

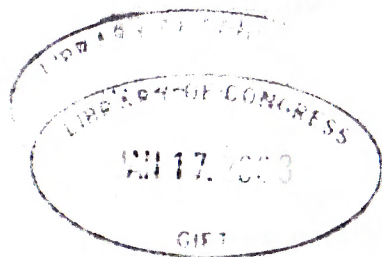
BILDERBERG MEETINGS (50th:
2002: Chantilly, Va.)

MAY 30TH - JUNE 1ST 2002

CHANTILLY



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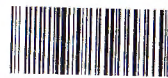
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Introduction

The fiftieth Bilderberg Meeting was held at the Westfields Marriott, Chantilly, Virginia, from May 30th-June 2nd 2002. There were 115 participants from 20 countries. The participants represented government, diplomacy, politics, business, law, education, journalism and institutes specialising in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or employers. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference took place.

This booklet is an account of the 2002 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective participants of future conferences. It represents a summary of the panelists' opening remarks for each session, and of the comments and interventions in the subsequent discussion.

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BILDERBERG MEETINGS

MAY 30TH - JUNE 2ND 2002

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Consequences of the War Against Terrorism

The moderator began by stressing the impact of the war against terrorism on the transatlantic alliance. The debate duly reflected the current divisions, with American participants emphasising the military side of the war and the necessity of eradicating terrorism, and European speakers preferring to focus on the deeper causes of terrorism and warning against oversimplicity. The issue of Iraq seemed to crystallize these differences.

FIRST
PANELLIST

Europe and the United States are fighting the same enemy in the name of the same values. But behind their common values—and their common vulnerability—lurk important differences. America is at war. Europe is not. Europe has a long history of dealing with low-intensity terrorism. America is belatedly discovering its vulnerability to terrorism at the peak of its power. The Roman Empire (with which America is so often compared) could keep the barbarians at the gate. Last September the barbarians managed to strike at the very heart of the United States.

Each side tends to define the threat in different ways. America emphasises military security. Europe emphasises the need to complement military security with a political approach. There is a danger that America's growing power will not keep up with the growing complexity of the world. And there is a danger that the war of words being waged across the Atlantic will make co-operation much more dif-

ficult, particularly given the tendency to condemn the other side for what it is rather than just what it does. America cannot go it alone. It needs help from Europe in intelligence gathering.

There is no doubt that the world would be a safer place without Saddam Hussein. But can you get rid of him swiftly and elegantly? The region may get yet more dangerous after a war on Iraq. Europeans differ with America on Iran (where they see a possible end to the rule of the mullahs) as well as on the emotional subject of Israel. They also disagree on the nature of the war on terrorism. A stable world is also a just world. Terrorists are armed with ideas. You cannot fight them with force alone.

SECOND
PANELLIST

America and Europe are undoubtedly engaged in a common battle. But they are approaching this common battle very differently. In the wake of September 11th the Bush administration decided not to distinguish between terrorists and the countries that harbour terrorists. It also decided that it was no longer feasible to treat terrorism as a matter of law enforcement. That pair of decisions will drive many of the differences between Europe and America.

Can the United States go it alone? We want and need help. Europeans will help, for instance by providing intelligence information. But the United States (unlike most of its allies) has the ability to take the war against terrorism to the terrorists, and it may be forced to go it alone in exercising this ability. It will be much quicker if we all do it together. Saddam has invaded his neighbours. He possesses chemical weapons. He is feverishly working to become a nuclear power. His ties to terrorist organisations force us to consider the possibility that he will distribute those weapons to terrorists. Can we wait for this to happen? The United States has no choice but to deal with Saddam: the right to self-defence must include the right to preventative action.

President Bush's "axis of evil" speech caused misunderstanding as well as consternation in Europe: he did not mean to imply that all the members of the axis are all the same. There is clearly a struggle going on inside Iran. But at the moment the country is firmly in the control of the mullahs. The debate is whether we should change Iran by pursuing rapprochement with the mullahs or by siding with the opposition.

As for the idea that terrorists are armed with ideas, these are not the sort of ideas that we can expect to debate. Many bright Muslims are sent to religious schools while they are still teenagers. They are kept isolated from women and beaten if they cannot recite the Koran correctly. The adolescents who emerge from this process are deformed human beings, capable of doing terrible things. Debating with them is not enough; we need to find them and deprive them of the territory from which they operate.

DISCUSSION

A Briton warned against understating the degree of co-operation between Europe and the United States. A few stray speeches and demonstrations should not blind us to the fact that there has been a deepening of ties since September 11th. There has been intensive co-operation over finance and intelligence. Europe will also tow the line on Iraq. An American emphasised the importance of co-operation in dealing with terrorist financing. You cannot bomb a foreign bank account. Another American emphasised the importance of co-operation in dealing with moderate Arab countries. These countries don't want to have terrorists in their midst. But they are often reluctant to come forward. Europe, with its solid relations with the Arab world, could play a key role in encouraging these countries and winning the battle for hearts and minds.

But there were clearly tensions between the European and American approaches. One American asked how Europe's policies had changed in the light of September

11th? He also worried that Europeans were too influenced by the desire to appease their domestic Muslim populations. Another American asked whether "a war on terrorism" was really the right response. Doesn't it mean that we will be at war forever? We are up against an invisible enemy that will never disappear. America should not treat September 11th as a licence to do whatever it wanted.

Most participants were less concerned about the notion of war, but they raised questions about how it was being conducted. A French participant worried about the sophistication of the American response. During the Cold War, America successfully divided the Communist block, by for instance supporting anti-Communist trade unions. Now, America is launching a war on too many fronts—and in doing so it is driving all Muslims into the enemy camp. A Danish participant worried that America's unwillingness to take responsibility for nation-building in Afghanistan set a dangerous precedent for its conduct in Iraq. Polls show there is no real difference of values between the West and the Arab world; rather there is a difference in perception. Arabs simply deny the Western account of what happened on September 11th. An essential part of our strategy must be a gigantic information war. An American argued that America needs an economic dimension to its policy—much as it did after the Second World War. The general economic failure of the Arab world is feeding into frustration. Failed states can be bought and rented.

Much of the discussion focused on Iraq. An American said that most American moderates think that the regime in Iraq must be changed. A Briton pointed out that America's military strength has doubled in the ten years since the Gulf War while Iraqi strength has halved. He argued that the West should seize the opportunity to set up a successful government in Iraq as a beacon to the rest of the region: look at all the good that flowed from the occupation of Germany and Japan after the Second World War. Europe

should be careful not to give the impression that it was neutral in such a conflict.

Others were more sceptical. An American stressed the huge risks involved in toppling Saddam—not least the risk in setting a precedent for unilateral action. A successor regime might be even more convinced of the need to acquire nuclear weapons. Surely inspectors would be better? Another American, while agreeing with the aim of getting rid of Saddam, worried whether the circumstances were right. What sort of regime will replace Saddam? Who will lead a new government? And how will we get out of Baghdad once we are there? There is no point in waging war if the region is left less stable and less democratic afterwards. The second panellist replied that, with more support, the Iraqi National Congress might offer a good alternative leadership. Iraq, which once had a flourishing middle class, is a more promising candidate for nation-building than Afghanistan. As to the idea of setting bad precedents, failure to remove Saddam would be disastrous.

Several people raised the question of Turkey. One Turk pointed out that his country was paying a huge price to help fight terrorism. Another said that there was a growing realisation in his country of the evils of radical Islam, and he criticised the European elites for not tackling fundamentalism in their cities. The second panellist argued that Turkey should benefit from the removal of Saddam. One way Europe could help the war on terrorism would be to improve its relations with Turkey (in the long run by welcoming it into the European Union). The first panellist warned that it was just as important for Europe to integrate its own Muslims as it was to integrate Turkey.

In his concluding remarks, the second panellist complained that those who questioned the idea of a war on terrorism always failed to offer an alternative. Terrorists will never go away. But we can diminish their numbers. This

should certainly include more than just war. But we have to realise that some people can only be stopped by incarceration or worse. America certainly needs to do more to win the hearts and minds of moderates. But, even if you win a high percentage of those hearts and minds, you will nevertheless be confronted with a small percentage of people who can do a great deal of damage. In this Europe and America should be united. A year ago everybody was worried about the transatlantic split over ballistic missile defence.

The first panellist accepted that American resolution since September 11th had made the world a safer place, but worried that American insensitivity might lead to a clash of civilisations. Europe has a role to play in making sure that fewer Muslims join the *madrasahs*. On Iraq, Europe is not neutral, but it is difficult to deal with Saddam if violence is still escalating in the Middle East. Similarly, there is an economic component to the problem. Above all, Europe can bring a sense of history. Europe has a long history of dealing with "the other": America needs Europe for practical as well as philosophical reasons.

Corporate Governance: Does Capitalism Need Fixing?

The moderator pointed out that the subject of corporate governance, once worthy but dull, has grown in both importance and drama—not least because of the Enron scandal. Some speakers groped towards the idea that there was a well-defined, international set of rules that could be applied to all businesses. But others poured cold water on this idea, explaining that capitalism thrived on different structures.

FIRST PANELLIST

The way in which companies are run is provoking more interest than ever. Well-run companies outperform indices. The problem is that every country in the European Union has a different set of rules. Nevertheless, the Union has introduced 40 corporate-governance codes. There are two main lessons from the failures so far. First, no national system is inherently better than all the others in terms of structure: it all comes down to practice. Second, self-regulation is not enough.

There are five areas of corporate governance where markets have failed. They have not provided adequate supervision: too often, the CEO is the chairman as well. They haven't produced a common set of accounting standards. They haven't forced analysts and auditors to be independent. They haven't been able to discipline bad boards. And, lastly, they haven't been able to restrain the unwarranted increase in CEO pay.

The European Union's review produced two main conclusions. First, although there are substantial differences between different capitalist systems (such as the number of boards), governance codes are broadly similar, so the difference between the structures does not matter too much. Second, it is not worth having a single European code. It might well be useful to have rules improving mandatory disclosure and shareholder rights. The key point about good corporate governance is that it cannot be achieved by either markets or regulators alone.

SECOND
PANELLIST

The current public interest is entirely justified. Enron is a defining event, like Watergate. What went on at the company was outrageous; even worse was the position taken by the company's board, which claimed that it did not know what was going on. Business across America has condemned this, but it has harmed business everywhere.

Capitalism always needs fixing. That is part of the process of creative destruction. But much relies on your answers to certain basic questions about capitalism. When it comes to pay, do you want to encourage egalitarianism, or do you make to make bosses more entrepreneurial? Do you care about growth or stability? The main priority of big American corporations has been to create wealth for shareholders, which requires incentives for bosses. The American concept of the CEO's job is correct. The board's responsibility is to select the CEO, not to run the company. The board should also be independent (particularly its committees responsible for compensation, auditing and corporate-governance). But it would be wrong to set precise rules for who has to meet and when.

The same approach should be applied to auditors, who have mistakenly begun to see themselves as professional consultants. In fact, their role is to provide independent numbers. Every company that hired Andersen now has a worth-

less audit. On compensation, if you want a boss to act like an owner, then you cannot pay them hourly, but the focus on options has entailed an over-reliance on one particular number. There have to be multiple components. Of course, a successful corporate governance system has to involve rules, but fundamentally it is about spreading best practices.

DISCUSSION

An American financier began the discussion by stressing that there had been no systemic breakdown. That said, he thought that businesses had failed to give investors the accountability they craved. A loss of investor confidence would make it harder to raise capital. He suggested a number of ways to reassure them. Directors should all be independent; the only insider on the board should be the CEO. There should be a formal split between auditors and consultants, with auditors rotated. The auditor's report should explain where companies have strayed from accepted practice and also disclose any conflicts of interest.

A Briton admitted that he was drawn towards the second panellist's dislike of hard rules. But he had his doubts. In politics, we have had two centuries of experience in building checks and balances. Business does not have that structure. It is particularly difficult to see how you can secure both independence and expertise. The second panellist agreed on this latter point. The offset for independence is often lack of knowledge. If auditors are rotated forcibly, they will not know in the first year, and not care in their last year.

An American politician focused on the Enron mess, which he argued had been coming for some time. He pinpointed a number of causes: a compensation system that put so much stress on options; poor oversight from the directors; inadequate auditors; flexible accounting standards; and deplorable stockmarket analysis where "Strong Buy" needed to be decoded to mean "Hold". The second panellist argued that the problem with the analysts was to

do with incentives, particularly the lack of transparency. What went on was close to the common crime of fraud

A Canadian worried that there was now an "avoidance industry" that existed to help bosses around such constraints. A Frenchman blamed this industry for the use of off-balance sheet instruments, and he made a special request for transparency. The first panellist replied that the solution for the avoidance industry was better standards. The European Union has looked at the issue of auditor independence: it recommended that after seven years auditing staff, but not auditing firms, should be switched.

Various speakers brought up the subject of differing corporate governance standards across the Atlantic. A German asked about stock-option accounting and goodwill accounting. The first panellist argued that the important thing with stock options was that they must be accounted in one way or another, even in Silicon Valley. Several speakers wondered about the convergence of European and American rules. The first panellist reassured the questioners that work on convergence was progressing, albeit slowly. Some people, he added, claim that international accounting rules, which are based on general principles, might have prevented Enron in a way that the American tick-the-box system did not. The second panellist, by contrast, worried about the obsession with common accounting standards. They did not really exist within the United States, let alone across the Atlantic.

A European academic took issue with the idea that Europe and America have the same goals. In the United States, boards are supposed to represent a diverse group of shareholders. In Europe, they often have to deal with a limited number of large shareholders, so the governance issues revolve around protecting the smaller minority shareholders. A Dutch participant praised Europe's two-tier system. In his view, companies should bear in mind four different

sorts of stakeholders: clients, shareholders, employees and society. An American businessman pointed to a recent transatlantic merger that prompted disagreements within the board about the role of the CEO and about the use of stock options. The second panellist admitted that tensions between different sorts of stakeholders was a daily challenge for companies, but he still maintained that in the long term, the interests of stakeholders and shareholders converged.

A French businessman worried that the current focus on rules could rein in entrepreneurship. Corporate governance should not be seen as risk prevention. It would be a tragedy if the result was a system where investors fell into the habit of suing whenever they lost money. The moderator seized on this point: it was essential to craft a system that still gave chief executives the freedom to make money. The first panellist commented that capitalism without bankruptcy is like Christianity without hell.

The debate ended on a slightly more optimistic note. A Frenchman pointed out that non-listed private companies seemed to work very well. Another European businessman blamed most of the current problems on individual acts of dishonesty. An American who has served on many boards pointed out that in general things were getting better. There used to be no outside directors, no women, no blacks, no talk of corporate social responsibility. So the big worry is that the remedy may be more painful than the crime. The second panellist agreed strongly with this. American capitalism is just coming to the end of a decade-long experiment in trying to make managers act more like owners. It has generally worked, but with one or two spectacular failures. As for talk of regulatory disintegration, the regulators have not left the field. The people who stepped over the line will pay.

The Changing Nature of the European Union Within the Western Alliance

The moderator started the discussion by asking: "Does it matter if the United States and the EU disagree?" Whilst everyone accepted that this was an issue, many American participants argued that co-operation was less important than supporting the right policy. The first responsibility of the United States, they argued, was to follow its own interests. Many Europeans were more worried: America cannot be an à la carte multilateralist, and it should not abandon the internationalist stance that has served the world so well since the Second World War.

FIRST PANELLIST

There is a poisonous atmosphere of misrepresentation in the Atlantic world. There is an appalling lack of knowledge about the European Union in the United States. The EU is actually one of the great unrecognised successes of the post-war era—an unprecedented example of nations voluntarily pooling their sovereignty. The internal market has not created a fortress Europe, as many feared; the introduction of the euro has gone remarkably smoothly. Now it is about to expand to include 30 countries and 500m people. Its already creaky decision-making process will break down unless it is reformed.

Friction pervades transatlantic economics and politics. The two regions have a different attitude to merger policy: the EU looks askance at bigness *per se*, while America is

concerned with competition. Both sides are to blame for the growing trade tensions: the EU for its resistance to GM foods, and America for a series of terrible decisions on lumber, steel, textiles and agricultural subsidies. Things are even worse on the political front. The EU instinctively favours multilateralism; the United States does not. Europe's under-investment in defence is also a real problem. In 1993 it was American leadership that prevented more ethnic cleansing in the Balkans.

The aftermath of September 11th provided an opportunity to glue the alliance tighter together. There has been a good deal of real co-operation. But America did too little to involve Europe in the war (despite the first ever invocation of NATO's Article Five). The next stage of the war may be even less co-operative. This will expose long-standing differences on the best way to deal with rogue states. One solution might be to divide responsibilities, giving a military role to the US and a nation-building one to Europe. Although the Europeans spend less on defence, they spend more on foreign aid. America should have a healthy respect for European sensibilities and engage in proper consultation.

SECOND PANELLIST

The simple answer to the moderator's question—does it matter if the EU and the United States disagree?—is that it does. Nobody has a monopoly on being right. America must see that its unilateralism is contributing to a rising tide of anti-Americanism around the world. Being the biggest kid on the block demands self-restraint that has never characterised dominant powers in world history. The Allies must be allowed to disagree with the United States—and the United States must be willing to take that disagreement into account.

However, the Europeans must also recognise that they are far from perfect. The European project is losing some momentum (though European support for multilateralism has been more consistent than America's). Europeans some-

times come across as self-righteous. The EU is deformed by the common agricultural policy. That said, the Europeans have real grievances with America. America is unwilling to restrain itself in pursuit of the common good. Leading Americans have made incendiary statements about international institutions (such as George Schultz's call for the abolition of the IMF). The Bush administration has taken a succession of deeply regrettable decisions over agriculture and steel. Add the disagreements between the allies over the Middle East and you have an explosive situation.

Europe is hobbled by its lack of a common foreign and defence policy. America should see the development of a common European policy as being in its interest. There is a need to recognise the importance of being frank. The Union faces a critical series of challenges at the moment: expanding eastwards, adapting its institutions and dealing with general alienation. It also needs a common external policy, which would also create a more balanced international system.

DISCUSSION

The discussion began with two speakers illustrating the gap across the Atlantic. An American thought that multilateralism was a red herring: people who worry about American unilateralism are usually worried about specific American policies. America should be willing to pursue a good policy even if it is not endorsed by an international show of hands. America, which is not a collection of countries like the EU, is right to refuse to sign bad treaties, like the Comprehensive Test Ban Treaty, and also right to be sceptical of multinational institutions, such as the United Nations. This view was countered by a Frenchman, who stated the case for multilateralism. The key question is whether the Americans want to build a world where they could feel at ease, even if they no longer possessed such unique power. Unilateralism will not help to create such a world. The global impact of ditching so many treaties—even if those treaties are not all perfect—

could be catastrophic. The second panellist agreed: you cannot have *à la carte* internationalism.

Several participants looked at the changing nature of the EU. A Turk said that the EU faced a fundamental choice: should it become a Europe-wide nation state? Or should it become a building block of a global government? Turkey has been a member of NATO for years, and any backsliding on admitting it to the EU would be devastating. A Portuguese participant asked about the compatibility between enlarging the EU and producing a more coherent foreign policy. A Frenchman worried about the capacity of the EU to absorb so many new countries. The second panellist replied that nobody seriously believed in a Europe-wide nation state. We are talking about a hybrid. We do not know how enlargement will change the process, let alone where the process will end. The first panellist agreed with the idea that institutional reform was now essential. Without political reform, the decision-making process will break down.

Other participants returned to the transatlantic relationship. An American argued that the EU and the United States are closer than some people imply. Both want to see a two-state solution to the Palestinian problem, and both want to see an end to Saddam. But Americans have lost their sense of what Europe means. Another American thought that Europeans should ask themselves about their own contribution. European foreign-policy institutions are still unformed. In the wake of September 11th America dealt with individual nation states rather than the EU.

This opened up a debate about the structure of the alliance. An American economist, noting that the collapse of communism had removed the alliance's conceptual foundation, suggested turning the US and the EU into a sort of G2. The first panellist thought this was an interesting idea, but he doubted whether it was practical: after all the European Commission is not even included in the G7 because of opposition

from member states. Another American feared the first panelist's proposed division of responsibility between Europe and America might reinforce their differences. If the Europeans do not participate in military solutions, they will become even more hostile to them—and the same goes for America and nation-building. The first panellist defended his idea on the grounds that it would be a division of power between senior and junior partners, rather than an absolute split.

An American claimed that whilst Americans confined their unilateralism to international affairs, Europeans were willing to interfere with America's domestic affairs, for instance with the death penalty. The first panellist retorted that American courts were equally extraterritorial: look at the Holocaust reparations. An American said that the relationship between the central banks had never worked better: witness the co-operation after September 11th. A Briton wished that the Europeans would stop exaggerating the dangers of American policies. But other Europeans were more worried about America. An Austrian said that a great deal had been invested in the Alliance over previous decades. A Dane said the world was used to something better than the crude pursuit of national interest from America, a country that had expressed its policies in universalist terms since the Second World War. A German claimed that the biggest issue was Europe's loss of power. The Cold War preserved the illusion that Europe was the centre of global affairs. Europe is keen on embracing multilateralism to cope with its weakness.

The first panellist concluded by accepting that the EU and United States had different perspectives, but he maintained that America had to be more sensitive to the EU's problems, and that it had to help the EU's eastward expansion. The second panellist argued that there was a price to be paid for global leadership: you are held to a higher standard than other people are. Yes, the Americans need to be more humble and considerate, but the Europeans need to be less incoherent and divided.

Have Civil Liberties Been Unnecessarily Eroded?

How does a democracy hold to its principles in a battle against terrorism? The moderator recalled Benjamin Franklin: "They that give up essential liberty for a little temporary safety deserve neither liberty nor safety." Most of the speakers from both sides of the Atlantic conceded that the war against terrorism had changed the balance between security and liberty; but they argued that the change was not excessive.

FIRST
PANELLIST

Civil liberties in America have not been eroded. The government's aim has been to hang on to our fundamental values: indeed it was those values that came under attack on September 11th. As Edmund Burke pointed out, order and liberty need each other. In the past eight months, the United States has realigned its society to free up its law enforcement. That process has required a few new laws, but they have been introduced without destroying liberties.

Much of our work has been updating law to the latest technology, to allow us, for instance, to pursue the terrorists into the digital world. But we have retained the same precautions that we used to apply to the analogue world. We have tried to implement a culture of information sharing between agencies. The USA Patriot Act removed legal impediments to intelligence sharing (e.g., from wiretaps). The FBI is now allowed to use private-sector data-mining services. Lastly, we have tried to get rid of red tape.

In each case, the American government has laid emphasis on adhering to freedoms. There is not a choice between liberty and security. It is about thinking outside the box, but not outside the constitution.

SECOND PANELLIST

Civil liberties have not been eroded in Europe either, though for different reasons. Terrorism is an old threat in Europe. France, Germany, Spain, Italy, Britain and Ireland have all had to confront this issue for some time. Unsurprisingly, there was thus less need to change things after September 11th.

The EU's version of the USA Patriot act was more to do with enhancing co-operation. For instance, the European arrest warrant sounds like the sort of thing that would set libertarian alarm bells ringing; but it is really just a practical way to speed up cumbersome extradition processes. Human rights were already on the EU's agenda. The charter of human rights is now under discussion. The issue is also connected to enlargement. The Union is now bringing in countries where such liberties were until recently a rarity.

There is one wrinkle: immigration. In Europe, immigrants have not been as welcome as they are in the United States. The events of September 11th may stall that debate. Immigrants deserve civil liberties as much as anyone.

DISCUSSION

An American financier tried to use the issue of civil liberties to counter an argument that was put forward in a previous session: that unilateralism is acceptable when it is right in every single case. There is not much point in an eternal war against terrorism if it undermines the principles for which the United States stands. Globalisation is lopsided. It has produced rules for trade, but no international laws for maintaining peace and public goods. America is the strongest power, so it has special responsibilities. By refusing to accept the need for multilateral arrangements, America is saying that might

is right. The campaign for an open society in communist countries must now turn to the United States. The attorney-general's claim that those who opposed the USA Patriot Act were giving aid to terrorists demonstrated this.

Several speakers examined the international dimension. A Portuguese participant asked about the International Criminal Court. He also wondered whether there had been any increase in co-operation between the EU and America. An Italian asked whether civil liberties could be defined and enforced worldwide. The Balkans intervention was partly based on this idea. A European journalist suggested that the real civil-liberty challenges do not revolve around domestic citizens; they have to do with foreigners.

The second panellist felt strongly that third-country nationals should have the same civil liberties as nationals. There is a concern that people will automatically link immigration and terrorism. One form of protection is that the laws are being imposed by democratic governments. There has been more co-operation at an international level. One transatlantic problem is cyber-crime, where there are differences on data protection. Another factor to bear in mind is the death penalty, which means that the Europeans are more guarded about information-sharing and extradition.

The first panellist agreed that the international angle was important, but that did not translate into automatic support for an International Criminal Court. Milosevic is being tried by an ad-hoc tribunal. With immigration, the emphasis should be on simply applying the existing law. If that law proves to be too restrictive, then it can be looked at. Contrary to news reports there has been no indefinite detention of foreign suspects by the United States, and there has been no preventative detention.

Some participants wondered about the effect on specific liberties in the United States. An American asked about

the FBI's ability to follow suspects into places of worship, and also about racial profiling. Another American pointed out that Congress has not officially declared war. It thus risks repeating the mistake it made with Vietnam. A Canadian disagreed: the problem with liberties is that the West's enemies have exploited them. A Dutchman said it was possible to adjust things delicately. He pointed to an EU directive on money laundering, which charges lawyers to report suspicious activities, but only under strict conditions.

The first panellist thought that the concept of war had been overused: witness the "wars" on drugs and poverty. In this case there was a real attack, but one carried out by a network of individuals, rather than a nation state, so the normal principles of the just and unjust war do not apply. There has been a declaration by Congress that the United States is under attack. You cannot fit terrorism within a traditional criminal justice model. On the specific question of entering places of worship, constitutional rights are vital. On racial profiling, interrogating people from suspect countries is mainly about old-fashioned detective work.

The Influence of the Extreme Right

This issue caught fire because of the French and Dutch elections—and the success of Jean-Marie Le Pen and, posthumously, Pim Fortuyn. Most of the speakers agreed with the moderator's assessment that the success of the right was the result of the unwillingness of the established centrist parties to tackle tough issues. As for America, nobody seemed to have much time for the idea that George Bush headed a far-right administration.

FIRST
PANELLIST

This session introduces a new element into our discussion: the electorate. Europe's electoral preferences are changing, allowing new political stars such as Jörg Haider and Pim Fortuyn to emerge, and opening up for debate hitherto taboo subjects. This is only superficially a move to the right. It is essentially a revolt against traditional political parties. The last two decades saw the rise of first neo-liberalism and then third-way politics. Now we see a backlash not just against these positions, but also against the system that produced them. The symptoms include low turnouts, demonstrations and the rise of unorthodox candidates.

These unorthodox candidates are cashing in on frustrations with traditional parties. Traditional parties have ceased to be "membership communities" and become little more than conveyor belts to elite jobs. Traditional parties have also failed to ask tough questions about things like immigration (which people in Europe increasingly see as a threat to their well-being). The mainstream candidates in

the German election regard it as a badge of honour that they have agreed not to discuss immigration. But immigration is one of the foremost questions in people's minds.

This has given extreme candidates a chance to attract votes—a chance that the right has seized. This represents a huge failure of traditional parties—not least because there are good liberal arguments on all of these subjects.

SECOND
PANELLIST

The influence of the extreme right in the United States is zero. It is at its lowest point in three decades. Most Europeans probably think that George Bush represents the extreme right. The *New York Times* has even made that case. This is nonsense, not least because there is an American equivalent to Le Pen, Pat Buchanan, who received a mere 1% of the vote in 2000.

Buchanan opposed immigration, while Bush tried hard to reach out to immigrants during the election. Buchanan supported protectionism. Bush has made scandalous decisions on steel and farms, but for short-term political reasons rather than any anti-trade ideology; indeed, the administration is pursuing fast-track authority. Buchanan is an isolationist. By contrast, the Bush administration is interfering all over the world. The far right committed political suicide when Buchanan seceded from the Republicans in 2000. Most American xenophobia now finds its expression on the far left.

Europeans think of Bush as a right winger because of his unilateralism. But unilateralism is a means, not an end. The aim is not to retreat within a fortress America. The United States rejected the landmine treaty precisely because it wants to maintain its many entanglements with different parts of the world, such as Korea. It did not withdraw from the ABM treaty because it wanted to withdraw from the world. It needs a missile shield so that it cannot be deterred from interfering in the world by the threat of nuclear weapons. Unilateralism is not isolationism.

THIRD
PANELLIST

One reason why the far right is so irrelevant in the United States is George Bush's success in stitching together a centre-right coalition. He provided tax cuts and pension reform for economic conservatives, judicial nominations and, increasingly, bioethical decisions for social conservatives. The war on terror is now gluing together a centre-right coalition that has not existed since the end of the cold war. The right is as unified as it has ever been since the mid-1980s. That makes it difficult for a fringe candidate to get an opening.

The galvanising issues of immigration and trade do not have the same impact in the United States that they do in Europe. During the election campaign Bush took a strongly pro-immigration stand. He took the anti-immigration groups in his party head on: witness his remark that family values do not stop at the Rio Grande. On trade, the steel decision was undoubtedly bad, but it was a tactical decision to please trade-union states.

The alleged emergence of the extreme right in Europe is a straw man invented by the left to explain its own failures. Le Pen's success reflected a revolt against the establishment and the disarray of the French left. Pim Fortuyn, a Thatcher-loving gay libertarian who opposed Muslims because of their intolerance, was hardly a conventional far-right extremist.

DISCUSSION

A Dutch participant started the discussion by outlining the political situation in his country. Pim Fortuyn generated a groundswell of opinion in favour of a vague political party, before he was murdered. His political party, without a leader and a programme, then won a sixth of the votes. Why? The established coalition had muted political debate and taken the passion out of politics. It was also a victim of its own success in reducing the government deficit and unemployment, an achievement that gave people more time to worry about immigration and security.

A French businessman pointed to two causes of his country's failure to assimilate immigrants. Its hostility to affirmative action means that there are no prominent Muslims in politics or business. But its addiction to political correctness means that there is no proper discussion of problems like crime. The elite's refusal to admit that immigration might entail problems has alienated working-class voters.

An American pointed to the importance of globalisation in the debate. He noted that both Congress and the country have been split down the middle over the issue. The single variable that explains the popular split is education: people with university degrees almost invariably like globalisation and people without them fear it. A significant number of blue-collar workers will lose 40% of their potential lifetime earnings as a result of globalisation, and many more are frightened that they might. These people would be much keener on globalisation if the government were to help the losers through things like trade-adjustment programmes. But they carry political weight: every American president for the past 40 years has made concessions to protectionists in order to obtain trade authority.

Two other participants focused on attitudes to globalisation. An American questioned the idea that the European anti-globalisation movement was concerned about the losers from globalisation. All the evidence shows that developing countries that open their markets improve their standard of living. An American asked whether there is a distinction to be made, in respect of internationalism, between the White House and the rest of the Republican Party. There are plenty of Republicans in Congress who boast about their unwillingness to visit Europe and their hostility to international aid.

Several participants thought politics was in a state of flux. A Dane pointed out that European electorates have lost a succession of anchors, such as class loyalty and the cold war. This has set the voters free. A Canadian pointed out

that opinion polls show that both Europeans and Americans have been losing confidence in all political institutions since the mid-1970s. Such *anomie* has found political expression in Europe: what sort of expression has it found in America? Another Canadian argued that party labels could be misleading. People who display the classic features of fascism—willingness to resort to street protests, a sentimental worship of nature, a belief in economic collectivism, and anti-Semitism—are probably in the majority in Europe. They just happen to be called the left.

Several participants linked Europe's rising social anxieties with its over-rigid labour policies. A French participant argued that high youth unemployment is a breeding ground for extremism. This is a problem that Europe could solve if only it were brave enough. An American argued that the centre-right would be the continent's defence against the extreme right if it could force Europe to pursue structural reform. An Austrian argued that unemployment—and fear of unemployment—was turning people against globalisation. People have the impression that there are more losers than winners. They also have a growing sense that they have a choice between identical options—the centre-left and the centre-right. A Canadian asked whether we can defuse the far right quickly?

A couple of speakers tried to compare America and Europe. A Norwegian pointed out that there were two routes to power in much of Europe: winning votes and forming coalitions. Right-wingers have been invited into coalitions in the Netherlands and Austria, but in France and Norway they remain isolated. An American pointed out that the far right is divided over the Middle East (the American version supports Israel and the European one opposes it).

The second panellist agreed that political correctness was a huge problem. The more mainstream parties refuse to address issues of race and ethnicity, the more those issues

become subterranean. He accepted that presidents always have a hard job obtaining fast-track authority, but noted that they get it if they want it badly enough. On *anomie*, he was dubious: one of the most marked consequences of September 11th has been an increase in trust in political institutions. On coalitions, he pointed out that the American political system makes it almost impossible for third parties to succeed. They sometimes materialise around a galvanising issue—as with Perot—but they disappear as soon as the main parties absorb that issue.

The third panellist had little truck with the idea that the American far right is pro-Israeli. Buchanan is critical of Israel. The religious right may be pro-Israeli but it is hardly hard right. He pointed out that America is not trending rightwards on any of the major issues—immigration, trade or globalisation. This argument reflects a vague sense that Bush is a cowboy. But it has no substance. As for the idea that America is becoming isolationist, this rests on confusion between isolationism and unilateralism. Congress may be isolationist on trade on occasion, but this reflects local issues. One of the wonders of American history is that it is not more isolationist than it is. The root of Europe's resentment of America is not that country's rightward drift; it is Europe's resentment at the sheer scale of American power, unprecedented in history.

The first panellist observed that the European Union used to be a project of the right. Now it is a project of the left, driven in large part by a desire to preserve the welfare state. Most of the protest movements remain immensely fragile. On the other hand, the tendency to turn to non-political expressions of frustration is a source of worry. The rise of protest politics might lead to creeping authoritarianism, with tiny elites taking most of the real decisions in secret.

The Middle East

Predictably, there was great disagreement on this subject. Most American participants remained suspicious of both the Palestinians and the Saudi peace plan, whilst Europeans argued that America could do far more to push the Sharon government towards peace.

FIRST PANELLIST

The idea that Ariel Sharon has changed is wishful thinking. He has devoted a lifetime to very clear goals: preventing a viable Palestinian state from emerging, and keeping the settlements. He has become more subtle about achieving those goals: witness his refusal to condone Netanyahu's dismissal of a Palestinian state. Although he has opposed nearly every peace plan, Sharon has cleverly presented his intransigence as part of America's war against terrorism. He has ignored opportunities that a more dove-like leader might have seized, such as the aftermath of Operation Defensive Shield.

Arafat has been Sharon's best possible ally. Palestinians expect their leaders to resist the occupation (the younger leaders are even angrier about the occupation than their seniors). On the other hand, Arafat is aware of the international community. The issue of reform is difficult. The Palestinians want a simpler intelligence and military structure—but to resist Israel, not to crack down on terrorists.

American diplomacy has been disappointing. So far Bush has given no sign that he is prepared to go beyond crisis management. He has defined neither the goal nor the roadmap. That is why Oslo failed.

SECOND
PANELLIST

The Middle East is a good case study of transatlantic divisions. America is much more pro-Israeli, not only because of the power of the Jewish lobby in Washington, but because September 11th made a strong impression on the American people. The approach of the European Union has been more balanced. Europeans strongly oppose suicide bombers, but they also dislike Israeli use of force against civilians.

The Middle East has not been a priority for the Bush administration. The European Union has devoted more attention to the problem, not least because it gives so much money to support the Palestinian Authority. It is also a question of geography: whatever happens there will affect Europe.

Sharon is not interested in any discussion involving international participation. His main priority is to get rid of Arafat. Arafat continues to be an icon for Palestinian people, but he looks backward. The Arab states are focusing on the Saudi proposal. The EU has been waiting on America. The EU's position is based on three principles: that there is no purely military solution; that the principles of peace are embedded in the Oslo process; and that outside help is needed. The immediate problems are to restructure the Palestinian Authority, to set up a peace conference, and to arrange emergency aid for the Palestinians.

DISCUSSION

The moderator began by defending the Bush administration. The deadlock predated the administration, and, back in 2001, it was not obvious that an outsider could bring much to the table. Of course, Bush was preoccupied with Afghanistan. When Europeans talk about a greater American role, they really mean simply imposing the Saudi plan. But Sharon is not the only obstacle to peace. The margin for survival for Israel is slim. The country is militarily strong, but politically and psychologically weak. It needs to know that the Arab pledge to respect Israel is for real. There are decent reasons to be scepti-

cal about Palestinian intentions towards Israel. The present crisis was caused by the keenness to have a comprehensive solution in 2000. Such a solution does not exist: no Arab leader can give up the right to return; no Israeli leader can give up Jerusalem. The immediate goal should be co-existence not peace. The Bush administration needs to define those goals, and then work out details such as the settlements.

The idea that settlements were a mere detail infuriated the first speaker. Altogether, Israeli settlements now occupy some 42% of the West Bank. But the next American speaker defended the Bush administration and attacked moderates who imagined that you could somehow have both a secure Israel and a viable Palestinian state. A Canadian also picked up on this point. Israel had to deal with a hostile Arabic world. Seven weeks ago, the number one song in Egypt had a chorus about destroying Israel. Many of the Palestinians claiming the right to return come from Lebanon.

A German speaker wondered whether a fraction of the \$8 billion in military aid that America gives to Israel, Egypt and Jordan could be diverted to economic purposes, particularly developing the Jordanian economy to provide jobs for Palestinians. A Frenchman argued that America's war against terrorism must also prevent future terrorists. The Middle-Eastern crisis is plainly increasing Muslim extremism. But the Europeans also have to start doing things: for instance, examining exactly what Palestinian schools do with European Union money, and also withholding money from Israel if it continues to build settlements.

Several Americans examined the Palestinian Authority. One asked who would replace Arafat. What would happen if Israel returned to its 1967 borders, the international community compensated Palestinians for the right to return and East Jerusalem was split up? Another American argued that a solution had to guarantee Israel's security. The Palestinian Security forces are supposed to help Israel; they patently do

not. Would an international security force make sense? Another American thought the key was co-operation between the Palestinian, Israeli and Jordanian security forces.

One German, looking for ways to dampen Palestinian terrorism, wondered whether co-existence was realistic, without Israel going back to the 1967 borders. Polls show that Israeli voters think that a settlement based on the 1967 borders is the only real way out. A Frenchman worried that fears about Arab intentions towards Israel became a self-fulfilling prophecy. It is plain that the parties themselves cannot reach peace. So you need international involvement. It is possible to imagine an international force protecting the Palestinians from the Israelis, but not the Israelis from Palestinian terrorism. One American feared that it would soon be his country and Israel versus everybody else. How can the White House's thinking be changed? If it can pressurise Iraq, it can also pressurise Israel and Palestine. A second American was puzzled by Arafat: why had he refused the deal at Camp David? A third wondered whether extremism on both sides would radicalise Israel. A Greek asked what impact a war in Iraq would have on the Middle East.

The moderator said that the debate should not be about American engagement, but about European involvement. The Europeans need to get more out of Arabs. A solution will only emerge after a period of co-existence. The second speaker repeated the charge that America had ignored the Middle East during a crucial period. Yes, the Afghan war mattered more, but peace in the Middle East was part of the same struggle. The EU's position was not a mystery: it was based on the Oslo peace process. The first speaker took a similar line. Israel has a right to counter terrorism, but it has to offer something more. When it denies people legitimate rights, it creates 3.5m potential terrorists. The Saudi initiative is good: it recognises Israel fully. Oslo failed because it never spelled out the goal of the process. Ten years later, the Palestinians will accept incremental progress, but not incremental goals.

Current Affairs

The current affairs session focused on America's war on terrorism. Several of the speakers argued that America had been better at stamping out existing terrorists than preventing future ones from emerging; they also worried about the state of the western alliance and the Middle East. The panellist defended American policy in all these respects.

FIRST PANELLIST

The war on terrorism is a global undertaking. Sixty-eight countries are participating in a variety of different ways. Al-Qaeda and the Taliban have not given up. But the Taliban no longer governs Afghanistan and al-Qaeda is in retreat. Many countries are helping to reconstruct Afghanistan, with Britain leading the local peace-keeping force, Germany training the police etc. The best sign of success so far is that refugees are moving back into the country.

Several things are clear. First, the proliferation of weapons of mass destruction is pervasive. Countries that possess these weapons are helping other countries and terrorists to acquire them. It is not just probable that terrorist countries and organisations will acquire these weapons. It is certain. Second, people who fly aeroplanes into the World Trade Centre are willing to use weapons of mass destruction if they can get hold of them, killing not three thousand, but tens of thousands of people. You must constantly think about mitigating the effect of terrorism, about improving intelligence-gathering, and about going after the terrorists.

There are different ways of dealing with terrorism. It is one thing if it is a country, quite another if it is an area that is not under the control of government. There are places (like Somalia) where you cannot go after the government because the government is too weak to control its territories.

DISCUSSION

The discussion initially focused on Pakistan and India. Two Americans asked about General Musharraf. Can he control the Kashmiri extremists or even his own military and intelligence agencies? How great is the threat of a possible nuclear war? Has the Pakistani army helped militants cross the frontier? The panellist replied that the Pakistani intelligence agency contained pro-Taliban elements. But Musharraf has changed the leadership of his intelligence agency. He also enjoys a relaxed relationship with the military, as befits a professional soldier. The proportion of the population that wants to turn Pakistan into a more militant state is probably below 10%. The leaders of both countries understand that nuclear weapons are more than just big bombs—that they will cause extraordinary carnage and long-lasting damage. As for the line of control, Pakistan must do what it claims it is already doing, and stop the movement of militants. Musharraf has taken a few faltering steps.

The second questioner also asked about NATO's future role. The panellist said that most NATO countries were involved in Operation Enduring Freedom. More than half the ships involved at any given time are non-American. But it is hard to formalise relations with the allies. In a set-piece war, a clear set of agreements with other countries would make sense. But it is impossible to formulate anything but general agreements when you are fighting a fluid war in which the enemy moves around many countries. You need coalitions of the willing. You need to cast your net as wide as possible—to take advantage of every kind of possible participant you can get on the face of the earth.

An American asked why the United States could not do a better job of creating organisations to deal with catastrophic terrorism. The head of the homeland security office has no budget control. The intelligence services are hopelessly fractured. The speaker thought that the situation was getting better. A country that has two big oceans and friendly neighbours to the north and south is constitutionally unprepared for a sneak attack. America has no domestic intelligence-gathering apparatus and it is highly sensitive to civil liberties. Structural changes are needed. A Frenchman worried about the world's ungoverned regions. How do you counter terrorist activity in those areas, particularly cities? The panellist admitted that rooting out urban guerillas was very difficult.

A Norwegian pushed the panellist on the lack of understanding across the Atlantic. Why are we failing to share information? And what can we do to build a bridge across the Atlantic? The speaker said that there was no single European view, just as there is no single American view. Still, we are engaged in an unprecedented amount of intelligence-sharing. From an intelligence point of view, the problem is not what we don't know, nor even what we know that we don't know, but what we don't know that we don't know. Neither multilateralism nor unilateralism are virtues in themselves. Producing the right answers is a virtue. Europeans have fallen in love with unanimity for its own sake, rather than as a tool for producing the right solutions.

An American asked about Afghanistan: when Kabul is in better shape than the rest of the country, why does the administration oppose the extension of peace-keeping to the rest of the country? He also asked about the Middle East: do we need to give greater emphasis to addressing the grievances of Arabs? The speaker described the security situation in Afghanistan as uneven. But refugees are returning to many parts of the country, not just Kabul. It is wrong to say that America opposes the expansion of the security forces.

America is doing a huge amount (along with its allies), ranging from pursuing its enemies to building up the country's civil infrastructure. America can only do so many things at any one time. As for the Palestinians, they undoubtedly have grievances. We should not allow the weakness of their leadership to blind us to this fact. We need to find a way for the neighbouring countries, Egypt and Jordan, to put a rib cage into the Palestinian authority. We need to find somewhere where aid can go without being wasted.

A Turk asked what progress has been made in reorganising defence expenditure in the light of this new threat. The speaker admitted that America was adjusting imperfectly. Bureaucracies and contractors are resistant to change. It is going to take an enormous amount of effort and persistence to get things right. The enemy is going to use asymmetric threats to turn the balance of the world to their advantage.

Several speakers focused on al-Qaeda. A French participant asked about the fate of the top al-Qaeda people. The speaker explained that around 50-60% of the top 50 al-Qaeda and Taliban were still at large. Regarding the rest, half are dead and half are in captivity. An American asked how many other al-Qaeda-like groups exist. The speaker pointed out that there were public lists of terrorist organisations and states. Some organisations are local, some global; some are focused on a specific issue, some are more fundamental. It is the lethality of the organisation rather than its size that matters: small non-state entities can suddenly acquire powerful weapons.

Other looked to the terrorists of the future. How do you stop them, asked a Swiss. The speaker replied that every government had an obligation to adjust to the new security environment. Musharraf, for instance, is trying to persuade Islamic schools to teach their students something useful, rather than persuading their unfortunate students that the ills of the world are all somebody else's fault. A

German pointed out that countries that have been successful in the fight against terrorism have pursued a double agenda: capturing the fish and draining the water they swim in. Surely there should be a social and economic agenda? The speaker conceded that fighting terrorism was not simply a military task.

An American argued that America's influence around the world was being eroded as a result of the Middle East impasse. He worried that resolving the problem was not a priority of the administration, and that American policy had been captured by Ariel Sharon. Another American questioned the speaker's assertion about the corruption of Palestinian authority. Only a little foreign money has been misappropriated. Corruption enters the picture with tax money rather than aid. The speaker argued that the amount of aid that goes to the Palestinian authority was modest compared with the amount of inward investment that would arrive there if the Authority weren't so corrupt. He said that you can only solve the Middle Eastern problem in stages. The president and his secretary of state have been engaged from the outset. But the problem has flared up throughout our lifetimes. He dismissed the idea that American policy had been captured by Israel and reminded everyone that Israel only has a very narrow margin of error.

The last questioner, from Europe, suggested that it was time to review the mechanics of consultation between Europe and America. The panellist replied that both NATO and the EU seemed good mechanisms for consultation. One problem is the shortage of time. He welcomed ideas about improving the mechanics, but insisted that the best way forward was to be open and forthright.

Post-Crisis Reconstruction/Nation-Building

Most of the participants accepted the idea that institutional failure was an important precursor of both war and poverty. Some people wondered whether there was a way to modernise old structures, such as the Marshall plan or the system of mandates. But others were sceptical not just about specific proposals but even about the idea of nation-building itself.

FIRST
PANELLIST

Talking about nation-building presupposes that the nation existed before. It takes centuries to build a nation. Many states are not nations. In the Middle East, Turkey, Egypt, Iran and conceivably Israel are the only nations. Iraq is a nation in process. Algeria is not a nation; Morocco is. Some nations are not states: the Kurds are an example. We are still sorting out the end of the Ottoman Empire, decolonisation and the collapse of the Soviet Union.

Nation-building is thus a very ambiguous concept. It includes peace-keeping and economic aid. But it can only work when something existed before. The relentlessly mentioned Marshall plan worked because it was rebuilding mature nations, notably Germany. So history is very important when you look at nation-building.

So too is the time. Fighting the war against terrorism is a long-term strategy. Over the past few months nation states have actually got stronger—particularly Russia and China,

whose respective problems of Chechnya and Tibet have gone away. The international community should spend more time fighting poverty and illiteracy.

SECOND
PANELLIST

When the fighting ends, the international institutions are drawn in. One recent example is East Timor—a small island that has just adopted Portuguese as its language, where 40% of the inhabitants are illiterate and 40% live on under 55 cents a day. It has political problems with both Indonesia and Australia. East Timor could not build itself, so the international community gave it aid.

Afghanistan is a much bigger place, with 25m people. It has borders with a lot of other countries, many of them vague (there are no road signs in the Khyber Pass). There are also plenty of internal splits. The conflict has now reached a point where the main powers that defeated the Taliban want to get out. Money is not available for security or to combat drug lords. This is symptomatic. Once a conflict is over, the world quickly loses interest. The outside world treats the end of war as the beginning of the nation.

The work is only just beginning in the Congo. In the West Bank and Gaza, the World Bank spent \$3.5 billion to build infrastructure, but we have failed. There has been a total loss of confidence. Better health and education are subject to building a decent state. In short, the theoretical approach to rebuilding states is naïve. It is easy to declare the end of conflict; but nation-building is extremely difficult and often fails. More than half the countries return to conflict within five years.

DISCUSSION

An Italian began the discussion by returning to the problem of definition. A nation was a cultural notion, the state a political one. There are only around 200 sovereign states, but 6,000 languages. Another complication is that there are very few

states where sovereignty is fully concentrated at the national level—and rightly so, because the correct level of government varies from problem to problem. So nation-building is an ambiguous concept; what matters is that there is a recognised rule of law and a proper social contract. A Briton agreed: nation-building is too ambitious. The only thing that outsiders can do is to build institutions, particularly a modest sized independent judiciary, though even that provides no guarantee (Zimbabwe started with good judges).

A Dane wondered whether the issue of nation-building was too rapidly dumped on international institutions. Maybe it was time to give the responsibility to nation states, perhaps giving outsiders a mandate to rebuild states. A German argued that many African countries were unable to administer their countries. Most of them know what good governance is, but they do not have enough qualified civil servants (even in South Africa). It would be good to have an example to show to Zimbabwe. A Canadian also agreed: in places like Afghanistan, the West is dealing with a *tabula rasa*. There is an urgent need to build up expertise. Otherwise, the backlash will be serious.

Others were more sceptical. An American pointed out that everybody always talked about Marshall plans for different countries, but none of the results look similar to the Marshall plan. Were there any good examples? He also attacked the idea that the private sector would invest early on. Another American thought that the international community had to be aware of its limitations. The rule of law is crucial, but so is security. We can change regimes, we cannot build security. A Portuguese, recalling the complaints that the UN had faced even in East Timor, wondered how to make civil society work better. An earlier session suggested leaving nation-building to the Europeans: does that make sense? A Spaniard pointed to the desolation in Argentina. It now has 21 different currencies. He thought that the IMF had played a part in Argentina's downfall.

The second panellist pointed out that institution-building was not limited to conflict-ridden countries. Five billion out of the six billion on the planet live in places with inadequate infrastructure. At Monterrey, these poor countries pledged to build capacity in this respect. The problem with conflicts is that once the conflict is resolved, the outside world's attention disappears. In many parts of Africa, there is no tradition of law, so we are building institutional structures from nothing. But the outside world is seldom excited by institution-building. People are not giving help. On the specific question of Argentina, the panellist thought the IMF had been blamed too much. The Argentines were complicit in their own ruin: there was too much corruption and cronyism. As for the private sector, yes, business people are cautious, preferring to enter countries only when institutions are built. Economic growth is at the core of bringing about effective nation states.

The first panellist noted that shared sovereignty was one of the things that the European Union was trying to achieve. It was trying to build a new sort of state to deal with the modern world, and so it was an interesting model. The Union might also solve the problem of nation-building for some countries: the former Yugoslavia can find institutions in the EU. The idea of reintroducing mandates is interesting. Many Africans want to be recolonised, so we have to reinvent some framework to do that, but the period of the mandates was not an easy one. The Marshall plan worked only because of what the states were. With Argentina, there is plenty of blame to be shared on all sides.

Prospects for the World Economy

This session saw a division between different professions. Economists and central bankers tended to argue that the underlying economic picture was healthy. Businesspeople concentrated on the gradually falling stock-market. Both groups singled out America's current-account deficit as a particular problem.

FIRST
PANELLIST

After ten years of expansion, the American economy slowed from an average annual growth rate of 2.8% at the end of 2000 to 0.5% a year later. This made for an unusual recession. It was not very steep—a negative swing of just 2.3%. Personal consumption slowed by just 0.7%. This time a dramatic slowdown in the consumer sector did not happen, though there was a substantial slowdown in business investment.

What is happening now? GDP grew by a robust 5.6% in the first quarter of this year. Personal consumption held up very well, and the low savings rate improved slightly. Energy prices have risen, but not as much as they did in 2000. Business investment is weak but beginning to turn up. In earlier recessions the ratio of inventory to sales jumped; this time it stayed where businesses wanted it. Companies can manage their inventories much better than in the past. In the heyday of growth, America produced 3m new jobs a year. Since the recession started it has lost 1.6m jobs. That has helped keep a lid on labour costs and inflation. The real Fed Funds Rate is positive—but only just, at about half a percent. Fiscal prudence remains very much in fashion.

Forecasters predict that the economy will grow by 3.5% next year. One source of concern is the current-account deficit, which stands at 4.3% of GNP and obliges America to suck in a gigantic quantity of capital. This situation is certainly manageable, but it is hardly desirable. As for household borrowing, debt service in relation to income is manageable by historical standards.

The most important thing to look at is productivity. In 1973-95 productivity grew at 1.4% a year. Since 1995 it has grown at 2.6% a year. Productivity growth remained at the higher level during the recession—and the evidence suggests that something structural did indeed change. Information technology is producing significant improvements (e.g. in retailing and banking). The consensus is that the rate at which productivity can grow without inflation taking off has risen.

SECOND
PANELLIST

It is difficult to diagnose the state of the Euro-zone economy when there are so many major structural changes, particularly the introduction of the euro. The Euro-zone slowed down in 2001. All its major economies are resynchronising. There is a resynchronisation between Britain and the Euro-zone, and there are also asymmetries in trade between the Euro-zone and America. Exports of goods from the Euro-zone to the United States account for 2.7% of the Euro-zone's GDP; exports to the Euro-zone account for just 1.1% of American GDP. That said, Britain and even the transition economies are more important sources of external demand than the United States to the Euro-zone.

The weakness of the euro helped push up oil prices in local terms. The Euro-zone was also hit in 2001 by a decrease in investment. There is a good chance investment may now look up. In terms of productivity, the Euro-zone has done worse than America since 1996, having previously outperformed it. It may be able to catch up.

The growth rate in the first quarter was a disappointing 0.2%, but the leading indicators are much more positive. The consensus is that the Euro-zone will grow by 1.3% in 2002 and by more than that from 2003. The average growth rate for the first five years of the Euro will be 2.35%. Still, the Euro-zone cannot be content with that. The economy is being restructured: witness the number of mergers and acquisitions. But Europe needs to shift the balance between job protection and job creation. That change will be painful. It will also entail a change in the culture.

DISCUSSION

A Spanish banker praised macro-economic management on both sides of the Atlantic: western economies seemed to be rebounding strongly after a limited recession. So why was everybody, especially the stockmarket, so pessimistic? Several other people contrasted the optimistic mood of the panel and the more doleful countenance of the business world. A Frenchman wanted to explore the falling stockmarket. Were accounting practices to blame? Or the risk of more terrorism? And what lessons have central bankers learned from September 11th? Another Frenchman asked about the dollar's exchange rate with the euro. A Dutchman wondered why business was not more optimistic if the underlying economy was so healthy. An American suggested a solution to the conundrum: technology is great for consumers but not so great for producers. Perhaps markets are reflecting that fact.

Two American economists summed up their perspectives. One raised the question of the global outlook. (The EU and the United States account for only 40-50% of the world economy.) He pinpointed the question of the current-account deficit. The United States has to import foreign capital to the tune of \$4 billion a day. But the dollar is beginning to decline. The question is how far will it go. The other economist was a little more positive. The United States did have a recession: employment fell for twelve consecutive

months. But strong productivity growth has limited the symptoms of the recession. The two clouds are the low savings rate and the current-account deficit. A gradual decline of the dollar relative to the euro, combined with a return of the savings rate to its traditional level, should allow America to deal with both of those imbalances

Another American questioned his country's continued commitment to fiscal discipline. In Congress both parties are competing to spend money: look at the disgraceful farm bill. The rise in domestic spending has almost approached double digits for the past four years. Spending on defence and homeland security is also surging. A few years ago Americans were talking about reforming entitlement programmes; now all the talk is about expanding them. The government's share of GDP, after falling for several years, is beginning to grow again.

The second panellist admitted that it was an age of great uncertainty. Business should see a boost in investment thanks to improvements in the way that companies handle their inventories. But he had also been struck by the pessimistic attitude of chief executives. A strong euro, he felt, would inspire confidence. But people are wrong to think of a strong euro countering the dollar. It is not a zero-sum game. Co-operation between the Federal Reserve and the European Central Bank survived the test of September 11th. But America's current-account deficit is not sustainable.

The first panellist argued that business pessimism was based on poor profits in the past two quarters. Such gloom is excessive. Fixed investment does not generally pick up until after two consecutive quarters of revenue improvement. Another act of terrorism would certainly depress the situation, but central bankers have proved that they are good at damage control. He also repeated his argument that fiscal responsibility was now embedded in the fabric of political America, citing the elimination of the contract for the Cru-

sader and opposition to tax rises as examples of prudence. As for the American current-account deficit, the first panelist pointed out that money had been quite happily flowing into the United States in the past. It is not clear why this should change. The problem is not pressing, but it should be fixed. The best solution would be for other countries to press ahead with structural reforms so that capital would flow to the rest of the world rather than migrating to the United States. If America can increase its savings rate and bring down its current-account deficit, that would make an already healthy economy healthier still.

Trade: The China Effect

What does China's entry to the World Trade Organisation mean for China, the world economy and the WTO? Most speakers felt that the fuss about China joining the WTO was warranted, but there was disagreement about the risks involved. Some foresaw considerable upheaval both inside the country and around Asia.

FIRST
PANELLIST

China signed its protocol of accession last December. China's leaders, who know the huge challenge of restructuring its state-owned enterprises, wanted to consolidate this process of modernisation before passing control to the next generation.

The debate over China's entry to the WTO was raucous. It seemed wrong to have a World Trade Organisation that did not include a fifth of the world's people. A safe, prosperous China is in all our interests, not least because China has borders with 14 other countries and holds a seat on the UN Security Council. That said, it is a huge challenge to the trading system. America has a \$100 billion deficit with China, and the figure for the EU is nearly half that amount. Asian countries are worried at the way that investment is flowing into China, building up its export capacity.

This is part of the process of globalisation which politicians have as yet not explained very well. The poorest nations should be given better access to western markets. Trade is better than aid. So there are challenges stemming from China's accession. But, as the saying goes, better a diamond with a flaw than a pebble without one.

SECOND
PANELLIST

There has been a lot of work on the effect of the accession on specific countries, such as Mexico, but not much done on the effect on the WTO. The WTO is very different from the GATT. The Uruguay Round moved the focus to domestic politics, and to institutional reform. The WTO inherited a strong disputes-settlement mechanism. It has set up a two-tier system.

Can China provide the information on, say, food safety? The WTO's standard for transparency is based on the American Administrative Procedures Act. It emphasises independent regulatory agencies, freedom of information and judicial review. It is also relatively adversarial, but it had no real impact on GATT, which was about border controls. China may not be able to publish all its laws and regulations for 20 years. Many laws are state laws; some are just normative documents. There is no separation of powers: no concept of an independent judiciary. It is rule by law, not rule of law.

Optimists say that, under pressure from business, laws will emerge. But China has already violated some aspects of its accession. The West is taking a tolerant approach. But can China really be treated differently? The country that is most concerned about China is India. A tough western policy will be seen by China as a political attack.

DISCUSSION

The discussion began with solicited contributions from three people who know China well. The first speaker, an American, thought Hu Jintao was a difficult man to judge. He behaves like the CEO of a large American corporation. Mao had the legitimacy of the revolution. Deng had the legitimacy of reform, and Jiang Zemin was anointed by Deng. The Chinese have an economy that is far ahead of the political process. The Communist Party resembles the PRI in Mexico. The Bush administration is not at ease with China: it still sees it as a potential competitor, even though it will not be a military rival for a generation. China does not fit into the slot vacated by the

Soviet Union. Taiwan could present a problem, but, given China's excitement about the 2008 Olympics, it would take a severe provocation for China to renew that struggle. The challenge for America this century is to create and manage an Asian system in the same way that the British managed Europe in the 19th century.

An international banker, who had just returned from China, said that he had never seen the country so confident. The WTO, the Olympics, and the World Exposition: all these things have made the outgoing leaders feel secure. They are much more willing to discuss difficult issues, like minorities, corruption and Aids, though they are still sensitive about human rights. China's population will cap out at about 1.5 billion. The immediate challenge is to tackle poverty. The government's answer is a "Go West" policy of opening up the country. Technology will also play an important role. The current leadership has devised a plan; the next generation will implement it.

This theme was also captured by the third speaker, an American economist. Jiang Zemin sees the WTO accession in the context of China's "deep sleep", the era when China turned inward and was overtaken by the West. China does not want to miss the current era of globalisation. WTO entry is a reason to modernise: it has already changed 150 laws. One challenge will be relations with Japan. Last year there was a minor trade war between Japan and China. China has now reached a pact with ASEAN to have free trade in 10 years; Japan has not. By contrast, China poses a far smaller threat to countries like Mexico (it cannot make everything). Yet there is a far-off worry that you could end up with two trade wars—one between China and Japan in Asia, and one between Europe and America in the West.

A European banker agreed with the idea that China was overtaking Japan. It still takes time for western businesses to get into China, and there are difficulties dealing

with joint-venture partners. But he was relatively optimistic about Taiwan: Shanghai is crawling with Taiwanese business people. An Irish participant agreed. With China, it is important not to confront, but to engage. The negotiations over the WTO stretched back over 18 years. Already China is attracting huge amounts of FDI. The experience in Hong Kong has been better than people expected.

Others were less optimistic. One American thought that China had huge economic domestic problems. There will be economic pain with WTO accession, which will also make the gap between economic and political reform all the more noticeable. A central banker thought that the crux of China's challenge was creating economic structures. It has huge numbers of state-owned enterprises, which have social responsibilities. The leadership has used WTO membership to galvanise the younger generation. But China is still wedded to a hard currency. An American pointed out that China was a huge importer: how would it use that market power over its Asian neighbours? A Frenchman was particularly worried about Japan.

Several speakers discussed America's position. One politician used the accession vote to argue that the importance of passing fast-track had been exaggerated. At Seattle, Bill Clinton tried to get the rights of human capital on the table. An American thought that China would not cause as much trouble for American workers as Japan had in the 1980s. Accession will be a bigger problem for American business people: they have been told that they can get into China and will be angry when they find their way still blocked. The real challenge though will come from the developing world: China will chew up a lot of investment. Pressure must be brought to bear on Beijing to pursue more than just an export-led strategy.

A few speakers looked at the WTO itself. A Portuguese participant asked about the organisation's future direction.

How will it adjust to social issues and the environment? Should it press ahead with enlargement, or should it first come up with a different set of rules? A Norwegian pursued the environmental issue further, noting that China had problems of its own in this regard.

The second panellist thought that the rule of comparative advantage was not really applicable to China because of the state structure. Japan is indeed a problem. So are the state-owned enterprises, which still account for the bulk of assets and investment. Reform has slowed because of the social problems. As for China's leverage in the region, Beijing is well aware of this. The leadership is already seeking out intellectual property in fields such as software and biotechnology.

The first panellist argued that the fast-track bill was essential. With China there were certainly huge risks, but there were also grounds for optimism. There are already some signs of political liberalisation. Yes, China is using power over imports to change things. But China's private sector is beginning to wield power too. China is using the WTO system. The potential benefits outweigh the risks.

The Influence of Domestic Issues on American Foreign Policy

As the moderator pointed out, the conduct of American foreign policy had come up in every session. Everybody admitted that foreign policy was bound to be somewhat influenced by domestic considerations, with several speakers arguing that the influence was far too great. By contrast, most people seemed to think that foreign policy would not be a significant issue in the November mid-term elections.

FIRST
PANELLIST

The direction of foreign policy was one part of America's founding documents. America was organised as a nation to do two primary things: protect against aggression and ensure domestic tranquillity. Domestic issues clearly have a profound influence on foreign policy. The country's ability to carry on a domestic agenda depends on its ability to protect the country. Two considerations weigh on the president's mind. The first is that the planet is much smaller than ever before. The second is that we are at a pivotal moment in history.

September 11th has produced profound changes. One of the basic presumptions in the constitution is that America is reactive. But these days you have to be pre-emptive in order to defend yourself. One attack can be so catastrophic that prevention is necessary to preserve tranquillity. The aim of American strength is to preserve freedom. People cannot live in tranquillity unless they are safe from external aggression, including terrorism.

Throughout his administration the president has focused on foreign aggression and domestic tranquillity. The administration started on domestic tranquillity—hence tax reform and education. But these days we cannot escape from the focus on foreign affairs.

SECOND
PANELLIST

The United States faces very important elections this year. The balance of power depends on one seat in the Senate and six seats in the House. There are also 36 governorships up for grabs. The omens are good for the Democrats, who did well last year despite Bush being at the height of his popularity.

Foreign policy tends to play a role in presidential rather than congressional campaigns. The parties are in agreement on how to fight the war on terrorism. The administration has sometimes inappropriately used foreign policy to shore up its domestic position. American politicians are inevitably influenced by domestic considerations. Good politics does not usually mean bad foreign policy: it is good foreign policy to make sure that Israel has the wherewithal to defend itself. But we have to make sure that domestic policy does not thwart foreign policy: most American voters were probably against the Marshall plan.

The Bush administration's foreign policy has been guided by domestic considerations in two important ways. One is its determination not to repeat the failures of the previous Bush administration. The president has tried to solidify his conservative base: one of his first acts was to ban funding for abortions abroad. Bush's determination to go after Iraq may also be influenced by his desire to expunge the greatest mistake of his father's presidency. Bush is also using foreign policy to go after Democratic voters, such as Latinos and steelworkers. There is a huge amount of internal debate within this administration, which gives power to political functionaries such as Karl Rove. Bush has had to change his mind on both nation-building and the Middle East.

DISCUSSION

Most of the first speakers focused on trade. An American asked what decision the Democratic Party would have taken over steel given the upcoming governors' elections. And how does the steel decision fit into a foreign policy based on the need to promote tranquillity and protect against outside threats? Another American noted that the Democrats' commitment to free trade had weakened since Clinton's retirement. The bulk of votes for fast-track came from Republicans. A third American asked how the United States could generate a political consensus in favour of prudent policies outside the military sphere. It is almost impossible to get a majority for free trade among Democrats or a majority for international involvement among Republicans. A Norwegian wondered if America pursued any foreign policy on its merits alone.

The second panellist agreed that the steel decision was political. Bush ran for president on a free-trade ticket, but then deserted it. Steel is a difficult subject for Democrats too, though Clinton was a firm free trader. In general, the Democratic Party is in favour of free trade provided it is fair. If Gore was in the White House, the same decision might have emerged, but with modifications to help American workers. The first panellist claimed that Bush still led a free-trade administration. There are strong strategic reasons why you need to be able to produce steel in America. Bush did not visit Mexico first for domestic reasons. He did so because he comes from a neighbouring state—and because he likes the people.

Some speakers wondered whether support for the war on terror really was bipartisan. A Canadian thought policy would change if the Democrats won majorities in both houses. The Democratic Party has not broken free from a post-Vietnam mindset. Of the leading candidates for the presidency only one, Gore, has given full-throated support for war. The tide of protectionism that engulfed the Democratic House in the 1980s is now engulfing the Senate. Surely

a Democratic Congress would be more protectionist, more doveish and more conspiracy-minded? A German wondered how far bipartisan support should go. Supporting the administration's activities in Afghanistan is clearly right. But does it extend to domestic efforts to gather intelligence that conflict with privacy rights?

Several speakers found it hard to repress their cynicism. An American called the two parties equal-opportunity panders: just look at the Republicans and the Miami Cubans, and the Democrats and Israel. The Democrats in Congress will not criticise Bush on steel for fear of offending their political base. Another American suggested two questions: what are the domestic constraints on American foreign policy in the Middle East? And what is the impact of the world on domestic politics? Another American wondered how the agricultural lobby had held on to so much political power. A bipartisan bill has just furnished farmers with yet more subsidies, despite the fact that American consumers pay five times the global price of sugar, and sweet manufacturers are moving abroad.

The second panellist thought that support for the war on terrorism was bipartisan. The Democrats have stood four-square behind the president on homeland security. But support for the war does not mean that you surrender your right to ask questions. The first panellist said that policies on all sorts of vital areas—such as privacy—are in a state of flux. The administration is trying to draw the line. This has happened before, on everything from zoning to implied consent laws, but never on issues of similar gravity. Agricultural policy reflects a variety of concerns, including safeguarding America's "food-producing infrastructure." There has been an extraordinary awakening to the rest of the world since September 11th—a realisation that the world is a very small place and that America has a continuing responsibility to other countries.