The Madrid Plenary Meeting of The Trilateral Commission, May 1986
On the cover:

Fernando Zóbel
Dos de Mayo IV, 1984

This painting is reproduced by courtesy of the Juan March Foundation in Madrid, with particular thanks to Carlos March Delgado, President of the Foundation and Member of the Trilateral Commission. One evening session and dinner during the Madrid meeting were held at the Juan March Foundation.

May 2 is an important day in Spanish history. On that day in 1808 a popular insurrection began which led to the retreat of Napoleon's forces from Madrid; and the date has come to signify the beginning of the war of independence from French rule.

Trialogue: 38

The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

CHAIRMEN

North America: David Rockefeller
Western Europe: Georges Berthoin
Japan: Isamu Yamashita

Subscriptions are available to Trilateral Commission publications. Subscription rates are $12 for one year and $22 for two years. A typical year includes this publication on the annual plenary plus two task force reports.

Mail all orders and payments to:
The Trilateral Commission (North America)
345 East 46th Street
New York, New York 10017

Copyright © 1986 The Trilateral Commission
Madrid, May 1986

Spain and Portugal

Felipe González
Manuel Fraga
José María de Areilza
Juan Linz
Víctor Pérez Díaz
Juan José Toribio
António Marta

The International Economy

The Future of the International Trading System
Arthur Dunkel
Richard N. Cooper
Seiki Tozaki
Willy de Clercq

Babacar N'Diaye

Conditions for Partnership in International Economic Management
C. Fred Bergsten
Etienne Davignon
Isamu Miyazaki

International Security

Zbigniew Brzezinski

Prospects for East-West Relations
William G. Hyland
Karl Kaiser
Hiroshi Kimura

Science and Technology

Isamu Yamashita

Editors
Charles B. Heck
Michael M. Yoshitsu

Circulation
Peter Witte

Graphic Design
John Hair

Photographs
Christian von Faber-Castell
Their Majesties the King and Queen of Spain with the three Chairmen of the Trilateral Commission
The 1986 plenary meeting of the Trilateral Commission took place in Madrid on May 17-19. Spanish and Portuguese members had first joined the Trilateral Commission in 1979 in the expectation that these countries—their transitions to democratic government well-advanced—would eventually join the European Community. Spain and Portugal became Community members on January 1 of this year—and another milestone was passed on March 12 when Spanish voters, in a referendum, supported continued Spanish membership in the North Atlantic Alliance. The Trilateral Commission meeting in May, as the Chairmen put it in their closing statement, recognized fully the “historic...importance of Spain’s and Portugal’s entrance into the European Community, a welcome sign of Europe’s vitality, thereby reinforcing the strength and capacity of the trilateral partnership.”

An important part of the Trilateral meeting was spent reflecting on the progress of Spain and Portugal over the past decade. The remarks to the Commission of Felipe González, President of the Government of Spain, are presented in the pages that follow. The Commission was also addressed by Manuel Fraga, Leader of the Opposition. King Juan Carlos, joined by Queen Sofia, received the Commission at the Royal Palace on the final evening. The very first session of the meeting was a seminar on developments in Spain and Portugal, and the opening presentations to that seminar appear in this publication.

Conditions for Partnership in International Economic Management is the title of one of two draft task force reports to the Commission discussed in Madrid. The report has now appeared in published form, and some excerpts are included here. C. Fred Bergsten, Etienne Davignon, and Isamu Miyazaki are the authors. The report also includes an essay by R. William Lawson, former Senior Deputy Governor of the Bank of Canada.

In their closing statement, the Chairmen registered their concern with ongoing problems “which threaten our economic partnership, such as growing protectionist pressures, huge budget deficits, rigidities that contribute to worsening unemployment especially among the young, and large trade imbalances.” The international trading system was the focus of a special Madrid session, opened and moderated by Arthur Dunkel, the Director-General of GATT. The speakers to that session—Willy de Clercq, Richard Cooper and Seiki Totsuki—are each represented in the pages that follow, along with Director-General Dunkel. The economic problems of Africa also received special attention in Madrid, and this publication includes the remarks of Babacar N'Diaye, President of the African Development Bank. David Stockman, former Director of the U.S. Office of Management and Budget, addressed the meeting on the evolution of American fiscal policy.

Prospects for East-West Relations is the title of the second draft task force report discussed in Madrid, also now available in published form, with excerpts included in the pages that follow. The authors of this report—William Hyland, Karl Kaiser, Hiroshi Kimura—led the discussion on the morning of the final day. On the afternoon of that same day, a related session—entitled “Political Challenges for the Trilateral Countries”—was opened by Zbigniew Brzezinski, and his comments are to be found in the pages that follow.

Relations with the Soviet Union and Eastern Europe were also addressed in the closing statement of the Chairmen, who, with the Madrid discussions complete, saw “prospects for some improvement in the near term, which should establish a more lasting and balanced relationship.” But they also stressed “longer-term dangers in a relationship that will remain highly competitive.” In the wake of the Chernobyl reactor accident, the Chairmen stated their concern with “the lack of East-West cooperation on problems of interdependence such as nuclear safety. We feel deeply that it is an ongoing obligation for all parties to cooperate, coordinate, and inform each other on major issues relevant to the well-being of mankind.”

The closing pages of this publication present the speech to the Madrid meeting of Isamu Yamashita, the new Japanese Chairman of the Trilateral Commission, on “Science and Technology in the Trilateral Countries.” Science and technology issues will be taken up in a task force report coming before the 1987 meeting of the Commission, to be held next spring in North America.
La Trilateral discutirá en Madrid la coordinación de las políticas económicas de Europa, EE UU y Japón

JOAQUÍN ESTEFANIA, Madrid
Cast dos centenares de personas, pertenecientes a la Comisión Trilateral, discutirán este próximo fin de semana en Madrid las fórmulas de coordinación de las políticas económicas de los países europeos, Estados Unidos y Japón. De este modo, la organización privada más importante del mundo tratará de ponerse en línea con las conclusiones de la reciente cumbre de Tokio, a la que asistieron los jefes de Estado o de Gobierno de los siete países más ricos del mundo (Estados Unidos, Japón, Canadá, Francia, Reino Unido, República Federal de Alemania e Italia).

Tres años después de que Donald Trump, el presidente de EE UU, creara el planteamiento de coordinación de las políticas económicas del mundo, se espera que en esta reunión en Madrid, que se celebra del 11 al 13 de octubre, se trate de coordinar los esfuerzos de todas las partes interesadas para encontrar soluciones a los problemas económicos globales. La Trilateral, fundada en 1973, es conocida por su papel en la coordinación de las políticas económicas de los principales países del mundo. En esta ocasión, se espera que se discutan temas como el comercio global, la inversión y la migración.

La Trilateral es una organización que reúne a los tres mayores clubes de economía mundial: la CED (Información y Coordinación de la Economía), el CRI (Coordinación de la Economía) y el CII (Coordinación de la Economía). Estas tres organizaciones son conocidas por su capacidad para influir en las decisiones económicas de los países miembros.

El comité directivo de la Trilateral se reunirá el miércoles y el jueves en Madrid para discutir los temas que se plantearán durante la reunión. Se espera que la Trilateral proporcione una plataforma para el diálogo entre las diferentes partes interesadas y que pueda contribuir a la búsqueda de soluciones a los problemas económicos globales.

Qué es la Comisión Trilateral

La Comisión Trilateral es una organización que reúne a los principales clubes de economía mundial. Fue fundada en 1973 y su objetivo es协调iar las políticas económicas de los principales países del mundo. La Trilateral se reúne anualmente para discutir los temas más relevantes en la economía mundial.

¿Cómo funciona la Comisión Trilateral?

La Comisión Trilateral funciona a través de sesiones de trabajo en las que los miembros de la organización debaten sobre los temas más relevantes en la economía mundial. La Trilateral cuenta con un comité directivo que se reúne regularmente para discutir los temas que se plantearán durante la reunión.

¿Qué se espera de la reunión de la Trilateral en Madrid?

Se espera que la reunión de la Trilateral en Madrid sea un espacio para el diálogo entre las diferentes partes interesadas y que pueda contribuir a la búsqueda de soluciones a los problemas económicos globales. La Trilateral tiene un papel importante en la coordinación de las políticas económicas de los principales países del mundo y es conocida por su capacidad para influir en las decisiones económicas de los países miembros.

En Madrid, los miembros de la Comisión Trilateral esperan discutir temas como el comercio global, la inversión y la migración. La Trilateral es una organización que reúne a los tres mayores clubes de economía mundial: la CED (Información y Coordinación de la Economía), el CRI (Coordinación de la Economía) y el CII (Coordinación de la Economía). Estas tres organizaciones son conocidas por su capacidad para influir en las decisiones económicas de los países miembros.
Felipe González

Tonight, I would like to speak about the situation in Spain and the aspirations of Spain. But first I wish to welcome you with something more than just courtesy. I am pleased that you are in Spain and that you chose to meet in Spain for the first time since the creation of the Trilateral Commission, for it implies a recognition of Spain and a recognition of the transition and changes which have occurred in our country.

THE TRANSITION
I believe Spain is living through thrilling moments, although with some technical difficulties which can be overcome. This decade has been full of events. I would summarize them as a profound internal transformation towards democratization, living together in peace and freedom, overcoming some of our contemporary history, a history which was not easy.

The transition has occurred peacefully, by overcoming problems of intolerance and impatience which accompanied us during the 19th century and into the second half of the 20th century. The result has been free and peaceful cohabitation, a deep, serious understanding of the democratic rules of the game. The society is tolerant and is politically situated in the temperate zone, excluding extremism and sectarianism of any sort. This is the real force of our system. This is the key which explains the political process, over and above who has the majority and who is minister at any given time. Society prevents any partisan or governmental attitudes from going beyond this limit, this zone tempered by a certain intellectual relativism and the acceptance of contraries not as enemies but in all cases as political adversaries to be respected.

During the same period, Spain has undergone a profound transformation of the internal power structure of the state, from strongly centralized power to power distributed in seventeen autonomous regions, some with highly individual characteristics. I would dare to say that this decade is offering the peoples of Spain the first opportunity of living together in the free expression of their own will, in the acceptance of the diversity and plural personality of Spain as a whole.

At the same time as this internal democratic political transformation, there also occurred a phenomenon related to it, that of overcoming the historical isolation of Spain. Spain has opened itself to the world in which it belongs; it has strengthened the ties which unite it traditionally, historically, culturally, and I would say also fraternally, with the Latin American continent. And it has opened to Europe in a short period of time.

Recent events express what I wish to say, not as Prime Minister but as a Spanish citizen, of the historical and political evolution of Spain. Between January 1 and March 12, 1986—in three months—Spain has been integrated as a full member in the European Community; has accepted, by a voluntary and majority decision of the Spanish people, its membership in the organization of security and peace of Europe (which is none other than the Atlantic Alliance); and at the same time, Spain has proceeded to the establishment of diplomatic relations with Israel. Allow me to define through these three highlights what for me is not the work of this Government but the work of Spanish society, of Spanish political forces, to break the historical isolation of Spain and situate it in the international world in the place we the Spanish believe belongs to Spain, modestly but also proudly if it is possible to combine those two concepts.

This has been made possible by overcoming intolerance, and also historical impatience. It has also been possible because Spain is meeting, and seriously so, the challenge of modernity. I would say that a dictatorial system, or situations of historical authoritarianism, corresponded to political isolation and, in the political economy, to a situation of hyperprotectionism of our economy. The hyperprotectionism and isolation of Spain had its impact on our development. Spain has not followed the development of the countries to the north in Europe, and now has the vocation, breaking with its
La Trilateral considera a España modelo de transición democrática

La Comisión Trilateral fue creada en Tokio en 1973 y es una asociación internacional cuya meta es fomentar las relaciones entre empresas y gobiernos en el ámbito de los negocios. La Comisión está integrada por representantes de países occidentales, países de América Latina y países de Asia. La Comisión Trilateral se celebra una vez al año en diferentes ciudades del mundo.

La Comisión Trilateral considera a España como un modelo de transición democrática. La Comisión Trilateral considera que España ha logrado un equilibrio entre la modernización económica y la consolidación de la democracia. La Comisión Trilateral ha expresado su apoyo a la democracia española y su deseo de que España continúe siendo un ejemplo de transición democrática.

La Comisión Trilateral también ha expresado su admisión de que España ha logrado un equilibrio entre la modernización económica y la consolidación de la democracia. La Comisión Trilateral ha expresado su apoyo a la democracia española y su deseo de que España continúe siendo un ejemplo de transición democrática.

La Comisión Trilateral también ha expresado su admisión de que España ha logrado un equilibrio entre la modernización económica y la consolidación de la democracia. La Comisión Trilateral ha expresado su apoyo a la democracia española y su deseo de que España continúe siendo un ejemplo de transición democrática.
...society is tolerant and is politically situated in the temperate zone, excluding extremism and sectarianism of any sort. This is the real force of our system. This is the key which explains the political process, over and above who has the majority and who is minister at any given time.

isolation, of overcoming the hyperprotectionism and creating international relations in freedom and peace, of meeting the challenge of modernization.

I believe that this framework defines what has happened in Spain during the last ten years. But to be fair, I should also add that Spanish society already had democratic habits when it began its democratic political transition. The medium on which is based the entire transformation process has two protagonists: first of all, the Spanish people; and second, the political intuition, the public spirit and the ability of the chief of state, the King of Spain, who has been capable of moderating attitudes during these years, attitudes which at times, due to political passion, could have been excessive.

Part of this period corresponded to this Government. I would not qualify this part as more or less important; it has been the continuation of a process. We have undoubtedly made certain contributions as Government, as we also made contributions in the opposition, in a different role. We have had the opportunity, with a parliamentary majority, of confronting certain problems which could not be considered—I mean this literally—as having priority during the first phase of the political transition in Spain. I am referring especially to the major economic problems with which we have been and are being faced, in particular with our adaptation to the European Economic Community. It is fully understandable that the first Governments of this decade made politics a priority, the establishment of a system of freedoms; and that they did not have the possibility of giving priority to the struggle against an economic crisis which in Spain, as in Europe, became particularly acute after 1974.

The periods of the birth of freedom and democracy in Spain have coincided historically with periods of very acute world economic crisis. In this respect, there is a striking parallel between the experience of the Depression of 1931 and what occurred after 1975. There was a certain delay after 1975, since things could not have been otherwise, in confronting the major problems of our economy.

Some progress has been made, but there are still problems to be resolved, some of which are particularly painful from my point of view, such as the problem of unemployment, especially unemployment among the young. There is yet another problem which is proving particularly hard to solve: that of the public deficit. This will probably not be very surprising to this assembly, as it is an evil which is common to many countries.

The emphasis placed by the Government on the struggle against the economic crisis has not been enough to make this problem disappear or decrease. We have succeeded in containing the growth of the public deficit, but not yet in decreasing it. We believe that the Spanish economy, like Spanish society, is in a process of transformation in which there will be a number of substantial traumas in adapting to the European Community. But now, when there is a certain hope for international recovery with a few underlying threats, I believe it can be said, without succumbing to the temptation of triumphalism, that the Spanish economy, like Spanish society, is in a better condition for confronting this period of recovery because of the economic policy, at times hard and painful, that this Government has applied.

EUROPEAN UNITY

Next, I would like to turn to the foreign relations of Spain. I always approach this theme with a discretion based on the fear that our policy in Europe and with Europe may be considered one of "naive" enthusiasm. In my view, our policy is basically born out of reason and not of impatient eagerness.

We are approaching Europe with the conviction that the vital interest of a nation is rarely opposed to the general interest of the Community. And we are integrating into Europe with the conviction that no European country alone, including those with the most tradition and the most economic and political power, can confront the challenges which today require both a competitive and cooperative presence on the international scene. In our view, European unity is an irreversible historical process, the rate of which depends largely on the will of those with political, economic, and social responsibility in Europe.

We therefore intend to be faithful to what we believe to be the best destiny of Spain. With our integration into Europe, we will overcome our isolation and meet the challenges of modernization. We are also considering the tasks which can be carried out from Europe and as Europe. And we see that there is a consistency between our aspiration for European integration and the aspiration of Europe to function as an economic or trade unit, as well as a cultural, political, and social unit that respects the plurality and personality of each of its peoples.

These aspirations notwithstanding, there is in Europe the lack of a certain political impulse. The scheme of European peace and security—the Atlantic Alliance—is something we fully accept. Even so, it is in our judgment an unbalanced scheme. Europe should attempt to assume the role of ally and interlocutor under equal conditions with North America. The relationship with the United States is especially unequal. Certain recent crises have demonstrated this acutely and painfully. At times there is the feeling in Europe that European decisions are not understood in the United States. And in the United States, it is similarly felt that Europe is incapable of
I believe that Europe should assume more responsibility, together and united, so as to conduct policy as an equal ally...unless Europe does this, it will continue to behave in its relations with the United States as the parliamentary opposition of government.

understanding certain American initiatives.

I believe that Europe should assume more responsibility, together and united, so as to conduct policy as an equal ally of the United States and Canada. But when we speak here of the autonomy necessary for European policy, we should not be viewed as attacking the foundations of Western security. We are instead demanding that Europe assume its role. Unless Europe does this, it will continue to behave in its relations with the United States as the parliamentary opposition of government.

Special Relationship with Latin America

As for our external influence, we have a special relationship with the Latin American continent. I say "special" because it is not quantitatively superior to that of any other European country our size or larger. It is not a question of amount, for countries such as France and Germany have more exchange with Latin America. In my view, everyone can easily understand the deep cultural, historical, and political roots which link us to Latin America. Not only do they keep us very close and in solidarity with the effort there towards democratization, towards overcoming dictatorships which, like Spain's, have endured for so long. But they also make us permanently attentive to and concerned over the acute crises which Central America is experiencing and has experienced for so many years.

We hope it will be understood that our outlook is more Spanish than partisan. We are attempting to approach the problem from the standpoint of our cultural and historical proximity as well as our comprehension of the phenomena occurring in Central America. We came to this region advocating a peaceful solution to the regional conflict. And the solution, in our opinion, must be regional. Tonight, I only wish to point out that failure of the effort of the Contadora group would create a political and diplomatic void, leading to intensification of an insidious war and its possible extension throughout the entire Central American region. I would like to state that the consequences of that would be disastrous. Not only would there be a major setback in relations between North America and Central and South America, but it would probably be impossible to limit the repercussions of that to Central America alone.

East-West Relations

Let me turn next to East-West relations. As you know, Spain is a medium-size country. And since its participation in the European Community and its integration into the Atlantic Alliance, it has been concerned with East-West relations. The situation of the Soviet Union is considered from two points of view, which you Trilateral Commission members have also considered and debated. One point of view is that a more hard-line attitude should be taken in East-West relations. This would take advantage of apparent economic weakness on the part of the Soviet Union and its need for a time of recovery and detente. The other point of view believes it to be a good time to move on disarmament negotiations, while remembering the other foundations on which authentic detente should be based: human rights, greater freedom of communication, and cooperation.

From our point of view, it is possible to erroneously assess the capacity of the Soviet people to sacrifice for reason of security. Still, without simplifying the problem, I wish to emphasize that deterrence is crucial for maintaining peace, and that disarmament cannot be approached with propagandistic and globalist formulas alone. In my view, we should take advantage of this historical juncture to advance disarmament negotiations with all the conditions of control and verification that are desirable and with all the realism that is necessary.

A few years ago, the overwhelming majority of proposals and initiatives for peace came from the Western world. The Soviet Union received them and answered them more or less suspiciously. But now we are seeing an array of Soviet proposals which are having a reasonably strong impact on Western public opinion. Despite those proposals, I believe that the Western world has preserved a strong position by sticking to decisions it made during the difficult moments of the 1970s. It would be advisable to take advantage of this situation, to make progress towards peace, and to avoid the mistake of viewing it as an opportunity to play upon Soviet difficulties.

Cooperation Against Terrorism

Finally, I wish to address the issue of terrorism. It is a serious concern for Spain. We do not make any distinction between so-called "international terrorism" and any other type of terrorism; for no terrorism occurs strictly within the borders of one country. Its logistical, financial, and other forms of support cut across the borders of each of the nations to which we belong. Unfortunately, there is a lack of international cooperation in the struggle against terrorism. And for several years, we have been trying to create an awareness of this both in and outside Europe. There are many ways in which international cooperation might occur. Still, we should not succumb to the temptation to make inappropriate responses with inappropriate methods that would jeopardize the international order as well as the very goal of ending terrorism itself.

Spain has suffered and continues to suffer from terrorism as much and perhaps more than any other country of the Western world. Spain is tenaciously combating terrorism and is requesting international
cooperation in the struggle against terrorism. This is gradually being obtained. Awareness of this necessity for international cooperation will undoubtedly come very rapidly. In my view, it will take the form of a code of conduct among all democratic countries obliging each to have the same response, whenever terrorist actions occur and wherever terrorist groups hide or prepare.

I would like to emphasize that this can and must take place. It can and must succeed through the coordination of police and information. Moreover, there must be approval by our legislatures so that any response is uniform. On this subject, may I finally add that terrorism is undoubtedly the largest real threat to the credibility of democratic systems. Citizens wish to live in freedom but require security against the irrational violence of terrorism. We must protect our democracies from this dangerous assault.

* * *

Leaving this phase of analysis, I would like to state the confidence with which I see the future. I hope I will not be misinterpreted. I have not lost sight of realism in political life and political responsibility, but I do not wish to lose sight either of our potentiality and our possibilities. Spain is a young, dynamic country with the capability of struggling for its modernization and its future, and at the same time with deep historical roots.

I believe that Spain, with these historical roots and the youth and impulse of our own society, is a country which invites people not only to visit it and work in it but also to have confidence in it and the role it can play in its immediate future and its medium and long-range future. Therefore, I welcome you to this country which receives you with open arms; which receives you as a tolerant country; a nation which has won democracy, the cohabitation in freedom and peace which was so ardently desired by Spaniards for two centuries. I welcome you to a country which for the first time in its history is going through a time of freedom without having recourse to the export which has always been famous in Spain, the export of "exiles"; to a country which accommodates all Spaniards, whatever our way of thinking, which accommodates everyone; and a country which feels repulsion as a society for the intolerant and the violent. Welcome to Spain.

Felipe González is President of the Government of Spain. The above is an edited translation of his speech.
The Spain that a few months ago subscribed to the Treaty of Rome carried out this integration into the European Community because of things Spanish and things European in our past. We Spaniards have always been Europeans. Likewise, we have a deep underlying link with the Spanish-American world in Latin America, which was for 300 years politically united with this country, which speaks our language, and which lives within the frame of reference of our culture. We also have a link with the Arab world, which left amongst us a remarkable cultural substratum during its long coexistence with us on this peninsula. This link to the Arab world remains noteworthy and lively, and is reflected in close ties of friendship.

Spain is now the fifth economic power in Europe and the tenth industrial nation in the world. For ten years, we have been living under a constitutional monarchy with a parliamentary democracy. Today, we have a political system which is comparable with that of the 11 other nations making up, with us, the European Community.

The institutional lawfulness of the Spanish regime is neither cloudy nor questionable. Since our legal transformation during the political transition from the previous authoritarian and undemocratic system, Spanish democracy has been established at a minimum of social cost and with hardly any serious scares. The constitutional referendum and the numerous elections held already—general, municipal, and regional—have clearly proved one thing above all else: fair play. For the first time in Spain’s history, the electoral functions have occurred throughout the country without any complaints, violence, or incidents at the polls. After 40 years without free elections, the civic maturity of the Spanish electorate has been a cause of surprise to many foreign observers, and reveals the solid truth that Spanish society has fundamentally changed its frame of mind. It can be said that the vast majority of the Spanish people, who were previously so radicalized and divided, now emphatically reject revolution and civil war. This is the great development being experienced today: the spirit of moderation of the Spanish people.

Another significant component of the present monarchical democracy is the structural content of our constitution. Spain has what we designate a “state of autonomous regions.” This is a new organization of political and economic power into a very broadly decentralized system of self-government in which power is transferred from the central government to the 17 regions into which our country is now divided. The old, unsolved problem of peninsular regionalism and nationalism has thus been channelled in an original and rational manner. It is perhaps too soon to analyze the practical results of this new form of state, and it may be necessary to wait a few years to strike a more accurate
assessment of its effectiveness. Nevertheless, the important fact is the decisive nature of the progress being made by our young democracy.

Over this ten-year period, there were three general elections. First, there were those of 1977, won by the center-right party (UCD), whose parliament acted as a constituting power by approving the constitution in 1978. Next, there were the general elections of 1979 in which the center-right was again victorious. During the latter legislature, there was a failed military coup against the democratic parliament. The majority of the public rejected this anachronistic episode. The King vigorously defended the rule of law against the insurgent military involved, who surrendered unconditionally a few hours later. In October 1982, the Socialist Party triumphed during the third general election with an absolute majority vote. This leftist alternative then assumed power without the least disturbance to public peace. The democratic monarchy thereby proved that the system was operating properly and could pave the institutional way toward the future.

In 1981, Mr. Calvo-Sotelo's center-right government announced its intention to apply for membership in NATO. After a lengthy parliamentary debate, in which both favorable and opposition opinions were freely expressed, it was put to a vote. An absolute majority of "ayes" over "nays"—the latter being of the Socialist and the Communist Parties—was secured. We therefore joined NATO without any restrictions and began to serve on its numerous civilian and military committees.

The Socialist Party, which had vigorously rejected NATO during the 1982 general elections, deemed itself compelled to submit this issue to the people. But once in a position of governmental responsibility, President Gonzalez and his cabinet realized that Spain's membership in NATO presents undeniable advantages for our military security and for European and Western policy. At the very recent referendum of March 12, the affirmative votes were victorious by 9 million votes to 6.5 million votes. The result of this referendum consolidates Spain's position in Europe and within NATO's sphere of Western defense and security. In this country, the modernization of the armed forces is a major objective, not only because of its own importance but also because it dispels forever, we hope, the specter of a military coup—an archaic remnant which is disappearing in the process of our defense system's integration into the European and Western domain.

As for the future, are there any outstanding problems left on our political scene? Of course there are, as in all developed countries. Our unemployment rate is very high: 22 percent of the labor force or three million unemployed. This represents a primary problem with no prospects for an easy or quick solution. Inflation, on the other hand, has been remarkably reduced in recent months to 8 percent. Our society complains of public insecurity in the large capital cities and of an increase in drug addiction among youths. We are also victims of the terrorist scourge, which every now and then stains our cities with blood and which has had a toll, above all, on members of our armed forces. By these actions, the terrorists have sought to destabilize our institutions. Those terrorist attacks have related to a specific geographic region—the Basque region—and reflect at heart a political phenomenon in which the chief roles are played by radical, independence-minded elements there.

We have no territorial ambitions of any kind, except restoration of Gibraltar to Spanish sovereignty—an issue that is in the process of lengthy diplomatic negotiations with Great Britain. We have normal diplomatic relations with almost all the independent states of the world and we actively cooperate with the Western policy of peace and disarmament.

Spain is not and does not wish to be a nuclear military power, although it has in its subsoil the raw materials to attain that hypothetical goal. Neither does it wish to have these kinds of devices temporarily stored on its territory. There is a consensus on this among all the political groups throughout the parliamentary spectrum. Spanish democracy is inspired by the principle of humanity, by the validity and protection of human rights, by a market economy and free enterprise together with an important public sector, and by a meeting of minds between employers and trade unions on industrial relations.

The basic interest of all political persuasions is centered on young people. The presence of these new generations has brought about a spiraling expansion of the student body at our schools and universities to previously unheard-of figures. The taking-over by these new generations has an undeniable, far-reaching significance on all levels. Indeed, the present government, by the age of its ministers, is the best example of this—for it is the most youthful government in all of Western Europe.

José María de Areilza is the former Spanish Minister of Foreign Affairs and former President of the Parliamentary Assembly of the Council of Europe. The above is an edited version of his presentation.
The Spanish case in many ways provides us with lessons for the great problem that the world faces: creating stable and legitimate governments. And there is no other form of legitimate government than a democratic one (except maybe the Soviet type, which, under its own forms of organization and coercion, is stable).

**Historical Development of Spain**

Let me start a little farther back in history, because the assumption is that Spain was perhaps not ready for democracy in the early decades of this century. The historical development of Spain is complex. It was one of the first political units emerging out of the fusion of monarchies, and in the course of the eighteenth and nineteenth centuries became a modern state. It did not become a nation in the same sense as the then new nations of Italy and Germany in the nineteenth century, born out of that emotional identification of nationhood. Perhaps because of that, Spain did not have the aggressive characteristics of those new nations that emerged in the center of Europe.

Spain was a great empire; and it was the first country to experience one phenomenon that has affected the life of many other European countries later—decolonization. To some extent, the military who came back from that decolonization—the Ayacuchos—were like the MFA (Movement of Armed Forces) in Portugal in the 1970s in making the revolution. The French presence under Napoleon created a crisis of legitimacy of institutions, and you might say that it was the politics of resistance which created many of the new forms of nineteenth-century Spanish society. Something important that you should not forget when you think of how stabilized the monarchy is today in Spain, is that Spain (with Hungary, France and Switzerland, which is a special case) was one of the few republics in nineteenth century Europe when other countries were establishing new monarchies. The political development of Spain in the nineteenth century went ahead from the 1812 constitution (a milieu in which the term “liberal” was coined), which was a model for the Decembrists in Russia. So Spain had a premature, you might say, development of its political institutions compared to its economic, social and scientific development.

The Franco period is the opposite. Political development lagged for forty years while, from 1950 on, a major economic and consequently social change was taking place. Finally, in recent years, we seem to have synchronized both political and economic development. We still have to synchronize our scientific and intellectual development to participate in the modern technological world.

**Part of Europe**

All this should not blind us to another fundamental phenomenon—that Spain was part of Europe. When you think of the Spanish Civil War, you are tempted to think that this was an aberration in Europe, a product of Spain. No. The Spanish Civil War was a culmination of a crisis of legitimacy in Western European societies. The structural problems of Spain—a country with limited resources, a great lack in economic development, an agrarian structure with latifundia and three million landless laborers (reduced in the 1970s, incidentally, to 900,000 or less)—combined with a European crisis, a crisis created by fascism and by other authoritarian alternatives. In Eastern Europe, this crisis led to authoritarian rule long before it did in Spain, but the societies of Eastern Europe were much less developed and therefore the resistance was not present in countries like Poland, or like most of the Balkan countries. In Spain it could not be imposed without a serious conflict. Fascism had been on the move in Europe, but there was no major fascist movement in Spain—there were fewer fascist votes in Spain than even in the Netherlands or Belgium. Fascism was, however, casting its shadow on the Spaniards and the response of the Spanish Socialists' left wing was a kind of preventive resistance which led to a mistaken interpretation of the right-wing Catholic conservative party that won the 1933 election. The October 1934 crisis was a reflection of the authoritarian tendencies within the Catholic conservative world in Europe. All those changes in Europe, which in other countries had not mobilized the population enough for a real open conflict (except the short-lived civil war in Austria), in Spain finally culminated, when the military attempted an old-style *pronunciamiento*, in a mobilization of all social forces in a new kind of confrontation that was a civil war. On the republican side, the Communists played a much greater role than they ever would have played in the Spanish electorate; and on the Franco side, the fascists did the same. The Spanish Civil War was therefore part of the European crisis.

Spain as it has become again part of Europe is now part of the European success after 1945. Spain was left out of that earlier because the civil war was too close and then the cold war started too early to make a transition to democracy.

**Reforma Pactada, Ruptura Pactada**

In 1975, after the death of Franco, Spain went through a unique process which can be described with the Spanish terms **reforma pactada, ruptura pactada**. This indicates two ways of describing the same phenomena, from two different perspectives: the perspective of people who were in power, who could see it as a reform; and the perspective of those opposed to the regime, who wanted a
The problem was to hold firm to a model of transition that would not create a vacuum of power—so that power would not end in the streets. That requires timing, and the timing in the Spanish case was in many ways perfect.

break with it. Now how did this process come about?

We have to consider social-cultural changes, generational changes, and the way in which elites established contacts across the ideological and political cleavage lines during the late Franco regime. There is a saying by Robert Dahl, a colleague of mine at Yale, that when the costs of repression go up and the costs of toleration go down, then a solution of this type is possible. In Spain the costs of repression—given the climate of opinion internationally and nationally—would have been too high to maintain an authoritarian rule. On the other side, the costs of toleration of change, of a transfer of power, had gone down with economic development. Economic development had created a feeling of confidence that the old conflicts of the 1930s were past, and brought the de-ideologization of a large part of the population.

That does not mean that the moment of the transition did not appear threatening to many people. Let us not forget that one of the leading forces in the Spanish opposition was the Communist Party, and that it had an enormous influence not only in the labor movement but also in professional organizations and associations. In some ways, the problem of the legalization of the Communist Party was one of the key issues of that moment. One of the interesting aspects of the transition is that, if the institutions are created, the radicalization—in verbiage, in ideology, in the formulations of young activists—loses some of its virulence. The problem was to hold firm to a model of transition that would not create a vacuum of power—so that power would not end in the streets. That requires timing, and the timing in the Spanish case was in many ways perfect. The timing of decisions between 1975 and 1977 (we might say '78 or '79 depending on how we consider it) was neither too fast nor too slow for the transition. This is a model of transition which has had an enormous impact on Latin America, and which could serve for peaceful democratic transitions in many other countries of the world—I think of South Korea, for example.

If you consider the components of this, Albert Hirschman's model of reform in the sight of the threat of revolution comes to mind. From this perspective, you might say that everyone played his role in the Spanish situation. The extreme left presented the threat of a violent overthrow, although it was not capable of it; and the extreme right threatened the continuity of the system by use of force and coercion. Both extremes were necessary in a historical sense for this process, because this allowed people who otherwise would not have reached an agreement—the moderates emerging out of the regime, and the moderates of the left opposition and the nationalities opposition—to realize that they were not going to be capable of imposing their alternatives, of displacing each other, and that a provisional government was not feasible (the ruptura model).

Provisional governments in a transition may pose some very serious problems and may not be the best way of achieving a transition to democracy. To give power to the democrats before elections, before one knows how strong they are and how strong the different components of the opposition to an authoritarian regime are, creates a situation that is quite risky for the democratic transition. The Portuguese case shows some of those problems as does the Nicaraguan case. In Spain, fortunately, the institutional umbrella created by the king made possible the transition without this vacuum of power, without power going to the streets; and power was then legitimated by the 1977 election. This involved the lawful political reform of December 1976, then negotiations with the opposition about the rules of the game, then free elections, and then finally the creation of a new Parliament which was to prepare the Constitution.

That Constitution is a very important document in the Spanish case, because it had wide popular support. All the five major parties—from the Communists to the conservative Alianza Popular—supported it in Parliament. The regional nationalists of Catalonia, though not those in the Basque country, also supported it. It is a keystone of the whole Spanish system; and the Constitutional Court plays a major role in legitimizing many of the conflicts in Spanish society. The Constitution was approved by popular referendum, something that is not true for the constitutions of Italy, Germany, Portugal and quite a number of democracies. I think it is very important that the Spanish Constitution was based on such a consensus. That consensus was necessary because the relative strengths in Parliament of the different forces were fairly even, and therefore they had to reach some kind of bargain or compromise. The political class of that period deserves enormous credit.

We have also to give credit to the discipline of the armed forces, who had no say. This is a very interesting difference between Spain and many other countries, where you have authoritarian regimes in which the leadership is purely military. Spain was, in the late Franco period, a civil regime in which army officers played occasionally important political roles, but not the army as an institution. So in some ways the first step toward a transition in many authoritarian regimes may be the civilianization of those authoritarian regimes.

Another key factor was that the church had realized that a confrontation with secularizing tendencies of our times was not anymore appropriate. The old fires of anti-clericalism of the left, particularly in the 1930s, had died out. In the church new winds had come from the Vatican, but there were also internal changes in the social composition of the Spanish clergy.
You might say that the Spanish monarchy is an example of how the incumbent legitimizes the institution rather than the institution legitimizing the incumbent.

The Spanish business community, contrary to what some Marxist theorists would like to argue, played a minor role, but was not opposed to the transition. If you look at the way in which businessmen perceived, *a posteriori*, that development, there is an absolute majority which, when interviewed, say that it was the only and the best solution—the same was true for labor leaders. So you have a broad consensus.

This Spanish model involves a strange mixture of backward and forward legitimation—backward legitimation for those who hung onto the legality of the previous regime, like the armed forces to some extent, and forward legitimation for the new social forces which rejected the old regime. This combination was possible partly because of the neutral power, with prestige and authority, developed in the person of the monarch, Juan Carlos our King. Spanish politicians faced the interesting question of how to establish a monarchy in the late twentieth century, something that is not easy to conceive. You might say that the Spanish monarchy is an example of how the incumbent legitimizes the institution rather than the institution legitimizing the incumbent. It was the way in which Juan Carlos has exercised his powers and his kingship that has legitimised an institution which for many Spaniards was of dubious legitimacy in its traditional form after the crisis of the 1920s and 1930s.

**Catalan and Basque Nationalism**

There was another problem in the Spanish case and I want to refer briefly to it. It is the most difficult that Spain still faces in some respects—the problem of the peripheral nationalisms. Spain was not created as a nation-state in the nineteenth century, but a little bit like the United Kingdom, by a fusion of monarchies long before. Next came the process of centralization along the French (Bourbon and Napoleonic) model, and then the model of the liberal modern sovereign nation. But given the multi-lingual and multi-cultural character of Spain, the romantic nationalism of the late nineteenth century found expression in the emergence of Catalan and Basque nationalism.

Catalan nationalism in addition is linked with the development of a bourgeois industrial commercial society in Catalonia, which resented rule by a more bureaucratic, more agrarian-oriented central government in Madrid, a central government linked with a society in some ways more backward—and which suffered defeat in 1898 in the Cuban War. As a result, you have a sense of separateness in Catalonia. That sense of separateness never went to the point of really questioning the integrity of the Spanish state, but supported its reorganization. It also prevented Catalan bourgeois leaders from making the contribution they could have made to Spanish modernization. (In a debate a liberal party politician told Cambo, "[You] pretend to be, at the same time, the Bolivar of Catalonia and the Bismarck of Spain; they are contradictory aspirations and you have to choose one or the other." ) The Spanish Republic attempted to find an original solution. The regional nationalisms were later exacerbated by the repression of the multi-lingual cultural life of these peripheries by the Franco regime. When Franco died in 1975, they were extremely radicalized, particularly in the Basque country, where they were fused with the European trend toward radicalization of nationalisms emerging out of the 1968 revolution.

I would say that one of the greatest achievements of Spain in the last decade has been the recognition of this multi-national, multi-linguistic character of Spain and the acceptance of this model by the majority of the Spaniards in the traditionally centralist parts of the country. We get up to seventy percent now of the population accepting the model of the “state of autonomías” with a minority of five percent which are “independentists” and some eighteen percent or so that are centralists—though you have a certain amount of redistribution over time of these opinions in the different parts of Spain. The model of el estado de las autonomías is not an easy one. It is a federal system in a society which is multi-lingual and at the same time has a dominant language—Castillian Spanish—with a worldwide projection. And internal migrations have created an enormously mixed population, with 30-40 percent of the population of Castilian-Spanish origin in these peripheral regions.

What I want to highlight is that there is a dual identity. The majority of the Catalan-born feel that they are both Spanish and Catalan. There are a few who feel more Catalan than Spanish and a few who feel more Spanish than Catalan—there is a minority which feels only Spanish or only Catalan. In the Basque country unfortunately the distributions are different. There is a significant minority that feels fundamentally Basque. That doesn’t mean that they all support the violence of the independentist left-wing extremist terrorist group, the ETA. But it is in that climate that the violent minority finds support from a certain segment of the electorate—behind Herri Batasuna—although the majority parties, both of the total population and within the Basque nationalist movement, are opposed to that terrorism.

This is a problem we still have to face, but progress has been made because more and more people of the parties that support Basque nationalism are willing to consider that terrorism is only a source of disaster and to support the constitutional solution which they initially had serious doubts about accepting.
LEGITIMATE AUTHORITY IS FUNDAMENTAL. Another important factor is that all this transition was made during a period of economic crisis. We postponed to some extent economic problems for the sake of creating legitimate political institutions, and in this process of creating institutions we made some sacrifices. I think that the ultimate lesson of the Spanish experience is that, while we have to give great importance to economics and while economic crisis may be an obstacle to change, legitimate authority—the democratically elected popular legitimate authority and the institutional framework in which the issues of a society can be debated—is fundamental for economic, social, political and international progress. Spain is a good example of that lesson for the world, especially for all those countries which have non-democratic regimes which sooner or later will face the problems that Spain faced in 1975. That excellent lesson of Spain has introduced two new terms into political science: reforma pactada, ruptura pactada.

Juan Linz is Professor of Sociology at Yale University. The above is an edited version of the transcript of his presentation.

Nothing in today’s Spain stands in sharper contrast to the Spain of the 1930s than the level of her internal conflict. Spain in the 1930s was a divided country—divided to the point of breakdown in her political regime and three years of civil war. What this left behind was not only more than a half-million dead and an authoritarian regime which was to last for almost 40 years, but also intense and vivid historical memories which are still with us. These memories have played a crucial role in shaping the mood of Spaniards during the transition to democracy. It is as if the civil war were a living lesson of the consequences of social dissension that Spaniards could not afford not to learn.

FACTORS IN THE SPANISH SUCCESS. Together with these memories, a combination of internal and external factors account for our relative success over the last 10 years in making the transition to democracy, keeping a relatively steady course through the economic crisis, experimenting with a radical restructuring of a centralist state, and making consistent and decisive moves in foreign relations toward economic, diplomatic, and defensive integration with the rest of Europe.

An obvious factor in the process has been the international situation. Spain’s previous experiment with democracy took place in the 1930s, at a time of economic prostration and grave political crisis in the Western democracies. By comparison with that period, the liberal democracies of the 1970s were in very good shape and the attractiveness of their totalitarian counterparts to Europeans proved negligible. But the internal factors were also of paramount importance: a) the character of the political protagonists, their pragmatism and eagerness to achieve consensus among themselves on some key issues; and b) the character of society itself.

Let me focus briefly on this latter point. While the civil war can be considered as the end result of intense social, regional, and ideological conflicts, Spanish society over the past 10 years has proven to be a relatively well-integrated society—all along class lines as well as along regional and ideological differences. Spain’s economy by the mid-1970s was a modern economy, ranking tenth among the capitalist economies, with a large industrial sector, booming services, and agriculture undergoing rapid transformation. It was certainly no longer an agrarian economy. Neither was it, contrary to some expectations, an economy prone to bitter and antagonistic industrial conflicts.

The economic development of the 1960s had produced a new working class, uprooted from its rural origins, and eager to reap the benefits of continuous increases in real wages and of an incipient welfare state that was to start developing in the late 1960s and has kept growing since. So, by the late 1970s, the standard of living of the average
Spain has faced the challenge of changing the nature of its political regime from authoritarian to democratic, redesigning the internal structure of the state from centralist to federal, and reestablishing the legitimacy of a market economy with free unions at a moment of deep economic crisis.

Spanish worker was about one-third lower than that of the average French worker and quite close to that of the Italian worker. When mobilized for collective action by semiclandestine unions in the final years of Franco, those workers' goals were economic improvement and free unions. And when free unions were finally legalized by the new regime, this did not move the workers significantly beyond their basic economic goals—contrary to the initial expectations of the Socialists and Communists.

In fact, both worker behavior and opinions throughout these years show a limited, reserved, but in the end significant acceptance of the authority structure of the firm and the basic facts of the market economy. There are of course conflicts of interest and even a high rate of strikes, but more than enough legitimacy and trust have been invested in the system by the workers to preclude their support of radical alternatives. Despite the crisis, with its accompanying high rate of unemployment, the record of past economic prosperity has made for sustained expectations of recovery, sooner or later, of the capitalist economy. And as workers' positions became clear on this point, unions moved also in this direction—more decisively among the Socialists and more reluctantly among the Communists.

Regional differences have always been prominent in Spain. Rooted in a complex history of medieval kingdoms, and a diversity of cultures, languages and even ethnic groups, two factors exacerbated the tensions between two regions—Catalonia and the Basque country—and the rest of Spain in the 19th century. First, there were the increasing ambitions and expectations of a new political class in these regions fuelled by a nationalist ideology. Second, there was the contrast between these two industrially developed regions and the rest of a half-developed Spain where the ultimate political power lay.

These and other minor regional tensions played a role in creating the climate of conflict that ended in civil strife in the 1930s. But now such tensions have receded considerably—except in the Basque country. Economic development brought with it extensive internal migrations, so that by now about 40 percent of people living in Catalonia and the Basque country are immigrants. Commercial exchanges of all sorts developed together with an increasing flow of information and social and cultural exchanges, facilitated by changes in the mass media, tourism, schools, and means of transportation. As a result, there has been a clear trend towards the homogenization of ideas, life styles, work routines, and urban landscapes around the country. Of course, there are differences and inequalities persist. But now richer and poorer regions belong to the same homogeneous space, both economically and culturally.

Ideological splits had been intense in Spain throughout most of our contemporary history—frequently pouring into the arena of politics and giving rise to actual fighting right up to the 1950s. By the mid-1970s, however, the ideological sources of most of our radical right and radical left were in deep crisis and looking for some peaceful compromise. The Catholic Church, affected by the winds of Vatican Council II, was not in the mood for preaching holy crusades and supporting Francoism, as it had done in the past. Neither were lay Catholics ready to follow such a course of action. Anarchists, Communists, leftist Socialists, and anti-clerical intellectuals had mellowed considerably and were either becoming relics of the past or quietly taking moderate stands. More importantly, a vast majority of Spaniards, more highly educated than in the past and out of touch with ideological politics for quite some time (except the famed rhetoric of the Francoist regime itself), had little willingness to join either side in the ideological battles of the past. They showed no more than a passing and superficial interest in hearing about them. Theirs was a culture of "modernity," structured around values of citizenship, individual happiness, rational arguments, and tolerance.

This fundamental bias towards moderation, consensus, and compromise is nowhere more conspicuous than in the area of socioeconomic policies. Here we find the peculiar pattern of our socioeconomic pacts between government, business and unions that, while taking different forms, go on with little interruption from 1977 to the present. They fix the general level of wages but they also refer to a variety of socioeconomic provisions, including rules for industrial relations as well as for part-time and temporary employment, social security, and even public investment. These pacts have been held responsible for curbing the tendency to increase real wages and for reducing industrial conflict—thereby making the economy more manageable and seemingly more legitimate in the eyes of the workers. Business associations and Socialist unions have favored the pacts, with reservations—while the Communists have shown greater ambivalence towards them. But since the unions have a very limited following among the workers (the rate of union affiliation today is about 15 percent of the wage-earning population), it has been up to the workers themselves to accept or to reject the recommendations of the pacts—and it seems they have mostly accepted them.

Something similar has occurred in the field of territorial policies. The old centralist state has been replaced by a quasi-federal system of so-called autonomous regions—an attempt to channel old regional grievances, particularly those of Catalans and Basques, through political institutions compatible with the new liberal democratic state. Those institutions have had to be
based, again, on a continuous process of bargaining and consensus-building among all parties concerned, and on the backing of the regional populations.

In short, Spain has faced the challenge of changing the nature of its political regime from authoritarian to democratic, redesigning the internal structure of the state from centralist to federal, and reestablishing the legitimacy of a market economy with free unions at a moment of deep economic crisis. Spain has done so by emphasizing institutional mechanisms and devices, favoring consensus, compromise, pragmatism, and moderation. We could add that Spain has met these challenges with a large measure of success.

**Three Qualifications**

However, some qualifications should be introduced here to avoid both some misunderstandings and an excess of self-congratulation. I will limit myself to three brief remarks.

First, a very strong drive to consensus in the area of socioeconomic policies may be related to delay and slowness in the process of adjustment to the crisis. Our record in reducing public deficits and inflation differentials is not good. An unemployment rate of 20 to 22 percent for the whole population translates into 40 to 45 percent for young people between 18 and 24 years. Lacking employment opportunities and suffering from still persistent inadequacies in our educational system, our youth are therefore going through a process of decreasing professional expectations—though still protected by family networks of various kinds from the dramatic prospects of massive poverty and becoming social misfits.

Second, the federal solution to our regional diversity is still in the process of being thoroughly tested—the test being so far successful, with the notable exception of the Basque country. There, a terrorist group is supported by a significant minority of about 10 to 12 percent of the population. We may be witnessing the process by which a climate of lack of tolerance vis-à-vis terrorist violence is growing in that part of the country, and particularly among Basque nationalists (who account for about a third of the region’s population). Even so, many Basque nationalists’ rejection of terrorism is frequently coupled with strong ambivalence toward the central government and even Spain as a whole. It seems unlikely that things will change in this respect other than very gradually and with frequent setbacks in the next 10 years or so.

Finally, the very phenomena of the transition to democracy and the economic crisis seem to have reinforced Spaniards’ centuries-old proclivity to defer to the state in many areas of life. For many years after the Second World War in most OECD countries, there was a tendency for public authorities to take on more and more responsibilities for the economy and the general welfare of the nation, and for the public to invest more and more trust and material resources in the state. Interventionist policies and the “welfare state” made the government the decisive protagonist in an ever-growing array of economic and social activities. By contrast, in the last 5 to 10 years, we have seen a developing countertendency to contain public spending and interventionist policies, and even to redesign the area of social security and the entire domain of social transfers so as to give more responsibilities and resources back to society.

However, we find only slight traces of this countertendency in Spain over the last 5 to 10 years. Public spending grew at an extraordinary rate and is still growing: the role of the state in education, health, and culture has expanded notoriously. Society in general, on the other hand, seems uncertain and on the defensive. Unions, lacking affiliates, need state backing. The business world feels ambivalent about state intervention in view of the formidable challenges posed by increasing external competition and the rate of technological change. The pressure of public opinion in favor of open markets is rather weak (traditionally the case in Spanish history). Professional associations and even the Church do not seem to know how to articulate their own interests and present them to the public.

The uncertain professional prospects for young people, the entrenchment of the Basque terrorist problem, and the relative (and maybe transitory) weakness of society may be a useful reminder of the need for a realistic contrast to the otherwise quite brilliant picture of our successful democratic transition and other accomplishments of Spanish society.

Victor Pérez Diaz is Professor of Sociology at the University of Madrid. The above is an edited version of the text from which he spoke.
Juan José Toribio
The Spanish Economy

During the 1960s and the early 1970s, Spain succeeded in partially closing its historical gap with industrialized nations of the Western world. After ten years of rapid growth in the 1960s and 1970s, Spanish income per capita reached $5000—which represented 90 percent of the Italian figure at that time, 75 percent of the British figure, and 60 percent of the average for the European Community.

This period of strong growth was interrupted in 1974. The first oil shock deeply affected the Spanish economy, which at that time imported 70 percent of its primary energy consumption. The worst stage of the international economic crisis coincided with Spain's political transition to a democratic society after the death of General Franco; and a number of social tensions which had remained hidden during the decades of dictatorship emerged in the second half of the 1970s with negative effects for the economy at large. Three main disequilibria were generated:

- The first was a substantial and continuous increase of public expenditures of the central and local governments. These expenditures accounted for only 23 percent of GDP in 1975. Ten years later their proportion exceeded 35 percent—a cumulative rate of growth higher than one percent per year. This expansion of government expenditures was mainly due to increased social security transfers and to increased interest payments as new issues of government debt were required to cover the deficit in a self-multiplying process. Since the fiscal reform of 1977, government revenues have also increased, from 25 percent of GDP in 1975 to more than 32 percent in 1984. There is no doubt that Spanish society has made a considerable tax payment effort, taking into account its level of disposable income; and the government achieved some success in fighting tax evasion. Nevertheless, this revenue effort was less than enough to compensate for the rapid growth of government expenditures. As a result, the consolidated budget of the public sector, traditionally in surplus in this country, showed an increasing deficit reaching 3½ percent of GDP in 1982.

- The second basic disequilibrium generated by social tensions refers to the labor market. According to OECD data, hourly wage costs in the manufacturing industries of Spain grew by 85 percent in real terms—that is, adjusted for inflation—during the decade from 1973 to 1982. In the same period the increase of real wage costs was less than 24 percent in the European Community and -2.4 percent in the United States. Now such a pronounced increase in real wages created obvious distortions in the Spanish labor market, also affected by the rigidity of legislative controls. As a consequence the rate of unemployment, which had remained below 4 percent up to 1975, reached 22 percent of the working population ten years later. Although a certain proportion of officially unemployed workers may have some part-time jobs in the "underground economy," we should also consider the growing number of persons who, discouraged by the difficulties in finding a job, simply decide to leave the labor market. Unemployment has hit young workers especially hard, many of whom remain sheltered by the family institution which fortunately is still deeply rooted in Spanish society. However, the problem may reach crisis dimensions if we don't find efficient solutions to it in a short period of time.

- The third basic disequilibrium affected the financial markets. Despite social tensions the Bank of Spain applied throughout the decade of the 1970s a reasonable policy aimed at avoiding an undesirable increase of the monetary aggregates. I am persuaded that economic historians in Spain will recognize the fundamental role played by the Bank of Spain during the transition to democracy in controlling the rate of inflation, which otherwise might have reached dramatic proportions. Nevertheless, the simultaneous application of an expansionary budget and a disciplined monetary policy provoked a substantial rise in real interest rates with an unavoidable impact on the demand for investment. Thus, since 1975 (with the exception of 1980) gross capital formation in Spain registered negative annual rates of growth. In proportion to GDP, capital formation fell from 23 percent in 1975 to 17 percent nine years later.

At the end of 1982, that is after the second oil shock, the Spanish economy showed an unbalanced position. The average annual rate of growth of the previous five years had hardly reached 1 percent; capital formation kept falling; unemployment affected already 16 percent of the working population; and the rate of inflation, even if smaller than five years before, was still several points higher than the average for the European Community. However, the main concern was centered on the balance of payments, strongly affected by the second oil shock.

In these conditions, the assumption of government responsibilities by the Socialist Party generated some uncertainty. Some businessmen and professionals feared that the new Socialist government would adopt a policy of artificially expanding aggregate demand similar to that applied by the Socialist administration in France. Fortunately, the new Spanish government, far from following the French example, gave priority to the
Since January 1986 Spain faces the new challenge flowing from its full integration into the European Community, which in the middle and long term will require a complete reorientation of the economy.

adjustment of the economy, to the fight against inflation, and to the recovery of the balance of payments. To that end it proceeded to deprecate the peseta and to emphasize monetary discipline. At the end of 1984, it was clear that such a program had achieved a reasonable degree of success. Helped by the expansion of world trade, the Spanish balance of payments had experienced a considerable recovery, whereas the rate of inflation was reduced by three percentage points, and real GDP kept up an acceptable rate of growth of around 2 percent. On the negative side, real wages had failed to adjust, unemployment continued on a rising trend up to 22 percent of the labor force, and the public sector deficit remained close to 5½ percent of GDP.

In May 1985, the relative success of the adjustment and growing concern about its negative effects on employment persuaded the government to introduce some changes in the economic program. Several measures were approved to reactivate domestic demand. The new package included a reduction of taxes for the lower income brackets as well as accelerated depreciation for investments made during the year and a gradual downward adjustment of the peseta. After those measures, there was a recovery of private investment for the first time in ten years. The balance of payments meanwhile closed with a surplus of 2.8 billion dollars in 1985, while inflation fell to little more than 8 percent, and unemployment was stabilized around 22 percent of the working population. That is the present situation of the Spanish economy.

Since January 1986 Spain faces the new challenge flowing from its full integration into the European Community, which in the middle and long term will require a complete reorientation of the economy. But, at least in the short run, there are enough reasons for a moderate optimism. With a healthy balance of payments, more than 15 billion dollars of foreign reserves, and an external debt that has been reduced to less than 15 percent of GDP, the Spanish economy should experience—and is in fact experiencing—a soft landing in the European Community. The recent reduction of prices in the international oil market will mean an additional 2½ billion dollars for this country in 1986.

Spain has not yet made any commitments to incorporate its currency into the exchange mechanism of the European Monetary System. Nevertheless, in this favorable balance of payments context, the peseta should remain stable vis-à-vis the ECU. The convergence of our monetary policy with those of the EC countries should allow our currency to join the EMS before the end of the transitional period.

Although the challenge of joining the European Community affects basically the private sector, the government must also renew its efforts to find solutions for the two main problems which still remain unsolved in this economy:

- First, the reduction of the budget deficit or, in more concrete terms, the reduction of public expenditures in consumption and social security transfers.
- Second, the return to an equilibrium position in the labor market through downward adjustment of real wages and, above all, through liberalization of the legal framework of that market. Both problems are common to many other European countries, but that fact does not give us an excuse to postpone the application of effective policies which are long overdue. If we have the wisdom and the courage to do so, there is no doubt that Spain will find a privileged place among the industrialized nations of the Western world.

■ Juan José Toribio is General Secretary of Caja de Pensiones and Chairman of the Spanish Institute of Financial Analysis. The above is an edited version of his presentation.
António Marta
Portugal Joins the Community

The European Community should be considered an essentially political project which has given Europe its longest period of peace and prosperity. In the Treaty of Rome, there appears an appeal to other European countries to share its goals and to join its efforts. This invitation made by the six founding members to the other European nations covers only those countries with institutionalized democracies. With the end in 1974 of its "imperial cycle," Portugal responded to that appeal with a request for accession. The world economic situation and high unemployment in Europe led the Community during negotiations with Portugal to favor some nationalistic economic interests of its member countries. Moreover, the parallel made with Spain did not facilitate our own negotiation process. The Community feared that solutions agreed upon with Portugal could be extended to Spain—a country with highly protected industry, with a competitive agricultural sector, and with the third most powerful fishing fleet in the world.

The Negotiations
The negotiation process can be divided into five periods. The first period began in 1974, included the formal request for accession in 1977, and ended in June 1980 with Mr. Giscard d'Estaing's speech to the French farmers assembly effectively blocking further negotiations with both Portugal and Spain (France had already ratified Greece's entry). During this first period, entry of the three candidate countries—Greece, Portugal and Spain—was accepted in the Community essentially on the basis of political arguments related to the strategic interests of Western Europe and the democratic transitions operating in these countries. Political support for enlargement was nevertheless moderated by economic and institutional considerations—among others, the overall underdevelopment of the candidates (particularly Portugal and Greece), the overall implications for agriculture and sensitive industrial sectors most affected by the economic crisis, the institutional impact of enlargement on the decision-making process in the Community, the reappraisal of the Community's Mediterranean policy, etc. In Portugal this period was marked by almost total unanimity in favor of accession. The argument was essentially political, and the economic forces supported the process mainly as a driving force for constitutional reform of a liberal nature.

Until the beginning of 1982, the negotiation process was frozen in practice. During this period, the renewal of the idea of a "Europe of two speeds" was tried, fortunately without success. For the Community, it was the end of the period of enthusiasm for enlargement and the beginning of the introduction of some restrictions on the initial unconditional "yes." Within Portugal, accession became the central theme of political debate.

The timetable and the separation of the two accession processes—that of Portugal and that of Spain, particularly after Giscard's speech—were primary topics of discussion. Despite everything, accession remained unquestionable for the dominant political forces of Portugal, and the economic debate concerned only generalities.

Belgium's Presidency (the first half of 1982) gave a new impetus to the negotiations, and two-thirds of the process was formally closed during those six months. This dynamic was interrupted, however, when an attempt was made to begin dealing with agriculture and France suggested (in October 1982) that negotiations for this chapter should proceed in accordance with the so-called concept of transition by stages. This idea appeared following the inventory of the consequences of enlargement requested by President Mitterrand in June of that year. The political discussion in the Community was based at this stage on the link between internal reform and enlargement, on the rejection of a "Europe of two speeds," and on an increase of financial resources as a sine qua non for entry of new members. In Portugal, optimism was rising and the idea of separate accessions for Portugal and Spain was taken up once again, since the inventory clearly pointed out the differences between the consequences of accession of Portugal and Spain.

In 1983 two more crucial events for the negotiation's success occurred. In January, the common policy for fisheries was finally implemented. And in June, the Stuttgart summit took place. During that European summit, it was decided to increase Community resources and to link this increase to the accession of Portugal and Spain. This link and the role played by West Germany accelerated the negotiations.

The concluding period started in 1984 with considerable progress in the chapters on agriculture and fisheries. In Portugal this final phase in the negotiations was marked by a firmer official stand, with accession as a point of reference for Portugal's economic development. However, public opinion showed some confusion due to the frequent postponement of dates and meetings without apparent results. It was only in March 1985, after a marathon of several days and with the aid of both the Italian Presidency and the President of the Commission, that the negotiations were successfully concluded.

Sectoral Arrangements
The conditions defining the fitting of economic activity into the various sectors were the result, on the one hand, of the liberalizing principles written into the Treaty of Rome and, on the other hand, of the special conditions negotiated for membership.

In the industrial sector, Portugal was a founding
Although the negotiations on agriculture were the hardest from a technical point of view, negotiations on the fisheries sector were the most complex politically.

As regards trade in industrial products with Spain, an agreement was reached guaranteeing after membership the free export of Portuguese products to that market without any import duties or quantitative restrictions. As far as Portugal's imports were concerned, the principle of non-discrimination between Spanish products and European Community products was established when the seven-year period of elimination of duties was negotiated. It is important to stress the comparative advantage of Portuguese conditions of access to the Spanish market in relation to those of other European Community members, owing to the maintenance of considerable protection of the Spanish market vis-à-vis other EC member states. As regards the establishment of a program for modernization of Portuguese industry, the Community undertook to make a substantial effort in this direction and the Portuguese government has already presented a program involving 1.5 billion ECU's over a seven-year period.

Portuguese agriculture was the most complex sector to integrate into EC rules—first, because of the enormous gap between the relative levels of agricultural development of Portugal and the Community, and second, due to the complexity of the functioning of the Common Agricultural Policy. There were two main objectives for Portugal to achieve for the transitional period—first, a long period for progressively changing the most sensitive and protected sectors, together with an adaptation of the market models adopted by the Common Agricultural Policy; and second, a deep structural transformation of production methods and of the administration system, to be introduced over the entire transitional period. The transitional model agreed with the EC covers about 80 percent of Portugal's agriculture, including the most sensitive items. There will be a ten-year transitional period during which strong protection will be maintained along with a progressive implementation of the Common Agricultural Policy. There will be a 700 million ECU program financed by the Community during the transitional period for the structural transformation of Portugal's agriculture.

Although the negotiations on agriculture were the hardest from a technical point of view, negotiations on the fisheries sector were the most complex politically. The key background factors were: 1) the absence of reciprocal fishing activities between Portugal and the ten existing Community members, 2) difficult relations with Spain, and 3) considerable pressure from Spanish fishing fleets in Portuguese and Community waters. This overall picture lead the Ten to try to reduce Spanish fishing efforts in their waters, but to show open-mindedness and comprehension for Spanish claims to rights in Portuguese waters. This meant negotiations on two fronts for Portugal, the result of which can be summed up as follows. There continues in practice to be no reciprocal fishing arrangement between Portugal and the Ten, and relations between Portugal and Spain are established in accordance with the following principles on a reciprocal basis: 1) prohibition of fishing within the 12-mile zone, 2) prohibition of fishing for some crustaceans, 3) maximum catch quotas, and 4) a list of vessels operating in the other's waters.

**Financial Arrangements**

In conclusion, let me turn to the financial impact of membership, but first note that we must not lose sight of the broad economic impact of membership. The Portuguese market of 10 million people with limited purchasing power will be increased to more than 300 million with high purchasing power. There will be induced economies, and it will be possible for Portuguese economic activity to expand. The issue of the financial balance between Portugal and the EC became a political issue; and, after the EC crisis with Britain, there was an over-emphasis on the measure of net contributor or net beneficiary. This is a one-sided view that only considers direct flows between the EC and a state and does not consider what I have already referred to above about induced effects, both in economic activity and, for example, in the improved credit capacity of the country on international capital markets. To turn to the financial balance, Portugal negotiated arrangements with the aim of reducing its contributions to the Community and increasing the funds received from it. On the side of reducing contributions, it is calculated that during the seven-year period of transition, Portugal will be able to retain as national revenue some 3 billion ECU's that would normally be Community revenue. As regards flows from the Community, Portugal will have access to the regional fund for between 350 and 470 million ECU's a year. From the social fund, we will average about 120 million ECU's a year. We will take part in the agricultural fund, and we will also have a special fund for Portuguese agriculture, as noted above, of about 700 million ECU's over a ten-year period. We will benefit from a special
program for modernizing industry, and, as I noted above, the Portuguese government has presented a program of about 1.5 billion ECU.s. We will benefit like other member states from normal structural funds. Although it is hard to make an estimate while there is still no experience with how things function, I would not be surprised if, on average during the next ten years, there is a positive balance for Portugal of more than 300 million ECU.s per year. Nevertheless, apart from this oversimplified arithmetic—which is sometimes dangerous—we must not forget that the immediate credit capacity of Portugal and its creditworthiness have been substantially improved. This will enable the country to face revitalization of its economy in a more decisive manner, and will increase its access to credit on international markets. Some examples of this are: 1) access to the European Investment Bank, where yearly credit may easily amount to 400-500 million ECU.s; 2) the possibility of receiving extraordinary balance-of-payments support during the first seven years after accession, up to a maximum of 1 billion ECU.s; 3) normal access to short and medium-term Community support arrangements that grant Portugal drawing rights up to a maximum of 1.9 and 7.9 billion ECU.s respectively.

* * *

I hope I have given you a broader picture of what has been a long negotiating period, of what is going to change in our various economic sectors, and of the future implications for Portugal.

António Marta is the former Chairman of the Commission for European Integration (Portugal). He is presently Vice Chairman of Banco de Fomento Nacional, Lisbon. The above is an edited version of his presentation.
The International Economy

La Trilateral estudia la creación de una zona de ajuste de cambios

MADRID, (Utg)
La Comisión Trilateral, que reúne a 350 personas "muy influyentes" de Europa y EE.UU., ha lanzado una serie de recomendaciones para combatir la crisis económica global. Entre otras cosas, propone la creación de una zona de ajuste de cambios que permita a los países enfrentar sus problemas financieros de manera coordinada.

La presidencia de la Comisión Trilateral, presidida por el economista estadounidense C. Fred Bergsten, ha presentado un informe que destaca la necesidad de un nuevo enfoque para la economía mundial. Según Bergsten, la crisis actual se debe a la falta de coordinación entre las monedas más grandes del mundo, lo que provoca fluctuaciones excesivas en los mercados financieros.

Bergsten propone la creación de una "zona de ajuste de cambios" que permita a los países enfrentar sus problemas financieros de manera coordinada. Esta zona permitiría a los países ajustar sus tasas de cambio para equilibrar sus balances de pagos y evitar fluctuaciones excesivas en los mercados financieros.

La Comisión Trilateral también recomienda la creación de una nueva organización financiera que supervise el funcionamiento de la zona de ajuste de cambios. Se trataría de una entidad similar a la actual Organización para la Cooperación y el Desarrollo Económico (OCDE), pero con un enfoque más sesgado en la coordinación de los cambios de moneda.

La propuesta de la Comisión Trilateral ha sido recibida con alivio por algunos economistas, que ven en esta iniciativa una oportunidad para resolver la crisis económica global. Sin embargo, otros economistas dudan de que esta iniciativa sea efectiva y temen que pueda llevar a nuevas crisis si no se implementa adecuadamente.
You have invited me to start this debate on the future of the international trading system. In doing so you have tacitly recognized that the international trading system is, in reality, the GATT. It goes without saying that I can have no quarrel with your judgment. A healthy and vigorous GATT is synonymous with a healthy and vigorous trading system.

**Wide Context of GATT**
The GATT can be, at once, a fascinating, frustrating and inspiring instrument. It is perhaps least inspiring when perceived in the narrowest terms. On occasion, the GATT can appear to be dealing with issues of such a parochial nature that its real objectives can be easily lost from view. What do we do about Country A, for instance, which has put an illegal quota on imports of ornamental Christmas tree light-bulbs? Then there is Country B which appears to be dumping pianos. And do not forget Countries C and D who are in dispute over C's new health regulations which ban the import from D of tuna fish sandwich spread.

It might be argued that this is what a pragmatic and practical organization like the GATT is meant to deal with; since, in world trade, no industry, however small, should be ignored. Moreover, it is not such a big step from quotas on Christmas tree light-bulbs or the dumping of pianos to the quotas and restraints which now cover virtually all steel imports entering the industrial countries or the proliferating disputes over subsidized agricultural exports.

But however important these matters may be, is not the GATT about something of much greater significance? Does it only exist to help countries regulate their bilateral commercial relations? If that were the case then I might be tempted to care less for this institution which I, and all those who are intimately associated with it, respect so deeply. However, I do not believe that this is what the GATT was primarily conceived for. The GATT—that is, the rules for international trade—has helped give the industrial world the prosperity it enjoys today. Trade has created growth. We have all benefited from that wide and generous conception of the role of multilateralism in economic development that is contained in the General Agreement.

The rules of GATT were not conceived as a means of balancing bilateral trading accounts. They were not put together to shelter unsound enterprise. They were not meant to freeze trading advantages for all time. They were not supposed to be faithfully applied only as long as they served the exclusive interests of the industrial countries. And the rules were not designed to render immovable employment and production in established and sometimes influential industries.

The GATT is about none of these things. It is based
...at its foundation, there was a value placed upon the GATT quite out of proportion to the apparently narrow technicality of the trade rules themselves. ...One has to ask, what happened to the vision?

on the simple premise that any country has much to gain economically from opening its market to the maximum extent and from selling its own goods abroad in a fair manner; and that by doing so it brings benefit to all nations. The GATT gives politicians the means to pursue national policies consistent with these objectives in a multilateral context. Its approach is one of: "What I cannot do alone, I may be able to do with the support of friends."

But today I want to place the GATT in a wider context still. Because trade and trade rules are not only about increasing the economic welfare of countries even if this is an important objective. The original architects of the GATT certainly had far wider concerns in mind. They did their work against the background of the Second World War, at a time when a peacetime economic order was being developed to increase the interdependence of nations and, hence, reduce the chances of such a disaster recurring.

In short, at its foundation, there was a value placed upon the GATT quite out of proportion to the apparently narrow technicality of the trade rules themselves. Others have spoken eloquently of the wider importance of facilitating world trade through agreed rules. Cordell Hull, President Roosevelt's Secretary of State, said in 1937: "I have never faltered, and will never falter, in my belief that enduring peace and the welfare of nations are indissolubly connected with friendliness, fairness, equality and the maximum practicable degree of freedom in world trade." The same point has been made more succinctly: "When goods cannot cross frontiers, armies will."

What Happened to the Vision?
What an interesting contrast these words provide to statements of recent times which often reflect a far narrower understanding of the significance of expanding international trade. One has to ask, what happened to the vision? Do we now simply take for granted the immense economic and social gains of the 1950s and 1960s which rapidly expanding trade and steady trade liberalization helped bring about? Has more than a decade of faltering growth served to obscure the rationale of open trade?

Of course, the GATT is not the institution that its original architects intended it to be. The Havana Charter of 1947, had it been finally ratified, would have established an International Trade Organization of a far more comprehensive nature than the General Agreement on Tariffs and Trade which ultimately emerged. That is now history. But listen to the words of one senior American negotiator of the Havana Charter (Clair Wilcox) seeking to convince the U.S. Congress of the need for ratification. He wrote in 1949: "We must go on, in international co-operation, from politics to economics, from finance to trade. World organization for security is essential; but if it is to succeed, it must rest upon continuous international participation in economic affairs. The provision of relief, the stabilization of currencies and the extension of credits are necessary and desirable; but if the peoples who now depend upon relief are soon to become self-supporting, if those who now must borrow are eventually to repay..., the world must be freed in large measure of the barriers that now obstruct the flow of goods and services."

Though addressed to particular historic circumstances, the sentiments behind these words are no less relevant today than yesterday. The beneficiaries of relief are no longer in Europe but in Africa and other parts of the developing world. What is their future? It must lie in trade. They must have the chance to market their agricultural commodities without fear of subsidized competition. They must be able to process those commodities and sell them in open and welcoming markets.

And for those who have borrowed? Servicing and repayment of debt requires an adequate capacity and opportunity to export—not only basic commodities but, in many cases, advanced industrial products in direct competition with those of companies in the industrialized world.

Again, these are not merely economic facts. The challenge of the developing world's need to export is intimately bound up with stability and political security in many parts of the globe. These are matters of enormous consequence. They are not, or should not be, peripheral to the trading interests of the major powers. Faced with such issues and with the pressing—and recognized—need for a more open and predictable trading system, I have to say there appears to be an increasing complacency in the way GATT rules and commitments are either disregarded or circumvented. We have somehow sunk into a state where the only good trade policies seem to be those that attack other people's alleged misdeeds—and, of course, it is only the other guy who is a protectionist.

It was not always so, and especially not for the trilateral relationship. The history of the postwar world has given us many examples of the place of trade and the GATT multilateral trade system in securing political harmony and stability. Surely, the greatest example on this continent is the European Community. I need hardly remind you that its origins lie in the Coal and Steel Community—an effort not merely to pool productive capacities in the two key industrial and trade sectors but, more importantly, a major step in creating an irreversible trend towards economic and political interdependence among the countries of Western Europe. That trend was continuously reinforced, first by the creation of the
...the trading community has the chance to reverse the tide which is eroding the GATT system to the point where the achievement of its basic goals is in jeopardy.

European Economic Community itself and then by its successive enlargements. It is well known that the United States was foremost among those in Europe and the rest of the world in supporting this extraordinary and farsighted evolution. The GATT was always central to the Community's development. The European customs union is based upon the rules of the GATT. And, since the Treaty of Rome provides for common agricultural and common external trade policies, the Community, in the GATT, speaks with one voice.

And what of Japan? A highly-respected American writer, Theodore White, wrote last year (in the New York Times Magazine) that, because Japan had become so commercially successful, it could reasonably be suggested that the United States might not, after all, have been the victor in the Pacific War. What a sad and narrow misinterpretation of history. The United States has rightly encouraged Japan to take its place on the world economic stage. It has, indeed, become a powerful trading nation. But, at the same time, it has bound its political and economic interests to the rest of the industrial world. Nowadays, Japan is an active participant in all aspects of international economic cooperation.

Let me be clear, I am not suggesting that the problems which emerged in the commercial relationships between the trilateral countries and between each of them and other trading nations are not serious or that they can be swept under the carpet. My intention is rather to emphasize that solutions to these problems should be sought while keeping very firmly in mind the broader political and economic perspectives which I have tried to describe.

NEW ROUND
We do see a golden opportunity opening up before us. For the first time since the Tokyo Round of multilateral trade negotiations in the 1970s, the trading community has the chance to reverse the tide which is eroding the GATT system to the point where the achievement of its basic goals is in jeopardy. What I have in mind, of course, is the decision taken by GATT's Contracting Parties in November last year to establish a Preparatory Committee to agree on recommendations for a new round which it will present to a Ministerial Meeting in Uruguay in September.

We are in the process of considering those issues which might be on the agenda. But it is clear to me that the round must serve to bring governments to face and tackle certain major problems. Clearly they must take on the question of agricultural subsidies which have now reduced the concepts of fair competition and comparative advantage to little more than an academic irrelevance. They will need to recognize and repair the damage being done by the fragmentation of the trading system through the profusion of arbitrary and discriminatory bilateral agreements which, in recent years, have steadily cartelized large parts of world trade. The new round will be a further opportunity to bring the developing countries more securely into the system—which is meant to facilitate economic progress, not block it. And, naturally, I note the growing importance attached to the application and development of multilateral disciplines in new areas of trading activity such as services. These are just some of the more important examples. The Preparatory Committee has discussed over thirty possible subjects.

So my message is a simple but challenging one. It is to ask whether—through the opportunity provided by a new round—we can again unleash the same vision of the place of open trade in the world that motivated the original draftsmen of the GATT? Are we prepared to see our interests only in terms of constant bilateral strife or in an up-to-date, credible and comprehensive set of rules which can harness the benefits of trade for all?

Arthur Dunkel is Director-General of the GATT. The above is an edited version of the text from which he spoke.
The United States ran a merchandise trade deficit of 132 billion dollars in 1985, and borrowed 118 billion dollars from the rest of the world to cover its bills. Such figures are unprecedented. Moreover, imports rose three times more rapidly (in real terms) than GNP in the recovery from the recession of 1982. Some Americans worried aloud about the competitiveness of American products in world markets—and at home—and became much more conscious of the diverse trading practices around the world, designating as "unfair" those that were different from U.S. practice and which seemed to impede the sale of U.S. goods or services.

Reflecting these developments, Washington is in an ugly mood in the arena of trade policy—I have not seen it so ugly in the 25 years that I have been involved in trade policy. Both Houses of Congress are frustrated and angry about the trade issue. The anger is clear to anyone who testifies before any Congressional Committee on trade. Moreover, it can also be found in some elements of the Executive Branch, below the President.

The most recent manifestation of the frustration and anger is the "Omnibus Trade Bill" which was reported out of Committee in the House of Representatives not long before the May 1986 meeting of the Tri-lateral Commission, and passed the House shortly after that meeting. It is a complex, wide-ranging bill that contains several positive features and a number of inoffensive ones.

But from the perspective of anyone desiring to maintain and extend an open world trading system, it can only be described as a mischievous and dangerous bill. I should indicate at once that the passage of the bill reflects a variety of considerations not involving strong agreement with the substance of the bill. It reflects in part the partisan politics of the American system in a year of Congressional elections. The Democrats have seen that foreign trade is a publicly sensitive issue on which the Republicans are politically vulnerable and open to the charge of inadequate action. Passage of the bill also reflects bipartisan frustration at the Reagan Administration by all Congressmen, Republicans as well as Democrats, for paying insufficient attention to Congressional views.

The gist of the bill is to withdraw discretion in trade policy from the President, who is thought to be too easy on foreigners. It makes the penalties for misbehavior more automatic, leaving less discretion to the Administration. "Misbehavior" or unfair trade practice is defined unilaterally, and is broadened in this bill to include how workers are treated in other countries. The bill also charges the Administration with taking whatever actions are necessary (including negotiation) to reduce the trade surpluses of certain countries—including Japan and West Germany—by at least 10 percent a year over the next four years, including if necessary discriminating tariffs or quotas on imports from those countries. The bill also introduces into anti-dumping action a provision that has proved troublesome in the antitrust arena, namely the possibility of private treble-damage suits against injury during a period of dumping—while retaining the broad and unilateral U.S. definition of dumping, which includes an allowance for normal profit above cost in reckoning fair market value.

As most readers will know, unlike in other countries, when a bill passes the House of Representatives it does not necessarily become U.S. law. Many bills die before passage into law, and this bill no doubt was passed in part as a challenge to the Administration. It is now in the hands of the Senate, where the Administration will try to defeat it. And if it passes the Senate, the President can veto it. However, he will be warned by his political advisers that he should reach some accommodation with the protectionist forces in order to avoid putting Republican Senators out on a limb and thus jeopardizing Republican control of the Senate in the November 1986 elections. That is all ahead of us. The point I want to make here is that the bill is a dangerous one, but that it reflects the angry mood in Congress in early 1986.

Sensing this mood last year, the Administration launched its own program last September to deal with the trade issue. The program involves three components. The first was the Plaza Agreement among the Group of Five finance ministers. The Reagan Administration did a 190-degree turn on exchange rate policy. It conceded that the "market" might not always know best, that the dollar was much too strong, and that official action could and should be taken to weaken the dollar. The dollar has fallen substantially since September 1985—indeed, the drop already started with German official action when the DM was heavily depreciated in March 1985, so the Plaza Agreement reinforced and accelerated tendencies already in the market.

The second component of the Administration's trade program was to create a "strike force" within the Administration to go after unfair trading practices abroad. The U.S. government would do this at its own initiative. Rather than waiting for firms to file and document complaints, it undertook a number of investigations against specific import-restrictive or export-promoting practices around the world: canned fruits in Europe, insurance in Korea, leather goods in Japan, computers in Brazil, and so forth.

The third component was to emphasize the importance of early inauguration of a new major round of trade negotiations, partly in the expectation that it is more difficult for protectionist pressures to result in protectionist actions while active trade negotiations are going on. The period, as at present, when they are not. I have some skepticism whether a new round can
I do not understand what a “level playing field” means in the trade arena....In the real world, every playing field has some bumps in it.

serve as much of a protective shield against protectionist action, since Congress and the sophisticated public are on to that gambit. The new round ought to be seen primarily for its substantive merits, not mainly as a device to ward off protectionist pressures.

In my view, the large trade deficit of the United States is overwhelmingly a macroeconomic phenomenon, and has virtually nothing to do with the real and imagined unfair trade practices that allegedly exist in a number of countries. Several other persons in the Trilateral Commission—Martin Feldstein and Fred Bergsten, for instance—have made the same point repeatedly. But we have evidently failed to persuade the Congress and the American public, so the protectionist interests continue to point to the trade deficit as evidence of unfair practices. The sharp drop in the dollar will in time mitigate these pressures, but they have some momentum now and will not dissipate quickly. Moreover, given the nature of modern trade, with its long lead times, it will take several years for the sharp drop in the dollar to produce a strong visible impact on the recorded trade figures, although the effect should be felt much sooner in new orders.

I will make two observations about the longer run. Two problems, in particular, are likely to plague international trade for some time, and neither seems to be moving toward a satisfactory solution. The first is the increased emphasis Americans seem to be putting on “unfair trade practices.” The metaphor is that we need a level playing field. I do not understand what a “level playing field” means in the trade arena. Like all metaphors, it casts a certain impression or image. But it is a fuzzy, foggy image. It offers appealing speech material, but it does not provide the basis for policy or for negotiation. Taken literally, it suggests that trading nations must harmonize all their policies that influence trade in any way, since failure to do so will not leave a level field. In the real world, every playing field has some bumps in it. To call for harmonization of all policies is both unnecessary and a counsel of defeat, because it is not practical, given the nature of modern democratic government. Everything would have to be settled by diplomatic negotiation rather than by legislatures. So Americans need to give a lot more thought to what they really mean by their metaphors, and whether they are prepared to participate constructively in a process of mutual adjustment, or simply expect the rest of the world to adjust to American practices.

The other major problem is the arena of agriculture. The problem here, it must be said bluntly, is a European agricultural policy which consists of high price supports without production controls in a world of ever-advancing technology. Under those circumstances, farmers will expand high cost output without limit, and the growing surpluses will move into world markets supported by the export subsidies necessary to move them. That combination is devastating to those who feel they have a natural advantage in agricultural production. To point out, as European officials are fond of doing, that the United States also provides substantial budgetary support to farmers obscures a crucial difference between the U.S. and European support programs: the United States maintains relatively low price supports (except for sugar), supplemented by income payments, and requires farmers to take land out of production; the European program starts with high price supports (so consumers pay more) and encourages relatively inefficient (that is, high cost) farmers to produce more, not less. Recently this community has experimented with the bare beginnings of output restrictions, in dairy products. European farmers have been made wealthy through ever-higher agricultural land prices, whereas U.S. farmers have lost wealth through falling land prices. Land prices reflect the divergent thrusts of the two programs. Japan, like Europe, offers farmers high price supports, but also restricts production.

The European Community has said over the years that the Common Agricultural Policy is non-negotiable. If the CAP with all its features is non-negotiable, and if the European Community does no better job in the future than it has in the past in bringing its ever-increasing farm output under control, I will not hesitate to forecast that the liberal trading system will be a casualty of the Common Agricultural Policy.

One of the distressing features of the present mood in the United States is that the traditional advocates of liberal trade—the farming community and an important part of the business community—are virtually silent today. They have not necessarily swung around to the protectionist side, but they have pulled back. The U.S. political system relies crucially on checks and balances, pressures and counter-pressures. If the counter-pressures withdraw, the pressures move forward. I fear that such phrases as “unfair trade” and “level playing field,” combined with the large trade deficit, have mesmerized the normal proponents of liberal trade to the point at which they no longer speak out vigorously against mischievous pieces of legislation. Perceptions, based on experience, about continuing difficulties in exporting to Japan reinforce their frustration and ambivalence. So in all the trilateral nations substantial changes in attitude, perspective, and practice are required to get us back onto a track which has proven successful and beneficial to all of us, and others as well, over the last 35 years.

Richard N. Cooper, former U.S. Undersecretary of State for Economic Affairs, is Boas Professor of International Economics at Harvard University.
NEW ROUND
The world trading system stands at a major crossroads. As the nations of the world experienced the economic difficulties of the last decade or so, threats to free trade were manifested in various forms. Frequently GATT rules were ignored and important issues ceased to be taken up in GATT. As unemployment grew, some nations turned to protectionism. Bilateralism grew as export restraints and import restrictions were implemented outside of the GATT framework. By some means of computation, as much as 40 percent of world trade is subject to one form of control or another. Should this trend continue unbridled, it could threaten the very existence of the GATT system.

In the era following World War II, the world economy grew at a rapid rate and trade recorded marked increases. Without the detailed trading rules of GATT then, our world now would be a very different place. More nations, seeking simple solutions to complex problems, might have turned to protectionism. The world trade and interdependence among nations that exist today would be quite different in form and scope. Based on an evaluation of the role GATT has played in the global economy, I believe that it is essential to proceed with a new GATT round. Only by facing and overcoming the challenges that face GATT today can we strengthen it. It seems to me that we should attempt to attain three basic objectives in the new round:

- In order that we may return to the basic GATT principles, GATT trading rules must be refined and its organization must be strengthened. Specifically, safeguard provisions must be revised and dispute settlement mechanisms must be strengthened.
- GATT should revitalize itself in keeping with current world economic trends and with structural changes in world trade, including the growth of trade in services.
- In order to promote expansion, the trading environment for developing countries requires improvement.

JAPAN’S WORLD ROLE
The postwar Bretton Woods-GATT system was born and maintained under the overwhelming international influence and leadership of the United States. This leadership carried with it heavy obligations. No nation today can match the U.S. preeminence of that era.

In the new round of multilateral trade negotiations, North America, the European Economic Community, and Japan must adapt to this new era by sharing their responsibilities in keeping with their respective strengths. At the same time, it is highly important that the new round take into consideration the many problems of the developing nations. I believe that it will be necessary for Japan, which has achieved its present economic prosperity by enjoying the benefits of free trade, to respond by showing readiness to make appropriate sacrifices. The urgent task for Japan, which seeks to achieve development in harmony with the world economy, is to cope with the external trade imbalance that has become a factor in disrupting the world commerce system.

Behind Japan’s current account surpluses in recent years are some factors not of Japan’s making that are difficult for Japan to deal with on its own. These include the structural macroeconomic differences between Japan and the United States and the insufficient adjustment of current accounts under the floating exchange-rate system. No matter what the causes, this large imbalance must certainly be corrected if the healthy development of world trade is to be achieved. For this purpose, Japan has already adopted a number of measures and is now about to implement others.

The first of these steps was the promotion of an open market. Last July, Japan, on its own, adopted an action program to improve access to its markets. The program included the abolition or sharp reduction of import duties on 1,848 articles effective January 1, 1986. Measures simplifying the certification of standards, import procedures, and government procurement are scheduled for early implementation. In addition, by examining various measures that have not been included in the action program from all possible angles, Japan is aiming at becoming, within the next few years, the nation with the world’s fewest import restrictions. Essentially, this is evidence of Japan’s willingness to do its part to carry out its responsibilities in the maintenance and strengthening of free trade in anticipation of the new round. These measures are further evidence of Japan’s readiness to contribute to the expansion of trade by lending support to the export efforts of its trading partners.

The second step centers on stabilization of the higher exchange value of the yen while avoiding a drastic fall of the dollar. Since last year’s G-5 meeting, the yen has risen about 45 percent, significantly exceeding the 15 to 33 percent rise of major European currencies. However, there are limits to the adjustments that exchange rates alone can accomplish without the undesired side effect of amplifying deflationary tendencies.

As a third step, it will be necessary to make further efforts to expand domestic demand to make greater imports possible. In substance, this will include lowering interest rates, the introduction of financial policies designed to augment social capital, and the promotion of private sector vitality through deregulation and urban redevelopment.

Last month, an advisory group to Prime Minister
Japan, as a small military power but a major economic power, sees its role in the stabilization of the international order as one of making available the capital it has amassed for the development of other nations.

Nakasone, the Advisory Group on Economic Structural Adjustment for International Harmony, proposed a number of macroeconomic policies designed to steadily reduce the current account surplus. The Premier has announced his intention to carry out economic policies based on this proposal. However, such measures dealing with the overall economic structure call for follow-up actions that must be implemented over a relatively lengthy period of time. It is, therefore, my belief that Japan should during that time actively contribute to a harmonious development of the world economy by internationally recirculating its trade surplus funds.

To accomplish this, the first step should be the promotion of direct investments overseas. This signifies a shift from exporting manufactured goods to manufacturing in the consumer country. In this respect, the progress made in cooperative relations between Japan and the American automobile industry constitutes an important new trend in corporate activity.

The second step is to contribute to the solution of the debt problem. The cumulative indebtedness of developing nations, expected this year to total more than one trillion dollars, is seriously threatening the stability of the world economy. Japan should be able to cooperate with other nations to provide financial assistance to countries in need of urgent relief. In the long term, Japan will also contribute to the strengthening of the financial foundations of international development agencies by increasing the capital of the World Bank.

Third, inasmuch as the growth of developing nations will be the key to the continued expansion of global trade, an all-out effort should be made to increase official development assistance. Japan's ODA expenditures exceed 5 billion dollars annually; my country may soon become the largest provider of economic assistance in the world. Japan, as a small military power but a major economic power, sees its role in the stabilization of the international order as one of making available the capital it has amassed for the development of other nations.

Importance of Triilateral Cooperation
The reconstruction of the international trading system, which will be the focus of the new round, should be realized jointly by North America, the European Economic Community, and Japan. Today, when economic interdependence between nations has reached a decisive stage, it is of paramount importance to develop mutual understanding. From this point of view, I would like to conclude my address by making some proposals from the Japanese standpoint to the United States and the European Economic Community. I would like to applaud the United States for its change in policy last year, reflected in the reduction of the federal government's budget deficit, the lowering of interest rates, and the correction of the high dollar rate. I believe that the troublesome American trade deficit will be corrected, albeit with a certain time lag. Under such circumstances, I would like to see the United States redouble its efforts supporting the firm establishment and strict observance of fair trade rules among various nations following the new round by preventing both bilateralism in trade and the growth of one-sided measures carried out through trade legislation.

To the EEC, we welcome the further strengthening of the union this year through the entry of Spain and Portugal. I would like to point out, however, that mutual exchanges between the EEC and Japan in merchandise trade and investment are far from optimal. For example, in 1985, trade between the United States and the European Economic Community amounted to 114 billion dollars; between Japan and the EEC it remained at 28.8 billion dollars. There is, therefore, considerable room for further expansion. Almost the same situation persists in the investment area. We would like to see the new round serve as a springboard for the revitalization of the world economy and promote closer cooperation in the industrial field. It seems to me that the EEC should participate more than it has in the past in the development of the Asia-Pacific area's enormous potential.

In conclusion, I would like again to state my belief that the prosperity of the global economy depends on the maintenance and development of the multilateral order under GATT, and that Japan, North America, and Europe must cooperate and carry out their responsibilities serving as the nucleus for the creation of such a system.
RESILIENCE OF GATT
It is frequently claimed that the multilateral trading system is in critical danger of disintegration. I acknowledge readily the system’s imperfections, but I dissent from the view that the GATT is about to be blown away. I believe we have a robust, not a frail multilateral trading system. For nearly 40 years the GATT has demonstrated resilience, not fragility.

Despite difficult economic conditions in recent years, the development of world trade continues to outstrip world production. The GATT has, through successive rounds of trade negotiations, created special conditions for developing countries—embodied in Part IV of the GATT in the 1960s and confirmed through the Framework Agreements at the end of the Tokyo Round. At the same time, the Tokyo Agreements—the so-called GATT Codes—were established, notably to tackle growing problems in the non-tariff area. Their success has been mixed; but, bearing in mind that the Tokyo Round preceded one of the most vicious recessions of the postwar era, their performance has, with one or two exceptions, been creditable. Finally, if the test is the number of countries which have elected to come into the GATT, or which wish to join, the verdict must surely be positive. In sum, I believe we have a trading regime which, with all its wrinkles, has served the business community well and has kept markets generally more open than its detractors would admit.

PROBLEM AREAS
These positive elements notwithstanding, we also have a regime which is seriously deficient in several key areas. I would cite three: 1) the inadequacy of the present safeguards arrangement, i.e., the necessary protective measures in the event of substantially increased and injurious imports; 2) problems associated with trade in agriculture; and 3) difficulties in settling certain types of disputes. There are other difficulties, but I believe it is these three—coupled with the perception of inequality in GATT, that is, the unequal relationship, real or imagined, between contributions to and benefits from GATT—which have led to widespread erosion of confidence and a regrettable tendency to bypass GATT rules. Unfortunately, there is a widespread perception that the rule book of the GATT applies differently to different participants. Let me give some examples.

In the Community there is now a lack of confidence that GATT rules can adequately address problems of market access in certain countries where there is simply no tradition of importing manufactured products. The notion of a “trade barrier” as customarily defined in the GATT seems inadequate to deal with this kind of problem. In other words, there are instances where, in the absence of recognizable obstacles to trade, market access may still be denied. A rather similar problem arises in countries with state-trading systems. What value can be attached to the notion of “liberalization of access” in a centrally planned economy?

My second example is the complaint made by developing countries of a basic asymmetry in trade relations between developed countries and developing countries resulting from the alleged non-observance of GATT rules by developed countries. In the view of developing countries, this asymmetry would be compounded by the inclusion of new subjects for negotiation in the new round.

Finally, in Washington there is currently much concern about “free and fair” trade. The origins of that concern are rooted in the belief—mistaken in my view—that the rules are stacked against the United States. For example, the United States feels aggrieved over such issues as subsidies, the absence of adequate rules on intellectual property, the operation of Article XXIV, and special and differential treatment for the more advanced developing countries. This has given rise to the image of the “tilted playing field” on which the United States is perceived to play uphill.

The few examples I have given go a long way to explain the “deterioration of goodwill among nations” referred to in the Leutwiler Report. If these perceptions are true, the work we have before us is as much in the field of psychology as it is on the rules themselves. Unless each participant can come to believe that the advantages of belonging to the GATT are equitably shared, the erosion of confidence will continue. A central purpose of the new round of trade negotiations must be to arrest this erosion of confidence. The key to a successful negotiation may lie in the realization that the result of the new round must be seen and believed to hold out benefits for all who have participated in the process.

EVOLUTION OF GATT RULES
Finally, let me say a few words about the kind of future international trading system which I can envisage and for which I believe we must strive. Without sacrificing the fundamental principles of the General Agreement, we must be prepared for change. A GATT made up of over 90 Contracting Parties with vastly different trading systems, including very possibly China and perhaps others, must be fully responsive to the trading regimes of each constituent. It cannot be ignored that the present GATT (except Part IV) was drawn up for a handful of Western-style democracies. Moreover, the complexity of the economic environment today, compared with the 1940s, has vastly changed the conditions for world trade. Therefore, a future international trading system may have to preclude certain rules which are either inapplicable or which place unworkable constraints on
individual members of the system.

A case in point is subsidies. The diversity of economic regimes and the different roles which the state plays in the economies of, say, the United States on the one hand and of China on the other, make it difficult to see how immutable rules can be established in this area. How is one to define a subsidy in a centrally planned economy and draw comparisons with an aid program in a market economy? The problems of definition in this area have so far defeated the experts working only within the confines of the Subsidies Code. I believe that in this area, and perhaps in others, the creation of universal and absolute rules is unrealistic and probably should not be attempted.

On the other hand, GATT rules must continue to be sufficiently binding to ensure that the balance of rights and obligations is not upset and a balance of advantages is achieved. Moreover, it is clear to me that the GATT must be ready to address new subjects to the extent that they impinge on, and possibly falsify or otherwise affect, traditional trade. Subjects such as intellectual property and foreign direct investment are examples. The GATT simply can no longer ignore these subjects—certainly not trade in services, which today accounts for some 23 percent of world trade as against a negligible proportion when the GATT was founded. There is need for a framework of principles and rules for trade in services, having due regard for the elaboration of specific disciplines for individual service sectors, and providing for procedures to facilitate liberalization of trade in services.

The international trading community needs an agreed upon trading system whose rules are attainable without sacrificing fundamental principles. This cannot be achieved by creating some kind of international court of trade justice. The sheer complexities of economic relations between countries preclude a simplistic solution of that kind. There is no alternative to the consensus-based decision-making process which the GATT has evolved. Directly related to this imperative is the need to keep ideology out of trade. There have been some signs that UN-type procedures—complete with bloc votes and set speeches on behalf of groups of politically like-minded countries—are favored in certain quarters. The Community will continue to work to strengthen the multilateral trading system on the basis of practical, down-to-earth procedures. Only such a system, where rules and practices relate to each other and evolve together, will respond to the needs of the 1990s and beyond.

Willy de Clercq is a Member of the Commission of the European Communities. He has served as Belgium’s Minister of Finance and Foreign Trade. The above is an edited version of the text from which he spoke.

I would like to speak this afternoon on Africa’s debt problem. While time does not allow an in-depth analysis of the debt problem in Africa, I would like to give some characteristics of that problem, its implications, and finally the ways in which it might be better handled.

My first comment is that the first half of the 1980s was very discouraging for Africa. Economic performance was poor. And there was a decline in agricultural growth that resulted in part from severe drought, the likes of which had never been seen in the continent. Then, too, there was the population problem. According to Robert McNamara, former President of the World Bank, if nothing is done within the next 50 years, Africa’s population will grow from a 1980 figure of 453 million to 2.5 billion. This would have a definite, negative impact on agricultural growth, the ecosystem, per capita income, and the overall economic situation. Even though we did receive some relief from the decline in oil prices and interest rates, we have yet to see the proverbial light at the end of the tunnel.

The debt problem emerged in this unfavorable environment. Certainly, there were many causes of it. One cause was unquestionably economic mismanagement. We have borrowed money from international markets and not all of it has been wisely used. Examples of white elephants can be found in many countries. I would like to say that, while some of the blame for those white elephants certainly lies elsewhere,
we in Africa must assume our part of the responsibility.

Beyond the short- to medium-term difficulties we have in managing our economies, the debt problem has been further aggravated by one long-term problem: the degradation in the continent's environment which has manifested itself in recurrent droughts, desertification, and the disruption of our ecosystem. This has not only retarded economic growth, but also weakened and in many cases reversed export growth—the basis for servicing external debt.

As for the debt burden, how large is it in both dollar and comparative terms? At the end of 1984, it came to 158 billion U.S. dollars. That is certainly not much compared to Brazil or Mexico, and nothing compared to the 900 billion dollars owed by the Third World. What is staggering and important is the fact that this figure of 158 billion dollars represents 203 percent of African exports. It has reached a level that is unbearable and that many countries are incapable of servicing. In 1985, repayments came to 19.2 billion dollars, a figure which represents 23 percent of our export earnings. Again, what is important is not the amount of debt, but our difficulty in servicing it. As for the type of debt, there has been some shift from concessory financing to non-concessory financing in the form of private debt with short maturities and high interest rates. Moreover, most of this private debt has changed from non-banking to banking debt. All these elements have compounded and increased our debt problem.

What should we do about this? It is a relatively easy question to answer, but very difficult to act on. First, we must increase agricultural production so that we generate exports to finance growth and service debt. We must also build small industries which will produce the necessary tools and equipment for agricultural production. In addition, we must increase our small volume of trade with the rest of the world beyond its present share of four percent of world trade. Moreover, we must improve trade among ourselves so as to reduce our dependence on the external world. There is yet another area where we must work for improvement—foreign investment. Several of our countries wish to attract investment, but there are still many economic and administrative hurdles which a foreign investor encounters. We are concerned about that and we have to do something about it. Finally, there is the area of macroeconomic policy where many mistakes have been made. Specifically, these mistakes have occurred in monetary and fiscal policy, in trade, and in public sector management. African Heads of State, meeting in Addis Ababa in July 1985, agreed that reforms could be introduced in these areas.

These are a few of the adjustments that must be undertaken. To be done seriously, they must be coupled with an additional flow of resources in the form of more concessory financing, resumption of commercial bank lending, and more direct foreign investment. We know that many Tripartite Commission members here today have high-level responsibilities and can influence those who can assist us in ODA and concessory financing. We also think that you are in a position to call on commercial bankers to resume their lending activities in our continent. Many profitable opportunities remain. Africa has considerable resources which could be exploited for both exports and domestic consumption. We do know that, if you look into this properly, you will find ways to invest your resources profitably.

Another area where you can help is the promotion of the private sector in Africa. We will of course not consider doing this at the exclusion of our public entities; for it is very difficult in developing countries to take that kind of option. For us, public entities are necessary for investing in sectors and activities where private enterprise is unwilling or unable to go, or where considerations of economic strategy often require governments to assume a leading role. Having said that, however, it is clear that a good deal of public investment needs to be reassessed with a view toward reducing inefficiency and waste, and in certain cases reducing its scope. We also believe that it is important that foreign private investment come to Africa. Clearly, this should be accompanied by management know-how and technical expertise. What is missing in our continent is not merely finance, but also, and often more importantly, expertise.

In conclusion, let me say that we have purposely taken a growth-oriented strategy to the debt problem. And while we may ask for debt relief, debt repudiation is an option which we do not regard as in the long-term interest of our countries.

Babacar N'Diaye is President of the African Development Bank. The above is an edited version of his presentation.
A draft of this report was discussed at the Madrid meeting. The authors then made their final revisions and the report was published. The authors are C. Fred Bergsten, Director of the Institute for International Economics and former U.S. Assistant Secretary of the Treasury for International Affairs; Viscount Étienne Davignon, Member of the Board of Directors of Société Générale de Belgique and former Vice President of the Commission of the European Communities; and Isamu Miyazaki, Chairman of the Daiwa Securities Research Institute and former Vice Minister of Japan's Economic Planning Agency. The chapter on “America’s Unilateralism” was authored by Bergsten, the chapter on “Reorienting Japan’s Economic Structure” by Miyazaki, and the chapter on “Re-starting Europe” by Davignon. The authors are jointly responsible for the conclusions chapter. R. William Lawson, former Senior Deputy Governor of the Bank of Canada, contributed “A Canadian View.” The following are excerpts from each chapter of the published report:

To be sure, the deterioration of international economic order in the 1970s was not nearly as profound as the collapse of the 1930s. Skillful crisis management and a healthy pragmatism helped prevent the worst. But pragmatism and crisis management are not enough over time. We need a leap forward in the extent of cooperation.

We do not propose greater international economic cooperation from any “soft-hearted” desire to be nice to each other. We do so, to the contrary, from a conviction that each individual nation will gain substantially from more effective policy collaboration with its major trading and financial partners. The reason is simple: in today’s interdependent world, any national policy which long remains incompatible with those of other major countries will inevitably become unsustainable, and thus levy severe costs on the country initiating such a policy.

**America’s Unilateralism**

The United States, like most countries, prefers quite naturally to pursue its domestic economic objectives as autonomously as possible. Unlike most countries, however, the United States has the ability to do so for prolonged periods of time. Because of its size, and particularly because of the international financial role of
the dollar, the United States is able to export a portion of its domestic problems—either unemployment or inflation—to the rest of the world for an extended duration. However, even the United States cannot export its problems indefinitely. Global interdependence has reached the point where the chickens inevitably come home to roost, albeit with a substantially longer time lag for the United States than for other countries. When this occurs, the United States is forced to abandon "benign neglect."...[T]he domestic problems caused by the international repercussions of such neglect may become very severe. This can trigger a shift toward aggressive pursuit of policies aimed at resolving the "new" problems as promptly as possible, particularly taking into account general American impatience and policy volatility....Whatever strategy is initially chosen by the United States, and however sincere the belief that American unilateralism will serve global interests, resolution of the resulting crisis always requires cooperative international action. Such an outcome occurred in 1971-73, 1978-79 and 1985-?. After this occurs, at least some of the newly formed habits of cooperation seem to persist for the remainder of the Administration in question.

To maximize the prospect for dampening America's inherent proclivities toward periodic unilateralism, and heighten the likelihood of more consistent pursuit of internationally cooperative approaches, three sets of steps seem most essential. First, Americans must be brought to understand the ultimate costs of unilateralist policies for America itself....Second, more effective international regimes need to be erected to foster macroeconomic and monetary policy cooperation....Third, other countries must demonstrate a willingness to cooperate meaningfully with the United States (as vice versa) to add to the prospects for more internationalist American behavior.

Reorienting Japan's Economic Structure

It was only in the 1970s that Japan began to enjoy persistent trade (current account) surpluses, which were the fruit of post-war import substitution and export promotion efforts. The Japanese government, however, was not fully convinced that the trade surplus would persist. The government was constantly concerned with the prospect of an excessively strong yen, and very cautious about opening up the Japanese market to imports. Moreover, the untimely occurrence of the 1973 and 1978 oil crises shocked an economy that was heavily dependent on imported oil, throwing the Japanese trade account into deficit, and confirming the fears of those who believed that Japan's trade surplus would be evanescent. Even after Japan adjusted to the oil crises and reestablished a trade surplus, some people would never believe in the "permanency" of Japan's trade surplus....The economy's recovery since 1982 has continually pushed up Japan's current account surplus, which reached 3.5% of nominal GNP in 1985. It is obvious that this unprecedented surplus was not the result of business cycles, nor the sole consequence of America's "twin deficits" (federal budget and trade deficits). Japan has become aware, finally, that its chronic surpluses are due principally to structural factors of the Japanese economy.

What specific economic policies, then, should Japan pursue in restructuring its economy...? First, Japan should aim for higher economic growth based on domestic demand....Second, Japan should further open its import market in order to help expanded domestic demand take full effect internationally.... Third, Japan must take steps in accordance with its status as a capital exporter.

Re-starting Europe

The European Community remains intensely absorbed by its own internal problems: its enlargement; its economic recovery; its financial crisis; and the reform of its Common Agricultural Policy....

Recent improvements in Europe have not been buttressed by an adequate participation in the international management of interdependence, where Europe appears divided and without a clear perception of its common long-term interests.

If Europe functions as a full entity when it comes to external trade policies, and only as half an entity with respect to the internal market, the fact that it is still a non-entity in the macroeconomic and monetary field is an impediment to improved growth worldwide. This "non-Europe" is more deflationary than would be the case were it better integrated at the macroeconomic level....

In international monetary affairs, the Community as such is conspicuously absent....Its exclusion from the Group of Seven is worrisome: it diminishes the Commission's credibility as a promoter of macroeconomic convergence; it underlines the difference in status between the "Big" Europeans and the "Small" Europeans; and it also reduces the significance of the Group of 10's work. Here, as on so many other subjects, the European paradox is blinding: because of its vulnerability and its peculiar mode of operation, the Community needs—more than the United States, of course, and even more than Japan—the best possible management of interdependence and its repercussions; and yet, it is the Community that does the least to acquire the means of promoting, and taking part in, such management!
A Canadian View

I would not expect to see much enthusiasm in Canada for any international initiative that looked towards commitments in the exchange-rate or balance of payments fields. The belief in Canada that freedom from such commitments gives valuable freedom of maneuver to domestic economic policy is too strong for that. It may be that this belief will be reconsidered, and I hope that it will because I think that the case for it is much more doubtful than is commonly supposed. It is hard to challenge the idea that, for a country like Canada, freedom from external financial rules gives some short-term room for maneuver in domestic policy, but it is far from certain that that freedom is worth its price. Part of the price is the damage that it does to the evolution of an effective set of international rules for supporting international financial order, and no country has a greater interest in that objective than Canada. Another part of the price is the risk that the short-term room for maneuver in domestic policy will not be used wisely. If it is used to postpone needed internal economic adjustment—if, that is, it is used to delay doing uncomfortable things that ought to be done—it is not an advantage. I think that this is how much of the room has been used in Canada. Much of the exchange-rate depreciation that Canada has experienced over the last decade seems in retrospect to have been used to avoid dealing with a considerable range of domestic policies and practices that need adjustment. The impression of many Canadians that exchange-rate depreciation is the right road to lower interest rates is an illusion. The way to achieve lower interest rates in Canada is to strengthen public confidence in the future internal value of the Canadian dollar. If Canada had been more effective than the United States over the last decade in the pursuit of domestic financial stability, interest rates in Canada would not now be higher than in the United States but lower, as they are in Germany and Japan.

Joint Conclusions

Macroeconomic and Monetary Policy

We would urge that the essential breakthrough to effective policy cooperation not be thwarted by excessive debate over the technicalities of alternative proposals. The key is to set up a system with full will to participate by all major countries, to implement it as effectively as possible and to learn over time how to do so more effectively. We believe, however, that surveillance alone, without an agreement on reference points of some sort, will prove insufficient. Thus, in our opinion, some form of “target” zones will need to emerge for successful collaboration in this area. In that context, we are greatly encouraged by the agreement at the Tokyo Summit to launch a more systematic approach to surveillance with the assistance of specific indicators for each country. We believe that the framework suggested there, if implemented faithfully and consistently, would lead to substantial achievement of the objectives enumerated above. We believe that the International Monetary Fund can play a major role in promoting such an outcome, by assessing the international compatibility of the national indicators and calling attention to national deviation from agreed targets.

Trade

Some of the most acute problems have not been handled effectively, or at all, within the framework of GATT….In such circumstances, at the same time we are assigning new tasks to GATT, we need to agree on what competences we entrust it with. The balance to be found probably lies in the recognition that more flexibility is needed (safeguard clauses), but that such flexibility must be coupled with a strengthening of GATT’s role in surveillance and enforcement. It is unthinkable to grant exceptions and safeguards without simultaneously agreeing on the measures required to guarantee a return to the common rules, within an agreed timeframe. Without a referee, without surveillance, freedom becomes anarchy—or, at least, inequity.

Third World Debt

A joint response…by the trilateral countries is imperative, in at least four areas: (1) A reversal of the current slide toward protectionism, and a further opening of markets, through the new round of trade negotiations…. (2) Liberalized lending policies by official institutions, notably export credit agencies and the multilateral development banks…. (3) Adequate packages of new credits by commercial banks in the trilateral countries, probably of magnitudes substantially larger than envisaged in the Baker plan (but still considerably smaller than the annual inflows of interest payments by the debtors), encouraged by an expanded use of partial guarantees (through the IBRD and national export credit agencies). (4) A series of further institutional innovations to add to the current financial packages and protect against renewed disruptions: extension of the Compensatory Financing Facility (CFF) at the IMF to offset future increases in interest rates, use of the existing CFF to compensate oil-exporting LDCs for their export losses due to lower oil prices, use of a substantial portion of the World Bank’s $20 billion in liquid assets to speed up disbursements of loan commitments to debtor countries with approved Bank programs, and a sizable new creation of Special Drawing Rights (SDRs) at the IMF.
David Stockman

David A. Stockman, who was Director of President Reagan’s Office of Management and Budget in 1981-85, addressed the Madrid meeting on the evening of May 18. Earlier in the spring his book had appeared—The Triumph of Politics: How the Reagan Revolution Failed—and he drew upon themes in the book in his remarks in Madrid on American economic policy, particularly on the evolution of fiscal policy in the Reagan Administration.

He noted that the major ideas behind the declared policy of the Reagan Administration since 1981—variously known as Reaganomics, supply-side economics, or just plain conservative economics—are “to my way of thinking, the best guide to conducting economic governance: freer markets, free trade, sound money, fiscal solvency, smaller public sectors, lower taxes, economic growth over income redistribution, and capitalist wealth creation over social welfare program expansion.”

The problems with the declared policy were that it was “not politically realistic,” it “contained huge tensions between its economic goals,” it “was hastily and badly assembled into an operating policy in early 1981,” and subsequently was “only selectively implemented in fits and starts.” By 1986, as Mr. Stockman described it, we have “not a brave new world, but a mishmash of inconsistent policies in place, a mixed bag of good and bad outcomes, and a thoroughly mixed-up domestic economic policy debate over where we were, where we had been, and where we are going.”

Mr. Stockman pointed to the “giant fiscal mishap which occurred in 1981—when the declared policy of Reaganomics was launched” as particularly critical in explaining what went wrong. There were several aspects of this “mishap”:

• The “Rosy Scenario” economic forecast of February 1981, on which the policy was grounded, turned out to be a “monumental error.” The five-year projection of GNP turned out to be over $2 trillion too high. If everything proposed to Congress by the President in February 1981 had been enacted, the actual path of the economy would be taking us not to the $28 billion surplus for 1986 projected in Rosy Scenario but to a $226 billion structural deficit and about $1 trillion more of national debt.

• Things got worse in the execution. On the tax side, cutting marginal tax rates “required massive political sweeteners” that resulted in a larger revenue loss than intended, especially in the out-years. Spending cuts were more modest than intended. (By 1986, the Reagan Administration had cut only 9%—about $50 billion—out of the welfare state expenditures called for by policies in place in 1980.) As a result, the key legislation passed in August 1981, when projected out, would have led the United States government to a $320 billion deficit in 1986, about 7% of GNP.

• History since then has been a “dismal struggle to climb off the limb of fiscal disaster.” Although the effort has been “shrouded in confusion,” the deficit has been worked back to about $180 billion in a “war of fiscal attrition against the President’s most cherished objectives—tax cuts and the defense build-up.” On four occasions over the years taxes have been raised, Mr. Stockman noted, which the White House has never acknowledged, adding up to about $100 billion more in revenues in 1987 than would otherwise have been the case. After 1983, the defense buildup has been “rapidly, dramatically deflated.” Planned defense expenditures for 1987 are about $60 billion lower than in the original five-year plan.

Notwithstanding the Gramm-Rudman legislation, we are “nearing the end of the line,” Mr. Stockman argued, on tax hikes and defense cuts. He expressed his deep concern that the United States will choose the “one tried, true and failed solution—reflation. I think that’s where U.S. policy is headed—especially once Paul Volcker departs the scene.”

Mr. Stockman expressed some hope that the “need for capital inflows to finance already incurred deficits” and “moral suasion” from trilateral partners will “finally break the U.S. fiscal deadlock and induce the White House to accept a major tax increase...but I wouldn’t count on it.” Washington is preoccupied with tax reform, not revenue-raising. Congress is trying to squirm out of the $144 billion Gramm-Rudman ceiling on the 1987 deficit. And the U.S. constitutional system makes significant action unlikely before the 1988 election.
La Trilateral estudió las relaciones con la URSS

La comisión de la Trilateral estudió el día de prensa este tema elaborado por William G. Hyland. que fue destinado miembro de la CIA, instructor y uno de los principales expertos norteamericanos en relaciones internacionales. El profesor también es el director del Estudio de Asuntos Exteriores de su país, y el Instituto de la Política Internacional de su país de estudios sobre la Unión Soviética y países del Este. Hyland sostiene que, a pesar de las tensiones en las relaciones entre los países de la Trilateral y la URSS, las tensiones no son mayores de lo que se espera. Además, que el desarrollo de la tecnología no ha sido su principal foco y que el desarrollo de la industria es más importante.

La Trilateral ha estado llevando a cabo reuniones para discutir las relaciones con la URSS. En particular, se ha discutido sobre la transferencia de tecnología y el comercio bilateral. Hyland ha sugerido que la Trilateral y la URSS deben buscar un acuerdo para facilitar el comercio y la cooperación en la industria.

En 1984, se espera que se lleve a cabo una reunión de la Trilateral en la ciudad de Madrid. La reunión se centrará en la necesidad de mejorar las relaciones entre la Trilateral y la URSS. Hyland ha sugerido que la Trilateral debería buscar la cooperación con los países de la Trilateral para facilitar el comercio y la cooperación en la industria.

La política económica de la URSS debe institucionalizarse

La política económica de la URSS debe institucionalizarse, ya que es la única salida para solventar los conflictos que experimentan las dos áreas. En este sentido, la Trilateral ha discutido sobre la necesidad de institucionalizar la política económica de la URSS. En particular, se ha discutido sobre la necesidad de institucionalizar la política económica en las dos áreas. La Trilateral ha sugerido que la política económica debe ser institucionalizada en las dos áreas.

En esta reunión de la Trilateral, se ha discutido también sobre la necesidad de mejorar las relaciones entre la Trilateral y la URSS. Hyland ha sugerido que la Trilateral debe buscar la cooperación con los países de la Trilateral para facilitar el comercio y la cooperación en la industria.

La Trilateral ha estado llevando a cabo reuniones para discutir las relaciones con la URSS. En particular, se ha discutido sobre la transferencia de tecnología y el comercio bilateral. Hyland ha sugerido que la Trilateral y la URSS deben buscar un acuerdo para facilitar el comercio y la cooperación en la industria.

En 1984, se espera que se lleve a cabo una reunión de la Trilateral en la ciudad de Madrid. La reunión se centrará en la necesidad de mejorar las relaciones entre la Trilateral y la URSS. Hyland ha sugerido que la Trilateral debería buscar la cooperación con los países de la Trilateral para facilitar el comercio y la cooperación en la industria.
La Trilateral propugna posturas duras y fuertes en las negociaciones con la URSS

La Comisión Trilateral, dividida sobre el diálogo Este-Oeste

Reconoce la ineptitud de las sanciones económicas

**Madrid (Europa Press).** La Comisión Trilateral es partidaria de mantener posturas duras y fuertes en las negociaciones con la Unión Soviética, según las conclusiones del último informe sobre el Este y el Oeste que suele preparar el plenario de dicha organización.

Las partes manifestaron ser decididos partidarios del diálogo, pero manifestaron que el diálogo lo llevarán a cabo en un contexto de sanciones económicas más drásticas.

**Brezinski considera «exagerada» la elección de Libia como símbolo del terrorismo**

**Madrid (El Comercio).** El diputado nacional y miembro del Comité de Defensa de la República, Jerónimo Brezinski, considera que la elección de Libia como símbolo del terrorismo es «exagerada».

Brezinski argumentó que las acciones de los grupos terroristas en otros países han sido tratadas de manera similar, y que es necesario mantener un enfoque acorde a las circunstancias de cada país.
I would like to suggest to you that we may be facing the danger of growing strategic divergence between the United States and its trilateral partners on three major and important issues. The first involves what might be called “the Soviet paradox.” The second concerns the nature of international terrorism. And the third surrounds the Middle East-Southwest Asian turbulence.

The Soviet Paradox
Let me turn to the first of the three issues—the Soviet paradox and the danger that we may be facing a growing strategic divergence between the American perspective and the perspective of America’s trilateral partners.

I define the Soviet paradox as involving the growing likelihood that in the decade ahead we will be facing a Soviet Union whose military power will continue to grow quite substantially, but whose economic, political, and social system—and whose international system—is likely to confront growing difficulties and potentially even crises. There is thus a disjunction between Soviet military prospects and all the other significant aspects of the Soviet condition. Barring some unforeseen breakthrough in the arms control negotiations between the United States and the Soviet Union, it is very likely that in the course of the next decade Soviet strategic power will expand quite significantly. Our best national estimates suggest that the number of Soviet warheads is likely to increase to between a minimum level of about 16,000 warheads and a maximum level of about 24,000 warheads, with roughly one-half of that number deployed on time-urgent first-strike capable systems. This will be a very significant expansion in the Soviet strategic arsenal unless, I repeat, there is a major breakthrough in the arms control negotiations.

It is likely also that Soviet conventional capabilities will increase accordingly both on the western and eastern fronts, and also in long-range Soviet air- and sea-lift capabilities. Thus the Soviet Union will be maximizing its strategic and conventional power. As a result, it will be in a position to exercise more choices than heretofore have been open to it in the military dimension. At the same time, however, it is my conviction that the Soviet political, social, and economic system—and international system—will confront growing difficulties and indeed, in some respects, perhaps even crises.

I fully agree with earlier comments regarding Gorbachev. In my judgment, he is not a reformer of the Soviet system. He is a determined, would-be revitalizer of the Soviet system. There is a very significant difference between the two. Nothing so far in Gorbachev’s actions or even rhetoric indicates a proclivity towards substantial systemic reforms. There are, on the contrary, many indications that he believes the system is underutilized and that with more regimentation, more
I think it is very likely that the question of U.S. troop deployments in Europe is going to surface as an issue in our relationship. I am personally not against some redeployment of American forces.

Efficiency, more centralization, and more discipline, it can yield additional increments of performance, can be more sprightly, and more effective.

Especially striking are his commitments to the future made before the Soviet public during the last Soviet party congress. They are quite concrete regarding the year 2000, and extraordinarily vague regarding the years 1987, 1988, 1989, and so forth. That, I think, is in itself revealing. The commitments made to the year 2000 are extraordinarily ambitious and appear to bear little relationship to ongoing Soviet capacities. Thus, for example, Gorbachev has pledged to double the Soviet national income by the year 2000. This means that in the 15 years between now and the year 2000 the Soviet economy would have to grow at an annual rate of 4.3 percent. There is absolutely nothing in Soviet economic performance of recent years to suggest that this is even remotely likely to take place. He has also pledged that the productivity of Soviet industrial labor will increase by 250 percent, thereby surpassing American, Japanese, and West European industrial productivity per capita. This would require productivity to grow per annum for 15 consecutive years at 6.3 percent. This, too, is highly unlikely.

Besides that, I think we have by now many indications that the Soviet system is finding it very difficult to move beyond the industrial phase of its development, which was achieved by high political segmentation. Moscow is finding it impossible to go beyond that segmentation towards a more decentralized, diffused, creative, and pluralistic system in which there will be greater opportunities for individual or collective initiative and risk-taking. There are many reasons for it—some rooted in Russian history, some reinforced by the institutional framework of the political system and many derived from a very well-founded fear that economic decentralization of the Soviet Union eventually would require political decentralization. An economic decentralization that leads to political decentralization of what is still a multinational empire would pose the danger of that empire's eventual dissolution. Thus the ultimate political and historical stake in the retention of the empire imposes a major impediment to the prospect of any serious, creative decentralization.

In that context, we also have growing evidence of social malaise, of increasing childhood fatalities, of massive alcoholism, and indeed even of lowered longevity. It is a staggering fact that between 1964 and 1986 male longevity in the Soviet Union declined from 64 to 61—a development without parallel in any other society in the world and which is a reflection of some serious social problems.

Beyond that there is the national dimension, which is worth registering and which is important. We do live in an age of nationalism. The nationalism of the East Europeans has already been noted. Reference has already been made to the possible impact on Ukrainian sensibilities of the Chernobyl catastrophe and of Moscow's slow reaction. We also know that the Afghan experience has had a politicizing impact on the Soviet Moslems. There are some 50 million Ukrainians in the Soviet Union, some 55 million Moslems in the Soviet Union, and some 10 million Balts. All of these nations do have a sense of their history and are bound to be stimulated in different ways towards greater national aspirations. This is bound to impose strains that are likely to be intensified by some of the problems in Eastern Europe.

In the context of these problems, it is my concern that the American reaction and the reaction of our trilateral partners may be quite different. We are likely to focus heavily on the growing Soviet military capabilities, especially if there is going to be no arms control agreement. That is understandable, especially if Soviet military capabilities give the Soviet Union added opportunities to exercise some direct military leverage in areas of concern to us and in areas increasingly remote from the Soviet Union. Thus our preoccupation is likely to be heavily influenced by the military and strategic dimension. I strongly suspect that among some of our European friends, and perhaps also among the Japanese, internal Soviet problems will tend to place a special veneer on their perception of the Soviet Union, emphasizing rather the difficulties that the Soviets face and, because of that, also providing the basis for a policy of greater accommodation from a somewhat more benign interpretation of Soviet conduct.

Leaving aside the question of which perspective is likely to be more correct, I think inherent in this is the possibility of serious divergences on an issue over which we have occasionally clashed, but which by and large has been a major cause of our trilateral unity. It is a shared perception of a common danger. If that shared perception weakens, we could have more serious problems on such matters as economic relations with the East and on such issues as security arrangements. Indeed, I think it is very likely that the question of U.S. troop deployments in Europe is going to surface as an issue in our relationship. I am personally not against some redeployment of American forces. In this respect, I am joined by some others on the Democratic and the Republican sides of the political fence—for example by Senators Glenn and Nunn on the Democratic side, and by Messrs. Pipes and Kissinger on the Republican side. That issue is undoubtedly a sensitive and complex one. If it surfaces in the context of such broader divergences, it could become a major source of concern.
Thus we are witnessing a debate in which the simplistic activism of one side is matched by the passive escapism of the other, with each side voicing exactly this kind of accusation.

INTERNATIONAL TERRORISM

The second issue on which I think our perspectives may be diverging pertains to international terrorism. I think it is not unfair to say that the American view, by and large, of this phenomenon is a relatively simple one. It focuses heavily on Libya and personally on Qadhafi. The American reaction to Libya was a necessary tragedy. A necessary tragedy in the sense that direct action undertaken by a government, directed at the lives of American soldiers, required an American response. A directly belligerent act of that kind could not be ignored. But I think there is a broader problem involved in the particular means adopted to respond and a larger problem involved in the rather divergent American and European perspectives. The Europeans and, I think, the Japanese tend to have a more complex view of international terrorism. Thus we are already witnessing a debate in which the simplistic activism of one side is matched by the passive escapism of the other, with each side voicing exactly this kind of accusation.

My own view of international terrorism is this. In a sense, the European perspective is probably more correct than the American, but it contains an inherent danger of yielding, at least until now, a relatively passive response. One consequence of this is American frustration, which then produces unilateral actions, which then feed European criticism of the American response and contribute to destructive international discord.

Beyond that, it is also significant to note that international terrorism involves layers and layers of interrelated activity, which in the final analysis has strategic significance. The acts themselves are undertaken mostly by covert terrorist groups of a semiformal type, probably with some state sponsorship in some cases and with rather evident state support in others. But they are not undertaken by state instruments as such.

At the same time, there are states that are directly involved in supporting such groups, in giving them arms and refuge, logistical support, and perhaps even tactical direction. They do include Libya but not only Libya. They also include Syria and Iran. More Americans have been killed by terrorist acts sponsored from Iran than by Libya. Besides these countries, they also involve in varying degrees Czechoslovakia, Bulgaria, and North Korea, just to name a few others. That in turn leads to the third layer—namely, the Soviet Union itself.

The fact is that in the course of the 1970s, perhaps in connection with lowered Soviet expectations regarding Soviet influence in the Third World and with the declining appeal of the Soviet model, the Soviet Union did shift its attitude towards international terrorism and started embracing it more explicitly. In my view, the Soviets recognized that international disruption is strategically beneficial and that, if it produces discord within the trilateral regions, it is even more strategically beneficial. We have to be extremely conscious of that dimension in our own responses and in framing our own internal dialogue on the subject, because our common strategic interests are ultimately involved. This is not a problem for Americans alone; this is also a problem that cannot be slighted by our friends. What we need is a serious strategic dialogue which faces up to the fact that there are these layers in international terrorism and ultimately suggests that at some stage the issue of international terrorism has to be part of the East-West agenda. If America is to be restrained in its unilateral actions, our friends must be more prepared to make that a part of the East-West agenda than they are currently inclined.

MIDDLE EAST AND SOUTHWEST ASIA

The third issue involves the Middle East and the Southwest Asian turbulence. It was earlier asserted by Professor Sadako Ogata that there is no American policy towards the Middle East and by Mr. William Hyland that there is one but he doesn't know what it is. Well, I have a different view. I think that Mr. Hyland is right. There is an American policy, and I know what it is. It is very different today than what it was prior to 1982. I think the watershed was 1982. Until 1982 American policy in the Middle East, for better or for worse and with varying degrees of success, was that of a constructively involved mediator who recognized its moral obligations towards Israel but who also was keenly aware of its geopolitical strategic interests in the Middle East as a whole and also those of our allies.

Since the failure of the Reagan speech of September 1, 1982, exemplified by the failure of the American effort to mediate in Lebanon, United States policy has become increasingly that of a protagonist. As a result, the United States is finding itself increasingly isolated, increasingly the target, and increasingly less able to move events in the Middle East towards some gradual resolution. I do not for a minute wish to suggest that international terrorism rests entirely on the existence of Middle Eastern hostility and particularly on the Arab-Israeli conflict. Certainly that is an aspect of the problem and the Palestinian aspect does feed some international terrorism. But even if it did not, there is a collective interest in trying to move the peace process forward. And it is a source of great regret to me that the United States has been so passive in recent months, particularly so in the face of the most intelligent and forward-looking formulations on that subject emanating from any Israeli government in recent years. The speeches by Shimon Peres on the subject of the Palestinians have been remarkably courageous and truly forward looking. But
speeches by themselves from a participant in the conflict will not move the peace process forward. And the United States, as a protagonist on the basic issues and diplomatically passive, seems incapable of moving them forward either. In my view, this justifiably generates considerable concern among our partners.

In contrast to the Middle East, Southwest Asia—that is, the issue of Afghanistan and its relationship to Pakistan and Iran—appears to be an opposite type of problem. The problem of Afghanistan continues to confront us as a major East-West issue and as a very major geopolitical issue in that part of the world. The future of Afghanistan is directly related to the future security, stability, and integrity both of Pakistan and Iran; and their future in turn is related to the prospects for the Persian Gulf. Thus there is a very major geostrategic significance to the effort to resolve that issue eventually, and in the meantime to prevent the Soviets from being able to capitalize on the occupation of Afghanistan vis-à-vis Pakistan or Iran.

The United States is by and large alone on this issue. The fact of the matter is that not a single one of our trilateral partners is helping us on Afghanistan. The United States, China, and Saudi Arabia are responsible for providing most of the aid to the mujaheddin, thereby also assisting the Pakistanis and thereby also perhaps creating some of the pressure on the Soviets eventually to find a negotiated solution. And here it seems to me, if there is a divergence, its causes rest on America’s allies.

Zbigniew Brzezinski is Herbert Lehman Professor of Government at Columbia University, and Counselor at the Georgetown University Center for Strategic and International Studies. The above is an edited version of his presentation to the Madrid meeting.
A draft of this report was discussed at the Madrid meeting. The authors then made their final revisions and the report was published. The authors are William G. Hyland, Editor of Foreign Affairs; Karl Kaiser, Director of the Research Institute of the German Society for Foreign Affairs and Professor of Political Science at Cologne University; and Hiroshi Kimura, Director of the Slavic Research Center of Hokkaido University. The following are excerpts from the concluding chapter of the published report:

We seem to be leaving behind the difficult phase of East-West relations that began with the invasion of Afghanistan. This period ended, symbolically, with the handshake between President Reagan and General Secretary Gorbachev in Geneva.

What follows should be a gradual improvement in relations, especially when compared to the past five or six years. Yet, our overall conclusions are cautious.

—In the near term, we see the prospects for some improvement in relations between the United States and the Soviet Union and a parallel, if not greater improvement in relations between the Soviet Union and Europe and Japan; how far this improvement develops depends in large part on whether there is an agreement on intercontinental and intermediate-range weapons, as well as on strategic defense.

—Over a longer term, we see some new dangers for the West arising from a Soviet strategy that seeks to use an interval of relaxation to rebuild Soviet power and, probably, to resume a more offensive policy.

—Thus, we see the task of the trilateral countries as relatively straightforward: to use the present period to try to rebuild a more durable security relationship with the Soviet Union that rests on a foundation of mutual commitments and interests, that will deter the U.S.S.R. from launching a new offensive, but will also ensure
domestic support in the West for the necessary defense effort regardless of the twists and turns in East-West relations. Western goals should encompass genuine reductions in nuclear weapons, progress in achieving a better conventional balance supplemented by effective confidence-building measures, and a breakthrough on verification.

The starting point for both East and West is recognition of the changes that have occurred since late 1979. There has been a growing sense of self-confidence in the United States. The revival of American confidence arises, in part, from the change in administrations in 1981 and the domestic and foreign policies of Ronald Reagan, especially the U.S. defense effort and the economic revival. In addition, there has been a waning of some of the earlier fears about the strategic weapons balance. Finally, there is an awareness that the worst fears about a Soviet geopolitical offensive after the Afghan invasion have proven groundless. Indeed, there is a distinct perception in the United States (and to a lesser extent in Europe) that the Soviet Union has severe internal and external difficulties.

This change in the public mood and in the material balance led to a U.S. policy change in 1984: the Reagan Administration began to take more seriously the prospect of some relaxation with the Soviet Union, including more serious arms control negotiations. This new approach rested on the significant success of the Atlantic Alliance in resisting Soviet pressures and proceeding to implement the NATO decision to deploy American intermediate-range missilery in Europe. Thus, both Europe and the United States were once again moving along parallel, if not strictly unified, lines.

At some point the Soviets made the decision to soften their anti-American posture and open the door to a return to arms control negotiations and, inevitably, to a summit meeting. In our view this represented a more realistic appraisal of the Soviet situation by the new leaders who were rising to the top even under Andropov. It reflected a sensitivity to the Soviet domestic crises. This reappraisal must have raised the question of whether the hostility toward the United States and the growing coolness in relations with Europe really served Soviet interests. The conclusion seems to have been that a better Soviet posture was one of conciliation, at least toward Europe, possibly toward Japan as well, and perhaps even toward the United States.

The threat of SDI was surely an important factor in persuading the Soviets to re-enter arms control negotiations. But a more basic factor is that a new leadership in the Kremlin needed time to concentrate on internal priorities and, in this connection, to reorient foreign policy to gain some of the economic concessions in technology, credits and trade that were unlikely to be forthcoming under a harsh policy toward the major industrial countries.

Thus, the meeting in Geneva between the superpowers was not fortuitous, but the result of studied shifts in tactics, if not policies, in both Washington and Moscow.

We believe it is worth noting that this result illustrates a larger conclusion: despite the tensions of the post-Afghan period, both superpowers have carefully avoided a major confrontation, even though the international scene offered opportunities in local conflicts and regional disputes. A significant element in this apparent restraint was the influence of the allies of the United States and the Soviet Union; both superpowers came under pressure to limit the damage to East-West relations. In addition, both superpowers have been subject to greater domestic constraints on their ability to mobilize resources for the support of defense and foreign policies. Finally, the strategic situation is that neither the United States nor the Soviet Union is likely to be able to change the strategic or geopolitical balance in any brief period. There is a long-term stalemate in which neither side can press its relative advantages without running unacceptably high risks. Thus we believe that East-West relations will oscillate within a narrower range than in previous decades.

This does not mean there will be a steady or automatic improvement in East-West relations. It does mean that the opportunity to improve relations exists and arises from objective circumstances, not solely from the predilections of various key leaders.

* * *

Rebuilding East-West relations will be a long-term affair, not confined to a single meeting or a single issue, even arms control. The cliche about East-West relations being a “process” is still valid (if much overworked). But this process will not unfold without a specific impetus from the West. Even if the West does take the initiative, there will be no guarantee of success without reciprocity from the East.

An additional word of caution is necessary concerning the degree of uncertainty in both East and West. In the United States domestic policy and politics are intruding more and more on the conduct of foreign affairs. This is a long-term trend, partly obscured by the great popularity of Mr. Reagan. The ability of the United States executive, no matter who occupies the White House, to conduct policy with an assurance of public and Congressional support has long since passed. The passage of the Gramm-Rudman bill, mandating a balanced budget, was symbolic of the end of the Reagan defense buildup, which has been central to the Administration's East-West strategy.
On the Soviet side there is also uncertainty. We are only at the very beginning of what may be a long era dominated by Mikhail Gorbachev. It would be risky to rest predictions about East-West relations on an expectation of his extended tenure. He might not last, but even if he does, his later policies may not necessarily be an extension of policies that he is adopting now when he must consolidate his power.

An equally significant uncertainty is involved in our projection of probable Soviet policy. We think that under Gorbachev the Soviet Union will seek a "breather" in East-West relations, using the interval for rebuilding Soviet power. But there are some important assumptions in this: namely, that such a strategy will work—that he will be able to solve some of his domestic problems and that there will in fact be a breather in foreign policy. Domestic problems may not be that easy to deal with successfully; some of the external issues, strategic defense or the situation in Eastern Europe for example, could wreck Gorbachev's calculations and lead to new tensions. In such a contingency we would be uneasy about what the Soviet foreign policy might be under a man of Gorbachev's dynamism and character.

On the whole, however, our judgment is that the West is currently in a favorable historical position, and with imagination and skill a better relationship with the Soviet Union can be reconstructed.

That reconstruction will have to include as a major element an agreement or understanding about arms control. Dealing with military relationships solely by unilateral actions is no longer politically or psychologically acceptable on either side. The Western public will not support the lack of a serious effort to control armaments; this is a lesson of the past several years. This is probably more true for European opinion than for American opinion, but it is still true for the United States. And this probably includes support for observance of existing arms control agreements (SALT II and the ABM Treaty).

What the nature of the arms control relationship will be cannot be predicted with any certainty. There are innumerable possibilities. But it seems to us that the Reagan proposal for SDI will not fade away, and that some element of enhanced or strengthened defense may well become part of a new strategic equation.

We do not foresee a relationship of détente without arms control. But we are less certain of the opposite: progress in East-West arms control without an important degree of détente. To be sure, there has been a decline in linkage; Washington has formally abandoned it, at least in theory, and in the Korean airliner and Polish crises has not applied it in practice. There has been little support for linkage in Europe, Japan or Canada. Therefore, it could be that East-West relations will rise and fall mainly on arms control negotiations. This would make relations quite vulnerable and could lead to new shocks, such as Afghanistan in 1979-80.

Therefore we are inclined to believe that some progress on political issues is required if a change in East-West relations is to endure. There is no overriding issue, however, as was the case with Germany and Berlin in the 1960s. Indeed, one of the salient characteristics of East-West relations is that no issue is likely to blow up into a crisis, even though there are several serious regional conflicts.

We doubt that there can be a grand bargain about spheres of influence: i.e., Central America versus Afghanistan. But this is a direction that the relationship may eventually have to take if there are to be any regional settlements. Two important areas that are likely to be dangerous—the Middle East and South Africa—do not lend themselves to such informal understandings. They would most probably require tacit or open East-West cooperation, which is not very likely.

A plausible outcome, already partly foreshadowed by the Geneva summit, is for a growing institutionalization of the U.S.-Soviet dialogue on regional issues. This will not guarantee settlements, but should improve the crisis prevention mechanism, which has been sorely lacking in East-West relations. The accident at Chernobyl underlines the urgency of establishing such U.S.-Soviet crises control centers. This will require consultations and some Allied involvement.

*   *   *

To sum up, the competitive dimension of East-West relations remains paramount and, given the sources of conflict, this dimension can only be reduced and softened in any near term. Nevertheless, the recent period has demonstrated that a hard core of mutual interests has survived a very hostile passage. Mutual interests have survived in Europe, East and West, and mutual interest in some form of arms control has also survived between the superpowers. East-West relations have, in fact, proved to be remarkably resilient.
La Trilateral presentó sus conclusiones

Buenas perspectivas para la cooperación

Las sesiones de trabajo que la Comisión Trilateral ha celebrado durante cuatro días en Madrid han dado la oportunidad a los miembros de esta organización para reconocer plenamente la importancia histórica de la entrada de España y Portugal en las Comunidades Europeas, siguió también la vitalidad de Europa, según se señala en la declaración hecha pública al término de las reuniones. Los bajos tipos de interés, la convergencia hacia políticas de mercado y un crecimiento más generalizado son algunos de los factores que hacen posible que exista la oportunidad para realizar progresos sustanciosos en la cooperación internacional. La apertura del mercado japonés y el esfuerzo por evitar un fracaso en la próxima reunión negociadora del GATT (Acuerdo General sobre Comercio y Aduanas) son otros de los temas que se han tratado en las reuniones y a los que la Trilateral ha dado su importancia.

Con la frase «España ha nacido» pronunciada por el presidente de la Trilateral para Europa, Georges Bertin, y el comentario realizado por el presidente del Gobierno en su encuentro con la comisión, se sintetiza la presencia de los miembros de la Trilateral en España. Presencia que, a lo largo de los días 17, 18 y 19, se unirá a La Trilateral, más conocida por «La Trilateral», la que para algunas es una máquina de influencia y poder, no gubernamental, selectiva, de la que forman parte sólo 300 personas de tres grandes áreas industriales —de ahí el nombre— Estados Unidos, Europa y Japón. En la asamblea de Madrid se presentarán dos informes, uno sobre la problemática de la coordinación de las políticas económicas de los países trilaterales, con vistas a reforzar las condiciones para un «partenariado real que permita una mejora en la gestión de economía mundial. El otro informe es sobre la próxima fase de las relaciones entre Europa Occidental, América del Norte y Japón con la Unión Soviética y los países socialistas de Europa Oriental. 

Documentos
I would like to share with you some thoughts on the science and technology dimensions of Japan’s expanding international role and some of my concerns related to science and technology in the other trilateral regions.

JAPAN
It is now recognized in Japan that it is our responsibility as a fully advanced industrial power to contribute more fully to the world stock of basic scientific information. It is also recognized that this is in Japan’s own interest, as it has become increasingly difficult to acquire foreign technologies to handle the current needs of our society at the technological frontier.

As a result, Japanese research and development funds have been expanded more rapidly than in any other industrialized country—approximately seven percent annually in the past decade compared to about four percent annually in the United States and Europe—and a higher proportion of this is going into basic research. Japan increased its spending on science and engineering R and D from 1.4 percent of GNP in 1965 to 2.9 percent in 1985, a figure comparable to that of the United States and most Western European countries. Japanese exports of technology have also continued to rise and are now more than half the value of technology imports. Although this ratio remains far below that of the United States and France, both net exporters of technology, it exceeds the ratio of technology exports to imports of Germany and Great Britain. In fact, since 1972 Japan has been a net technology exporter in new contracts, but its heavy payments under contracts dating from before 1972 continue to make Japan an overall importer.

To contribute more effectively to the world’s scientific and technological effort, Japan needs to provide more opportunities for foreign scientists and students in our universities and research institutions. The United States and Western Europe are filled with the best and brightest young scientists from all over the world, and especially from developing Asian countries such as South Korea, China, and India. I remember with appreciation and gratitude my own days as a young engineer in Europe.

Japan is far behind its trilateral partners in this respect. It has been estimated that there are about 1000 young Japanese scientists studying in American graduate institutions, but perhaps only 20 American scientists are pursuing doctoral studies in Japan. I am sure there is a similar imbalance with respect to Europe. As recently as 1980, there were more foreign students studying in the Philippines than in Japan. Language, of course, remains a principal constraint on the flow of foreign students into Japan, but there are many ways in which Japanese universities and research institutions could reach out to attract more foreign students and researchers. As part and parcel of Japan’s growing responsibility for basic
Japanese corporations in 1984 provided more than twice as much support to American universities as they did to Japanese universities.

research, we will also have to strengthen our international contribution to the training of young scientists and engineers and to scientific cooperation through the swapping of research personnel.

In order for Japan to make a stronger contribution to international science and research, many other reforms need to be taken. Our scientific establishment is highly compartmentalized, lacking much-needed cross-fertilization across disciplinary lines and across institutional boundaries. There has been relatively little cooperation between private industry and the universities or between private industry and the governmental laboratories. Many foreigners think of Japan as a country where there are close, collaborative arrangements between government and the business community. We do have many constructive avenues of dialogue, but the degree of government support for business is usually overrated by non-Japanese.

The separation of government, business, and the universities is far stronger in Japan than in the other trilateral countries. Private corporations account for almost two-thirds of Japanese expenditures on R and D, a higher percentage than for other major industrial countries. Of the R and D work performed by Japanese corporations, less than two percent is funded by the government. On the other hand, private corporations account for less than a tenth of one percent of the funding for national laboratories and for only about 2.5 percent of national university research funding. In fact, Japanese corporations in 1984 provided more than twice as much support to American universities as they did to Japanese universities.

The distance between universities, government research laboratories, and private industries in Japan has been reinforced by government regulations, now finally undergoing a slow process of change. Regulations have hindered corporations from making grants to the national universities and limited academic consultations with private industries. Government scientists have had to take their vacation time to attend conferences sponsored by academic or private sector institutions. Sociocultural traditions, and problems in protecting position or pension rights, have resulted in very little movement of personnel between government, the universities, and the private sector even for relatively short-term assignments. University research in particular has been virtually independent of either government or industry priorities; research funds have been doled out almost automatically by the Ministry of Education with little effort to impose priorities and with almost no peer review.

Reforms have begun. The Cabinet Council in March of this year for the first time established government-wide guidelines for policies promoting science and technology. Pursuant to these guidelines, the Prime Minister has asked the Science and Technology Council to study the national research institutions and recommend reforms to enable them to respond more effectively to changing social and economic needs, especially in developing a broader base of creative research. I will be chairing the committee that will make this study, and our first meeting will be held on my return to Tokyo.

In the meantime, the Science and Technology Agency submitted a bill to the Diet to promote research exchange. This bill has passed the Lower House, and will soon be enacted following its passage in the House of Councillors. Through these actions, we have started the process of making Japan's science and technology more efficient and open to international collaboration.

This, of course, is just a beginning in a long process involving many painful adjustments. More than a change of regulations is required: A new culture of scientific cooperation across disciplinary, institutional, and international barriers will only develop with time. Unlike our trade policy, the changes we are making in science and technology did not come about as a result of foreign pressure, but foreign models were an inspiration to make changes we believe to be in our own national interest. It is in part through the process of interaction with foreign scientists, researchers, and engineers that our own approaches to scientific inquiry and cooperation become altered.

EUROPE AND AMERICA

We Japanese are also concerned about issues relating to science and technology that can affect our trilateral relationship and the strength of the Western Alliance. Technology is so basic to our modern economies that technological weaknesses in one region mean a loss of strength for the free world as a whole.

Our chief concern has been with the fear in Europe that the continent cannot keep pace with American and Japanese technology. European fears of a technology gap, unless channeled into constructive policy reforms, can encourage the protection of inefficient and weak European high-tech industries at a time when Europe, as a mature industrial economy, needs strong industries at the high-tech end of the industrial spectrum. This would tend to cut Europe off from further infusions of technology from abroad and further worsen the gap. Deepening “Europessimism,” or a loss of spirit and will, could have unfortunate social and political consequences. The enlightened leadership of my country can find no comfort in the growth of a technological gap between Europe and Japan.

I can see no inherent reason why such a gap should exist or grow. Europe, after all, spends substantially more money than Japan on R and D. It leads the world in many basic sciences and some technologies. Nevertheless
With the American R and D system so heavily geared to meeting presumed military needs, is it capable of maintaining that nation's position in civilian technologies? ...(O)ur experience is that the efficient route for the development of civilian technologies is a direct one.

there are important sociocultural obstacles to the introduction of new technologies in some European industries, including managements that often have become more bureaucratic than entrepreneurial, and labor unions which often look more to the short-term preservation of jobs than to the long-term competitiveness of industry. Moreover, most of Europe's research and development programs are national ones without the economies of scale enjoyed in the United States or Japan.

In this respect, the initiatives of recent years and months, including the European Strategic Program in Research in Information Technology (ESPRI) and the Eureka Program, are a welcome sign of Europe's determination to compete technologically on a European basis and implicitly on an international basis. We in Japan hope that these European initiatives will stimulate new entrepreneurial activity and lead to a reduction of internal barriers within Europe.

Let me turn now to the United States. Coming from a nation with an industry-led R and D system which devotes only a small share of research toward military ends, our major concern for the United States lies in the high degree to which its R and D is dependent on public spending, especially for the military. The federal government in the United States provides about half of all funds for science and technology and, in contrast to the Japanese government, is a major funder to all sectors, including private industry. Approximately 70 percent of U.S. government R and D has military-related objectives, a substantially higher percentage than for almost all other trilateral countries.

We recognize that the U.S. administration's military R and D expenditures are motivated by its perception of military necessity and are not intended as a tool to stimulate the economy. But there may be unintended consequences which may not be fully taken into account in U.S. policy making. With the American R and D system so heavily geared to meeting presumed military needs, is it capable of maintaining that nation's position in civilian technologies? No doubt the military R and D expenditures, including those for the massive SDI program, will have civilian applications. Yet our experience is that the most efficient route for the development of civilian technologies is a direct one. Over-reliance on military technologies can lock private corporations into a rigid, bureaucratic R and D system geared toward a protected government market rather than to competition in the civilian marketplace.

Positive Adjustment
I wanted to close by pointing to the importance of a positive adjustment program in all our countries as a necessary by-product of a technologically creative,

Isamu Yamashita is Japanese Chairman of the Trilateral Commission. He is also Senior Advisor of the Mitsui Engineering & Shipbuilding Co., Ltd., and Vice Chairman of the Keldanren. The above is an edited version of the text from which he spoke.
Spain is a young, dynamic country with the capability of struggling for its modernization and its future, and at the same time with deep historical roots...

I welcome you to this country which receives you with open arms; which receives you as a tolerant country; a nation which has won democracy, the cohabitation in freedom and peace which was so ardently desired by Spaniards for two centuries. —Felipe González (translation)
At the conclusion of the Madrid plenary meeting, Mitchell Sharp stepped down as the North American Deputy Chairman of the Trilateral Commission, a position he had assumed in 1977 after leaving the Canadian Government. Mr. Sharp is one of Canada's most distinguished politicians of recent decades. A Liberal, sitting in the House of Commons from a constituency in the Toronto area, Mr. Sharp was Minister of Trade and Commerce from 1963 to 1965, Minister of Finance from 1965 to 1968, Secretary of State for External Affairs from 1968 to 1974, and President of the Privy Council and Government Leader in the House of Commons from 1974 to 1977. Mr. Sharp continues to be called upon by the government for part-time service. He led the negotiations for a new Pacific salmon treaty with the United States and is Commissioner of the Northern Pipeline Agency.

Jack Hamilton (Jake) Warren is the new North American Deputy Chairman. To this position Ambassador Warren brings a distinguished career in Canadian diplomacy and banking. He represented Canada at the IMF and World Bank and OECD in the 1950s, and in GATT negotiations in the 1960s (twice he was elected Chairman of the GATT Contracting Parties). In 1964-69 he was Vice Minister of Trade and Commerce. Ambassador Warren was then High Commissioner to the United Kingdom (1971-74), Ambassador to the United States (1975-77), and Canada's Coordinator for the Tokyo Round of Multilateral Trade Negotiations (1977-79). He was Vice Chairman of the Bank of Montreal in 1979-86. Presently, Ambassador Warren serves as "Conseiller en matière de libre-échange" (Advisor on Free Trade) for the Government of Quebec.