes in private saving ratios. My impression is that such equivalence may have been at work in some countries and in some sub-periods (for instance, more recently in the United Kingdom), but does not hold for the majority of the countries and certainly not for the whole of the period covered by the trend. The acceptance or rejection of this statement has obvious implications for policy recommendations.

More Recent Developments

Several recent developments within and outside the G-7 area suggest that (a) the global trend displayed in the table has continued and may even have accelerated, and that (b) its implications should be taken seriously.

1. Germany's public sector borrowing requirement now amounts to something between 3 1/2 to 5% of GNP (depending on how it is measured). This represents one of the most dramatic shifts into red that has taken place in contemporary economic history in any large country. As a result, the German current account has moved from

a sizable surplus to a small deficit. In other words, western Germany's saving surplus has been siphoned off by eastern Germany and has therefore ceased to be available for the rest of the world.

2. Almost at the same time, as a result of the Gulf war, the Gulf area has turned from net capital exporter into a net capital importing area.

3. Some would add the emergence of massive investment needs in central and eastern Europe. However, the impact of this development on the global capital market imbalance should not be overstated, for the simple reason that credit worthy (as opposed to potential) investment needs emerging in this part of the world are relatively limited. The total will certainly be much smaller than the financial transfer flows from western to eastern Germany.

Assessment Of Consequences

To the extent that the developments I have just outlined are not reversed, and reversed quite rapidly, they will have a strongly negative influence on the growth prospects of the world as a whole. This influence, I believe, is already being felt since G-7 saving is a predominant part of world saving. Declining saving rates limit the potential for real growth in the world's capital stock. The mechanics through which this dampening influence exerts itself is the persistence, for a time, of higher-than-normal real interest rates. This would have two kinds of damaging affect. On the one hand, it would tend to change the structure of investment, away from the riskier capital outlays and from those expected to yield a return only in the longer run (such as infrastructure investments) towards spending on projects with a high return within a short horizon. On the other, it would put a brake on the total volume of investment. After a period of adjustment, the world economy would settle down to a much lower growth rate than that experienced until now. Real interest rates would then decline, but too late to stimulate growth.

The slowdown in world growth would have highly damaging effects on the Third World as well as on the CIS countries and central Europe not so much by making savings "unavailable" to finance their investment needs, but rather by making it unprofitable to invest in these countries. This is not just a question of semantics, it has also a bearing on policy prescriptions. I have some doubts about the wisdom of providing massive credits to LDCs and eastern Europe in a slow-growth world, for in such a world these credits cannot yield real returns on investment. To put this proposition in a different form, faster non-inflationary real growth in the western world, for which the prerequisite is higher western saving rates, can provide a more powerful and more lasting stimulus to world development than the provision of funds to these countries in a slow-growth environment. Export markets are more important for them than finance, or even aid.

What About The Credit Crunch?

There is the additional question concerning the potentially aggravating role played by the so-called "credit crunch".

There is probably no credit crunch, not even in the United States or in the United Kingdom, in the narrow technical sense used by economists, who define a credit crunch as a situation in which the market does not clear a credit demand at prevailing interest rates. But I believe that it is meaningful to talk about a credit crunch in a broader sense. In a number of large countries, until about two years ago banks enjoyed a very fast expansion, with a correspondingly rapid accumulation of non-performing loans.

The process started in the 1970s, with the boom in sovereign lending to Latin America and some eastern European countries. It shifted in the 1980s towards real estate lending or just plain excessive lending to domestic customers. Understandably, banks are now adjusting their policies away from the growth of assets towards improving profitability through cost-cutting and retrenchment. Some also argue that this policy of retrenchment is accelerated by the implementation of the Basle capital ratios. I have some doubts as to the significance of this additional factor, but I shall come back to this point in my policy conclusions.

This change in banks' policies has no effect on the level of real interest rates in the world economy, since this level is governed by developments in the "real" economy, such as the flow of saving and the profitability of investment. It has, however, quite a strong distributional impact on credit flows, since banks are a dominant group of financial intermediaries which are responsible for channelling a sizable part of financial surpluses towards sectors and countries with financing needs. For the reasons I have just mentioned, many banks have opted out of the business of sovereign lending, especially to LDCs and eastern Europe. To the extent that only a very few of these countries have access to alternative sources of funds, i.e. to capital market financing, the shift in banks' policies may amount to a kind of credit rationing to their disadvantage. Such a new bias in intermediation aggravates the concern for developing, or would-be developing countries, since it adds its paralyzing impact to that of high real interest rates and slower world growth.

More recently, however, there have been encouraging signs of a revival of direct investment or equity flows especially to Latin America, but also on a more modest scale to central Europe (Hungary and Czechoslovakia). But the continuation and, a fortiori, the expansion of these flows hinges critically on the export prospects of these countries which, again, highlights the crucial importance for the world as a whole of real growth in the western world.

Policy Responses

Now let me turn to possible policy responses. I may perhaps start by saying what in my view we should not do:

1. We should not undertake a global relaxation of monetary policies, on two grounds. Firstly, because such a relaxation will have no lasting effect on the level of real interest rates. On the contrary, it could backfire on rates at the long end, by steepening the yield curve. It is interesting to compare the US and German experiences in this respect. Secondly, we should quite specifically refrain from suggesting that relaxation should start in Germany. With the emergence of Germany's massive public sector borrowing requirement, the quite visible signs of overheating in the labour market, and the fast growth of M_3 and credit demand, this would only accelerate domestic inflation. I would also have doubts about the wisdom of any large-scale further relaxation of monetary policy in Japan. As for the United States, monetary policy should take into account the course of the current recovery. In any event, there is no justification for global monetary policy relaxation in a cyclically desynchronized world.

2. I would also refrain from tinkering with banks' minimum capital ratios. The real, and justified, reason for banks' prudence is the lessons they wish to draw from their past policy mistakes. The Basle capital ratios may have acted as a timely reminder of the need to return to prudent policies, but the change of policy was overdue, and would have happened anyhow, probably even more violently if it had been delayed further. The

relaxation of the capital rules would store up problems for the future without really solving the current ones. In short, prudential tools should not be used for anti-cyclical macro-policy purposes.

What, then, are the desirable policy options?

I have no doubt in my mind that in a longer perspective the optimal policies would be policies designed to raise saving rates, in both the public and the private sectors. For the public sector, the emphasis should be on cutting expenditure rather than on increasing taxes. As for the saving rates of the private sector, our ability to affect them will depend crucially on a reform of our fiscal and social security systems.

The realization of these longer-run objectives has of course to be carefully adjusted to the cyclical situation in which countries find themselves. Cutting the public sector borrowing requirement in countries which are in, or which are just about to get out of, a major recession would clearly be counterproductive. These countries will have to wait until their recovery is clearly confirmed. I am thinking in this respect in particular of the United States. In the case of Japan, given the sharp current weakening of economic activity and the high rate of net saving by the public sector, there are even good grounds for a more expansionary fiscal policy stance -- but only to the extent that there are no visible signs of an economic upturn.

Germany, on the other hand, is in quite the opposite situation. Fiscal retrenchment, in particular by cutting subsidies and certain other types of public spending, would be fully justified now. I do not think that this could at present have any damaging effect on economic developments outside Germany and it would certainly help to achieve a better macroeconomic balance inside the country. It is true that initially the shift in the German macroeconomic policy mix after unification had a globally stimulating impact on the rest of the world: fiscal expansion, via import growth, more than offset the interest rate effect. Now, however, with the gradual exhaustion of the net fiscal impact, the higher real interest rates are asserting their globally depressing influence on the European economy. Hence the justification for an urgent change in the German policy mix.

One last word on the bias introduced against developing countries by the change in banks' policies. The way to escape this is to imitate the example of those countries which are now attracting a genuine inflow of risk capital -- an inflow which, incidentally, opens up the possibility for other capital market operations. In practically all cases, this was made possible by a radical shift in policies towards fiscal and monetary orthodoxy, accompanied by the opening-up of markets and privatization, within the framework of IMF-led macroeconomic and structural adjustment programmes.

<i>National savings rates in major industrial countries</i>							
Countries and periods	Gross national saving ¹	Net national saving	of which			Memo: General government net lending ¹	
			Public ²	Private			
				Total	Households		Business enterprises ³
as a percentage of national income							
United States							
1960-69	19.7	10.8	0.8	10.0	6.2	3.8	-0.4
1970-79	19.4	9.1	-1.2	10.3	7.6	2.6	-1.2
1980-89	16.3	4.0	-3.8	7.8	6.0	1.9	-3.4
1990	14.3	2.2	-3.1	5.6	4.6	1.1	-2.6
Japan							
1960-69	34.5	25.2	6.6	18.6	11.9	6.6	1.0
1970-79	35.3	25.6	5.0	20.6	16.5	4.1	-1.7
1980-89	31.6	20.9	4.9	16.0	12.9	3.1	-1.4
1990	34.7	20.3	9.4	13.6	10.8	2.8	0.8
Germany							
1960-69	27.3	19.9	6.3	13.5	7.6	6.0	0.7
1970-79	24.3	15.2	3.7	11.5	9.7	1.7	-1.7
1980-89	22.5	11.6	1.5	10.1	8.9	1.2	-2.0
1990	25.0	12.6	-0.5	14.7	8.4	6.3	-1.9
France							
1960-69 ⁴	24.7	16.6	4.6	12.1	9.4	2.7	0.4
1970-79	25.8	17.0	2.7	14.4	11.9	2.5	-0.4
1980-89	20.4	8.9	-0.4	9.3	7.9	1.4	-2.1
1990	21.0	8.5	-0.3	9.5	5.4	4.1	-1.7
United Kingdom							
1960-69	18.4	10.9	2.7	8.2	4.3	3.9	-1.0
1970-79	17.9	8.3	1.4	6.8	4.3	2.5	-2.6
1980-89	16.6	5.5	-0.8	6.3	3.7	2.6	-2.4
1990	15.6	4.5	2.4	5.0	4.7	0.9	0.1
Italy							
1960-69 ⁴	24.2	17.6	1.4	16.2	14.1	2.0	-2.0
1970-79 ⁴	22.3	14.4	-4.6	19.0	18.9	0.1	-7.8
1980-89	21.9	11.2	-7.6	18.7	15.9	2.8	-11.1
1990	19.5	7.5	-6.2	14.7	12.6	2.1	-11.3
Canada							
1960-69	21.9	11.3	2.6	8.7	4.0	4.8	-0.4
1970-79	22.9	13.1	1.4	11.7	6.0	5.6	-0.9
1980-89	20.7	9.9	-3.4	13.3	9.2	4.2	-4.8
1990	18.0	6.1	-3.3	10.3	8.3	2.0	-3.8
Average⁵							
1960-69	22.0	13.5	2.3	11.2	7.2	4.0	-0.3
1970-79	23.2	13.5	0.8	12.7	10.0	2.7	-1.7
1980-89	21.5	10.0	-0.9	11.0	8.8	2.3	-3.2
1990	21.2	8.6	0.6	9.5	7.2	2.4	-2.1

¹As a percentage of GNP. ²General government. ³Includes public enterprises. ⁴Based on old system of national accounts. ⁵Calculated using GDP weights and exchange rates in 1963 for the 1960-69 period, in 1975 for the 1970-79 period and in 1988 for the 1980-90 period.
Source: OECD National Accounts.

Introductory Remarks

I.

The main worry concerning declining savings rates is their impact upon the non-inflationary potential of the industrial world. As the trend in savings rates continues to decline, there is going to be a resulting slowdown in world growth. Indeed, we are seeing this already.

A decline in growth will impact world trade because a more slowly growing industrial world will import less. Worse, there will be a rise in protectionism, which we are also beginning to see. This will complicate our goal of helping the countries of the former Soviet Union and Eastern Europe by opening up our markets to their exports. It is hard to imagine liberalized trade in a stagnating Western world.

The second major impact of declining savings rates is that, if there is growth, it will be inflationary. Governments will have to deal with periods of inflation by pushing up interest rates, and we will then find ourselves back in the same situation as in the late 1970's and early 1980's, which would not be good.

We have very little scope for fine-tuning cyclical developments, very little possibility to speed up the basic recovery by using global demand-management policies. Some countries, such as Japan, have managed to accomplish a little, but, by and large, fiscal policy is in a state of paralysis.

There are also limitations as to what extent monetary policy should be used. It can be used sparingly, but there are real limits. For example, the yield curve in the US is extremely steep. In spite of the spectacular decline in short-term rates, long-term rates have not declined much, and that is not promising in terms of inflationary expectations.

Instead of trying to fine-tune demand management, governments should work out medium to long term strategies, and accept that there will be cyclical fluctuations. There really have to be occasional cyclical breaks. There are five basic actions governments can take. First, in terms of fiscal policy, the size of public sector deficits should be limited to the amount of capital formation by the public sector. Second, monetary policy should aim across the cycle for price stability, meaning not zero inflation, but a rate of price increases that does not enter into the economic calculations of enterprises and private households. Third, various domestic restrictive practices and other obstacles to growth and mobility should be removed. Fourth, we must maintain an open trading system and gradually integrate into this system countries of the former communist world. Finally, monetary authorities, central banks, and governments have a duty to preserve the stability of the financial system. In this regard, particular focus on the payments system is required.

Introductory Remarks

II.

Reconstructing the economies of Eastern Europe and the former Soviet Union is going to require time, patience, and sacrifice. This is true for the recipient countries as well as those providing the aid. We in the West should not be too demanding in terms of preconditions; some Western standards and patterns will be difficult to introduce. What we need is something simple, that those in the East can understand and

implement. In the case of Germany, perhaps it would have been better if East German could have started out with the kind of legislative and administrative framework that existed in the Federal Republic in 1950.

What is especially disappointing is the lack of a common vision among many of the political leaders in the East. In spite of the need to create some kind of integrated framework, we are seeing divisions based on geography and ethnicity, some leading to war.

Turning to the EC, Maastricht is a very important step in our future economic development. A single European currency is the logical consequence of a single economic area; it is necessary to reinforce the single market. The EC has to find ways to achieve the goal of enlarging and deepening that go beyond meeting the criteria of convergence and extend to fiscal policies and decision making structures. An increased informed public debate is needed to prepare populations to gradually accept the idea of giving up national sovereignty.

In order to achieve a single currency, we must focus on fiscal policy. In the 1980's we failed to put public sector deficits in order. Now the coffers are empty, debt cannot be increased, and the expected peace dividends have not occurred and probably never will. Monetary policy has been blunted as a weapon in the US and Japan, banks have been restrained in lending, and entrepreneurs and consumers lack the confidence to invest or spend. We must continue to ask politicians to deal with longer term issues including such things as education, research and development, and the environment.

Finally, concerning unemployment, it should be noted that, in Germany, more than two million new jobs were created in the past four years. These have been taken mainly by immigrants, primarily from the former Soviet Union, Poland, and other Eastern European countries. But the unemployment rate in Germany has not changed much. One reason is that our unemployment benefits are too generous and do not force a person to go out and look for a job. Another is that we have had no basic rethinking in industrialized Western European countries about wage negotiations, from which the unemployed derive no benefit. Indeed, if wages go too high, as has been the trend, more people will become unemployed. This is a problem that must be tackled.

Introductory Remarks

III.

There are figures that suggest that real wages in the US have declined by more than ten percent over the past 20 years. It is not likely that there has been any other time in American history when real wages have declined over almost a generation. This explains much of the feeling of unhappiness in the US over the political and economic system.

The poor economic performance is not entirely due to a lack of savings and investment. In fact, there has been relatively high productivity growth in manufacturing over the past few years. But this has not been obtained as a result of particularly high investment in manufacturing. It is more a reflection of greater efficiency from reducing employment.

Productivity in the US has been rising on the order of just over one percent in the past 20 years -- less than half the rate of the earlier post-war years. These same trends are becoming evident in Europe and conceivably in Japan. Over the next two to

three years, it would not be surprising to see a rate of growth in the world economy of not much more than two percent, an exceedingly slow rate for an economy with a relatively high rate of unemployment. The reasons include problems in real estate, the fact that consumption is already very high, reduced defense expenditures, etc. All add up to a restrained growth around the world, as exports cease rising. The rest of the world will be sadly disappointed if it looks to the US as the engine of growth in the next few years.

Of course, the picture is not all bad in the US. There will be some growth. Inflation seems to be under control. Interest rates will tend to go down, rather than up, and this may sustain the stock market. All of this can potentially create a better climate for growth in the second half of the decade. Looking at the world economy, there is enormous potential in Eastern Europe and the CIS, in Latin America, China, and East Asia, generally, except for Japan.

The question is how do we get over this period of sluggish growth so that we can take advantage of future opportunities. It really comes down to fiscal policy. Restraint of spending can help, but it will not suffice to achieve budgetary balance, especially in the US. Domestic problems will not be solved by throwing money at them, but there will have to be some spending in the US, on things like infrastructure and other non-defense areas. This raises the issue of taxes, which has paralyzed American politics for many years. We can leave taxes alone and limp along with slow growth, but that will not provide the economic foundation for the US to play a constructive role in the world economy. So some kinds of tax increases or new taxes will have to be considered. Among the options are an energy tax, a value-added tax, and various kinds of consumption taxes. Miscellaneous tax incentives for investment will not do the job. A capital gains tax reduction may be more effective, but still will not cure all the world's problems.

Turning to world developments more generally, there is a trend toward more regionalism in the world economy. It is happening in Europe. It can be seen in North America. It is possible there will be a Yen Zone in Asia. This creates opportunities, but also problems in the trading area, unless we persist in multilateral efforts to keep trading barriers down between these zones. This adds an urgency to successfully completing the Uruguay Round. These emerging trading areas could turn inward in an atmosphere of slow growth and a failure to strengthen international rules for freer trade.

Discussion

An American initiated the discussion by seeking to answer what he found was a recurring question: is the US turning inward? His answer was a qualified no. True, the US has considerable internal concerns and domestic problems, such as a \$400 billion deficit -- five percent of gross domestic product. But the US is still the most productive nation in the world and will continue to be so. Competition with countries like Germany and Japan has helped the US in terms of improving the quality of its goods and increasing productivity. And the US, even as it reduces its military forces, will remain the major military force in the world, and will remain very much engaged, especially in Europe.

On the domestic side, the US is slowly coming out of a recession. Most economists forecast a 2 1/2 percent growth rate by the end of the year, which is comparable to that of several European countries. It is unlikely that the US will have an energy tax because of its political unpopularity, but a value added tax is a possibility.

The US is still highly supportive of European unification, perhaps even more than some European countries have been lately. Meanwhile, the US is pushing to complete the North American Free Trade Agreement (NAFTA) with Mexico. The US is also focusing on the tremendous economic growth and general improvement in Latin America, which will benefit the world economy.

The US is committed to achieving a multilateral trading agreement through GATT. To fail will not necessarily mean the unravelling of world trade, but would be a missed opportunity. In the area of trade and in all other areas, the US is determined to remain part of the international community.

A contrary view on NAFTA was expressed by another American who reported that labor is opposed to it because of the competitive problems posed by the much lower wage and benefit levels in Mexico. Labor fears this will result in a loss of jobs in the US and in pressure to lower wages. This speaker, joined by a Dutchman, argued in favor of the US taking a leaf out of the European book by spending more on infrastructure and on quality of life.

A Briton issued a plea to the Americans present to urge the administration to consider an energy tax. The EC proposal for the development of an energy tax, which would be beneficial to both the environment and the economy, is conditional upon the enactment of the same tax by the EC's main trading partners, Japan and the US. Japan, at least, seems to be open-minded, so now it depends on the US.

The issue of trade was taken up at some length by an International participant. He regarded the recent reforms agreed to in the Common Agricultural Policy in the EC to be a decisive step in the right direction and hoped it would serve as a catalyst for further progress. To achieve a trade agreement requires joint effort by government and business.

Ironically, trade liberalization has been taking place in some of the newer economies more readily than in some of the older ones. It is a challenge to the Western economies not to set the wrong example for these developing economies, nor to put additional demands on them beyond the difficult adjustments they are already going through.

A Dutchman agreed with the call for government and business to work together. An alliance of business and government is important not only in the trade area, but also in dealing with the environment and in combatting international crime.

A number of comments were made concerning structural issues in the world economy. An American was inclined to take a more optimistic view of future economic performance based upon two considerations. First, he said that the growth rate in the 1990's would be higher than it was in the 1980's because, with the drying up of sovereign credit, borrowing would have to be in the private sector. And when the private sector expands, the economy grows faster than when the state sector expands. Concerning inflation, one of the big factors in the 1980's was the real estate boom that resulted from the huge expansion in government and also private sector credit. With real estate out of the inflation picture in the US, Japan, and Europe in the 1990's, inflationary pressures should be substantially lower.

A Briton addressed the notion that there may not be enough capital available for the needs of the developing countries and the restructuring of the former communist countries. First, he pointed out that the post-war reconstruction of Japanese and German industry was conducted at a time of very high relative interest rates. Second, the working paper made an important distinction between credit-worthy investment and investment

in general. The bulk of private investment in the former communist world relies heavily on government funding, refunding, or guarantees. These investments are not so strictly dependent on credit-worthiness as would be the case with a corporation investing its own money. The capital inflow expectations of developing and restructuring countries are based on the no longer valid view that there is surplus capital in Western countries seeking higher investment returns elsewhere. Companies invest today in these countries to consolidate markets, to keep out competitors, or for management fees. They try to shift the burden of actually coming up with the capital to governments and governmental organizations.

A point was made by an Italian concerning the need to confine public sector deficits to the amount of capital formation by the public sector. A country with a large deficit would not be in violation of this rule if it was due to capital formation, while a country with a smaller deficit would be in violation if the deficit was due to current spending. The Maastricht Treaty should have incorporated the rule preventing governments from having current deficits in their budgets. Italy is the prime offender in this regard, its public sector deficit alone accounting for over 40 percent of the aggregate EC public sector deficit. Greater EC surveillance of deficits is required, as well as greater and more visible EC pressure on countries like Italy, to strengthen the case of those in favor of fiscal discipline.

The general consensus of participants in this discussion was that long-range thinking and planning is necessary if there is going to be growth, and that the myriad problems and challenges facing the world economy can only be addressed and dealt with effectively through international action.

Panelists' Conclusions

The American panelist concluded by expressing his view that the US is turning inward. For example, there were more restraints on trade at the end of the 1980's than at the beginning. The US is more reluctant to participate in world organizations than it used to be. It is less willing to finance organizations like the IMF and World Bank. Many of the supporters of NAFTA also favor restricting cheap Asian imports. And there has been a relative retreat of American industry and companies from worldwide investment. The US is no longer the leader in making foreign investments. None of these trends is irreversible, but they are symptomatic of the US's domestic problems and they must be addressed sooner rather than later.

A series of responses to points raised in the discussion was offered by the German panelist:

- inflation rates in the 1990's should be lower in Europe.
- the role of interest rates in investments is overestimated.
- there are government guarantees, mainly for sovereign risk, on many of the investments in Eastern Europe.
- Germany is in a special category regarding its public deficit, because of the integration of East Germany. This will continue for another couple of years, as GDP expands.

The working paper author focused his closing comments on the matter of capital flows to Eastern Europe. The Eastern European countries can influence how much capital they get by dealing with such issues as institutional structure, external and internal

convertibility, political stability, etc. Another essential ingredient for capital flows is trade integration of these countries into Europe and the rest of the world. Massive capital flows into Spain and Portugal began when it became evident these countries were going to become part of the EC.

Regarding growth prospects for the 1990's, the fact that inflation seems to be under control will certainly help. But there are many impediments to growth, aside from the question of savings rates, such as the relatively high indebtedness of many countries, corporations, and private households. There is still a general financial fragility which is not the best possible stimulus for worldwide growth.

V. WHITHER EUROPE?

Introductory Remarks

I.

The significance of the Maastricht Agreements was illustrated by the response of a classroom of French schoolchildren who, when asked "What is Europe?", responded that it meant to them peace and a single currency. For these children, a single currency meant greater freedom -- to use this money beyond the borders of their country. The creation of economic and monetary union is one of the key elements of Maastricht. The single currency should be a reflection of solidarity, unity, and economic stability. It should also be a fundamental instrument of non-inflationary growth.

The creation of the Eurocorps is another basic component of political and economic stability. With the upheavals and changes in the East, the objectives of our armed forces are not the same today as they were yesterday. The Eurocorps is an important element of our credibility.

When we speak of the enlargement of the EC, we recognize that there are two categories of countries. The first are those with market economies that have applied for membership. Even though there may be some difficulties in certain sectors, the spirit of Maastricht is to welcome them. The other countries are those of Eastern Europe, which will experience many ups and downs on the road to developing democracy and market economies. For them there will be a long transition period.

Progress is being made toward full acceptance of the principals embodied in the Maastricht Agreement, but there is still much to be done.

Introductory Remarks

II.

Those in the Anglo-Saxon world must realize that, contrary to suggestions in the English-language press that perhaps European unification is not going to happen, it is going to happen. Maastricht transformed what had been an idea and a blueprint into a firm political and legal commitment. It is also important to realize that monetary union is entered into because of its positive benefits of removing currency changes within Europe and the costs of converting currencies. Even with no economic and monetary union, the requirements of convergence would be desirable for the European economy.

On enlargement of the EC, the community is committed to the acceptance of European countries that are willing and able to accept the obligations of membership and to the belief that the community will become much larger over time. Every previous enlargement of the EC has led to a deepening because those who joined it did so not to slow it down but to participate in an acceleration.

But we should not at present consider institutional changes in the community. We should begin negotiations with those countries that have applied for membership, that can be accommodated with nothing more than mechanical changes. At the same time we need to be prepared to consider, at the conference planned for 1996, what changes will be necessary to accommodate a substantially larger number of members without weakening the community's dynamism.

In the area of defense, it is in Europe's interest to play a larger role, while maintaining the link with the US and Canada through NATO. NATO cannot be dispensed with, yet it should still be possible to devise a solution to the problem of European defense unity. A European pillar within NATO could be organized around WEU, prepared to act when NATO is not inclined to, but very much a part of the alliance. If there is to be a true European defense entity, then it should not be the creation of two member states acting unilaterally, as France and Germany have done in the case of the Eurocorps. The time has come for us to cooperatively resolve this matter.

Introductory Remarks

III.

After World War II, de Tocqueville's prediction that the US and Russia would each come to dominate half the world came true. That situation has now changed; the Soviet Union has dissolved and imperial America is a thing of the past. The US is now a coalition leader, and Europe is once again taking its destiny into its own hands. The lights that, in the words of Sir Edward Grey, went out all over Europe in 1914, have been relit, although they are flickering in both Western and Eastern Europe.

An important question facing Europe is how many members will be in the EC in 10 or 20 years. Certainly the EFTA nations will join. Then will come Poland, Czechoslovakia, and Hungary. But the line goes on to include new applicants from the former Soviet Union as well as old applicants like Turkey and Cyprus.

Another question is how will the community's institutions have to change to accommodate this larger membership. Profound changes will be necessary to improve the efficiency and democratic accountability of a community of 24 to 30 members. The future architecture of the community may look more like a pagoda, with many roofs and not every member under all of them. Different countries may be able to choose their own timetable to reach the common goal. But there probably should be an inner core of members under all the roofs, and they should not be held back by the more recent arrivals.

Finally, it is inevitable that Europe will have to have a distinct military identity and capability. It will have to remain allied to the US, but on the basis of Kennedy's two pillars. The need for a European defense capability is partly a matter of self-esteem, but is also occasioned by the inevitable withdrawal of most American troops from Europe and by America's turning from security issues that concern Europe. The establishment of the Franco-German corps should be seen as a first step toward creation of this European defense entity.

Finally, the debate over Maastricht should not be interpreted as Europe in disarray. The debate is not surprising, given the huge implications of Maastricht. What we are seeing is a short-term affliction of doubt which the community will rapidly shake off. Europe is rediscovering itself and, with a bit of courage, wisdom, and good fortune, it will open the gates to a new world.

Discussion

The enormous opportunities and challenges facing Europe were the subject of a Dutch speaker's remarks. He characterized Europe as being on the move, having achieved significant accomplishments in the form of Maastricht, the agreement on the reform of the Common Agriculture Policy, and the applications of the EFTA countries to join the community.

But still, there are significant problems. After a period of robust expansion, European economies are comparatively weak. The end of the cold war did not produce a peace dividend, and, in some respects, it is more difficult not to have an enemy. A Europe without borders presents additional problems, such as immigration. Politicians must tackle these problems in order to avoid a revival of Euro-pessimism, of inward-looking, defensive, and even racial attitudes. Complex institutional changes are required. The welfare society must be adapted to provide a more dynamic labor market. Europe must avoid bureaucracy, especially in Brussels. Externally, Europe must focus on expanding the community east, on GATT, and on the environment.

To meet the enormous challenges facing it, Europe must examine and adjust its fundamental architecture, said a Belgian. It cannot afford to take a business as usual attitude, but must reconsider its goals, responsibilities, and forms of organization. This is particularly true with respect to the world outside the community. The EC must be at the center, must be the interlocutor, not the member countries individually.

On the question of economic growth, a Greek participant expressed concern that the prospects for the foreseeable future were not very good. The boom of the late 1980's seemed to be petering out, and the unemployment that would result from lower rates of growth presented the risk of a return to nationalism. A Frenchman echoed this concern when he said that, in addition to economic and monetary union, which seem to be foregone conclusions, political union is also essential and will be more difficult to achieve.

The issue of enlargement of the EC received a great deal of attention. In the 1990's, said a Swede, virtually every European state would be knocking at the community's door. The first step must be to quickly admit the EFTA countries. Then, the Community will be ready to tackle the more difficult problems of dealing with the countries of Eastern, Central, and Southeastern Europe.

It was generally agreed that the architecture of the EC would have to change to accommodate all the new applicants. Perhaps, said an Irishman, an element of variable geometry, as suggested by the German panelist, would be necessary. However, a two-speed Europe must be avoided at all costs.

Regarding the prioritizing of what countries get in when, a Briton warned against sending discouraging signals to applicants. It is psychologically important for them to be given the expectation that they will be able to join. Any country that can meet the standards and requirements should not be made to wait.

Also receiving much attention in the discussion was the issue of security. This was seen by several speakers as a major impetus for countries to want to join the EC, especially the EFTA countries. In a Swede's view, the collapse of the traditional East-West rivalry presented these neutral countries with a bewildering set of intellectual problems. A new set of tensions and conflicts have taken the place of the old threat, and countries that have called themselves neutral are now as interested as any other country in setting up viable security structures. The old kind of neutrality, added a Swiss speaker, was outmoded; neutrality was incompatible with membership in the Community.

What kind of security structure should Europe establish? Opinion was divided among those who favored maintaining NATO as the primary security structure and those who favored creation of more independent European capability. The recent establishment of the Franco-European corps was a matter of particular interest, and, to those who opposed its bilateral aspect, of concern. A French speaker stressed that the corps was open to any other country that wished to join. A European security structure organized around the WEU was advocated by several speakers.

The continued importance of a strong role for NATO was underlined by an International speaker. He said that the Alliance has a very adequate architecture for stability and a strong capability to act. Any military force will need to have infrastructure, intelligence capability, and the means of reinforcement and sustainment; all of these NATO has. It should be given the opportunity to assess any given situation to determine whether or not to act. Whether the Franco-German corps could fit in as a part of this structure remains to be seen. One danger that it presents is that, if it is seen in the US as a substitute for American forces, it will be difficult to sustain the American strategic commitment and forward deployment of forces.

At the heart of the security discussion was the question of redefining the whole transAtlantic relationship. A Canadian wondered, with NATO clearly in transition, what structures would sustain this relationship. In an American's view, political interests were now more important than security concerns. The old concept of burden-sharing will no longer work. Europe and the US must develop independent but compatible political goals as the basis for a new relationship.

While several felt that nothing should be done to cause the US to turn away from Europe, an Italian, expressing a somewhat contrary view, said that there had to be a readjustment of interests between the US and Europe even if it precipitated a crisis in European-American relations, as it probably would.

An American wondered if, in what emerges from the enormous changes taking place in Europe, there would still be a future for the transAtlantic unity of interests. Will there be a basis for continued cooperation on global and regional matters? In the speaker's opinion, there was such a commonality of interests, but the search for a new form of relationship to express these interests was not helped by suggestions that the US is no longer interested in Europe. The US has responded appropriately to a changed threat and imaginatively to new opportunities. It is open to the difficult question of changing the nature of the partnership. There is a basis for Atlanticism, but redefining it is going to be very tough.

Panelists' Conclusions

In his concluding remarks, the German panelist said he shared the belief that there continues to be basis for transAtlantic cooperation. But the US seems to be turning a blind eye toward Eastern Europe in general and to Yugoslavia in particular, to be leaving it to Europe to work out these problems.

The British panelist focused his closing comments on the issue of enlargement of the Community. The new partners must accept not only what the Community is but where it is going. And that means recognizing the diminishing meaning of neutrality.

Those who join the Community must accept that it does aspire to have a common foreign policy and security and defense policy. As for Eastern Europe, it is fine to give them the vision of membership, but we should not yet talk about a date.

As for defense, unilateral moves should be avoided. We still need NATO, and we need France to rejoin it. All the EC countries should join fully in a European wing of NATO with a real European defense force acting as part of NATO, but also acting outside of NATO for the interests and benefit of Europe. There is no inconsistency in this.

The French panelist likened the evolving Community to a French cathedral, not built in a day, but rather transformed by enrichments over time. Apart from the issue of neutrality, there is not much to question about the membership of the EFTA countries. As for the Eastern European countries, it will take time for them to get into the cathedral. First they must solve their problems. Then a dialogue about integration can begin.

Another architectural metaphor -- that of two pillars -- is suitable to describe the kind of defense structure that should evolve. These two pillars should be of equal strength, and, if you pull one of them down, the whole structure will collapse.

Finally, what it will really take to do all that Europe has to do is money. That means we must have worldwide growth and on that we must focus.

What kind of security structure should Europe establish? Opinion was divided among those who favored maintaining NATO as the primary security structure and those who favored creation of more independent European capability. The recent establishment of the Franco-European corps was a matter of particular interest, and, to those who opposed its bilateral aspect, of concern. A French speaker stressed that the corps was open to any other country that wished to join. A European security structure organized around the WEU was advocated by several speakers.

The continued importance of a strong role for NATO was underlined by an international speaker. He said that the Alliance has a very adequate architecture for capability and a strong capability to act. Any military force will need to have infrastructure, intelligence capability, and the means of reinforcement and sustainment; all of these NATO has. It should be given the opportunity to assess any given situation to determine whether or not to act. Whether the Franco-German corps could fit in as a part of this structure remains to be seen. One danger that it presents is that, if it is seen in the US as a substitute for American forces, it will be difficult to sustain the American strategic commitment and forward deployment of forces.

At the heart of the security discussion was the question of redefining the whole transAtlantic relationship. A Canadian wondered, with NATO clearly in transition, what structures would sustain this relationship. In an American's view, political interests were now more important than security concerns. The old concept of burden-sharing will no longer work. Europe and the US must develop independent but compatible political goals as the basis for a new relationship.

While several felt that nothing should be done to cause the US to turn away from Europe, an Italian, expressing a somewhat contrary view, said that there had to be an adjustment of interests between the US and Europe even if it precipitated a crisis in European-American relations, as it probably would.

An American wondered if, in what emerges from the enormous changes taking place in Europe, there would still be a future for the transAtlantic unity of interests. Will there be a basis for continued cooperation on global and regional matters? In the speaker's opinion, there was such a commonality of interests, but the search for a new form of relationship to express these interests was not helped by suggestions that the US was no longer interested in Europe. The US has responded appropriately to a changed and imaginative to new opportunities. It is open to the difficult question of changing the nature of the partnership. There is a basis for Atlanticism, but redefining is going to be very tough.

Panelists' Conclusions

In his concluding remarks, the German panelist said he shared the belief that there continues to be basis for transAtlantic cooperation. But the US seems to be turning a blind eye toward Eastern Europe in general and to Yugoslavia in particular, leaving it to Europe to work out these problems.

The British panelist focused his closing comments on the issue of enlargement of the Community. The new partners must accept not only what the Community is but where it is going. And that means recognizing the diminishing meaning of neutrality.

Those who join the Community must accept that it does aspire to have a common foreign policy and security and defense policy. As for Eastern Europe, it is fine to give them the vision of membership, but we should not yet talk about a date.

As for defense, unilateral moves should be avoided. We still need NATO, and we need France to rejoin it. All the EC countries should join fully in a European wing of NATO with a real European defense force acting as part of NATO, but also acting outside of NATO for the interests and benefit of Europe. There is no inconsistency in this.

The French panelist likened the evolving Community to a French cathedral, not built in a day, but rather transformed by enrichments over time. Apart from the issue of neutrality, there is not much to question about the membership of the EFTA countries. As for the Eastern European countries, it will take time for them to get into the cathedral. First they must solve their problems. Then a dialogue about integration can begin.

Another architectural metaphor -- that of two pillars -- is suitable to describe the kind of defense structure that should evolve. These two pillars should be of equal strength, and, if you pull one of them down, the whole structure will collapse.

Finally, what it will really take to do all that Europe has to do is money. That means we must have worldwide growth and on that we must focus.

VI. PIERRE BÉRÉGOVOY, Prime Minister of France

Introductory Remarks

When we talk about France, or about the role of Europe in the world, we begin with the acceleration of history which we have witnessed in the past few years. It would be difficult to imagine discussing this topic in 1989, and being told that three years later Germany would be reunified, that the Soviet empire would have exploded, or that the Communist system of government would no longer exist -- barring a few countries in the world. Had we been told that Yugoslavia would be disintegrating, and that the Serbs and the Croats would be fighting a bitter war, that the Christians and the Muslims would also be fighting one another; had we been told at that time that there would be a war in the Gulf where Kuwait would be liberated with the combined forces of Europe, NATO, the United States and United Nations; if all of this had been predicted in 1989, there would have been very few believers.

But these events have come to pass and the United Nations, in spite of a few difficulties, are now strengthened after the Gulf crisis. Everything is not settled by any means; there are still a number of problems. But progress has been made on some fronts, in particular in the dialogue which has begun between Israel and the Arab world. In other words, history has accelerated and a point in history has been reached where one must look with very clear eyes at the progress which has been made, as well as the problems still at hand, and the threats which exist.

Freedom has prevailed but one cannot be certain that there is freedom for everyone in the industrialized countries or that freedom is guaranteed to people in the developing world. And there is one problem which must be tackled: planned economy. An economy where everything comes from the state is something which does not work. Capitalistic economy, where entrepreneurs and consumers benefit from individual freedom, is something which works better, but not to total satisfaction. There are inequalities; inequalities in the distribution of wealth and income; in the access to knowledge and to jobs. In other words, market economy cannot be replaced but it must follow a certain number of rules accepted by all.

The first rule is the liberty to start one's own business. It is also the rule which leads to competition when too many agreements are passed, in particular at a multinational level. When a company holds a sizable market share, can one say that competition is insured? A market economy implies not only solidarity, but also a certain number of rules which the public authorities of a given country, or in the international community, must organize.

In France, for the past ten years, we have been discussing monetary problems, from a European point of view as well as an international point of view. And whatever government has been in place, there has been continuity -- continuity in the way we have expressed our ideas and in the way measures have been taken. In the early 1980s France said in the framework of the International Monetary Fund that there could be three currencies -- the dollar, the yen, and the ecu -- each one covering target areas. The ecu at the time was not yet a proper currency, but a unit of account which was representative of what was happening in the European monetary system. This idea was picked up again by Mr. Chirac and Mr. Balladur's government and continues to be discussed.

The lack of resolution on this means that the world is suffering from a monetary disorganization and if the free flow of capital is the prevailing rule, currency cannot be considered as goods, like any other. All this implies that something has to be done to insure greater organization.

A meeting was held in New York in September 1985 where we said that the market was free but that we would give certain indications and, if need be, would cooperate so that our central banks might act together. This makes our currencies an irreplaceable instrument. This is an example of cooperation which works sometimes well, sometimes less well, but a cooperation which has continued since the agreement was reached in 1985.

Given the accelerating history described above and in the face of the victory of freedom and of market economy over any other system, there are a certain number of issues to be discussed and prospects for the future to be discovered. This requires humility on the part of politicians, as well as the ambition to sustain commonly held beliefs. This being said, France has voted for Europe, has voted for the European Community -- a choice France made very long ago. In fact it was just after the Second World War that most of the politicians, men and women who had experienced the war and had assumed responsibilities afterwards, decided to work for a united Europe. This took quite some time. Sometimes circumstances accelerated history; sometimes circumstances acted as a break to history. There were even discussions on the European defense community. Some thought of this as a way of rearming Germany, whereas other promoters of this community thought of it as a way of building a first European entity. France rejected this concept at the end of the war, but later on -- in 1957 -- the Treaty of Rome, along with a treaty on the coal and steel community and Euratom saw light of day.

Throughout this period debates were raging in France. But General de Gaulle, who had come back into power, helped the Common Market along. He returned to power in May 1958, and the Common Market came into being on January 1, 1959. This European effort undertaken by the six countries -- the Benelux states, Italy, France, and Germany -- was, of course, based on the good will among the participants. General de Gaulle considered -- and this is what led to the Franco-German treaty -- that the Franco-German relationship was decisive. At that time, around 1963-64, General de Gaulle closed the door to Mr. MacMillan and it was only under Mr. Pompidou that the door was opened to Great Britain and to other states which have since then become members. Next Greece came in, during the time of Giscard d'Estaing's Presidency, followed by Portugal and Spain, the latter two under President Francois Mitterand. Each and every time in France and certainly in other countries, there was a debate as to whether each addition was a positive change to Europe's make-up and outlook. But today it is a community of twelve members, and now the process has been taken one step further. Twelve have signed the Maastricht agreement, at a ceremony where for the first time Finance Ministers were allowed to sign an international treaty. There are two parts in the Maastricht agreement: the monetary and economic union which will determine the single currency; and the political union, which is intended as a joint agreement on foreign policy and security. France has chosen to ratify this treaty, or to propose to Parliament and the French people, that this treaty be ratified. If approved by the congress, the first stage of ratification will have taken place.

France has chosen this course to follow for several reasons. First, neither France nor the other governments wish to see another war on the European continent, or in

Western Europe in particular. The atrocities of World War Two are still vivid memories. And the European union, or the construction of the European union, has made it possible thus far to avoid the creation of situations which might lead to conflict. President Francois Mitterand has said that Europe is our future and that France is our Fatherland. In order to protect each Fatherland, the countries of Europe must be thought of as European in order to avoid wars amongst themselves in the name of narrow-minded nationalism. Yugoslavia is a tragic example of such an occurrence. The break-up of the Soviet Union is another example where such dislocations can lead to confrontation of nationalities, as opposed to uniting in joint efforts for the common good.

France has also chosen to support Maastricht because of its conviction that it is necessary to "deepen" Europe. As mentioned, the common defense and security policy of Europe is one that has not been in place, taking note, for instance, that in the Gulf War, all countries did not respond in the same way. The more this can be corrected, the better it will be for Europe and for the world. It should also be noted that Europe's security today is insured through an existing alliance. And although France has wished to be faithful to NATO, it wishes, as a nuclear power to retain its autonomy, its freedom of decision. Therefore, it would be a good thing for Europe to endow itself with the means necessary to enjoy its defense and its security within the framework of our alliance, which will most likely change because of changing circumstances in the world.

Such security might also be defined through a new entity, recently worked out between France and Germany. The Eurocorps, as it is called, is a joint army which will be formed by the two countries and, one would imagine, will be joined by other European countries as well. Whereas some Americans have showed concern about this initiative, it can be described as a response to the hope that Europe would endow itself with the necessary means for its defense, while at the same time respecting all of its international commitments.

On the subject of the proposed economic and monetary union and the single currency, one must be very clear. Through the Common Market, a single entity was created where goods and capital would flow freely, where men and women would be able to move freely, as entrepreneurs or workers. This is something important, but in need of a unifying element, a single currency. It is hoped that the implementation of this single currency will be in place at some point between 1997 and 1999. A majority of countries would be needed as full participants at the outset, but it is recognized it might be difficult for every country to be ready in that time period. This monetary union will have to give itself common economic goals, the primary criteria being monetary stability. At the same time, there must be strong effective economic cooperation leading to the necessary growth, because Europe can no longer tolerate its high unemployment.

The central bank, an independent bank, will be decisive, although it will be considered a concession on the part of some. But the most recent example of the wisdom behind this view relates to the existence, and success, of the German central bank, the most independent central bank, during the recent German unification.

Such a treaty as the Maastricht Treaty is complicated when twelve parties are involved, but improvement in the life of a European is inevitable. It is important to have full confidence in the texts that have been drafted as well as those who have the responsibility of implementing these texts.

There is a third reason for which France wishes to manifest its interest in the European community, its interest in "widening" Europe. There are now twelve members. But there are other countries -- Austria, Sweden, Finland -- as developed as other

European countries and perhaps even more developed than countries within the community -- which are ready to join the community, a move France supports. Even Switzerland wishes to join, and that in itself reflects how fast the world is changing. There will undoubtedly be other countries later on. But between those who are ready politically and economically, and those who aren't ready economically and sometimes politically as well, it is important to find bridges, ties, and links.

Therefore, it is important for the future of Europe that the community be deepened and widened. The effort must begin by strengthening that which exists now, by maintaining the equilibrium needed for building towards future success. This question of balance is interesting because the world has never been fully and completely balanced. In the 19th century Europe, as a colonial and economic and commercial power, dominated the world. In the 20th century, things have changed, and the United States emerged as a political power, Japan emerged as an economic power, and the Soviet Union until very recently was a major world player. This century has been one of economic and political competition, of a cold war where one had to choose between one or the other power. But it has also been the century of peaceful coexistence where countries have come together and where perhaps the example given by Europe finally shook the Soviet world and gave birth to all the hopes emerging today.

The 21st century, after the domination by Europe in the 19th century, after the tough completion of the 20th century, cannot be one which will see Europe fading away. Europe has to continue to be present, as Francois Mitterand has said, to be able to speak with one voice, to act together, to develop together. At the same time there will be other groups which will emerge. China, for example, which is waking up slowly, may perhaps start moving more quickly. Japan, already a strong economic power, will want to play a greater political role. In another 50 years countries in Latin America or elsewhere will also have an important role to play. In a balanced world of that kind Europe must be there, must be present as a participating entity which will act jointly while expressing the diversity of its history.

We have now come out of the cold war, out of the balance of terror where two super powers made any major conflict impossible, simply because they were there to follow things closely. Today there is only one super power left, the United States, a respected ally which Europe must keep as a true friend. But the world must not be in the hands of one power and one power only. So Europe should be deepened today in its institutions which should become more political and less bureaucratic, should be deepened also on the front of its single currency, and must be widened to those who wish to join it tomorrow. Europe, as such, must be a factor of peace -- of peace in our midst but also elsewhere. Europe must be a factor of progress, and also a factor of balance in a world which is changing very quickly and very deeply. And it is because Europe has to be a factor of balance and peace, that the countries which are now in Europe should ratify the Maastricht treaty. One would hope that the countries which have confronted one another in the course of centuries, and those who have been the victims of these confrontations, will act jointly in Europe to bring about peace, progress, and balance in the world.

Discussion

Because of the length of the presentation and the time constraints of the speaker, there were only three interventions from the participants. Each one supported the speaker, while developing several points from a different perspective.

A German commented that not only Germany had been unified, but all of Western Europe had been restored to its earlier parameters with the liberation of Poland, Czechoslovakia, and Hungary, formerly considered -- however inaccurately -- as part of Germany. This realignment underscored the importance of the recent unification of Germany, enabling all European countries to consider the larger territory in terms of membership in the European Community. A second point focussed on the complexity of European relations following the end of the cold war. Whereas Europe had been bound together in a common defense against the Soviet threat, it must find new methods of developing common goals, most effectively through the Maastricht process.

The second speaker, an American, underscored the importance of the Atlantic Alliance, and reminded everyone that transAtlantic coordination had gone back as far as 200 years, not only to the French contribution to the independence of the United States but to the shared values which have sustained this relationship. A continued coordination on economic, cultural and security policies is of the utmost importance to the Alliance.

A participant from the Netherlands asked the speaker to comment on the challenge of attempting to reduce the disparity between the poor and the wealthy, while at the same time promoting economic growth in order to produce jobs.

Conclusions

The speaker concluded by developing earlier themes and responding to the interventions from the floor.

As the members of the European Community go forward, they will jointly participate in some efforts which were sovereign in the past, while fulfilling other responsibilities best performed individually. Maastricht represents a decisive step, the speaker said, a process which is leading to a point not yet fully defined, but which must move forward to be successful. There will be a military plan, which will confront situations such as the recent Gulf War, and there must be a social and economic plan, to help people in developing countries. Europe, America, and Japan, as rich countries, have selective duties to the emerging world. In response to the last intervention, the speaker agreed that there is no doubt that the economic and social system is one needing some difficult decisions. It is true that Europe, because of the 1939 crisis, invented a welfare state which at the beginning was meant to calm and overcome certain crises. These crises were brutal and bitter, and it was essential to find measures to bring about new solidarity. This system, the welfare state, continues to bridge the gap between the rich and the poor, but it is time to work on economic growth in order to create the necessary jobs. This brings one back to an economic and monetary union, and what an important role it will play in fostering the economic growth so necessary for every European government.

VII. SOVIET UNION: THE VIEW FROM MOSCOW

Introductory Remarks

I.

Russia today is one of the worst places in the world for those who wish to be forecasters. It is a constantly shifting montage of daily happenings and events, political, economic, and otherwise. One day's predictions are apt to be the comments of a fool in 24 hours. Will Russia make it? No one, not even Yeltsin, knows.

The real danger is not what the public sees on television -- a few dozen over-the-hill communists waving anti-American and anti-European banners in Red Square. The real dangers are economic collapse, ethnic conflict, the lack of real democrats at the lower working levels of government, and the selfish and too often illegal activities of the managerial elite, who have much to lose in Yeltsin's reform program. Another concern is the realization of the people that they are no longer part of a great empire. As things get tougher, they are going to be looking for someone or some group to blame, which will make for a perfect climate for demigods to function in.

On the more positive side, many of the dire predictions that have been made have not come to pass. Hunger, famine, and riots have not occurred; there have been no pogroms against ethnic and religious groups; there has been no military takeover; and nuclear weapons have not fallen into the wrong hands. Events of this nature are not necessarily inevitable. Indeed, while there are great problems and considerable confusion, life in Russia has been far less turbulent than anyone expected. The shock therapy of price liberalization, while one of many terrible hardships, has been tolerated and accepted by the people thus far.

But the struggle for power goes on. President Yeltsin must deal with a very difficult Congress, composed of about a third reformers, a third old hard liners, and a third somewhere in between. For the time being, Yeltsin has emerged stronger, as has his young Finance Minister, Gaidar. But, unfortunately, while the self-confidence and competence of this man and his economic team have brought them respect in the West, they haven't fared so well at home. They must absorb a great deal of the blame from a public that is willing to forgive Yeltsin, a public that must live with shortages and prices that have increased tenfold. They are also resented by others both out of power and in power, and, strangely, by the intelligentsia who have lost their power base.

The fight will continue, and the government is going to have to trim its reform sails and be a bit more sensitive to some of the conservative, nationalist-minded constituencies if they are going to keep moving forward. But the basic reform program is intact, even though most of Yeltsin's timetables are going to slip quite badly.

The economy must be the first priority, and the public will have to see and feel some tangible improvement reasonably soon. There are not going to be any miracles. There are tremendous technical difficulties both internally and in dealing with the IMF and other Western institutions. Such things as defense conversion, privatization, and demonopolization are easy to talk about but have never been tried before. No one can be certain the present policies and reforms are the right ones at the right time.

The West should be preparing to prudently spend some money in this area and should immediately intensify technical assistance to support the reforms that are taking place. With respect to the IMF and other institutions, we have not had satisfactory high-level negotiations over the technical financial arrangements.

Industrial production in Russia today is nearly 15 percent down and unemployment is rising. It will have to go down even further. The Russian industrial complex produces little of any real value in today's marketplace, either domestically or externally. There is little structure to work with. There is little basis for comparing Russia's problems with those of the countries of Eastern Europe. While there is something to work with in Eastern Europe, in Russia it is necessary to get the most basic elementary economy started so that democracy and democratic institutions can grow. This must happen in what is far from the perfect political climate.

What is taking place in Russia is not merely reform, it is nothing less than revolution, political, economic, social, and cultural. The establishment of democratic values as firmly and as quickly as possible is essential if Russia is to learn to live in peace with its neighbors and fully participate in Western institutions. That participation is essential if we are to avoid the re-emergence of Russian imperialism.

It is very likely that there will be a return to a strong central authority in Russia, or at least a stronger one. The question is not whether that will happen, but what kind of authority that new central power will be. This is a major question for the future.

Is Russia going to make it? They have a pretty good chance. But their odds for success will be substantially improved if the West can remain constructively and wisely engaged. If Russia is allowed to revert to its past, if the old suspicions of foreigners cannot be overcome, if, out of humiliation at its loss of empire and a sense of hopelessness, Russia turns inward, then democracy there will be lost for a long time. The task will not be easy and demands patience, prudence, and wisdom. But the challenge is there for us, and the opportunity.

Introductory Remarks

II.

In Russia today, business activity is organized around three different patterns of relationships among economic actors. The first of these are the traditional administrative relationships of the old economy, where business interactions are regulated by administrative orders. This relationship has survived, and all supply contracts and administrative prices are still being continued.

A second relationship, which is growing more important, is that based on trading, bartering, and arbitrage -- activities which are carried on often without the use of monetary instruments. Whole sections of the Russian economy and society resemble Middle Eastern bazaars. Even manufacturing firms conduct a substantial trade in goods they do not produce.

A third type of relationship, which is fortunately becoming more common, is based upon a new sort of industrial capitalism in which the output of various firms is sold at free prices, and, at various stages, the inputs are diverted to the uses that yield the most.

The pattern of relationships that will eventually emerge as dominant is going to be determined largely by government policies. The government is going to remain the most significant economic actor for quite some time. The Russian government is committed to certain policies which will determine the particular mix that will emerge: fiscal and monetary stabilization, price liberalization, and the liberalization of exchange. However, within this commitment there is scope for a wider range of specific policies.

For example, regarding privatization, there is a debate in Russia between advocates of the two different types of privatization: the one regulated by law and run by the state; and spontaneous privatization in which control is converted into ownership.

A complicating factor is that, in the past, policy was determined in the state and party bureaucracy, and government was autonomous in implementing it. There was no mechanism for individuals to pursue their interests. In the current society, individual interests are determined by such factors as education, the kind of work done, and the position occupied in the emerging society. This is giving rise to the formation of pressure groups. So, the specific policies of reform and stabilization that are adopted are going to be influenced by these new pressure groups. To have a sense of what the policy mix will be, one must look at which groups are the most powerful in Russian society today, and which of the various policies of reform and stabilization they like and which they oppose.

That the shock therapy in Russia has not created a political backlash is because there is a rough, but powerful, ideology of the market that increases the political power of groups that are seen to be relevant for the market process. This ideology decreases the political influence of groups that are seen as marginal to the market process. This phenomenon increases the political influence of bankers, traders, and managers, while decreasing that of government employees, workers, etc.

There are five groups that are highly influential in Russian politics today, and a look at their preferences will give us an idea of what policy mix is likely to emerge. These five groups are: the managers of collective farms, the traders, the bankers, the managers of state enterprise, and the members of the military-industrial complex.

The managers of the collective farms are a highly cohesive group, have blackmail power over the government, and are opposed to all reform. They oppose privatization of land, tight monetary and fiscal policy, and price liberalization, and they are indifferent toward liberalization of exchange.

The traders are a new group, very mixed, and very large. They range from the owner of a private shop to a trader on the commodity exchange. This group is generally against further price liberalization because they have made their money by buying products at controlled prices and selling them at free prices. They are against tight fiscal and monetary policy and against spontaneous privatization. They favor state-run privatization and liberalization of exchange.

In Russia there are about 1200 commercial banks, very few of which are privately owned. The bankers oppose tight monetary and fiscal policy, and they favor spontaneous privatization as well as state-run privatization.

The managers of state enterprise are numerous and powerful. In general, they are against tight fiscal and monetary policy and in favor of spontaneous privatization, because it gives them a chance to own their own companies.

The military-industrial complex is highly divided. Like the managers of collective farms, the traditional producers of armaments are against all reform. But the managers of highly technical companies are in a similar position to the managers of state enterprise.

So, it is evident that, even among the groups more strongly identified with the free market system, attitudes toward the various policies of reform and stabilization are mixed. What this means is that the process of reform and stabilization is going to slow, subject to stops and starts, and not very cohesive. The system will remain a mixed one for some time, in which the various sets of relationships will continue to exist. These groups seem to be more positive toward economic reform than toward stabilization. It

is therefore likely that the Russian government will speak with one language toward the IMF and with another one toward these five groups with the most political power and influence in Russian society.

Discussion

An American led off the discussion with a warning against forgetting the lessons of history. The last time there was a democratic revolution in Russia, the West turned its back, and the resulting misery, hunger, and unrest opened the door to Lenin. The next time, there may not be a communist revolution, but there is sure to be some equally unpleasant form of authoritarianism. The West must help. In the US, it won't be easy to get an aid package through Congress, but it probably will happen. The best argument is that we spent trillions in the Cold War. Perhaps now, by spending billions, we can prevent that from happening again.

A variety of concerns about the situation in Russia were raised by participants in the discussion, mainly in the form of questions addressed to the panel. A Frenchman wanted to know how Yeltsin's decisions are implemented, how power is divided between the central government and local authorities. What about the nuclear disarmament issue, and the possible dumping of conventional weapons? What about nationalism? Is it a serious threat? And what about relations between Russia and the rest of the CIS, Ukraine in particular? Is there a possibility of conflict? With respect to the Russian economy, what about the problems of hyperinflation and massive unemployment?

An Italian speaker was worried about imposing a Western pattern on the Russian political system. For example, we in the West reproach Russia for not redistributing land, but there is no such tradition in Russian history. Democracy is probably not in the cards for Russia. The choice is more apt to be between different kinds of dictatorships. At present, Yeltsin's dictatorship prevails over the dictatorship of the congress. No political parties have arisen; at best there are only clubs and movements with little leadership. But there is a great deal of difference between a totalitarian regime and a dictatorial regime. A dictatorial regime will allow a considerable margin of freedom, especially in a civil society.

An American made the point that, if the various reform programs and Western aid to Russia work, what will emerge will be a stronger Russia, a territory four or five times the size of Europe, extending from the Polish border to Vladivostok and to the gates of the Middle East. Should the West not now discuss what political relationship it wants with this territory, and what it would like to see happen between the various members of the CIS? Shouldn't the fact be addressed that the Soviet Army still exists and has troops on the soil of each of the member states of the CIS? It is important to realize that not every anti-communist is a democrat, and not every democrat is an anti-imperialist. The organization of the territory of the former Soviet Union ought to be a matter of great concern.

Panelists' Conclusions

Responding to the question of whether or not they were too optimistic in their assessments of the Russian situation, both panelists sought to temper their optimism in their concluding remarks. The Italian called his a cynical optimism -- that the policies of

shock therapy would be carried out because those that were hurt the most by it mattered the least politically. As to the eventual outcome, he said he was not at all optimistic. The American panelist said the only thing he was optimistic about was that a small economy would get started and some basic democratic institutions put in place by the end of the decade.

Regarding the matter of the Russian tax system, both panelists agreed that it is terribly complicated and disorganized -- a mess, in the words of the American panelist. Businesses face every conceivable kind of tax: VAT, excise, profits, excess profits, etc. Recently, a tax law had been passed that levied a 60 percent tax on the worldwide earnings of any foreign national living in Russia. In order to get Western capital, said the American, the Russians will have to establish some kind of predictability in their tax system.

The Italian panelist said his advice to the IMF is to be at once a bit tougher in negotiating and to make a bit more effort to understand the situation that Russia is in, the structure of its industry and its banking system. It should work together with the Russian government to see what can really be implemented.

In response to an assortment of questions raised in the discussion, the American panelist made the following additional comments:

- The West could not prudently spend \$10 billion in aid to Russia at the present time.
- In spite of Yeltsin's assurances that things are under control in relations between Russia and Ukraine, the situation is likely to get worse before getting better.
- With respect to enterprises pursuing their activities, the role of the central government is almost irrelevant. But in terms of the power structure, there is no question that Yeltsin is in charge and that Gaidar is in charge of the economy.

He concluded by warning against isolationist tendencies in the West and in Russia. We must keep our doors open and Russia's door open. If Russia turns inward, we will be in deep trouble.

VIII. YUGOSLAVIA

Lord Carrington's Remarks

I would like to begin by very briefly recalling the genesis of the EC Conference and the subsequent developments, as I believe that a knowledge of these events is essential for an understanding of, and a solution to, this Balkan tragedy.

After the death of Tito and Communism, a vacuum has rapidly been filled in the six republics by long suppressed nationalism, fuelled by traditional ethnic animosities and memories, sometimes selective, of events forty-five or fifty years ago, or indeed longer.

The Croatian and Slovenian declarations of independence brought matters to a head. Serbs in the Krajina reacted -- in part because the then Croatian constitution contained inadequate provisions to safeguard their position and also because it rekindled memories of wartime atrocities. The JNA, by this time a predominantly Serb force, grossly over-reacted. The pattern was set -- provocation, or perceived provocation, followed by massive Serbian retaliation, often senseless, as we saw later at Vukovar, Dubrovnik and elsewhere.

The CSCE gave the European Community a special responsibility for managing and solving the crisis and, early last September, almost exactly a year ago, reached agreement with the Yugoslav parties on the convening of a Peace Conference.

When the EC appointed me as Chairman of the Conference, my mandate was based on three conditions: first, that there should be a genuine ceasefire; second, that none of the six republics would be recognized as independent and sovereign states except as part of an overall settlement, agreeable to all six republics; third, that there should be no change of boundaries except by peaceful means and by agreement.

Of these three, only one remains -- namely, the principle governing a change of borders. We started the Conference, and quite rightly, in the absence of a ceasefire, partly because there was an expectation that the establishment of the Conference would, of itself, help create the necessary conditions for stopping the hostilities in Croatia. These hopes were soon dashed. The numerous ceasefires which punctuated the succeeding months tragically fulfilled the assertion that I made in the first of many agreements I brokered, in Igalo on 17th September, that this was "the last chance for de-escalation and cessation of actual warfare."

There is no doubt that the lack of an effective ceasefire greatly complicated the Conference's task.

The decision taken by the European Community last December to invite the Yugoslav republics to apply for recognition of their independence, even though an overall settlement satisfactory to all of them had not been achieved, changed the whole nature of the Conference.

From the outset, the prospect of recognition had been the one real instrument to keep the parties engaged in the negotiating process; though it is equally fair to say that, by the end of last year, the Conference had not produced agreement. Five of the six republics had accepted the Draft Convention for an overall settlement prepared within the Conference: the Serbian government was not prepared to do this. This draft envisaged the establishment of sovereign and independent republics, comprehensive arrangements for the protection of human rights, and allowed such financial and economic cooperation as each state wished.

It also allowed for those republics who so wished to form a common state. But this formula did not go far enough for Serbia which asserted that any common state thus formed would be a continuation of Yugoslavia -- a claim hotly contested by four of the other five republics. Eight months on, this problem remains and, indeed, has become even more complex.

As a result of that December decision, the original concept of the Peace Conference had unravelled and we had no real leverage (that is to say, the prospect of recognition) which we could bring to bear. Some of the republics at least had got what they wanted. The only true shared interest which remained was to see a quick and equitable division of the assets, and to a much lesser extent the liabilities, of the former Yugoslavia.

This has meant that most of the work we have been trying to do since the beginning of this year has had to be on a bilateral or trilateral basis, since plenary sessions are inappropriate when much of the agenda concerns only one or two of the countries involved.

We are left, therefore, with a number of specific problems. First and foremost is Bosnia-Herzegovina. But there is also Krajina and East/West Slavonia; Kosovo, Vojvodina and Sandzak; Macedonia; and the question of the successor state and the new "Republic of Yugoslavia," which I mentioned briefly just now.

Bosnia-Herzegovina

From the outset of the Conference it was obvious that Bosnia was a tinderbox. When EC Foreign Ministers asked the Bosnian government whether or not it wished for independence, it was clear that the answer was going to be "yes." How could President Izetbegovic say otherwise? But, in the Bosnian Serb view, a Declaration of Independence without their agreement was contrary to the existing Constitution and they were resolutely opposed to a unitary state with a Muslim majority. Foreseeing the problems that were likely to arise from the planned independence referendum, I visited Sarajevo in early February. There I reached agreement with the leaders of the three main political parties, representing Serb, Muslim and Croat interests respectively, and including President Izetbegovic and Dr. Karadzic, to begin talks on new constitutional arrangements -- which would adequately safeguard the rights and acknowledged the fears of the three communities. I asked Ambassador Cutileiro to take on this task -- which he has done with great skill and persistence. Eventually, on March 18th all three parties agreed on a set of principles -- a formula in which there would be a great deal of autonomy given to the three nationalities within some form of federal arrangement.

Much of what has been written about this plan, since rejected by the Muslim SDA party, has been inaccurate, and it is, I think, necessary to set the record straight.

Firstly, the 18th March agreement and the Statement of Principles, like most political settlements, was a compromise. Although the Bosnian Croats had voted with the Muslims in the Bosnian Parliament for independence, once the Cutileiro talks began, they aligned themselves with the Serbs. Both parties insisted on a confederal structure. The Muslims' preference was for a unitary state. There was thus a major gap to be bridged, and any agreement reached was therefore likely to be fragile.

Secondly, there was a clear understanding that the three "constituent units" envisaged under the agreement would not be geographical entities, in the sense of consisting of only one nationality, nor would the three units be distinct self-contained blocks. The mosaic of Serb, Muslim and Croat communities dictated this.

It was largely on the basis of the 18th March Statement of Principles and its agreement that the EC and a number of other states recognized the independence of Bosnia-Herzegovina on 7th April. The Bosnian Serbs started the fighting, which quickly escalated and has made Bosnia today the greatest human tragedy in Europe since the end of the Second World War. The Bosnian Serbs complained at the time, and still do, that the recognition of Bosnia was premature and that the 18th March Principles were an insufficient basis on which to take this decision. They argue that recognition should have been withheld until the end of the negotiating process. In my view, the 18th March Statement of Principles provided a wholly adequate platform for recognition. Moreover, to have withheld recognition would have run the risk of giving the Bosnian Serbs an effective veto over the decision; nor has it ever been the position in Ambassador Cutileiro's talks that the 18th March agreement was the only basis on which a solution could be found. We have always been willing to look at any proposals likely to be agreed by the three parties.

Nevertheless, the fact is that recognition was immediately followed by fighting. Against this background it has, not surprisingly, been very difficult to make any progress on the constitutional talks, though we have just about managed to keep the negotiating process itself alive. President Izetbegovic has said that he is no longer prepared to negotiate on the basis of the 18th March Statement of Principles. The leaders of the Bosnian Serb and Croat parties, Dr. Karadzic and Mr. Boban, say they are. The only point on which all three parties currently agree is that no political settlement can be attained in Bosnia unless it commands their support. Until this is accomplished, peace will not return to Bosnia. Bosnia's very existence hangs in the balance. If the international community acquiesces in a policy of *fait accompli*, for example by recognizing either the Bosnian Serb or Croat entities, then Bosnia-Herzegovina cannot conceivably survive. The Muslims have the most to lose by the partition of Bosnia and, in my view, the most to gain by participating fully in the political negotiations. Until now, there has been insistence that there has to be a ceasefire before negotiations can begin; and that no ceasefire will be possible until Muslim territory is returned. (That is the Muslim position.) Dr. Karadzic has been equally firm that the Bosnian Serb forces will not withdraw until an overall settlement has been reached.

President Izetbegovic has, I believe, got some new proposals to present. I very much hope he will do so. But, in my judgement, all three parties must show a greater willingness to compromise on the shape of a political settlement, otherwise it is very difficult to see where we go from here. If the three parties -- and all of them are breaking the ceasefire -- don't wish for peace, except on their own terms, then no amount of diplomacy can or will bring it about.

Krajina and East/West Slavonia

An understanding of the problems of the Krajina and the areas of East and West Slavonia is the key to understanding the Serb-Croat conflict. The Krajina, based on the towns of Knin and Glina, is historically a Serb majority area. This is not in dispute. The situation in East and West Slavonia is different, although the Serbian authorities have consistently argued the contrary. Many Croats fled this area when it was occupied by the JNA, so that today there is a Serb majority -- but historically this has not been the case, and indeed the 1991 census shows a large Croat majority.

Under my original proposals, the Serb majority area in Croatia, the Krajina, was to have "Special Status" -- including its own legislative body and judiciary, internationally monitored human rights guarantees and so on.

The Croats have accepted the principle of Special Status and have amended their constitutional law to reflect its provisions. However, the leaders of the Krajina Serbs (and, it has to be said, many in Serbia itself) continue to reject any solution short of independence for the Krajina.

According to the principles on which the Conference was established, independence for the Krajina is not an option: self-determination is at the level of republics, not of peoples. The only valid settlement, therefore, is one which respects the territorial integrity of Croatia.

The peacekeeping plan, negotiated by Secretary Vance and his UN colleagues, envisaged the deployment of UN forces in the Krajina and also in East and West Slavonia -- thus constituting the four UN Protected Areas. The plan makes it clear that the special arrangements in these areas will be of "an interim nature and will not pre-judge the outcome of the political negotiations (i.e. the Conference) for a comprehensive settlement of the Yugoslav crisis." Nevertheless, it is indisputable that, under the protection of the blue helmets, the Krajina Serbs believe themselves to be better off now than they would be under the authority of the Croatian government, as in the Conference plan.

Meanwhile, the Croatian government is obviously impatient to regain control of this territory. These pressures will doubtless increase and will lead to an increase in tension -- and possibly even to a resumption of the conflict. It is therefore of the utmost importance for the international community to bring all its influence to bear on the Krajina Serbs to negotiate, and on the Croatian authorities to exercise restraint. It is also essential for the Belgrade authorities to persuade the Krajina Serbs to negotiate.

Kosovo, Vojvodina, Sandzak

The next potential flashpoint concerns the minorities in Serbia -- by far and away the most important of which is Kosovo, where nearly 2 million Albanians live and 200,000 Serbs, or thereabouts. The Albanians living in Kosovo have had an election of their own and declared their independence from Serbia. But this, as in the Krajina, is not a solution, since existing borders must be maintained, and it is certainly not one which the Serbs would ever accept, since Kosovo is perceived as the birthplace of Serbian nationhood.

The Kosovans have recently shown willingness to negotiate without pre-judging the outcome but have, given the general antipathy between Kosovan and Serb, asked the Conference to mediate. Regrettably, the Serbs have so far refused to accept EC Conference participation. I believe it is essential for the Peace Conference to be involved in seeking a settlement between the Kosovans and the Serbian government. The dangers there are infinitely great and it is overwhelmingly in the interest of both sides to come to the negotiating table and hammer out a solution on the basis of real autonomy.

The situations in Vojvodina and Sandzak are also cause for concern and must not be overlooked.

Macedonia

The next problem is the former Yugoslav Republic of Macedonia. Recognition is a matter for governments, not the Peace Conference. Suffice it to say that it was the Community which invited Macedonia to apply for recognition and that the Arbitration Commission, presided over by Monsieur Badinter, made clear that Macedonia had satisfied the EC criteria. Moreover, they went on to say that the use of the name Macedonia did not imply territorial claims on another state. The Greek position is well known. I very much hope that it will be possible for the Greeks and President Gligorov to come to a compromise on this which will satisfy both sides. This is causing President Gligorov the greatest possible difficulty.

On the positive side, I do believe that there is a real possibility of reaching an agreement between the Macedonian government and the Albanian minority. We are working very hard to achieve this. If it materializes, as I think it will, I hope it will have a positive impact on the Kosovo negotiations. It does reflect the consistently positive attitude of President Gligorov and his government.

You will see from what I have said that there are enormous difficulties and problems ahead. You will also see that all these problems, apart from Macedonia, have a Serbian involvement in them. I cannot pretend that I see a quick solution to these problems but, above all, we must prevent an outbreak of violence in Kosovo which would, in international terms, have the most serious consequences.

Sooner or later all these problems I have described will be solved. The longer it takes, the more misery and human suffering there will be, as events in Bosnia have made tragically clear. That revolting act and expression "ethnic cleansing" will continue. Innocent people will lose their homes and their lives.

Responsibility rests upon those who are engaged in the fighting and the leaders who are encouraging them. I pray that they will understand the need for urgent action on their part to stop the killings and the deportations, and instead to promote and protect their interests at the negotiating table.

Discussion

The discussion began with an Austrian elaborating on the panelist's historical perspective of the Yugoslav situation. It is inaccurate to attribute the present problem exclusively to Serbian nationalism. The Slovenes, Croats and Serbs jointly gave birth to the first Yugoslavia after World War I, and recreated it after World War II. The main reason for the Slovenes and Croats to break away from Yugoslavia was less religious or ethnic tensions than a remnant of the West Roman Empire fighting the East Roman Empire. They had a higher economic development and were tired of being the net contributors to Yugoslavia. Rather they were anxious to become members of the European Community.

This same participant agreed with the panelist that to isolate Yugoslavia would not only be impossible but wrong; Yugoslavia is part of Europe and, therefore, part of Europe's responsibility. The most appropriate way to curb the crisis is through a mixture of political, economic, and -- possibly -- military intervention. An Italian participant disagreed, saying that it was not the EC's place or responsibility to step in. What we are witnessing today is very cruel, but at this point irreversible, and undoubtedly will end with new borders defining new nations. The EC is not threatened by the situation in

Yugoslavia and, therefore, no government is going to be willing to send troops in to solve its problems. On the contrary, said a Frenchman. The very fabric of Yugoslavia is a threat, and therefore this war is a major risk to everyone. A humanitarian approach should be tried as a way of getting through to the warring parties, and a less negative press would go a long way to curtailing the hatred everywhere.

Several Americans addressed the level of United States support for Yugoslavia. One reminded the group that aid for the Soviet Union and Eastern Europe did not pass easily in the US Congress, and felt that support for Yugoslavia was no more restrained. The other American asked the panelist to address the issue of UN troops in Yugoslavia, whether they are being effective, and if more will be needed.

The subject of whether to send troops into Yugoslavia produced strong opinions. Several participants -- including a Greek and a Turk -- felt that military force was the only option remaining. The Turkish participant urged that the fighting be stopped but, as diplomacy has failed, acknowledged that a force such as NATO may be required to achieve and maintain a peace. He underscored the need to portray Yugoslavia as not being an isolated conflict but one which could be repeated in other areas, most particularly the former Soviet Union. Therefore it is necessary to foster, through whatever means, constitutional mechanisms to bolster democracy. A German concurred, commenting that Europe not only has NATO but has just formed the "Eurocorps", and the present situation in Yugoslavia is a strong example of when these forces should be used.

Several participants felt that the EC has made serious mistakes in the Yugoslav crisis, particularly in not standing up to the expansionist aspirations of the presidents of Serbia and Croatia. A German agreed with this, tracing the problem to the period before the war, when the European Community was unable to agree on what was going on or how to resolve it. A Briton added that even now the EC does not seem to be working as a team, as shown in its lack of support for the chief negotiator.

Several participants, with a certain amount of hindsight, felt that the European Community should never have supported the central power in Yugoslavia in the first place. If the various EC members had realized, before it was too late, that Yugoslavia would not be able to hold together, they might have been able to deflect President Milosovic's strategy of the Serbianization of Yugoslavia.

Finally, a participant from the Netherlands asked the panelist to address what effect the war would have on the European integration process, because one can expect other such conflicts in the future.

IX. THE MIGRATION ISSUE

Introductory Remarks

I.

In the long run, the important effects of immigration arise not necessarily from today's waves of refugees, but from the cumulative effects over a long period of time of unskilled south to north immigration. Demographers say that demography is destiny, meaning that, if one ethnic group grows in an integrated fashion by one or two percent faster than another, there will be significant effects within one or two generations. Political leaders, when they respond to immigration crises, rarely appreciate that compounding works for people just as it does for money.

The first point to be made is that the population problem that was such an issue in the 1960's and 1970's is finally beginning to hit the industrialized countries. World population is roughly five and a half billion, and the world labor force is roughly two and a half billion. Both numbers are growing by about 100 million a year: about 85 or 90 percent of that growth is occurring in developing countries.

Most people don't move. They live and die within a few kilometers of where they were born. But even if migrants are only two percent of the annual increase in the world's workforce, that is about two million a year -- roughly the current estimate by which the migrant population is growing around the world.

There are about 80 million immigrants of all categories -- refugees, asylees, legal guest workers, illegal migrant workers, etc. Only about half that number are in the OECD countries, which means that there are about 15 to 20 million in Western Europe, 15 to 20 million in the US, and 2 to 3 million in the industrial countries of Asia. These 40 million immigrants send home to their countries about \$100 billion a year in remittances and goods, making remittances the number one source of foreign exchange in many countries, from Bangladesh to Yugoslavia. Remittances are about twice the level of official development aid. Put differently, exporting people into the world labor market is second in world trade terms only to petroleum products. Thus immigration is an important issue and will become more important in the 1990's.

Another important point is that industrial countries are reacting very differently to today's immigration. The European response is to get control of the immigration. The US response is to want to get control of many other things -- crime, health care costs, etc. -- before getting control of immigration. The industrialized Asian countries want to increase immigration in a very controlled fashion.

Migration occurs because of demand-pull factors, supply-push factors, and networks. The demand-pull is jobs, welfare benefits, etc. in rich countries. Supply-push reflects the economic and political factors that send migrants into the international labor market -- wage differentials, for example. Networks are the friends and relatives who, once they settle in industrialized countries, provide information and additional incentive for others who would like to come.

The big switch in Europe has been from demand-pull to supply-push. Immigration control systems in Western Europe, as well as in the US, have failed to stop the supply-push. So far, industrialized countries have focused on development strategies

to keep people at home. But this is not a short-term solution; it will require several generations. Moreover, economic restructuring initially increases immigration because of the disruptions it produces.

Industrialized countries would be better advised to seek ways to reduce demand-pull. In our deregulated labor markets and economies, there are many gaps that migrants can fill. The lawn-care industry in California is an example. That industry has tripled employment in the past decade because of the availability of immigrants. If immigration is to be slowed down in the short-run, industrial countries will have to look harder at things they can do at home, rather than concentrating on development solutions.

US immigration policies have been affected by the fact that the US is a nation of immigrants that has always been ambivalent about taking more immigrants. The most recent attempts by the US to reduce immigration have had exactly the opposite effect. Immigration reforms passed in 1965, 1986, and 1990 all aimed at limiting and modifying immigration patterns through specific policy changes, but in each case, the goals of the legislation were not met, and immigration has remained largely out of control. American public opinion is fairly anti-immigrant, and the last two immigration acts have enacted restrictionist symbols to appease public opinion. But immigration to the US today is higher than ever. US experience shows that you can appear to be restrictionist but still run an expansionist immigration policy.

The final point is that the kind of large scale immigration going on today in California will occur in other industrialized areas a generation later. Large scale unskilled immigration reinforces the trends toward inequality in industrial economies. The Los Angeles economy is an example of what can happen with a first world infrastructure and third world work force. It is one of the highest cost of living areas in the United States and is also the major US manufacturing center. This has happened because of the tremendous expansion of low wage workers in such industries as garments, shoes, and furniture. This growth has benefited the college-educated fourth of the California work force, but blue collar workers, who have had to compete with these immigrants, have begun to leave the state, leaving the immigrants trapped as an underclass. The only solution is a very difficult policy of simultaneously getting control of immigration and doing more to integrate those who do immigrate.

Introductory Remarks

II.

Underlying the immigration issue is the permanent tension between human rights and their demands on the one side and the economic and political pressures within society on the other. It is a dilemma between humanity and security.

In France today, immigrants are seven percent of the population. One reason there are so many immigrants is that many French people have become French through naturalization, a phenomenon traceable to France's colonial past. There has also been, over the past 20 years, a flow of immigrants who first came as guest workers and then as illegals.

The difficulties in France tend to be more qualitative than quantitative. They are social difficulties, caused by relationships between the original French and the new French. There are fewer people of European stock, fewer people who practice the Christian religion. There is unemployment, which is often blamed on foreign workers.

Immigrants, who tend to be clustered in and around major cities, are not integrated sufficiently into society. They remain marginal and this leads them to social failure and under employment.

There is in France a question of national identity, an ambivalence in attitudes and feelings. The French swerve from generosity to selfishness. This explains why immigration policies are less efficient and adequate. The current policy tries to deal with the root causes of immigration. In 1979, France stopped importing workers, but, because of its porous borders, immigrants still come illegally. There are no quotas, no forms of discrimination in French immigration policy. The policy also tries to prevent abuse of political asylum. There is no longer free access to the work market for those who seek political asylum. Also, there are restrictive policies governing foreign workers' ability to bring in their families.

The second category of measures are police measures which do such things as governing the stay of foreigners in France. The implementation of these controls is not very effective.

Another area concerns the right of a child born in France to French citizenship upon achieving majority. Whether this should continue to be automatic or be a matter of choice is currently being looked at.

Finally, France has tried to follow a policy of integrating foreigners in French schools and institutions, but this has proved a difficult policy because of selfishness and because of budget cuts.

Immigration policies in Europe today cannot merely be national policies; they must be European. There are no longer any borders in Europe, so policies must be coordinated. A European policy should at once welcome foreigners while being vigilant. Article 100C in the Maastricht Treaty concerning visas should be implemented by all the member countries.

Immigration is a politically divisive issue in France, with very divergent views between the left and the right. The extreme right is particularly vociferous on immigration. It is important that immigration not be politicized, lest inefficient measures be adopted and public opinion become more intolerant.

There is much at stake. Population is growing, and so is the gulf between rich and poor. We are not living in one world but in worlds that are moving toward one another and which may come into conflict. For Europeans, Africa presents the greatest threat, for political democracy, for social stability, and for peace. Each year a million more children are born in North Africa than in the EC. We must simultaneously manage the development of populations in these poor countries and increase social and ethnic diversity in our own countries. We will have to insure jobs and create growth in poor countries. This can best be done by investment and free trade. It is a question we all must deal with, and deal with generously.

Introductory Remarks

III.

The problem in Germany is not one of the relationship between Germans and foreigners. There are about 5 million permanent foreigners living in Germany, and there is very little problem. Most Turks, for example, are well-integrated, and they themselves are as concerned as anyone about the real problem, which is the abuse of the right of

political refugees to come into Germany. There is today a massive influx of foreigners entering Germany under the pretense that they are political refugees.

The problem goes back to 1948, when the German constitution decreed that the nation would be open to anyone from any part of the world who was being oppressed for political, religious, or racial reasons. It was never foreseen that people would want to come to Germany for economic reasons.

People -- currently about 35,000 a month -- come to Germany and stay for months, sometimes years, going through all the legal processes. During that time, they receive the same benefits that German citizens get. In the end, only about 5 percent are found to qualify as political refugees. More than 400,000 a year are coming from the new democracies in Eastern Europe. Another 200,000 of German descent are coming from Poland and Russia. In March, the number coming from Czechoslovakia tripled. These people who come to ask for political asylum cannot be refused, even if they live in democratic countries.

One of the problems of this abuse is that it is unfair to those who are real political refugees. They are lost in the flood of people coming for economic reasons. A majority in Germany want to remain open to political refugees, but to get control over those who come for economic reasons.

The problem is mainly an east-west one. The people who are coming were formerly stopped by communist barbed wire. Now we have to get used to a Europe without barbed wire. The situation will be more difficult when East Germany achieves the same wage and living standards as West Germany.

Germany has to develop an immigration policy. It should aim at helping people in their own countries. We spend more than \$5 billion a year on asylum seekers in Germany. The same amount of money would be much more effectively spent in the home countries of these people. If German leaders cannot come to a consensus on this issue, it will be a dangerous invitation to radicals, especially those on the right.

Discussion

An American began the discussion with an elaboration of the historical role of immigration in the US and the current socio-ethnic makeup of the country.

The US was built upon successive waves of immigration that brought an enormous wealth of talent to its shores. Most immigrants in the US have integrated. More than half of the Catholics and Jews marry outside their faiths. More than half of the Hispanics speak only English. The US is becoming the first universal nation.

But there are two major changes that are causing problems. First, due to changes in immigration laws and to differentials in fertility rates, there has been an explosion in the minority population in the US. When the Supreme Court ordered school integration in 1954, one out of every ten children was a minority; the number today is one out of every three. In 1980, seven of the ten largest cities had white majorities; today three have white majorities.

At the same time, the social mobility of minorities in the US has slowed down, and this has caused significant social tension. School segregation has actually increased. And income groups are dividing up along racial and ethnic lines, with a very large gap between black and Hispanic families at the bottom and white and Asian families at the top.

Some of the solutions that should be considered are to reduce the speed of immigration; to enforce immigration laws more effectively; to make a more aggressive effort to provide jobs and training for minorities.

Another important solution that should be undertaken not just by the US but by Europeans as well, is a much more aggressive effort to control world population growth. This is perhaps the greatest source of the instability we are facing. Studies show that population growth in many countries can be reduced by 20 percent with aggressive family planning policies. The US was once at the forefront of this effort, but is no longer because of the politicization of the abortion issue. It must renew its leadership, but it cannot do it alone.

Population growth was seen by several other speakers as the crucial issue -- the most dramatic political and human problem we face, in the words of a Frenchman, who pointed out that world population is growing by 97 million a year. A German wondered if it is futile to try to raise the standard of living in developing countries with very high birth rates. Meanwhile, pointed out a Greek participant, fertility rates in all the EC countries except Ireland are declining, leading inevitably to declining and aging populations.

An American called for a strong political commitment on the part of Western governments to provide funding for family planning in developing countries. Such programs have achieved considerable success in lowering birth rates in such Latin American countries as Mexico, Brazil, and Columbia.

Speakers from Spain, Portugal, and France expressed particular concern about population growth and economic conditions in the Mahgreb region, an area of economic stagnation where there will be 100 million people by the year 2010. This presents a major challenge for Southern Europe, and a Spaniard urged that the focus of Western assistance not be limited to the countries of Eastern Europe, but be extended to all the countries neighboring the EC. In response to a question from the moderator about whether an island nation like the UK had different experiences with and attitudes toward immigration, a Briton offered some remarks on the situation in his country. After the big postwar wave of immigration from the newly independent countries of the Commonwealth, Britain imposed strict limitations except on families of people already there and genuine asylum seekers. Nevertheless, the immigrant population has grown considerably. There are a considerable number of people seeking asylum. The government has tried to get through limitations on asylum, and is adamantly opposed to the notion of open borders -- a position which the opposition does not oppose.

The situation in Canada, as described by a speaker from that country, is that there is a growing backlash against the liberal immigration policies that have resulted in a great influx of immigrants. This kind of political reaction is the result of immigration policies getting out of balance. The way to keep public opinion from becoming anti-immigrant is to have a refugee determination system that is fair and efficient, and an immigration policy that provides a balance between family reunification and new immigrants.

Panelists' Conclusions

The concluding remarks from the panel underscored many of the points made in the discussion: the importance of family planning assistance, the need for aid to Europe's southern as well as eastern neighbors, the need to develop a European immigration policy.

The American panelist pointed out that population trends go up and down, and that, as an example, white birth rates in California have gone up. He warned against what he said was the worst of both worlds: immigration continuing at a high level because control systems are not effective and development is not fast enough, while publics are unwilling to pay the costs of integrating immigrants into advanced industrial societies. Such a state of affairs will present a very important problem for industrialized countries to manage.

X. THE EVOLVING WEST/WEST RELATIONSHIP

Introductory Remarks

I.

The nature of the US-European relationship at the present time is characterized by a feeling on the part of many Americans that they are regarded in Europe as being irrelevant. All of us are committed to the transAtlantic relationship, but it is beginning to look like a project in search of a mission. This is due in part to changed conditions, in part to attitudes, and in part to policies.

The Atlantic Alliance was formed as a defensive alliance. With the threat now having disintegrated politically, it is impossible to maintain the same sense of vigilance or the same sense of danger as existed in the past. What is the function of the Alliance now that the purpose for which it was created has so fundamentally changed?

Another major change in conditions is German unification. When Germany was divided, the military frontier was in the center of Europe. Further, Germany had an incentive to integrate itself into the West and not to assert a national identity. With unification, Germany cannot be said to be more nationalistic, but it can now address national issues the same way any other European country can, without looking over its shoulder at the impact any action might have on the chances for reunification. It is also significant that Germany is no longer on the front line, but is in the center of Western Europe.

In all of our countries, domestic politics have achieved a prominence they did not have ten years ago. Many decisions are taken for domestic reasons, which differ from country to country and produce an element of disunity because leaders have to be more attuned to political considerations of how to get into or stay in office, rather than focusing on the purpose for which they are in office.

All of this has created a multi-polar world in which there are various centers of power. This interacts badly with traditional American attitudes which have historically been that international problems were uniform the world over and should be dealt with by collective security. The American view has been that burden-sharing was the way to allocate responsibilities within the Alliance, that the burden was perceived domestically to be similar in all the countries, and thus that the decision-making was essentially domestic. This all worked fine in a two-power world. One of our current problems is the success of our joint efforts. The US has no experience operating in a multi-polar world. It has always been either isolated or dominant, never in an equilibrium situation.

Europe has been in an equilibrium situation, but toward itself and not the outside world. What Europe is doing now is asserting its own individual identity, but it sometimes gives the impression it is doing so with no specific purpose. One of the results of an identity becoming its own objective can be seen in the plethora of institutions which have developed in Europe and among which nations may pick and choose, resulting in a strange kind of nationalism.

Another odd thing is the way these institutions are being augmented. For example, Pakistan is in the European Security Conference and the defense minister of Kazakhstan attends NATO meetings. The reason for this is that we have not addressed the question of how to organize the territory between the Polish frontier and Vladivostok; we have not defined what is our interest in it.

This raises the question of the Franco-German corps and other ideas of an independent European security arrangement. There was no discussion with Britain or the US about the formation of this corps, nor a discussion of what political purpose it was supposed to serve. The danger is that, if such a corps is used without American approval or consultation, where is the backup, the intelligence going to come from? A European defense identity requires more, rather than less, consultation with the US. The special relationship between the US and Britain has worked so well precisely because it has been taken for granted that there would be a prior exchange of views on major issues.

Does a more independent Europe mean that Europe and the US have a different set of interests, or that we are dividing up common interests? Are there areas of greater European interest? It is necessary to define these areas of interest and the differences of responsibility toward them.

On the question of Germany, there are those who fear Germany becoming too powerful. The best way for the relationship between Germany and the rest of Europe to be less tense is for the US to be involved, because Germany can relate to the US and the other countries know that the possibility of German domination is less if the US is part of the decision-making process. So there must be some kind of permanent dialogue between the US and Europe.

NATO may not be right for this role. The Alliance should not invent missions for itself, though there must be some function for it because it is the part of the transAtlantic relationship that Americans understand best. Certainly, support for NATO in the US will be undermined if it is seen as a reserve for when things get really tough.

The great strength of the Atlantic relationship has been the sense that there is a common interest between the US and Europe. This is as true as ever, especially in the political area. Right now, we don't have the right institutions for this. We need to decide and agree on what we are doing around the world, what we want to achieve.

We need a more intense political dialogue, to discuss the political relationship. The US cannot be denied involvement in European decision-making. We must decide if we have a special relationship or if each side is going to calculate its own self interest and then act accordingly.

Introductory Remarks

II.

In viewing the West/West relationship, some basic assumptions apply. One is that there has been fundamental and far-reaching change, but we are acting as if it had never occurred. The usual state of confusion exists, which is a matter of concern. Before, the confusion sorted itself out unavoidably, because of the common threat, which was the basis of our relationship. The need for the West/West relationship is greater than ever, but the agenda has changed, and we are having trouble adjusting to that.

Confusion in the European decision-making process should not disguise the fact that great progress is being made, in the form of the single market and of monetary union. The single currency will certainly happen and will require the participation of all members. The economic convergence that will result puts additional pressure on the political questions. The issue of how to organize the Community is difficult, but progress is being made.

What about the West/West relationship? NATO has always been the symbol of it, but the situation has changed. We no longer have the unifying threat of attack, but the importance of NATO is still great as the only real integrated military organization capable of acting. The question is what are the missions? We have to define what our areas of joint interest are and what sort of division of labor is appropriate.

Our institutional set-up is outdated. It is clear and logical that the Community should be the one European institution. It will increasingly have to deal with all the issues before its member states. In the defense area, WEU is a transitory phenomenon. There cannot for long be such an organization separate from the Community which some of the Community members belong to and not others. The US should realize that it will be much easier to organize the West/West relationship when Europe is one body.

The WEU is ambiguous and must be gotten rid of. So must the CSCE which was created to serve a specific purpose when the Soviet Bloc existed. Its job is done. It is no longer necessary and should be eliminated. Nor is OECD working properly; its role must change. As for GATT, we must also discuss its role. Are we ready to give it real responsibility?

Finally, it is important for the Americans to know that the agenda for consolidation of Europe does not include the goal of getting the US out of Europe. Quite the opposite is true.

Discussion

The discussion was initiated by an International participant who expressed the view that the evolving West/West relationship was a matter of strategy-making in a era of unusual instability that will exist for the foreseeable future. The stabilizers in this situation are our institutions (UN, EC, NATO, WEU, CSCE, etc.), of which there are too many but all are necessary right now; the processes of arms control, nuclear non-proliferation, etc.; the relationships with countries out of the Atlantic area, especially those in Eastern Europe, and the help that we can give them; and the management of crises.

None of these stabilizers can really be effective without NATO, which gives us the capability to act on our strategy. NATO is the ultimate stabilizer, but it must be looked at through new eyes. We must get away from the fixation on Article Five that has characterized our thinking since the Cold War. We must get away from the idea that NATO's operations must be restricted, that it should not have an out-of-area role. And we must get away from the idea that we need a specific threat. NATO anchors the US commitment to Europe and there is no other possible strategy than the collective strategy we have in NATO. It is true that NATO's function must be redefined, but, without NATO, it would be impossible to deal strategically with the immediate future.

The perceived threat to NATO by the newly-established Franco-German Corps was the subject of several interventions. The previous speaker said that, while its formation was an appropriate expression of the Franco-German relationship, it would weaken NATO unless it had a specific tie to the Alliance. A German argued that the corps is not intended to replace NATO, but should be seen as strengthening NATO by presenting an option for taking action in those situations where NATO does not choose to act. Added a Frenchman, NATO remains the basic security link.

The maintenance of a close transAtlantic relationship was seen by virtually every participant in the discussion as a matter of great importance. A Portuguese speaker called for a special relationship between the US and Europe as close as the one that exists between the US and Britain. Said a British participant, the next priority after Maastricht should be the strengthening of the Atlantic Alliance. The US and Europe have common interests in defense and in other areas, and, more important, they share common values. A strong Atlantic Alliance must be the protector and custodian of the these shared values.

A German speaker underscored the importance of the US commitment to Europe by saying that German unification would have been much more difficult without US involvement. From the point of view of a majority of Germans, the US is an integral part of European security culture. Strongly emphasizing this point, a Canadian said there was no precedent for a war-free Europe without an American presence. It is difficult to take seriously any European security arrangement that is not closely connected to the US.

Another matter of concern was how the US and Europe were to cooperate in out-of-area situations. An American asked if Europe was to take primary responsibility for security on the periphery of the European continent, did that imply that the US was free to act unilaterally on other continents? It was a Frenchman's view that it is too early to formalize the approach to out-of-area situations, that it should continue to be pragmatic.

Expressing a thought on the minds of a number of speakers, a German wondered if we are too preoccupied with security concerns. If, as a panelist said, security is no longer sufficient to hold the Atlantic community together, what else should the US and Europe be doing besides crisis management?

An Italian's response was that the US and Europe should develop a permanent political dialogue on all issues. An International speaker emphasized the importance of the US and Europe getting their act together on economic and trade issues. The Atlantic community, said a Briton, is faced with a whole host of new challenges outside its traditional areas of cooperation: conflicts in the Third World, arms races in the Middle East and Asia, nuclear proliferation, and economic competition in the Pacific, to name a few. Of all our institutions, the best one to focus our approach to these issues is the UN. A Swiss speaker made the point that we also need to focus on the ideological meaning of freedom. Many smaller, less-developed countries are starting to practice freedom, and the example we set for them, in such areas as the GATT round, is terribly important.

Panelists' Conclusions

The Belgian panelist concluded by emphasizing two points: that security is the central issue for the well-being of the European continent and that the objective of European policy is to keep the US involved. As for countries outside the Atlantic community, there must be institutional links as well. It is important that we focus on what these links are to be. NATO and the EC have brought stability to the European continent, but these institutions need to address new challenges and requirements if stability is to be maintained.

The American panelist repeated his concern that, even if there is no hidden European agenda, a consequence of certain European actions is to increase the separation in the political consciousness of the US and Europe. For example, the prevailing view in American foreign policy circles is that the French want to exclude the US from major decisions and relegate it to a reserve position. Of course changes must occur in the American point of view, too. Americans must abandon the idea that it is the role of the US to define what the common set of interests and goals is. We have to get used to operating in an international system in which a consensus emerges out of a multiplicity of interests.

The Atlantic community must accept that there are threats which are variable and undefineable, but nonetheless very real, and we must create structures than can deal with them. To do that, we need some sort of political framework in which to reconcile the assessment of these threats before a crisis arises. In the past, the US and its allies have used military integration as a substitute for long-range political thinking. The security threat was so real and so closely tied to the political threat that we did not have to distinguish between the two. The challenge on both sides of the Atlantic now is to change this way of thinking and operating.

CLOSING

Lord Carrington closed the 40th Bilderberg Meeting with an expression of appreciation to all those who had made it such a success: the moderators, panelists, and participants in the discussions for making the sessions especially interesting; French hosts Marc Ladreit de Lacharriere and Thierry de Montbrial for selecting such a wonderful site; Félicia Cavasse and her staff for organizing the conference; the staff of the Royal Club Evian and the Ermitage Hotel for taking such good care of the participants; and the Bilderberg secretariat under the direction of Maja Banck for its usual efficiency and thoroughness.

* * * * *

One of the participants at Evian, Philip Habib, died shortly after the conference ended. Ambassador Habib, who served as a panelist in one of the sessions, was a distinguished American diplomat and will be sorely missed by his many friends and colleagues.