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The Trilateral Commission held its 1989 plenary meeting in Paris, April 8 to 10, under the chairmanship of Georges Berthon.

As is typical, the first session of the meeting was devoted to the host country—and is covered in the first part of the publication. President François Mitterrand received the Chairmen and Deputy Chairmen after the meeting. Other French political leaders spoke to the group during the meeting. The remarks of Foreign Minister Roland Dumas and former Prime Minister Raymond Barre are presented in the first part of the publication. The remarks of former Prime Minister Jacques Chirac and Senate President Amin Poher are presented in the final part of the publication along with other materials dealing with East-West relations.

Former President Valéry Giscard d'Estaing was one of three authors, along with Yasuhiro Nakasone and Henry Kissinger, of a task force report discussed in Paris entitled East-West Relations and excerpted here. Also excerpted is a second task force report, prepared by Shijuro Ogata, Richard Cooper and Horst Schulmann, and entitled International Financial Integration: The Policy Challenges. The remarks of NATO Secretary General Manfred Wörner complete the final section.

The sessions covered in the intervening sections each dealt with aspects of change in particular Trilateral regions or countries.
Chairmen's Statement

A common thread running through most of our discussions in Paris has been our effort to grasp the nature and meaning of change—in East-West relations, in the international financial system, and in each of our three regions.

* * *

Our discussion of the remarkable changes in East-West relations was given focus by a report to the Commission prepared by Valéry Giscard d'Estaing, Yasuhiro Nakasone and Henry Kissinger. We agree with the authors that the opportunity to put East-West relations on a new foundation is before our countries—an opportunity to be seized on the basis of careful analysis, not wishful thinking.

It is vital that our countries work together and give coordinated political leadership in developing a positive agenda—a task we hope the report will advance. We need to articulate a way forward in East-West relations that is feasible, for both sides, in the search for a more peaceful world. Our discussion indicates that among the elements of this way forward will be:

1. An approach to arms control which welcomes reductions while recognizing that they are not simply an end in themselves but a means to maintain and hopefully enhance deterrence.

2. An approach to the countries of Central and Eastern Europe while, while recognizing legitimate Soviet security interests, allows the political and economic evolution of these societies.

3. An approach to East-West economic relations that includes encouragement of economic changes tending toward market economies and democratic institutions, while not involving general, indiscriminate financing for the Soviet Union.

4. An openness to a more constructive involvement of the Soviet Union in the Asia-Pacific area if its military presence is reduced and if it adopts a positive approach to the resolution of outstanding and unresolved issues in the region, including Japan's four northern islands.

The Secretary-General of NATO, Manfred Wörner, made a welcome contribution to our Paris discussions.

* * *

The changes in the international financial system are remarkable in their reach and in their implications for national economic management. Here too our Paris discussions were guided by a task force report—on the policy challenges of international financial integration, prepared by Shijuro Ogata, Richard Cooper, and Horst Schumann. The report points to the tension between the globalization of financial markets and national arrangements for taxation and the regulation of fi-
nancial activity. To deal more adequately with this tension, the authors argue for fuller collaboration among governments. Some reduction of differences in taxation and in regulation of capital flows is seen as necessary to limit tax avoidance and the international distortion of economic activity.

We agree with the authors that reasonable stability in a world of growing financial integration will depend crucially on the ability of our countries to come to grips with the above problems, with growing inflationary pressures, and with the enormous underlying current account imbalances which continue to afflict the world economy.

The drive toward a single internal market in the European Community by the end of 1992 was high on the agenda of our Paris meeting, at which the discussion on this issue was led by Jacques Delors, President of the E.C. Commission. The broad political importance of 1992 was indicated by its presence in our East-West discussions, in that the dynamism and economic prospects are a powerful source of attraction to the Community's neighbors in Eastern Europe and the Soviet Union.

* * *

It has been a strong belief of the leaders of the Trilateral Commission from our beginnings in the early 1970s that a more unified, more successful, and outward-looking European Community will play a wider and more constructive role on the global stage. We see the drive toward 1992 in this light.

Our Paris discussions included the concerns of many Japanese and North Americans (and Europeans) about aspects of 1992—for instance, about "reciprocity" and about the possible trade-distortive effects of various standards. It was suggested that these concerns reflect more the anxieties of others than the intentions of Europeans, but there are a wide range of changes in detailed arrangements about which the leaders of the process will need to be vigilant in order to ensure that the broader purposes of 1992 are served. The importance of a successful outcome of the Uruguay Round of GATT negotiations was stressed.

* * *

The consciousness of changes in Japanese society has been heightened by the passage to the new Heisei era following the death of Emperor Hirohito, with public reflection on the path Japan has pursued and on its future directions. There is now broader discussions of new alternatives and philosophies on which to base national policy and Japan's growing international role and responsibilities.

* * *

The change in the United States is the beginning of the Bush Administration, while the Canadian election has brought continuation in power of Prime Minister Brian Mulroney's Government after a volatile election campaign focussed on the U.S.-Canada Free Trade Agreement. The greater emphasis of President George Bush on bipartisan cooperation with the Democratic Congress was welcomed in the Paris discussions. The inability of the American government to come to grips with its enormous budget deficits continued, however, to be a cause of serious concern.

* * *

We all look forward to the results of the July summit meeting of the seven leading industrialized democracies in Paris, which should provide an important opportunity to develop a more coherent and common approach to the Soviet Union and the countries of Central and Eastern Europe, as well as to address the leading current challenges of international economic management.

Georges Berthoin

David Rockefeller

Isamu Yamashita

Paris, April 10, 1989
SEMINAR ON FRANCE
RAYMOND BARRE
ROLAND DUMAS
OF ALL EUROPEAN COUNTRIES, OVER THE LAST half century France has experienced the most violent change. Not only has its economy been totally upset, as have those of other European countries, but its politics have also been fundamentally altered. At the end of this rapid process the burning question is: Are we witnessing the waning of French idiosyncrasy? This idiosyncrasy, born out of the French Revolution, was an intense ideological passion that spawned a tendency for the political class and intellectuals to construct society on theoretical plans. It might be said that this idiosyncrasy is disappearing and that French politics are being standardized, and are losing their usual theatrical dimension.

First of all, look at the irony of history: In the very year the French are invited to celebrate the bicentenary of their Revolution, they discover that the revolutionary myth is languishing. Brought up for the past century in an academic tradition which idolized the Revolution as a “whole,” the French are now rebelling against the idea. While they still admire their ancestors for having written the Declaration of the Rights of Man in 1789, they are now reluctant to exalt the revolutionary violence of 1793. They are beginning to realize that by inventing “Terror”—in both name and reality—the waning Revolution drew up the first theorization of violence in politics, which subsequently inspired many totalitarian systems. If we believe the wishes of the French people as expressed today in opinion polls, King Louis XVI, who was guillotined in 1793, would have been spared and sent into exile to some kind of Monte Carlo.

This change in French political mentality is the final transformation in a rapid succession of events starting with the last war. France lost that war in 1939 under humiliating circumstances, even if Charles de Gaulle, the French Resistance and the Allies allowed the country to share in the victory. After 1945, the rise of the strategic power of the United States and the Soviet Union, together with the expansion of the global economy, were as much responsible as the French defeat of 1939 in sounding the death knell of the ancient imperial power of France. The most difficult aspect of this decline proved to be the decolonization of France’s vast African empire and the repatriation of 2 million of its nationals settled in Morocco, Algeria, and Tunisia. The Fourth Republic successfully started
the process in black Africa, Tunisia, and Morocco. De Gaulle, after his return to power in 1958, completed the most dramatic task, that of Algerian independence.

**DE GAULLE AND MITTERRAND, INSTRUMENTS OF A COMMONLY AGREED DESTINY**

General de Gaulle, a product of the army and of the Right, was to use his prestige and historic authority to make possible the necessary liquidation of a long national past. He put an end to nationalistic nostalgia and reduced the patriotic Right's opposition to change. Now, 25 years later, de Gaulle's one-time opponent François Mitterrand, a man of the Left and a supporter of doctrinaire socialism, is bringing the French Left, which was once entrenched in Marxist ideology, back to the mainstream.

The confluence of the policies pursued by these apparently irreconcilable opponents explains the somewhat confusing French developments. De Gaulle, in the beginning, basked in the favor of the Right and of Algerian colonists who were supporters of French Algeria, before slowly and skillfully bringing them around to accept the historical necessity for change. In a similar way, François Mitterrand, when he was elected in 1981 with the support of the Communist party, stood for a kind of socialism (which was to mark France for the following two years) that was based on the belief in the necessity “of breaking away from capitalism.” France, however, remained within the Atlantic Alliance and within the European Community, and quickly recognized the obvious incompatibility between its international obligations and its national Utopia. In 1983, the clear failure of French-style socialism—nationalizations, increased public spending, and rapid reduction of working hours—put the government up against the wall; François Mitterrand settled for a return to a strict economic and monetary policy.

In fact, without actually admitting it, French socialism, on that day in 1983 when it refused to leave the European Monetary System, underwent the same radical conversion which had led German socialists to renounce Marxism at their congress in Bad-Godesberg. At the same time, the French Communist party, which had polled 28.3 percent of the vote in 1946, only managed 11.3 percent in the 1988 general election. For these two reasons, the French Left, willingly or not, tacitly put an end to the ideological war which had overshadowed French political history for a century. Thus, a firm consensus formed around a market economy and a political regime similar to that of other large Western democracies.

We should not conclude that there is no disagreement about methods. The Communist party still plays an important, if accessory, electoral role as a party of discontent; and French socialist militancy still remains more or less marked by certain ideological beliefs from the past. Yet, on the whole, the general trend, despite some outbursts of egalitarian demagoguery at election time, is towards wiping out the extremes.

**THE THREE AREAS OF A NEW CONSENSUS**

This adaptation of the French body politic accompanied the more rapid uprooting of society itself—probably the most brutal uprooting that France has ever known. In the past 40 years, the number of French city-dwellers has grown from 20 million to more than 40 million. The number of French people employed in agriculture has sunk from 7.5 million in 1946 to no more than 1.5 million in 1985. And more generally, the number of independent workers (including tradesmen and artisans) has declined by half.

Mass education and television have in two generations unified a language which in our childhood still exhibited strong regional differences. French society, which 50 years ago was still deeply rooted in the soil, strictly divided between Church and State, and beset with divergent national and local political interests, suddenly found itself shaken up as never before. In the end, a hitherto unattainable political consensus was established.

You will find this consensus fairly explicit in three areas: the constitution, foreign affairs, and defense policy. The French constitution—that of the Fifth Republic—grew out of de Gaulle's desire to establish a strong executive branch capable of curing France of the governmental instability it experi-
enced with the parliamentary system of the Fourth Republic. During that time, the constant squabbles of the many parties made for precarious and elusive coalitions—between 1946 and 1958, France had 22 governments, 11 of which lasted less than six months.

The keystone of the present system is the election by universal suffrage of a President of the Republic for seven years. The president appoints the prime minister and has the power to dissolve the National Assembly, and thus provoke a new election. During the time of General de Gaulle, François Mitterrand vigorously and persistently criticized this institutional system. Once he became president, François Mitterrand became quite comfortable with, even took a certain delight in, the institutional mold he had previously found so detestable. He continues to make the point—but without pressing it—that this system is not perfect. But until now he has not chosen to reform it. In any case, public opinion does not seem unduly worried about its imperfections.

The same progressive tendency towards consensus can be found in the area of foreign policy. Here conservative Gaullists have altered their beliefs more than anybody. They used to be a rather touchy bunch of nationalists; but they have softened up remarkably and, more importantly, they have gradually dropped their old prejudices against Europe. François Mitterrand is pursuing the African-Arab policy of his predecessors. Even if his preoccupations with the Third World appear to be more publicized, continuity remains the keyword of foreign policy. In East-West relations, for a long time France showed more caution than most of its European partners in the area of nuclear disarmament; but generally, there is nothing which seriously divides French opinion. As far as defense is concerned, François Mitterrand, even when he was still in opposition, abandoned his former hostility to the French nuclear force de frappe. In power, he has not ceased to present himself, in keeping with Gaullist tradition, as the vigilant defender of French nuclear arms.

THE TRAUMA OF CHANGE: LE PEN AND ABSTENTION

This violent change has not taken place without some trauma. While the body politic is fairly peaceful, French society remains deeply scarred by its uprootings and, above all, by the impressive de-Christianization of France.

During the past 50 years, the loss of the Church’s political, social and moral influence has caused quite an upheaval. If one recognizes that for centuries the Christian system constituted the most powerful factor in the inspiration and unification of the French nation, and that it inspired its law as well as its individual and collective morality, one can easily imagine the emptiness and depression created by such a cataclysm. Socialist ideology, with its future promise of “heaven on earth,” constituted for a time a sort of substitute religion, a resting stage for hope; but this ideology has also collapsed. Moreover, the psycho-drama of the failed mini-revolution of 1968 hailed, with its quickly extinguished fireworks, the cultural rather than political fall of an ancient psychological and social order—that of old power relationships, of life within the company, of an entrenched educational system and sexuality.

Furthermore, the economic crisis and the enormous transformation of industry—with the decline of the old industries—has condemned more than ten percent of the active French population to unemployment, and has led to the marginalization of hundreds of thousands of men and women, feeding petty crime and insecurity, which troubles a population that is very individualistic yet very keen on public order.

Finally, an immigrant population estimated at 4.5 million, of which more than 2 million are from Maghreb countries, has created feelings of rejection... 

...Le Pen’s party is not, strictly speaking, a Fascist party. It is a reaction to modernization...

and exasperation. The French people have a capacity for assimilation that is solidly established in history, but the Islamic and Arab immigration has created integration problems which are clearly much greater than those caused by Italian, Spanish and Polish immigration at the beginning of the century.

Even if all this commotion has not led to civil disorder yet, nevertheless, has produced abscesses and has hardened areas of traditional resistance. The
first expression of this is the Le Pen phenomenon. Contrary to what has been said, and despite a smack of racism among some of its militants, Le Pen’s party is not, strictly speaking, a Fascist party. It is a reaction to modernization, touching electors who are not organized, who are victims of the economic crisis, and who are in contact with the new wave of immigrants. Like the new extreme Republican party of Berlin, Le Pen attacks AIDS, homosexuality, those on the edge of society, and generally things that are “different.” His platform—tradition and order—is not very different from that of the “classical Right” in many Western democracies. The “governmental Right” is, as we have seen, both middle of the road and modern in outlook. It strongly dislikes the simplistic approach which its popular electorate would be ready to support: defense of the past, traditional values, and patriotism. Le Pen fills this vacuum. He represents on the extreme Right the same outlet as the Communist party—or what is left of it—does on the extreme Left. Today, his influence is weak. At the last parliamentary elections in 1988, where the polling system was admittedly biased against it, the National Front lost 2 million electors, half of those it had won over during the presidential vote a month earlier. It has only one deputy in the National Assembly.

A second effect of this great upheaval of habits and ideas is a certain lethargy of public opinion. The skepticism towards collective interests observed in several Western democracies appears more pronounced in France. As elsewhere, it is accompanied by a strong thrust of individualism, even of narcissism. Notoriety supersedes competence, due to the lack of the counterweight of a critical spirit, which has today been devalued by the absence of great intellectual authorities and the collapse of academic “power.”

The decline of political passions has weakened the very image of the nation, and a certain sceptical, ironic disenchantment surrounds politics. Over 34 percent of registered voters abstained during the last general election, the highest percentage ever in France. At the same time, active support for partisan politics is dwindling. With less than two percent of all citizens paying a contribution to a political party. France holds the record for the lowest militancy within the European Community. As for trade unions, which have always been weaker than their European counterparts, they are today experiencing a new and impressive decline; in ten years, they have lost approximately half of their membership and account today for only about ten percent of salaried workers.

The concentration of power in the lands of a small elite...prevents the circulation of ideas....

tance to the citizen—the Left has done so out of conviction and whatever remains of its ideology; and the Right for a long time turned out to be more profligate in its public spending than some European Social Democrats. Ninety-nine percent of the French people benefit from a social security system which is both the most protective and the most ruinous in the West. Our unemployment benefits are the most generous in Europe. If the French have become free-marketers in economic matters, they have remained Social Democrats in their social policy. Unfortunately, as a result, the total tax burden (including social security contributions) is one of the heaviest in Europe, and is creating serious difficulties on the eve of the single European market.

A second major handicap lies in the resistance of the State apparatus to change. If the State has lost its historical and Jacobin prestige, it remains a powerful machine. Admittedly, the present socialist government does not question the privatizations undertaken by the Chirac Administration, but the share of the State in the national economy remains one of the largest in Europe. As an industrial producer, the State can claim some obvious successes: space, nuclear power, the TGV (very high speed trains), aeronautics, and telecommunications. Yet, at the same time, its growth, which equals or surpasses the rate of national growth, makes it a gross
and insatiable monster of 7 million civil servants. And the more it grows, the poorer it becomes. The educational system, with its army of one million poorly-paid employees, is becoming difficult to manage, let alone reform. The budget of the Department of Justice is notoriously insufficient. In short, State reform is becoming an urgent necessity.

The State as the Persisting Epitomy of French Idiosyncrasy

The State remains the last refuge of the “French sickness.” It is the only area which has avoided reform. Above all, the culture of the sovereign State in France maintains a system which is unique among major Western democracies (except perhaps Japan). There exists a political and administrative hegemony, with a high-ranking administrative caste occupying not only the principal seats of State bureaucracy, but also key posts in the political parties (on both the Right and Left), in national companies, and often in large private companies. In this respect, French idiosyncrasy remains vivid. The same state aristocracy still retains most power. Its technical competence is strong; its political efficiency is weak. It does not err except on what really matters. The first ten Prime Ministers of the Fifth Republic were products of it and it currently holds two-thirds of ministerial portfolios.

The drawbacks for democracy of a power class are quite clear: politics is being organized on the lines of the civil service, but at the same time, high public offices are becoming political. The concentration of power in the hands of a small elite—essentially Parisian in spirit and culture, homogeneous and restricted—prevents the circulation of ideas and the confrontation of different professional, social and regional views. It makes quite impossible the variety and mobility of political representation which are essential to a modern democracy.

* * *

In conclusion, if one steps back to look at the French situation, one sees that an old important power, which was deeply rooted in a long past, has accomplished a difficult change in less than half a century with little drama. Yet its modernization crisis is not over, and its people are still dazed, in many respects, by such a sharp, rapid transition. The legitimacy of the State is now accepted, but national identity has become blurred. The French citizenry is now less sure of itself and less “patriotic.” It believes it has found in Europe both an opportunity and a risk for France. The opportunity is a collective future, capable of giving back to the French nation its old taste for ambition and historic challenges. The risk lies in having to satisfy compelling Community obligations for a country which is more socialized and state-controlled than its partners.

In this Cartesian country which loves clear ideas, the process of change is often obscure and misleading. This is part of the French paradox. More than 300 years ago, Richelieu was already astonished that a nation “so incapable of adhering to good escapes harm so easily.”

▲ Claude Imbert is Editor-in-Chief and Managing Director of Le Point. A revised version of this speech appeared as an article in the Fall 1989 issue of Foreign Affairs.
MOST OF THE MAJOR TENETS OF FRENCH FOREIGN POLICY DATE BACK TO THE PRESIDENCY OF CHARLES DE GAULLE. THESE INVOLVE EUROPE, FRANCE'S ATTITUDE TOWARD THE EASTERN AND WESTERN "BLOCS," NUCLEAR STRATEGY AND DEFENSE, AND THE THIRD WORLD.

THE ISSUE OF EUROPE

As soon as he returned to office in 1958, General de Gaulle confirmed France's commitment to Europe as expressed in the Treaty of Rome. With remarkable consistency he stressed two complementary sides of the European endeavor, which placed him at odds with most of his partners. On the one hand, his view of European history, contrary to that of Jean Monnet or Robert Schumann, made him allergic to the idea of supranationality and, therefore, to any relinquishment of sovereignty by member States. On the other hand, he believed that the construction of Europe should include—besides the Communities—a strong political component. As a result, Europe would assert itself as truly "European," as endowed with genuine autonomy, and not merely as an Atlantic-oriented construct.

De Gaulle thought that under such conditions a strong and powerful European confederation would one day materialize, able to ensure its own defense. After the death of de Gaulle's successor, Georges Pompidou, in 1974, France—first under Valéry Giscard d'Estaing, then under François Mitterrand—has at least partially rallied once more to the ideal of Europe's founding fathers; in practical terms, France has become far more flexible on the issue of supranationality. On this question, since 1979, Margaret Thatcher has taken our place as the villain. Conversely, unlike the United Kingdom, France has always been attached to the goal of a European Europe, that is, a Europe with greater independence from outside powers both as regards its economy and its defense.

We have not succeeded in convincing our partners of that goal, perhaps, in part, because no sufficiently compelling projects have been put forward. However, that did not stop de Gaulle's successors from pragmatically making their contribution to the construction of Europe, deemed by all to be the central thrust of our foreign policy. More particularly, Giscard d'Estaing and Mitterrand have strived to strengthen Franco-German cooperation. (By removing France's veto of the membership of the
United Kingdom, Pompidou made the first extension of membership of the Community possible.)
Giscard d’Estaing was behind the creation of the European Council. He also encouraged Greek membership, and promoted election by universal sufrage of the European Parliament. Against all odds, Valéry Giscard d’Estaing and Helmut Schmidt were successful, despite an unfavorable economic climate, in establishing the European Monetary System, which celebrates its tenth anniversary this year. In 1983, François Mitterrand drew the lessons for the national economy deriving from our pro-European stance. He spent much personal effort resolving the disagreement between the United Kingdom and the Community. Furthermore, he embraced the Single Act (some of the implications of which still have to be implemented at home, especially with regard to taxes). He also initiated the Eureka project (although, indeed, it is not limited to E.C. member States). And in all likelihood, under the French presidency in the second half of 1989, emphasis will be placed on a “monetary Europe” and a “social welfare Europe,” both of which Mitterrand proposed when first elected in 1981. Also likely are development of an “Audiovisual Eureka Program” and initiatives on environmental concerns.

EAST-WEST BLOCS
Since the beginning of the Fifth Republic, France’s foreign policy has been characterized by the non-acknowledgement of “blocs.” De Gaulle regarded the division of Europe as a temporary phenomenon. Just as he made sure that French foreign policy was not dependent on the United States, he also wanted to develop state-to-state dialogue with all the countries of Eastern Europe. With the Soviet Union, he aimed at a policy of “détente, understanding, and cooperation,” and he reiterated that Europe stretched “from the Atlantic to the Urals.”

Although East-West relations have changed considerably over the last 30 years, when President Mitterrand speaks of the need to “go further than Yalta,” or when he visits Eastern European countries, he is continuing the policy of de Gaulle, Pompidou and Giscard d’Estaing. The difference is that we now stand perhaps on the brink of an era of major change on our continent. Naturally, this attitude can be seen in the finer points of our foreign policy. France therefore, although it irritated some of her allies, was against bloc-to-bloc negotiations at the recently opened conference in Vienna on the reduction of conventional forces in Europe. Hence, the negotiations will involve 23 states (the 16 members of the Atlantic Alliance and the 7 members of the Warsaw Pact). Likewise, the French government has fought to maintain linkage with the CSCE (Conference on Security and Cooperation in Europe), which involves 12 additional countries.

DEFENSE AND SECURITY
As regards defense, none of our presidents has challenged France’s independent nuclear deterrence policy (adhered to by the socialist party prior to 1981) or France’s decision to remain out of the integrated military structure of NATO. Since the Ottawa Atlantic Summit in 1974, the Alliance has acknowledged that the independent nuclear forces maintained by Great Britain and France have made the Alliance safer. Moreover, cooperation between the First French Army and the Allied Forces Supreme Command in Europe has never ceased, and even has been considerably reinforced under the last two presidents. Our allies are no longer asking us to defend the front by taking up a position on the battlefronts; now they are satisfied with our position in the second echelon, since there are no other reserve forces. On the political front, the well-informed

...as things currently stand, we intend to further modernize our own [nuclear] systems.

know that France has always been, immediately and unwaveringly, beside her allies when the situation grew difficult, such as when the Berlin Wall was built or at the time of the Cuban missile crisis.
That support notwithstanding, some very difficult problems do remain unsolved. The main ones are: (1) the link between the use of conventional forces and recourse to “pre-strategic” nuclear weapons; and (2) the possible extension of the French deterrent capability to Europe, specifically to the Federal Republic of Germany. The first point raises two problems. First, France will not accept any decoupling between the engagement of conventional
forces and the possible recourse to pre-strategic weapons—and, by the same token, the possible use of strategic weaponry—since those weapons are meant to be a “final warning.” In other words, deterrence cannot be fragmented. This means that, in principle, France is prevented from taking part in a conventional battle. The other difficulty, which specifically concerns our German neighbors, is that, given their range, French pre-strategic weapons would explode on German soil. The second point, which is even more delicate, raises the question of whether a French government can pledge to extend deterrent capability to another power, and whether such a commitment would be credible.

There has been fairly sustained discussion on both topics since the beginning of the 1980s. Already when Valéry Giscard d’Estaing was in office, General Mery’s “extended deterrence” proposal caused deep controversy, and the Head of State had to back down under pressure from the Gaullists. From 1986 to 1988, when France had a left-wing president and a right-wing government, divergent views were held by Mitterrand and Chirac, who had become more favorable to the idea of “the defense of Europe.” Paradoxically, the President adopted a more Gaullist stance on the issue. In any case, the acceleration in East-West relations has shifted the debate, and the question of Europe’s defense has been left aside somewhat from current priorities.

Nonetheless, President Mitterrand did state on several occasions in late 1987 that short-range nuclear weapons are not the only ones capable of conveying a final warning, and that they therefore need not be delivered on German soil. It is not surprising that some officials are now reassessing the Hades missile. The French President has made it patently clear how strongly he favors an unadulterated interpretation of deterrence by vigorously expressing his opposition to the NATO concept of flexible response. By opposing mobile missiles (to replace the ones deployed on the plateau d’Albion), he has been consistent. All this, however, has not prevented the strengthening of Franco-German defense cooperation, as expressed through joint maneuvers, the creation of a Franco-German defense brigade and the creation, in January 1988, of a Franco-German Defense Council.

France is also seeking to develop, not without some difficulty, its military cooperation with the British. More generally, France favors the exploration of all bilateral avenues likely to enhance European security. In addition, France has encouraged the revival of the Western European Union.

Security issues cannot be reduced solely to military strategy. Two other points deserve special attention: France’s attitude towards NATO’s major policy choices, and the issue of disarmament.

...economic interests—notably oil—are only one aspect of France’s relations with the Arab world.

From 1979 to 1983, the cohesion of NATO was severely tested by the debate on intermediate-range nuclear missiles. At the crucial moment, President Mitterrand gave his support to Chancellor Kohl by stating before the Bundestag that he favored the deployment of Pershing II and Cruise missiles. Six years later, the logic of French-German solidarity, which remains strong despite differing views on strategic issues, has led France to support the Chancellor’s determination to postpone a decision on Lance modernization. The French position on this issue is perhaps best laid out in the speech made by Foreign Minister Roland Dumas at the Institut des Hautes Études de Défense Nationale on November 18, 1988: “What we recommend is of a political nature: the outset of negotiations on conventional weapons is not necessarily the best time to make such decisions. If after two or three years of negotiations on conventional weaponry there is no significant indication on the Soviet side of a willingness to reduce the asymmetrical accumulation of weapons which currently favors them in Europe, it will then be easier to make the decisions deemed necessary. We know that such decisions are difficult today; but let us turn that difficulty to our advantage. Clearly, it is not a matter of interfering with the decision-making process of the integrated structure or of establishing any linkage whatsoever—for the purpose of the negotiations—between the forthcoming talks on conventional arms stability and nuclear realities. France is and remains opposed to lumping together conven-
tional and nuclear arms in the same negotiations.”

It is probably in the field of disarmament that the French position has changed the most. Experience taught General de Gaulle to be highly skeptical of the possibility of any significant results. The French position shifted in the speech made by President Giscard d'Estaing to the United Nations in 1978. There he came out in favor of a Conference on Disarmament in Europe. Obviously, the thaw which followed Gorbachev's rise to power led France to take up a more precise stance on disarmament. In December 1987, Mitterrand approved the treaty on intermediate nuclear forces, even though opinions, both in France and elsewhere, differed widely. For instance, André Giraud, then Minister of Defense, referred to the risk of a “nuclear Munich.” (Without wishing to re-open the debate, it must be pointed out here that the paradoxical logic of the INF accord is to weaken NATO's graduated-response doctrines; and there is certainly a link between this and Mitterrand's reassertion of the concept of deterrence.)

France welcomes the desire displayed by the United States and the Soviet Union to make drastic cuts in their nuclear arsenals. However, as things currently stand, we intend to further modernize our own systems. Our involvement in disarmament is subject to three prerequisites as set forth in 1983 at the United Nations—namely, “That the current gap between our nuclear potential and that of the two superpowers he substantially reduced; that the imbalances in conventional weapons and forces in Europe be corrected, and chemical weapons eliminated; and that the anti-missile, anti-satellite and anti-submarine escalation should cease.”

At the 30th extraordinary session of the U.N. General Assembly on Disarmament, Minister Dumas—intending to assuage events in the Pacific—indicated that France “would give yearly notice of the tests she carried out during the previous 12 months.” Thus, “the logical link between the tests and the need to constantly maintain the effectiveness of our deterrent capability can be perceived more concretely.” On the same occasion, the Minister reiterated France's attachment to deterrence: “the best way of preventing all warfare, both nuclear and conventional, is deterrence.... Deterrence complements disarmament.”

As for chemical weapons, in September 1988, President Mitterrand announced that France would no longer keep its “security stockpile.” This position, although very reasonable given the difficulty of verifying any agreement in this field, was in fact misunderstood by our allies. Moreover, in order to give political momentum to the Geneva negotiations, France espoused a suggestion made by President Reagan and convened an international conference on chemical weapons in Paris in January 1989.

**Third World Relations**

While Europe and East-West relations are necessarily at the crux of French foreign policy, France also has major interests throughout the world. As early as 1962—that is, from the end of the Algerian War—General de Gaulle strove to restore good relations with the Third World, especially with the Arab world.

Though obviously important, economic interests—most notably oil—are only one aspect of France's relations with the Arab world. More fundamentally, these countries are increasingly part of France's and, indeed, Europe’s security zone. (This is today seen by immigration trends, to cite an example.) As a result, France came to readjust its position on the Israeli-Arab conflict, by acknowledging the importance of the Palestinian problem and establishing an in-depth dialogue with the PLO. The cooling of relations between France and Israel proceeded until 1981, when Mitterrand was able to restore friendly relations without departing from the fundamentals of the previous position. During Giscard d'Estaing's term of office, France developed close relations with Iraq, and during the Iraq-Iran war France supported Saddam Hussein at crucial junctures. In doing so, France helped to maintain balance within the region. France's goal was never to take sides, and it would now like to restore normal relations with Iran, which should be possible, despite the Rushdie affair. In some cases, as in Lebanon and in the Gulf, France has taken military risks. France has been subjected, as have others, to hostage taking and terrorism, against which it gradually has learned to organize itself better. In general, France has always endeavored to avoid actions that might humiliate nations, fire passions and inflame minds. In all, it is a difficult policy to manage, but one steadfastly maintained.

In Africa, we maintain close relations with French-speaking countries without neglecting the rest of the continent. This is something which takes time and money. But were we to withdraw from that part
of the world, no one knows what would ensue.

France has not ceased doing its share for Asia. France recently convened an international conference, similar to the one held in 1954, to settle the Cambodian problem now that Vietnam, drained of its resources, has announced it intends to curtail its intervention, and now that China and the USSR have drawn closer to each other.

In the Pacific, the June 1988 referendum on New Caledonia improved France’s position, especially with respect to Australia and New Zealand.

Generally speaking, France’s policy in the Third World is guided by two ideas. First, France must display consideration and, therefore, understanding towards these countries. This was the guiding principle behind General de Gaulle’s famous speech in Phnom Penh on December 1, 1966, which got such a poor reception in the United States. The North-South dialogue, so dear to Giscard d’Estaing, was inspired by the same principle, as was Mitterrand’s speech made in Cancun in 1981. Likewise, in Toronto, in June 1988, France put forward a series of measures designed to reduce the debt burden of the poorest countries. In September of the same year, Mitterrand put forward the idea of Special Drawing Rights to be placed by the major economic powers in a fund for the purpose of ensuring debt reduction. He also suggested that the international community be responsible for large-scale projects—such as flood control in Bangladesh—designed to protect the people and the land. The second idea is that Europe can provide a way out for those countries seeking to avoid an overly exclusive relationship with any single political or economic power. Such could be the case of Indochina in the future.

* * *

History, geography, culture, as well as the political, economic and military realities of the hour, the structure of the contemporary world, and the balance of power largely condition the foreign policy of any country. France is no exception. It is not surprising that throughout this account, the dominant impression is continuity.

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Quantitatively speaking, in the area of national research and development France is not the foremost nation among the most developed countries. It is, however, among the group of leaders which can be counted on one hand. On average, France spends 130 billion Francs per year on research and development. It would take 25 billion Francs more to draw level with the leading nation. Hence, we cannot rightly speak of a gap, but simply of the need for continued effort.

As was the case with our European partners, the immediate post-war period saw a considerable expansion in the resources devoted to research in France, particularly since it nearly had to start from square one. This golden era for research was followed by a period of austerity. Recently, these leaner years have given way to a new, sustained growth in research. This “seesawing” has caused us some difficulty, especially as regards the make-up of the research community, many of whose members were employed in times of greatest plenty. Therefore, the average age for a researcher in France in government-run institutes is 44 years; and this will rise until the time comes when there are large scale retirements. Continuity is essential to any research policy.

Is French research comparable to that of other countries? There are no truly reliable measurements on which to base such a comparison. As regards applied research, the number of patents filed gives only a rough indication—for these issues are handled quite differently from one country to the next. (The Japanese, for example, are far more “patent-inclined” than the French.) Counting the number of Nobel Prize winners in fundamental research is thought to be a reliable method, but it too is suspect because of self-multiplying effects.

One useful criterion for comparison is the attraction some countries exert on foreign research workers. Many scientists emigrate, and their choice of a country is mainly based on the quality of research there, although one cannot rule out a certain amount of emulation which can sometimes keep an otherwise unwarranted reputation alive artificially. When Europeans take the trouble to join forces, they quite clearly become attractive. Thus, the number of American researchers working at CERN (the European Nuclear Research Center) exceeds the number of Europeans working on accelerators in the United States.
JOINT EUROPEAN EFFORTS

CERN is the archetypal European research institute, but many other institutes operating in different fields of basic research deserve mention, including the European Southern Observatory (ESO), and the European Molecular Biology Organization (EMBO). European nations have come together in varying numbers (two, three, four...) to jointly design, build and operate costly scientific instruments. The French, the Germans, and the British are working together on the construction in Grenoble of a high neutron flux reactor. Eleven European countries have just decided to install — also in Grenoble — a synchrotron for the production of very high intensity X-ray beams (the European Synchrotron Radiation Facility — ESRF). Right from the outset, these facilities are designed and built to be the best in their class worldwide, but they inevitably become obsolete and the process begins all over again.

The Treaty of Rome, the starting point of the European Economic Community (EEC), made no specific provision for scientific programs. Nonetheless, through issues involving such matters as energy, EEC authorities quickly came to focus on science and technology. Thus, a European research program into nuclear fusion energy is being actively carried out in a Community laboratory at Culham (U.K.), as well as in French facilities. This type of activity has tended to spread all over the world, with the participation not only of major Western nations, but also of the USSR.

The Single Act, which defines the new operating rules of the E.C., explicitly provides for a variety of science and technology programs. The European Community is currently providing slightly more than one billion ECU annually for these programs — less than two percent of total research and development spending in Europe. The Single Act dictates that E.C.-subsidized research should act as a catalyst. It should give rise to new cooperation, while bringing down three types of barriers — those between countries, between the public and private sectors, and between the various scientific fields. It is in accordance with this line of thinking that one of the major E.C. programs — dubbed ESPRIT, and focussing on telecommunications and data processing — is being carried forward.

The aim of E.C. research and development is to be “pre-competitive.” It stops at the point where competition might commence between those partners who have pooled their resources to do research on the same project. In Europe (in the wider sense, beyond the European Community), France has sought to add to these systems downstream and to do work which is specifically “bottom-up,” that is, justified by direct market demand. This was the goal of the French government in 1985 when it proposed the Eureka program to its partners. In the Eureka program, each project is proposed by a group of corporations and research bodies prepared to first study, then produce together the items or systems required by an existing or foreseeable market. Over 200 such projects have thus far been approved. The participating government provides up to 50 percent of the financial support. Among the far-reaching Eureka projects are the development of sub-micronic electronic components (JESSI) and the production of all systems related to the operation of a new high-definition television broadcast standard (HDTV). Three major European firms — Siemens, SGS-Thomson, and Philips — are working together on JESSI. In all these European operations, clearly the objective is to pool industrial strength into groupings powerful enough to meet European market requirements and to compete in the global marketplace.

Space-related activities show just how determined Europe is to work together — in what is a difficult area of technology. France has played a central role in bringing and holding the European space program together. The first steps were difficult. The European powers thought that joint work could be done without accepting shared discipline. And so,

The aim of E.C. research and development is to be “pre-competitive.”
was entrusted to the French space agency, CNES (Center National d'Etudes Spatiales). Then, series production and commercialization were left to ArianeSpace, an international firm which has both production and commercial facilities. In Rome, in 1985, the 13 ESA member States defined, and subsequently adopted (The Hague, 1987), a series of satellite programs, orbiting infrastructures and space conveyance vehicles for the coming ten years.

It is sometimes thought that Europeans, especially the French, take a little too much delight in carrying through large-scale technological programs, like the Concorde, Airbus, Ariane, and the TGV (high-speed train). To what extent do these programs spur the other productive sectors of the economy? Any agency—be it NASA or ESA, national or international—whose task it is to develop major programs can furnish lists of spin-offs deriving from their main activities. But lists like these are not all that convincing, and they only provide marginal proof as to whether genuinely important programs are going on. The justification for a space program must be found in the program itself. It might be strategic, political or economic in nature. Who would have understood had the United States not responded to the Sputnik challenge? What European could have accepted that space travel should be the sole province of the Russians and the Americans? Indeed, the Japanese—once cited because of the modest scope of their space program—are now just as ambitious as us.

**INDUSTRIAL INNOVATION AND TRAINING OF ENGINEERS**

The French taste for major technology programs is not such a concern as their reluctance to have innovative technology filter through France’s industrial fabric, especially to small- and medium-sized firms. Comparison with the Federal Republic of Germany shows that, in relative terms, far less research is done outside the major corporations on our side of the Rhine. It is also true that relatively more of our smaller firms and corporations are involved in traditional activities than is the case in the Federal Republic. A faster pace of innovation in French industry would not only mean heightened competitiveness; it also implies production changes. Special efforts are being made in France now to spur the penetration of new techniques in small- and medium-sized companies.

The taste for innovation is naturally linked to the way in which future actors in industrial production are trained. The French system for training engineers is the result of a long-standing tradition that is bound up with institutes of higher learning, known as “Grandes Ecoles.” It is a system which certainly has its merits, and it would be unwise to dismantle it without making sure there is a better substitute. Criticism is much more severe of what occurs after graduation than of the admission procedure in these university-level schools. Only a “hand-picked” few are admitted; but the main thing is that attention be given to the future of those who are not picked. The skills of graduates are often wasted. Far too many young engineers, trained at great expense, rush headlong into careers in which they cannot put to use much of what they have learned. The answer to the question “do we make the most of our engineers?” is definitely “no!” This ailment does not only affect the French, it affects many developed countries to varying degrees. The United States is not free of it. Only Japan appears to have found a remedy.

Engineer training can only be truly effective if it is accompanied by research-based training. Indeed, research-oriented training is more likely to impart a bent for innovation. In France, we are embarking on a sustained campaign to promote research-based training in the course of earning a Ph.D. Life-long training has also made considerable strides forward. Several European initiatives, such as those taken by corporations involved in “Eurospace,” were launched in order to disseminate high-technology programs throughout Europe. The diversity of languages spoken on our continent does not make the task any easier, but this is something with which we must cope.

Defining a policy for the development of technology in a country such as France, within a continent such as Europe, is a fascinating task. It remains that choices must be made. Strong alliances are needed, but not so strong as to override certain insuperable principles of autonomy. Our policy can and must be more determined than in the past; even our competitors appreciate that.

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In the heart of Paris stands the Louvre. For centuries, throughout a turbulent history, it has been a place of power and culture. The Louvre has the appearance of a perfect grand structure. In fact, its construction, started in 1541, lasted three centuries and its design has been modified considerably. It was completed only a little more than 100 years ago by Napoleon III who, in adding the missing wing, linked it to the Tuileries palace, his residence, which was burned by the Commune in 1871.

During the 18th century the kings who had deserted the Louvre for Versailles housed artists there. It was during the middle of the Revolution that the Convention turned the palace into a museum. Napoleon III installed his ministers and offices in the part which he had built. The Third Republic set up the powerful Treasury there. The Louvre seemed to be finally established in its dual political and artistic vocation.

Due to a desire on the part of a President of the Republic, François Mitterrand, the Treasury is moving out of the Louvre. Given over entirely to art, the Louvre will become undoubtedly the largest museum in the world, with works ranging from Sumer and Assur to Goya and Delacroix. The Louvre is extended, on the other side of the Seine, for works of the period 1848 to 1914 by the Musée d'Orsay, built in a former railway station out of a desire of the same President and his two predecessors. It is, for the modern period, the Center desired by Georges Pompidou which closes the rank.

For this ambitious transformation of the Louvre, which will take 15 years to complete, the State called upon Ieoh Ming Pei, an American architect of Chinese origin. He has erected in the center of the Louvre a decidedly modern pyramid made of glass and metal which has caused much comment, and which has revealed to us a previously unknown square one of the most beautiful in Europe.

The work has led to two revelations: first, on the site where the pyramid now stands, numerous remains of a whole quarter of Paris which survived up to the time of Napoleon I were discovered. More important, there came to light the remains of the ancient royal fortress, the original Louvre. In short, the public will be able to see the remains of the old Louvre of Phillip Augustus and Charles V. Our kings housed their treasures, archives and library there. It is the cradle, the foundation of the
State, and thus of France.

What better way to symbolize the originality of French culture than with this reminder?

The place is rather like a synthesis of our culture. It expresses forcibly the continuous overlapping of culture and power, the concentration in the heart of the country and of the capital of so many sacred memorial places and great works of art, the continuity of what constitutes France and the opening up to what is modern and universal.

Our foreign friends are always surprised by the role which the State plays in cultural matters in France. Far from being peculiar to our day, this is the result of a long tradition which has two origins: first, the monarchy, which made our kings the natural protectors of arts and letters; and second, the Revolution, which transferred to the Nation in one fell swoop the majority of the monuments and collections of the Crown, the Church, and the nobility. For two centuries, the State has had direct control of a large part of the national heritage, while in other countries this has remained in the hands of important families and churches. To assume its responsibilities, the State gradually set up a well-informed and impartial administration which, under the auspices of the Academies, organized the “Beaux-Arts system.”

After the last war, there appeared a breath of innovation. General de Gaulle and his Minister André Malraux were inspired to go further by creating, in 1959, a large ministry through which France endowed itself with a firmly modern and voluntarist cultural policy. Remarkable continuity has characterized this policy for the past 30 years despite changes in personalities and political majorities. Some choices have often led to lively controversy. But no one in France denies that the State has responsibility for cultural matters, nor do they imagine that in this way the State can claim to dominate minds and impose its own views. The State does not even think of this, and if it were tempted to do so, the French people are rebellious enough to quickly put an end to it. Moreover, the French really love to argue over the State’s initiatives in cultural affairs, and there are few countries in the world where this kind of topic occupies as much space in public debate. There is nothing healthier nor more heartening than to disturb the peace of ministers and officials in such a sensitive area.

This permanent role of the State explains the highly institutional aspect of French cultural life. Paradoxically, in a country which has had more than 15 constitutions in two centuries, certain cultural institutions, which are among the most energetic, date back to the ancien régime. It was François I who created the College of France; the French Academy still survives essentially on the statute given 350 years ago by its founder, Richelieu; three of the other academies which with it make up the French Institute (governed by a law of the 3rd Brumaire—Year Four) were created by Mazarin and Colbert in the 17th century. The Royal Academy of Music, protected by Louis XIV, is the direct ancestor of our Opera. The 300-year-old Comédie Française is also a creation of the Sun King, and the so-called Decree of Moscow, undertaken by Napoleon in 1812 during the Russian campaign, still dominates it. And the National Library, like the Louvre Museum, dates back to the Revolution.

These famous institutions carry their own weight and inflexibilities, but it would be wrong to see them as preservers of a fixed tradition. Antoine Vitez, one of our most innovative producers, has just taken over the Comédie Française, and yet he does not give the impression of having been thus transformed into a mummy. The most innovative projects in the area of museums, libraries, opera and furniture draw support from the large national institutions. New public institutions whose aim is to innovate have been created on the model of the important classical institutions—for example, the Pompidou Center and one of its most original parts, the Institute for Acoustic and Musical Research and Creation (IRCAM) of Pierre Boulez. On many other levels State initiative has helped create original and often experimental institutions whose aim is cultural innovation. Similarly, cultural establishments and meeting centers such as at Chartreuse de Villeneuve-lez-Avignon offer creators a chance to live and express themselves in a place of great monumental heritage.

The institutions, however, do have their opposite
numbers. For example, the Goncourt Academy was created in opposition to the French Academy. Some important art circles were born out of opposition to the system of the Beaux-Arts and academic tutelage. During their day, the surrealists—Le Cartel, Vilar and Barrault representing theater, and Bejard dance—firmly declared themselves against the institution before more or less being recovered by it. Due to its institutional character, French culture can give the impression of being an official culture, managed on a very hierarchical basis. It is true that intellectuals and artists are encouraged to make their career, to look for titles and honor, including decorations. Taine well described this French system of hierarchy and promotion the “meritocracy” which, organized by Napoleon, still exists. We have very little time for a poor genius and quite often, late in life, he repents by entering the French Academy. If he refuses, like Sartre or Aragon, he is even more hallowed in the opinion of his fellow men. Clearly, such an organized cultural system leaves little room for imagination, disagreement or disorder, without which a culture stagnates and decays. Our culture resembles a French-style garden—supernaturally organized but, consequently, far removed from nature.

This impression is not mistaken, but again we have to get to the heart of the matter. Countries like Japan or England channel the violent forces of the national temperament using the weight of traditions and the rigidity of formal rules. Germany wards off any internal demons through work, discipline, and also music. The United States uses good citizenship, and an almost religious attachment to institutions, in order to fight against the risks of uprising in a multicultural and multiracial society.

In France it is culture which really cements national unity. This country possesses an extraordinary geographical and ethnic diversity, which has been well studied by Fernand Braudel. No other European country is as varied. In France one cannot travel 50 kilometers without seeing a change in country, horizon, the color of the sky, and the shape of roof tops. Without crossing any borders, I can undertake to show a stranger almost the whole of Europe in France alone: I would make him see England and Ireland in Brittany and Normandy, Belgium in Flanders, the great plains of Central Europe in Franche-Comte, Italy in Savoy and Nice, Greece in Provence, and Spain in our Cata-
lonia and Basque countries. Each of the provinces mentioned is genuinely French, but in some ways it shares an external identity. To know the real France one has to visit the homes of Balzac, Giraudoux, and Montesquiou—in Lorraine, Limousin, the Auvergne, and Aquitaine. One still notices what differences characterize all these countries which make up France. Furthermore, since the time of Caesar and the Gauls, we know that the inhabitants of this land have been inclined towards division and individuality, refusing any collective order.

One can imagine the difficulties involved in creating a nation out of such a mosaic. It is the State, that of our kings, emperors and republics, which has built the nation according to a policy which is political, but also cultural. This unification was very slow indeed. On the eve of the Revolution, Mirabeau still described France as “an unconstituted agglomeration of disunited people.” As Tocqueville and Taine have so well explained, the Revolution and the Empire, despite apparent breaks, have essentially pursued the unifying and centralizing work of the ancien régime. Language and culture have played a decisive role in this long undertaking.

In fact, it is culture which allows us to endure our divisions and even to maintain them in an unavowed agreement to preserve a common appearance. We can still argue over the subject of Joan of Arc. The question of the day is to know whether the Revolution of 1789 is really over. The great national quarrels are more of a spiritual or intellectual nature than a political one: from the warp of religion up to the anticlericalism of the beginning of this century, or the academic question of today, including Jansenism and the Dreyfus affair. At the same time the po-

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always causes controversy, from surrealism to the "new novel" and the new-wave cinema of the 1960s, including en route existentialism. Briefly, culture is one of the privileged grounds for our confrontations and one of our preferred ways of expressing our divisions. All that takes place, however, within the family, in French, and usually ends at the Academy

...on the whole, French cultural life is moving forward. However, the current phase is not one of the strongest.

or the Pantheon. We defend our cultural debates vehemently and often violently, but we have common references. This general taste for dispute is our noisy and delightful way of being together.

Tearing each other apart is not, however, the only occupation of the French. We are conscious of what our culture represented and still represents in the world. We are even sometimes accused of being arrogant in this respect; and one cannot ignore the irritation that our old domineering pretensions cause in intellectual and artistic affairs. Like any ancient culture, we show a marked tendency for being egocentric, and we willingly believe that the world of culture revolves around us. Sometimes there results on our part a certain provincialism which we find difficult to recognize. It is a long way for some to pass from the idea of the flourishing universal influence of French culture to the modern idea of the dialogue of cultures. We are also nostalgic about the universal French language, although we sometimes turn back towards the narrow and post-colonial idea of French-speaking, forgetting that beyond the rather restricted historical and geographical circle of countries which speak not "our" language but "the same language as us," French remains, from one continent to the other, a favorite language—a means of access to the universal. This cultural love of French-speaking is, in my opinion, more important than one which is ethnic or demographic.

After confessing our faults, I am even more at ease to boast about some of our merits. It is true that we possess a certain capacity for defining, formulating and handling ideas, values and forms with a universal mission. It is true that being ourselves the product of a large ethnic and cultural mix, our genetic make-up naturally inclines us towards opening up and welcoming others, despite some outbursts of intolerance from time to time. We are so hospitable that we can forget that—from Lully to Xenakis, including Chopin and Cesar Franck, from Germaine de Staël to Benjamin Constant, Simenon and Kessel, from Primatice to Hartung and Zao Wou Ki, including Soutine and Chagall—so many great creators whom we claim as our own came in fact from elsewhere. This "elsewhere" is not only Europe. We cannot count the number of Armenians who have, in half a century, won a chosen place in all areas of art and thought. In 1987, the Goncourt prize went to Tahar Ben Jelloun, a French-speaking writer of Moroccan birth, while the French Academy welcomed the French-American Julien Green and the Senegalese Senghor. Whether it is the result of imposed exile or the free acceptance of an offered responsibility, men like Kundera and Cortazar, Peter Brook, Bob Wilson, Giorgio Strehler, Rolf Liebermann, and Pontus Hulten have found in France the chance to assert themselves.

Much is spoken about the European date of 1992, of its difficulties and dangers. Each of the Community countries accuses its partners of fearing and delaying it. I maintain that here in France, from a cultural point of view we are already in 1993, given that movements for exchanges, cooperation in every area and the freedom for setting up anew are living realities. Maxwell and Berlusconi, Gae Aulenti, Graham Green, Peter Ustinov and Ricardo Boffil will certainly not contradict me.

Despite the weight of history and nostalgia for our former glories, French culture is not imprisoned by its past, nor does it relentlessly follow the slope of its destiny. On the contrary, in our day we notice undeniable signs of modernity and voluntarism. French culture is adapting to its day and wants to correct its mistakes.

Thus, as a standpoint for cultural initiative, the State is more often innovative, even revolutionary, rather than conservative. Malraux broke the system of the Beaux-Arts, which had been confined within academia. With Beaubourg, Orsay and the Grand Louvre the State is reinventing the museum. With the Bastille it is trying, not without problems,
to create the conditions for a popular opera. Numerous are the historic monuments belonging to the State which are the seat of highly audacious experiments in cultural animation.

Out of a willingness of the State itself, and also under the impulse of so-called civil society, old destinies are placed in question. Cultural life is being decentralized at last: towns and regions are waking up to their responsibilities in this area and are being encouraged by the State. In the areas of live theater, as well as the plastic arts, there now exists an active life in the North and in Provence, in Strasbourg and Bordeaux, Lyons and Toulouse, as well as in Marseilles and Montpellier.

Towns and regions are not the only new participants in cultural life. Company patronage has been developing for ten years. Having been one of the initiators of this movement via ADMICAL, an association which has done much to spread this new idea in France, I can say that the results have surpassed our hopes. Thanks to company patronage, men of learning are free from dependence on the State. The economic and cultural worlds, which ignored each other more than in any Western country, are now discovering each other and organizing a real partnership, which is livening up and diversifying cultural life. The movement is still only in its infancy, but it already concerns all kinds of companies and all sectors of culture.

We can see that, on the whole, French cultural life is moving forward. However, the current phase is not one of the strongest. We can see an excessive use of the media in cultural life, just when the media is failing in its own cultural mission—which is a bad sign. We accept stars of television and cinema as authorities of thought, while intellectuals deplore the media’s ‘defeat of thought.’ There is definitely something wrong. We still expect too much from the State, whose cultural inspiration is a little short of breath. But French thought remains fertile in numerous areas, such as history, linguistics, biology, medical ethics, and astrophysics. The novel, poetry, music, dance, art, cinema and the theater are all very much alive. Cultural experiences are spreading well beyond the so-called cultivated middle-class, as is proved by the crowds who flock to the major exhibitions and the festivals which are flourishing throughout France. Young people have fallen in love with culture.

In this France, where general agreement is almost shameful since we enjoy quarrelling so much, let us dare to say that culture is one of the themes of strong agreement. Moreover, if France still possesses an art of living, which our friends abroad sometimes know how to sample better than ourselves, is it not above all by means of this art of living that a subtle link is created between the sky of the Île-de-France and Monet’s painting, between the severity of the abbey church of Conques and that of a Soulages painting, between the nobility of a great Bordeaux wine and the thought of Montesquieu, between the harpsichord and Couperin, and between the phrase of Voltaire and the elegance of Pierre Cardin?

Paul Valery spoke about “this inexpressible taste which a people only finds in itself.” We should definitely beware of national self-satisfaction. But I have said enough about our faults and deficiencies to notice, in the sometimes severe regard which our foreign friends cast on France and the way in which they behave when they stay here, something which assures me that in the great union of Western civilization my country still brings indomitable inspiration and beauty.

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In the early part of 1989, the French economic outlook appears to be more favorable than was generally predicted. The growth rate of the national product is over three percent. Unemployment significantly decreased in 1988, for the first time in many years. Beyond all expectations, the inflation rate has been maintained at a steady level of 2.5 percent. The only troublesome feature of the economic situation remains the worsening of our trade imbalance, which is currently responsible for the deficit in our balance of payments.

The reasons for the recent improvement in the condition of the French economy mainly lie in the international environment and, in particular, in the drop in oil prices that has taken place since 1985, as well as in the steady rate of global economic growth led by the United States and Japan. It would be unwise, however, for any diagnosis and, a fortiori, for any prediction to be based solely on current observations. To correctly assess the present state of affairs and, still more important, to forecast accurately the performance of the French economy to the end of the century, it is necessary to relate the present effort to a still recent past when France was looked upon as the locomotive economy of Europe. Undoubtedly, the point at issue is whether in today’s enlarged Europe France can again resume its former role or whether it should abandon it altogether.

**Reasons for the Economic Revival**

In 1973 France had the highest growth rate of all European countries, an achievement that was no accident. The country had increasingly stimulated its economic policy to the point of turning economic growth into the sole unifying feature of French society. During the 1960s, France had overtaken Britain. In the early 1970s, it had set its sights on Germany and thought it could draw level with the latter, since France’s growth rate was significantly higher than Germany’s.

Since 1973 or so, France, like the world economy as a whole, has gone through three clearly distinct periods: adjustment to the first oil shock (1974-79); adjustment to the second oil shock (1979-84); and finally, a period marked by the combined fall in oil prices and in the dollar (1984-89). The consequences of the rise in oil prices in 1973 and 1979 proved more disastrous for France than for any other comparable industrialized country. France’s growth
rate was halved during the first period (from 6% to 3%), and again during the second period (from 3% to 1.5%). Thus, when the global economy was bottoming out of the recessionary trough which it had entered when oil had climbed to $33 a barrel, France still languished in a sort of stagnation, from which it seemed utterly unable to escape.

Today, however, France’s recovery looks assured. France has resumed its three-percent growth rate, a rate equal to Germany’s. The question now is whether the upswing can persist and whether it can withstand a worldwide recession should there be one. Some observers even wonder whether France can recover its pre-1973 six-percent growth rate. Certainly, such hope can no longer be ruled out, as has been done for the last 15 years, by blaming the burden of the oil bill.

The first purely domestic reason for the renewed growth of the French economy lies in the undeniable success of its nuclear energy program. Over the last 15 years, oil imports have declined considerably, being replaced by nuclear energy until they now stand at an annual rate of five percent of energy use. Thus, the ratio of the oil bill to the national product in 1988 was significantly lower than it was in 1973. The effects of the first and second oil shocks have, therefore, been more than neutralized as far as energy is concerned. For a long time the atom will remain a staple commodity. It would be surprising if the French failed to take advantage of this recovered independence.

Demographic pressure in France and, above all, the diversity of the population is the second reason for confidence in the country’s future. Among all European countries, France has the highest birth rate. In addition, demographic pressures are fueled by immigration, which has changed in origin but not in size. Since 1973 it no longer has had its origin in countries of Southern Europe and North Africa. Most immigrants are now coming from Asia, Eastern Europe, and even the Middle East. France is determined more than ever to be a land of refuge—a “melting pot.” France is the America of Europe. The certainty of demographic increase and the energies released by the willingness of the newcomers to integrate ensure the permanence of a social demand at least as great as that which prevailed from 1948 to 1973. So, the two essential conditions for a return to fast growth exist: the renewed pressure of demand and the elimination of the constraint of energy.

A third condition seems to have been met over the last two or three years. For growth to resume, supply must meet demand, which implies that new investment must be adequate. After a drop in the investment rate (and in the rate of personal savings), which had lasted for almost a decade, a steady rise in the investment rate now seems to be underway. Since 1984 the investment growth rate has been twice that of the national product, and the difference between the two continues to grow. In 1988 the three-percent growth rate of GDP was almost entirely generated by the investment growth rate (6.5%), while the rise in consumption remained very limited.

One can hardly fail to associate these signs of our revived dynamism to a rather recent change in our monetary and financial outlook.

Gradual Improvement of the Financial Situation

It is almost impossible to understand the present and, even more so, the future economic situation of France without a clear knowledge of the nature and the causes of the change in our financial policy since 1983.

From the end of World War II until 1983, the development of the French economy had to meet the challenge of permanent labor unrest. In fact, since 1948 France has had reservations about restrictive monetary policies. Conventional wisdom in the labor relations field asserted a preference for an incomes policy based on wage increases negotiated be-

The first purely domestic reason for renewed growth...lies in the undeniable success of its nuclear program.

tween “industrial partners,” that is to say, after collective bargaining between labor unions and employers’ associations. The pursuit of a wage policy devised within the framework of a labor relations consensus mostly found its inspiration in the Social Christian movement.

Actually, the failure of the wage policy became more apparent as high growth persisted throughout the 1960s. Wage increases were usually preceded by
severe labor unrest, punctuated by strikes detrimental to firms as well as to consumers. More and more frequently such wage increases would be granted before price rises had been officially recognized. The acceleration of wage and price rises implied, on the one hand, an increase in the share of value added accruing to wage earners and, on the other hand, an almost uninterrupted depreciation of the French Franc relative to the Deutsche Mark, taking advantage of the Germans' well-known dread of inflation.

In 1983 Jacques Delors put an end to the wild hopes that were placed in incomes policies, with a courage and determination all the more noteworthy since he had been one of the founding fathers of those policies. From 1983 on, the implementation of a monetary policy aimed at eliminating, once and for all, index-linked wages, double-digit inflation and successive devaluations proved to be surprisingly effective. On the one hand, the inflation rate fell from ten to four percent, simultaneously generating a comparable fall in the differential between the French and German inflation rates (from 6.7 to less than one percent.) The pressure for devaluations being relieved, they hence became less frequent. The current French Franc/Deutsche Mark exchange rate has been maintained at about 3.4 for nearly six months.

As expected, the restraint imposed on wage rises has caused a significant change in the distribution of value-added. Since 1983, the share of value-added accruing to wages has lost more than five points (from 69% to 63.5%), while the share accruing to corporate profits has increased by the same amount.

Obviously, this development accounts almost entirely for the recent rise in the investment rate. It is therefore understandable that successive governments, whatever political party they belonged to, held firmly to a moderate wage policy. It is even more conceivable that the future of the French economy and a return to the six-percent growth target depend partly on the maintenance of such a policy.

Will the French have the determination and power to preserve this policy? As time goes by, two tensions grow more apparent. One of these is felt by wage-earners, particularly among those most affected by the recent policy, that is, the most disadvantaged among them, including those in the Civil Service. A recent circular released by the prime minister expresses some willingness to relax the policy; however, its candidness cannot yet be trusted entirely. Another tension, less vocally expressed, is developing among employers. It stems from the fact that, in order to discourage speculation against the Franc, our interest rate needs to remain high enough (around 9%) to make up for the persistent differential between the French and German inflation rates. The high interest rate continues to restrict investment, except for investment that can be financed through plowed-back profits, which is what is happening today.

To a large degree the two tensions would cancel out were it not for the fact that the question has recently been raised whether an incomes policy, even assuming that it is practicable, has not become unsuitable. This second issue is absolutely inseparable from the question of greater European integration. The concept of a unified Europe was proposed and supported by successive French governments primarily for domestic (more than foreign) reasons. Keenly aware of the perils of social unrest, the French economic and political establishment has found the only way to ease social tensions is to support a Europe centered around a close alliance between France and Germany, with the EMS underpinning the structure. France has have discovered a father figure whose sweet name is Bundesbank.

France would probably still be paying the price for that discipline if, on the one hand, the price had not been perceived as excessively high and if, on the other hand, other countries had not proposed alternative policies. It is becoming more and more apparent that Franco-German economic relations cannot be stabilized. For reasons attributable to Germany—primarily demographic in nature—the Franc will never be safe from an appreciation of the Mark triggered by Germany's trade surpluses, which have become endemic and continue to increase. In
1988 the surplus of its trade with France rose to FFR 65 billion. That amounts to 25 percent of the German international surplus and 80 percent of the French deficit. Moreover, it is safe to assume that the German trade surplus with France is only slightly 

...French society will continue to shrink back from the challenge of the manufacturing industry....

affected by the Mark-Franc exchange rate. The disparity in population growth rates between the two countries leads to a situation in which the German market becomes smaller and smaller for the French economy, and the French market becomes larger and larger for the German economy. The benefits which France would derive from founding its social order on European monetary integration will therefore impose increasingly higher costs.

This development has reached the point to question whether France’s present European policy is appropriate; all the more so since other countries, particularly Britain, have chosen totally different policies based on a refusal to link the fate of their currencies to the Deutsche Mark. The decision to continue or discontinue the present policy will be at stake between now and the next European round. In our opinion, the choice is more open than our successive governments have claimed.

INTERNATIONAL TRADE CONSTRAINTS

Our choice of an economic and financial policy, and therefore of what European cooperation should involve, would be less constrained if the French economy did not continue to experience great difficulties in restoring its balance of trade equilibrium.

Regardless of the changes in its environment, France has been conspicuously unable to achieve that equilibrium in recent years. Up until 1978, even after the first oil shock, the French balance of trade had remained favorable (+0.3 percent of the GDP), even though its performance remained inferior to that of the German economy. This surplus was all the more remarkable since from the early 19th century onwards France had persistent difficulty balancing its international payments for any durable period.

Since 1979 a persistent deficit has afflicted France like a wound that will not heal. Though it still had a positive—if, admittedly, very low—growth rate between 1979 and 1984, the French deficit reached 0.6 percent of GDP. It has diminished somewhat since then, but over the last five years it has stood at an average of 0.3 percent of GDP. It did not improve in 1988 when the growth rate turned back to three percent, and it stands in sharp contrast with Germany’s considerable surplus (over 3.6% of GDP). Obviously, this phenomenon will be a factor of major consequence in the future evolution of the French economy. If France fails to remove this constraint and to prove its capacity to achieve faster growth without developing an unmanageable trade deficit, it will never be able to assume the rate of growth it enjoyed in the past. Will that be possible? This is an open question.

In this respect, no opinion can be advanced without first diagnosing the causes of our sole serious disease. Fortunately, a diagnosis can be made by observing the changes in our foreign trade flows since 1973 in relation to the main categories of products. Furthermore, we can go into some detail by analyzing trade movements in our 25 major industries.

Figures show that the French balance of trade in agricultural products improved by over 14 billion Francs between 1984 and 1988, and trade in energy by some 131 billion Francs, while the balance of trade in industrial goods, which was favorable in 1973, showed a heavy deficit in 1988, having declined by some 42 billion Francs since 1973, and by 132 billion Francs since 1984. For the last five years, the significantly positive effects of the nuclear energy program were exactly canceled out by a deficiency in the manufacturing industry. The atom thus saved France by making up for the increasing weakness of its manufacturing industry.

A more detailed study of the deficiency in the manufacturing industry is just as easy to diagnose. Since 1973 the trade balances of the country’s 25 major industries, expressed as a percentage of French GDP, have improved in the case of 11 industries, have deteriorated for 10 industries, and have remained practically stable for four industries. The
industries which have improved most significantly are the aerospace industry, agriculture, the applied chemical and pharmaceutical industry, non-ferrous metals, basic chemistry, and services. The industries whose balances have deteriorated are textiles and clothing, automobiles, foodstuffs, shoes and leather goods, household appliances, and machine tools. A number of industries producing capital goods, which already showed trade deficits in 1973, have continued to decline (machine tools and, chiefly, household appliances), while others which still have a trade surplus (automobiles) have been unable to maintain the level of their performance in relative terms. Since 1973 other industries whose trade balances had until then been favorable have literally collapsed, even though they seemed to be consistent with French know-how—namely, textiles and clothing, shoes, and foodstuffs. It is easy to see what these more and more depressed industries have in common: They all produce consumption goods or involve investment in large-scale markets.

Just as clearly, France has asserted its strength in agriculture and in professional equipment goods or in major projects both destined for and financed by the public sector. France, it appears, persisted in refusing to produce industrial goods demanded by the private sector, and for which there is a world market. The country remains zealously attached to its two invulnerably brilliant guiding stars: Sully for agriculture and Colbert for publicly-financed high-technology industries.

Admittedly, a third star is beginning to rise. It governs the development of the so-called service industry, although these industries hardly have anything in common. France has not founded any new global manufacturing companies, but since 1973 it has founded nearly ten big service firms, some of which—Cap Gemini Sogeti, Sodexho, Accor—may claim global objectives without being ridiculed. The same also applies to tourism (in 1988 Paris, which is turning itself into an art museum, drew visitors from all parts of the world, thereby contributing more than $2 billion to our balance of international payments), to computer peripheral equipment, to the hotel business, and to industries which all have one common feature: exemption from the obligation, typical of manufacturing, to make raw materials into usable goods.

This last observation leads us to predict what the French future likely holds in store. On the one hand, the French economy and, even more so, French society will continue to shrink back from the challenge of the manufacturing industry, as they have done since the late 18th century, unless it is adorned and legitimized by some high technology content. Therefore, there will be no more manufacturing industry truly belonging to the private sector and subject to the marketplace, but only a set of large projects depending on public-sector financing, to which a radically changing Europe could give a new lease on life.

On the other hand, there will be the persistence of France’s traditional vocation for agriculture and—heralding a far more promising future—the corroboration of its ability to develop the services which will help the French do things better (i.e., computers) and to live a better life. This trend conforms with an old historical preference which, considering how successfully it can be exported, entitles us to believe that it may, like human rights, appeal to other environments, other civilizations, and other histories.

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THE SOCIAL CONDITION OF A COUNTRY AT A
given moment depends on two forces: the
movement of prevailing ideas, ideologies
and currents of opinion, and the behavior and play
of all the actors in the system—public authorities,
trade unions and employers, other organizations,
companies, and, of course, citizens. In France these
two deciding forces have greatly changed during the
course of the last ten years.

For a long time, France had the appearance of a
nation which was rural yet unstable, conservative
yet changing, torn between a temptation to turn back
and a claim to the universal. Its appearance has
been that of an attractive and charming country,
but one that is also irritating and unsettling. Accord-
ing to the writer and dramatist Jean Giraudoux,
who died 40 years ago, the destiny of France, as
seen by the French, was to be “the constant pest
of the world.” He also added that “France’s aim has
been fulfilled if in the evening, when going to bed,
every confirmed middle class person together with
every rich pastor and accepted tyrant, say to them-
- selves when pulling up the sheets: ‘Everything would
not be too bad but for this blessed France!...’”

Nowadays, things are different. The reality of
France is inclined to grow closer to that of other in-
dustrialized countries, at the risk of becoming com-
monplace. This evolution is definitely reassuring
for those who saw in France a ground of uncertain-
ity and an object of incomprehension. It is also reas-
suring when it favors the changes that are necessary
for the tough laws of the market and international
competition. However, the evolution is disturbing
if by following this path, by rediscovering or by
sharing the values of behavior widespread through
the West, the French nation loses its identity with-
out yet possessing all the advantages of other coun-
tries. Foreign observers often underestimate this
change in French society. It is real and rapid, just
as the reasons which dictate it are strong and irre-
versible.

* * *

What factors have influenced this change in our so-
cial appearance? Three factors stand out as partic-
ularly important: the decline of ideologies which
have ruled French minds and behavior for so many
years; the return to traditional values, which make
up the foundations of a new agreement that is basi-
cally conservative; and the emergence and recognition of the company (in the original sense of the word).

**DECLINE OF IDEOLOGY**

Napoleon I jeered at those he called the "ideologues." However, for a long time, and up to the present, these ideologues have played an essential part in the country's thinking and social life. The magnitude of intellectual "counter-power" was undisputed. It was not in good form to be on the side of those who led political and economic affairs, even if one drew advantage from them in other respects. It was better to be closer to ideas than to facts and action. In this area French thinking was abstract, more inclined towards the political than towards the economic and, above all, separated, at least apparently and in declaration, from established order.

During the course of the last 20 years, until 1984, left-wing politicians elaborated electoral programs which warned that their victory would mean not only a change in the lines of public authorities in economic and social matters, but also a transformation of the structures of society. Every presidential and parliamentary election, if not every municipal one, thus signaled not an evolution but a revolution. Trade unions followed the same path and asserted their determination to fight the capitalist regime and the State which supported it. Intellectuals lent the prestige of their names and the influence of their ideas to this movement. Above all, this process was a theatrical game. Citizens participated in it more willingly because they knew that speeches and writings would not give rise to realities as extreme as those that were promised. Yet, at the same time there existed a fraternity and conviviality around these values for transforming the world, which made the dream more attractive and politically more rewarding than the actual application to resolving daily problems. In a few years, this situation has changed dramatically. Today, the French people want everything but disorder. They prefer statesmen and trade unionists who have a definite path. Moreover, no one in the parties or representative organizations dares to propose ambitious reforms because these no longer meet true public expectation.

This decline of the world of ideas, accompanied by the acceptance of reality, stems from some easily identifiable basic factors. The economic crises which followed the first and second oil shocks put a stop, here more than elsewhere, to exceptionally strong economic growth. The economic crisis was magnified because, while the number of jobs stagnated or declined, the labor force grew at an annual rate of about 200,000 people between 1973 and 1983. The

**The French people have learned not to put their faith in miracle electoral programs.**

French have learned not to put their faith in miracle electoral programs. They have gradually acquired the conviction that the field of possible actions has been reduced. The French have become skeptical and realistic. The age when ideologies triumphed has ended because France is no longer in one of the two propitious periods for ideology—either rapid growth, which allows deviations without risk, or economic decline, which arouses irrational reaction. Another reason for this pendulum movement of opinion is, of course, the result of political alternations in 1981, 1986, and 1988. The Socialist party has learned the harsh constraints of management. Aiming first to find power again after their defeat in 1986, and then to maintain it, they have adopted a prudent policy, exemplified by the maintenance of the economic and social measures undertaken by the conservative government of Jacques Chirac between 1986 and 1988. At the same time, the Communist party was losing a large part of its base and it seems that the extreme right wing could not manage to consolidate some temporary electoral successes.

**RETURN TO TRADITIONAL VALUES**

The second dominating tendency influencing the social scene is the return of traditional values. Opinion surveys, like simple observation, show that, particularly among younger generations, a new attachment is given to behavior which for a long time was judged to be small-minded, reprehensible, and contradictory to the natural progress of society. The French, like other people, are rediscovering the pleasures of the family, their districts and associations. They are discovering or rediscovering the values of effort and merit. In short, they are turn-
ing away, more or less, from collective values to pursue individual happiness, or happiness that is limited to their immediate circle. The State is no longer expected to impose its idea of good and truth, but rather to assure a minimum of social and political security and to leave citizens to create for themselves their life as they understand it. It is for this reason that the French are less interested in truly political stakes. When Prime Minister Michel Rocard, in a speech before the National Assembly, takes large plans into account, but expresses his intention to first deal with the very real daily problems, he no doubt lacks panache in the opinion of some, but responds well to the expectations of the French people.

RECOGNITION OF THE COMPANY

The third tendency, which is a deciding one for both the present and the future, is the recognition of the company, which has been underestimated for a long time in France. The company director in France has never been the hero of a novel or someone we dream about. Only financiers possessed a mysterious prestige, due to the occult power attributed to those who handled money. Even worse, the images attached to the company had negative connotations. For most men and women in this country profit was morally unhealthy. They believed that capitalists unduly kept back a cache of resources which citizens should have gained for themselves. As a result, reform policies were based more on the distribution of what existed than on the development of riches. High public office was the royal career path. Above all, in both the industrial areas as well as the areas of social relations the important regulator was the State, not the market or collective bargaining in firms among social partners. In this climate, State intervention was natural, while liberalism was regarded as an outdated value which impeded progress. Plans for company reform, elaborated for over 30 years, demonstrated a deep mistrust of shareholders and managers. Their aim was to introduce democratic reforms into the company decision-making process. Had they fully succeeded, companies would have been torn between the strength of an all-powerful State and the establishment of internal or external counterweights which would have paralyzed their necessary adaptation.

In the past few years enormous change has gripped this area. The State is no longer recognized as the sole owner and regulator of the public good, and companies are unanimously recognized for what they are: a source for wealth and job creation. Among most parties, the objective is to comfort them and free them from their administrative constraints, not to impose on them plans and channels as before. Moreover, the attention paid to company managers by the media has replaced that paid to senior civil servants. Takeovers and counter-takeovers, company strategies, and the intentions of corporate leaders occupy a large space in press commentaries. Better still, the era of managers seems to be giving way to the era of capitalists. The real power of shareholders has been confirmed and any previous stigmas removed. For the first time in France, capitalism is totally recognized, the role of the market is established, and the limitations on state intervention are fixed without any true and structured opposition from any significant political party or trade union—with the exception of the Communist party and a general trade union which do not carry much weight.

These three developments have fostered a new consensus. Because it lacks an ideological nature, this consensus lacks the luster associated with oppositions. The involvement of citizens and other actors is more implied than declared. However, the consensus is no less strong. In any case, it has led to a deep change in French social relations and the political climate.

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Some features well characterize the social relations which have become established in France:

COLLAPSE OF TRADITIONAL SOCIAL ACTORS

The first is the collapse of the traditional social actors: the State, the trade unions, and employers. While defending distinct interests, these three actors have for a long time lived in discrete complicity. They preferred a centralized organization of society rather than the reinforcement of decentralized power entities, local collectivities, companies and associations, all of which would have weakened their influence. They were always in favor of more State control. The interests of these actors were known to each other and, when necessary, they supported each other in reinforcing a bureaucratic society which was a bit Kafkaesque for companies and
citizens, but to which they held the key. They were the inevitable intercessors of social life.

This centralized system collapsed within a few years. Today, state intervention is desired less and less. It is well known that the State is neither a good industrialist nor a producer of efficient services, nor is it always a prudent financier. It is striking to note that since the presidential and general elections of 1988, the two big reforms of the socialist government—the introduction of a minimum wage and credit, and training for salaried workers during the course of their career—have nothing really noteworthy about them and could just as well have been pushed through by a conservative government. Nationalization is no longer an issue, nor is the heavy taxation of companies and citizens, nor is a reorganization of the right to work. A new era has opened up for the State: the large reforms which had upset, traumatized and created legal instability for entrepreneurs are over. Management on a day-to-day basis has become of utmost importance. In the area of social relations, this implies that there will not be any major change in social rules. The State will no longer, as it did in the past, impose national negotiations on employers and trade unions, which would lead to additional restraints for companies. Henceforth, it has confidence in collective relations in companies, freely debated and fixed by managers, representative trade union organizations and the personnel themselves.

In all industrialized countries, trade unionism is in serious crisis. In France, where it has never been very strong, it is in a tragic state. A recent CREDOC study shows that the rate of trade unionism in private companies barely surpasses five percent. If the large trade union organizations—the CGT, CFDT and F.O.—are counted in the public sector, the rate of trade unionism here reaches only 15 percent. The role of these organizations is limited, in the case of dispute, by the appearance of collective or of spontaneous coordination, for which salaried workers have greater confidence than traditional trade unions. Trade union leaders no longer have the mediating influences they once had. In brief, trade unionism is no longer a deciding actor in the social game, neither through the number of its supporters, nor through its power over salaried workers, nor through its broad influence in the society. Moreover, this development is far from being beneficial. Negotiations are waning through lack of partners capable of engaging the support of those involved. Conflicts are difficult to see or to end when they do arise. The development of France toward less centralization, and the disintegration of organizations which were once widely representative, can thus produce negative effects.

This accelerated decline of trade unions is due to reasons which we have already partly evoked—a return toward individualism, a rejection of solidarity or of values deemed too collective, and the almost total disappearance of ideologies geared toward transforming society, which were always the driving force of the CGT and CFDT. Surviving partly on subsidies from public organizations and holding considerable legal privileges, the trade unions suffer from the dislike of the French people for everything that is too political and too centralized.

As for employers, who played an essential role in the past through national negotiations with trade unions and as a respected pressure group close to the State, they are today suffering due to the cumulative weakening of these two partners.

**NEWLY ACQUIRED FREEDOM OF COMPANIES**

The second consequence of changes in social relations is the freedom at last acquired by companies: freedom of prices and freedom to define a socially adapted policy in a more autonomous and decentralized way. For the past three or four years, many French companies have developed means of organization which include incentives for salaried workers, encourage mobility, and incorporate profit sharing. Much interest has developed in the social policies of companies in other industrialized countries. Many experiments have been tried, becoming so commonplace that trade unions rarely oppose them.

**FALL IN LEVEL OF DISPUTES**

The third consequence of this development is the perceptible fall in the level of disputes in French so-
ciety. They definitely still exist, but they are less frequent and last for a shorter time than they did a few years ago. The fiercest usually concern the public sector and its specific problems: the weight of management, the rigidity of salaries, the absence of mobility to the private sector, and a feeling of the moral and financial devaluation of entire professional groups, such as teachers.

*  *  *

In reality, an unwritten social pact has been adopted in France. The French, after several centuries, have at last recognized the legitimacy and merits of capitalism and the rules of the market. They hope that the role of the State will be precise and limited, while that of companies will increase. They no longer believe in the great institutional actors of earlier days, such as employers and trade unions. They favor a change in the traditional way of organizing work in France, which combines a belated Taylorism and the centralization of even minor decisions in the hands of managers. They are open now to styles of organization providing more place for merit and industrial initiative. At the same time, they insist that France maintain the principles of the right to work and collective social protection. Beyond speeches and programs, it can be said that parties, trade unions, organized forces and citizens agree on this division—the company organizes itself freely to create more wealth and jobs, while the State guarantees social security by imposing joint responsibilities and a minimum of protection at a raised level.

Two questions have to be asked in connection with this change: Is it good for French society? Will it last and can company strategies be permanently based on it?

For entrepreneurs who are strangers in France, the decline of ideologies, the banalization of behavior, and the growing realism of leaders and citizens are clearly positive factors. The real danger threatens France itself. In preparing ceremonies for the bicentennial of the French revolution, France is quickly noticing that the messages of universality and revolutionary separation—an essential part of its historical heritage—are no longer compatible with the quiet conservatism of our time. What France has gained in rational thought, in opening up to the world economically, and in accepting economic constraints, the necessities of the market and its resultant freedoms, it has without doubt lost in its strength and power as a model, in its self assurance—that is, in its identity.

Is this change a lasting one? No single factor allows us to make that judgment. In fact, the alterations are due less to political changes or electoral results than to a modification of prevailing ideas. However, we should not believe that France is sheltered from social turbulence and that it has become a haven of quiet water. The French, as we have seen, are attached to rights and a strong sense of social solidarity. They will not agree to a government which puts those rights and social solidarity in question again. Moreover, no government would dare to do so. Real weakness lies elsewhere—in the organization and climate of public services. The State has not changed its methods of managing human resources. With regard to its own agents, it is still just as centralized, fixed, and barely open to dialogue and to the emergence of individual values. Entire professional groups, such as teachers, feel both devalued and, at the same time, hostile to all reforms. There are real risks of upset in the public services in the course of the next few years.

The policies to address this inflexibility will be long in coming, because there is nothing more difficult for a state than to reform itself. These reverses and occasional shadows are not, however, of the kind to contradict the movement which has brought social life in France, despite its weights and inertias, into a new era.

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ROBERT LION

On Decentralization

IN FRANCE, THE HISTORY OF THE NATION IS EN-
twined with the history of the State. As a na-
tion, the development of France stemmed from
a central power which constantly sought to extend
its territory and reduce the resistance, and ul-
timately the existence, of local powers. This cen-
tralized power for a long period assumed the guise
of an absolute monarchy. The monarch, whose au-
thority was recognized as granted by divine right,
identified with the State—or as Louis XIV said:
“L’Etat, c’est moi” (“I am the State”).
The Revolution of 1789 put an end to the monar-
chy. But the new masters of France were no less in-
strumental in promoting a centrally focused State
that was progressively re-established on an even
firmer base. The provinces which had shown resis-
tance to the last kings of France were abolished,
and corporate associations were forbidden; the
“Jacobins” prevailed over the “Gironists,” and
the Revolution proclaimed the Republic to be “one
and indivisible.” Bonaparte considerably reinforced
the State’s organizational framework and powers.

This fundamental trend of French history
achieved its objective as national unity was ac-
complished through a series of highly diverse regimes.
The French Republic, established since 1860 within
well-defined boundaries (aside from colonial posses-
sions and German annexation of Alsace and Lor-
raine between 1871 and 1918), experienced no note-
worthy provincial rebellions during the 19th and
20th centuries. Today, the occasional Basque or Cor-
sican flare-ups are mere anecdotes when compared
to the turmoil in Ireland or in the Spanish Basque
provinces. No French region asserts itself as forth-
rightly as does Sicily, Catalonia, or Bavaria. The le-
gal system is entirely national, federalism is unknown,
and the State insures equality: the most deeply
rooted principle espoused in our national motto.

FRANCE’S IMAGE IN THE MID-20TH CENTURY
Around 1950 the State was weighty indeed. As in
the era of kings, but with greater rigor and more
consistently, it was solidly established within the
realm. The prefects had tutelage over the munici-
palities (there are 36,000 of them!) and the depart-
ments (about 100 of these were later grouped into
regions). The departmental assembly even had the
State Administration as an executive body. This
pattern of State-controlled supervision did not,
however, signify despotism. Elected representatives
could speak out and "legal rights," based on the law and a remarkable edifice of administrative jurisdiction, headed by the Conseil d'État, protected the citizen. It did allow the local authorities, elected democratically, some freedom of action, although on a rather restricted basis.

The State was omnipresent. On economic issues, for instance, France was governed by " Colbertist" mercantilism. Colbert, Louis XIV's Minister, created State-owned industry, including factories and workshops which for a long period were substitutes for private initiatives, which the authorities only countenanced reluctantly. The nationalization which took place in the 20th century—socialist in 1936 and 1981, and Gaullist (and clearly backed by a virtually unanimous public opinion) in 1946— were, if not unique to France, a modern form of the Colbertist credo. Many institutions were in fact "public" or under State guidance, including the administration of pension plans, the construction of subsidized housing, and the management of agricultural surpluses.

Although the State was highly centralized, local political life was rich with "personalities." Lyon, Marseille, Toulon, Lille, and many other communities, large and small, had their share of colorful and accomplished mayors. But the ultimate recourse for all the French was the State; that it was usually reviled doesn't change the fact that everything was demanded of it. It was expected to intervene, to guarantee, and to protect; should unforeseen problems or calamities arise, it was required to find the solution. And the State perfected a social security system and an increasingly complex intervention network to meet these requirements.

This development was not all negative. The social protection system established in 1945 is one of the best in the world—more protective and more egalitarian and, surprisingly, more liberal (where health care is concerned) than the British model. This social leviathan may, however, have done little to encourage individual foresight and, therefore, savings, and may have dulled the spirit of enterprise and the urge to take risks.

Fortunately, the State never fully regulated culture, which remained rich, bountiful, and libertarian. And if France—since Malraux (in 1960), and with Jacques Lang today—is one of the few countries to have a minister of culture, it is not for the purpose of either controlling or centralizing the arts, but rather to encourage creativity and the dissemination of culture.

Thus we have in France a nation-State far removed—psychologically speaking—from Germany or Italy, where a central State was a much more recent phenomenon and where, with fascism, it developed such a brutal aspect for a time that it never really imprinted itself upon the psyche or the geography. The situation evolved differently in France: Paris embodied the State, the city being our unique metropolis, while the "provinces" represented nothing. The institutional systems constituted a solid social and mental framework, which left less need for initiative than in Italy, where a level of prolific anarchy characterized the people. Here, centralization was accepted by everyone.

The map of France is Jacobin. Paris has been the seat of state government since October 1789, when the king, who had elected to live in Versailles, was forcibly brought back to the city. The capital was both city-state—it had no mayor until 1977—and the center of all things, as is evident from the star-like pattern of the railroad system and, until 1980, of the highways. Sometime around 1950 France discovered the "French desert." Paris, the political and intellectual capital, was leading the "provincial" economy into a decline.

Consensus was all the more precious as national unity was not entirely established. Major quarrels did, in fact, divide the country. The Republic had its adversaries, including monarchist or Bonapartist movements, which were vociferous during the Third Republic (1870-1940). France was regularly torn by burning issues—the Dreyfus affair, the German occupation from 1940 to 1944, and such subjects as the separation of Church and State, and the desirability of secular rather than denominational schools.

**THIRTY YEARS OF GESTATION (1950-80)**
**THREE YEARS OF REVOLUTION (1981-84)**
Decentralization, however, became an increasingly
popular topic in the 1960s. It began in cultural circles, but it did not arouse any strong passions until 1968, except among a few small political movements which ten or fifteen years later nourished the socialist party. The reforms remained modest and based on technicalities—decentralization was not so much the issue as “diluting” the State. If regions were created in 1964, they were purely administrative and served to revive the royal intendants of old times rather than the provincial parliaments. “Regional development” was encouraged by promoting the industrialization of depressed areas and the economic development of “intermediate metropolises.”

The mood changed in the 1970s. First of all, the French discovered large enterprises, bastions of dynamism and responsibility which owed nothing to the State, that were held up frequently as models for decentralization. And above all, the student revolt of May 1968 undermined the central power embodied by Charles de Gaulle. The movement exalted social and individual autonomy.

De Gaulle’s ultimate reaction was to propose regionalization. His proposal, however, came too late, and its rejection in 1969 led the old leader to step down. He may not have realized that the May 1968 movement called for the “liberation” of “initiatives” rather than mere institutional reforms. This liberation encouraged the recognition of community life, fostering “local activities,” “social life,” “neighborhood activities,” and “municipal action groups.”

The socialist party embraced these trends. More modern and stronger in 1971, it challenged the State, which had been in the hands of the Right since 1968. It demanded “checks and balances” and proposed that “areas of liberty” be wrested from the State. None was a better advocate of this decentralization trend than the current Prime Minister, Michel Rocard, who suggested that “France be decolonized.”

Towards the end of the 1970s the government could not resist these forces. Valéry Giscard d’Estaing and Raymond Barre were “liberals” and they claimed to be “decentralizers.” During the 1970s the powers granted to the communes were somewhat broadened and regions were created—in the restricted form of public organizations—and Paris even gained a mayor. But these efforts lacked conviction, and the administration, whose culture was profoundly Jacobin, regularly recaptured its advantage after instituting new measures.

Stimulated by a considerable victory during the municipal elections of 1977, the Left added a more ideological twist to its demands. It claimed that only the local powers, in close proximity to the citizen, were good for “civil enterprise,” while the State stifled liberties. The central State could no longer retain all the prerogatives of public authority. The State’s tutelage had to be abolished.

The Left, which had for a long time rallied around Jacobin ideas of egalitarianism and solidarity, suddenly discovered that “equality had no meaning if it lacked liberty; that differences could be reconciled with unity.” In less than five years it overtook the Right. The Left, which endorsed this increasingly popular theme, was victorious in 1981. With a large parliamentary majority, François Mitterrand rapidly undertook numerous reforms, two of which were carried out particularly energetically: abolishing the death penalty and decentralization. The latter was headed by Gaston Defferre, the Minister of the Interior and of Decentralization. For 30 years he was the mayor of Marseilles, the second most important city in France. Three weeks after the June legislative elections he put forward a new draft law on the “rights and liberties” of territorial communities. His intention was to put an end to “a centralized regime which had increasingly grown all the more so” and “a type of organization and administration based on distrust of its citizens and their elected representatives.” He planned to “commit the country irreversibly to the path of decentralization.” He was able to do just that.

The law dated 2 March, 1982 transferred power to the territorial communities; the State’s tutelage was revoked in favor of judicial control exercised by the courts; and executive power was transferred from the prefects to the presidents of regional and departmental assemblies. The State gave these communities very important powers and responsibilities, along with the means necessary—for instance, to issue building permits, and manage social services and secondary schools. Finally, in 1984 a “territorial public administration” was established.

The landscape of the French establishment was totally disrupted in the course of three years; but did anything really change?

The answer is yes. The changes initiated in 1981 have won a wide consensus. Although the means are sometimes criticized, the basic principles are not; and the changes are becoming more entrenched as
time goes on. We have undoubtedly entered into the era of "less State." The 1980s will have witnessed a gentle but persistent renewal of local autonomy and certain regional characteristics (the State is encouraging the teaching of certain local languages, for instance). On the whole, it is unquestionably the most important reform in France in the second half of the 20th century.

The State is not dead, of course. The legislative and ideological checks placed upon decentralization by the Chirac government (1986-1988) aroused old devils. The administration is always ready to add more, while elected representatives, timorous or badly equipped, resist poorly. The fight can only be won if at the helm there is the continuous influence of a determined political will, which seems to be the case since the return of the socialists to power in 1988.

Three Remarks

One. 1981 launched a French-style decentralization. In this country with extensive laws, the process unfolded in an institutional fashion: The national community transferred powers to the other public communities, in other words, to the regions, the departments, and the individual communities. The overall pyramid was maintained, however, with its excessive collection of administrative procedures. The process stopped short of grouping the local communities together, or the regions themselves, which would have been the only way of assuring

This old country of ours...may feel inadequate...without its State-run corset.

that the local powers had sufficient scope to be effective. And the decentralization of "civic organizations" was quite forgotten, according to the present Prime Minister. No life-lines were held out to local associations or to active community forces.

In the particularly sensitive area of education, university decentralization—jeopardized by an overblown project quickly cancelled by the Chirac government—is marching ahead. Very recently, decentralization was trumpeted as a miracle remedy for the rigidity of the civil service. The 1990s may witness a new phase in which more recognition and power will be granted to social or economic forces.

Two. The 1980s have witnessed an end to the major quarrels which divided France. The Left has regained full recognition as a political entity. Some held that its accession to power in 1981 was illegitimate. No such sentiment persists at the end of the decade. The socialists have proven their ability to govern. The French political landscape should now begin to experience a more normal "alternation" between Left and Right.

If the Left is tolerated in this fashion it is because it has adopted more "centrist" policies, particularly where economics are concerned. It was the socialists who imposed austerity measures and put an end to index-linked salaries; they accomplished disinflation; they have backed private enterprise; and they are preparing the French economy for Europe’s single market in 1992. And the French have become more realistic as a result. Ideology has conceded ground.

Racism still exists, of course, as well as considerable social gaps. On this level, France is hardly different from other Western countries. But there is no longer an open struggle between private and public schools. After a flare-up in 1984, this harrowing issue now seems definitely closed. There is no longer a struggle for "great social upheaval." And who still speaks of "class struggle?" Anti-colonialism, which was the cause of such violent confrontations during the wars in Indochina and Algeria, now revolves around lesser issues such as New Caledonia.

This land of conflict has established a normal level of consensus for the first time in its history. A "united France"—to use President Mitterrand's 1988 electoral slogan—can finally doff its old Jacobin tunic. The 1980s, truly revolutionary years for this country, have legitimized this great reversal.

Three. Europe will benefit from a less centralized, less monolithic, and less State-controlled France; at least, we may hope so. We cannot be sure, however, about the new equilibrium. This old country of ours, imbued with centuries of centralization, may feel inadequate to the point of refusing to face obstacles without its State-run corset. All the more, in as much as the State has not yet said its last word: the prefect is still a prestigious per-
son; and the public sector is not only weighty but
efficient, as demonstrated by the Concorde, Airbus,
and Ariane. By extolling the “mixed economy,” the
President of the Republic is promoting a specifically
French line of reasoning, and giving legitimacy to
the State’s residual power, including that in the eco-
nomic sector.

But this no longer has the same importance as it
once had. If the stakes are now France’s integration
into Europe, the answer will depend more on the
economy than on institutional structures. Do French
regions have a European stature? This will undoubt-
edly be a moot point for some time, while the coun-
try’s companies will very soon, of their freewill or
against it, lose much of their national character. No
longer will state control be held up against decen-
tralization, but rather national reflexes versus
France’s Europeanization.

The French nation’s backbone was always firmly
supported by its institutions and its judicial and po-
itical systems. At the closing of this century, its fu-
ture will be played out in new domains. The ques-
tion remains: What will become of the French econ-
omy, the French society, and perhaps even of this
country’s culture, in view of the sweeping transfor-
mations it can expect?

△ Robert Lion is Chief Executive Officer of Caisse
Dépôt et Consignations.
I remember that in 1985 in addressing the European members of the Trilateral Commission in France I chose to discuss Europessimism. At that time, all commentators described the decline of Europe and underlined the economic stagnation of European countries, the rising unemployment, and the political malaise which affected most of them. Europessimism was linked to Eurosclerosis. But, in a recent New York Times article, Leonard Silk observed that the Eurosclerosis of the recent past is giving way to near euphoria: Euphoria in Western Europe because 1987, despite the Stock Exchange crises, and 1988 have been very good years. But also, a world-wide euphoria, fed by the persistent expansion of the U.S. economy, by the dynamism of Japan resulting from an impressive shift from foreign demand to domestic demand, by the high degrees of price stability reached in most countries, by the vigor of international trade, and, also, by the fall in oil prices until recent months.

I will not tell you tonight that a recession is threatening us because it is threatening the United States. For the last two years we have been waiting for the recession in the United States. All my colleagues built splendid models to forecast a slow-down in economic activity. In fact, the persistent growth in the United States is a very important factor in the world today. And while we hope that there could be some slow-down in the U.S. economy in order to reconcile the growth of demand with the growth of real output, nobody wants a recession.

What appears interesting to me in the present situation is that we are, perhaps, experiencing a new expansionary phase in the Western economy. As an economist, I think that the Kondratieff cycles are debatable. However, I observe that there are today some factors which are powerful in maintaining a rapid increase in economic activity: the innovations of the information society and, from this point of view, Japan is an example; the opportunities offered to world trade by the diversification of goods and services, but also by the appearance of newly industrialized countries, which participate strongly in international trade; and the deregulation of economic activities and the globalization and the internationalization of financial activities. All these factors constitute a strong basis for a medium-term expansion of economies, and we have to exploit these opportunities.

At the same time, there are some areas of con-
cern. We have to be careful about renewed inflationary pressures. In the United States, some figures show us that the rate of inflation is now about five percent. In Great Britain, the rate of inflation is high: seven percent. In other European countries, even if the figures are low, since 1987 there

**I tend to think that we will live for a long time in an unstable situation.**

has been an acceleration in the rise of prices. However, I am convinced that the central banks will continue to lean against the wind; and I am sure that the Federal Reserve Board in the United States is conducting a very wise and cautious policy. I hope that Governments will be attentive to the evolution of their budgets, public expenditures and budgetary deficits, and will strive to reduce them. Central banks alone cannot do the job.

The second field of concern is the persistence of imbalances in trade and payments. These imbalances have to be unwound over the medium term. The process of adjustment required of the United States cannot take place over a short period of time. The required improvement in the U.S. current account balance will affect America’s partners. I tend to think that we will live for a long time in an unstable situation. It seems very important that a credible budgetary policy should be adopted in the United States—which should facilitate the process of adjustment and, consequently, the stabilization of the dollar.

If appropriate measures are not taken, I predict that there will be an unstable period ahead. The dollar will experience ups and down, but it will, in fact, depreciate in the medium run. Japanese funds will go on financing the U.S. deficit, but Japanese investors will require not only stable high real interest rates but, from time to time, some rise in interest rates in order to offset the effects of the depreciation of the dollar.

I wonder whether our task now is to quickly restore the basic equilibria in Western countries. Only economists—and I belong to the corporation—want that. When they build their models they are frightened by the consequences of the adjustment process. In fact, we have to try to reduce disequilibria to a tolerable level. We are entering for some years to come a world in which we will seek to manage intolerable disequilibria in order to render them tolerable. But the day of reckoning will come. And the sooner we adopt the necessary measures together, the better it will be for all of us. As you can see, I am not pessimistic; I am realistic.

In this light, it is important for the Community to develop its cohesion and to succeed in its important project of creating a great domestic market. This enterprise already increases the dynamism of firms inside and outside the Community, encourages investment, research and innovation, and deeply changes the mentalities and, consequently, stimulates economic growth. If the Community can efficiently coordinate the economic policies of its various members, and if the Community can succeed in creating the single market, it could become an autonomous center of economic activity and play an offsetting role if negative changes happened in the world economy.

I remember that in 1953, after the Korean war, there was a recession in the United States. At that time, everybody waited for bad consequences in the European economy. Thereafter, for many years now, the European countries have restored their basic equilibria and have developed their economic, monetary and trade relationships—and Western Europe could play, at this time, an offsetting role in world economic activity. I think that if we now succeed in coordinating our economic policies, and in using all the opportunities offered by the single market, this role will be more important.

My third area of concern is the debt of developing countries. Frankly, I cannot understand why so much time is necessary to find solutions. From time to time I wonder whether governments, commercial banks and international institutions are not playing hide and seek in the discussion of this problem. It is very important, for social and political reasons, to help developing countries. The leaders of these countries tell me that it is very difficult to conduct a policy when you do not know how to pay the interest and how to repay the principal. There is a rescheduling process, but every one to two years it is necessary to participate in some “clubs” or other meetings in order to know what the bill will be. There is a sort of Damocles’ sword over the heads of the governments, which are trying at the
savings if this is possible, but more surely to reduce budgetary deficits. This is easier if there is the will.

* * *

To complete my general “tour d’horizon,” I would like discuss a final point which is of interest for Europe and for two countries which play a great role in the European construction: France and the Federal Republic of Germany.

It is now fashionable to consider that European enterprise is a great illusion because there is a domination exerted by the Federal Republic. Two points are raised: the asymmetry in the European Monetary System, and the drift of the Federal Republic towards the East. On account of my former responsibilities in Brussels and in Paris, I can give a testimony on those two points.

When I was Prime Minister, I decided in 1976, in a very difficult situation, to stabilize the French Franc in order to have a monetary constraint and to give an anchor of stability to France. In 1978, President Giscard d’Estaing and Chancellor Helmut Schmidt agreed that it was necessary to develop monetary cooperation in the Community and, if possible, in Western Europe. We had in the past a marvellous project for an “economic and monetary union” to have been implemented in ten years. The project was adopted on the basis of the 1972 report of the Werner Committee. In 1989 we cannot celebrate an anniversary of the European Monetary Union. My view is that we have to consolidate what exists. What exists is the European Monetary System. This system was deliberately accepted by the French Government in 1979 because the French Government considered that it was absolutely necessary to create a strong link between the French economy and the German economy. We knew that it would be difficult to follow, but we considered that this constraint was necessary to modernize and create a new dynamism in the French economy.

In 1983, after a very difficult period, the Socialist Government decided to maintain the commitment of France to the European Monetary System. At that time—I was a member of the opposition—I supported the decision taken by the Socialist Government because I considered it was in the interest of my country. Now I consider that it is in the interest of my country to support the French minister of finance and economy when he says that one of the strongest aspects of his policy is to maintain a stable relationship between the French Franc and the Deutsche Mark. We know all the problems which are linked to this commitment, but we have already had very good results, not only for France and the Federal Republic, but also for other countries participating in the EMS. But there are logical implications of that commitment. We French have to work to increase the competitiveness of our economy, we have to invest, we have to innovate, and we have to develop our trade relationships. It is not by giving up the constraint of a stable exchange rate that we will build a prosperous economy.

For the Germans there is also a duty. I have never asked my German colleagues to give up their stability policy. The European Monetary System needs an anchor of stability, the Deutsche Mark. The European Monetary System needs an institution which is autonomous and responsible for stability, the Bundesbank. What we ask of the German Government is not to give up the courageous demand policy which is oriented to stability. We ask them to adopt a more vigorous supply side policy because there is some sluggishness in the German economy. They have to eliminate rigidities, to get rid of the disincentives to investment, and they have to reduce subsidies to the weakest sectors of their economy. A supply side policy is necessary in the Federal Republic; and this has to be one of the main points of the coordination of economic policies between the members of the European Monetary System. We have to ask the Germans to assume their responsibilities and to recycle their current balance of payments surplus, because a country which enjoys such a surplus has to redistribute at least a part of it through Community institutions or by investments. I hope that in the future there will be a monetary union. I hope that there will be a central bank. And I hope that there will be a common currency.

My second point is about the drift of the Federal Republic towards the East. This is linked to perestroika. I do not intend to discuss East-West rela-
same time to face the social tensions in their countries and who, nevertheless, remain disposed to accept structural adjustment policies.

What they want is only to maintain a rate of growth at least equal to the rate of growth of the population, in order to get a stable per capita income and to avoid a social regression after a period in which they have struggled to increase the welfare of their population.

The Baker plan was interesting because it clearly showed that it was necessary to reconcile the service of the debt with growth. However, the practical consequences of the plan were very limited. We now have the Brady plan, and everybody is satisfied. It is very interesting to see how, in the present situation, good hopes are rising from the literary efforts of the people who issue communiques. But communiques are not followed by decisions. Many of us are now asking for the practical measures which will have to intervene: mainly, an increase in the resources of financial institutions, that is, an increase in the quotas of the International Monetary Fund, or additional resources. It is difficult understand why the proposals made by the Japanese government, for many months now, to give additional resources to help developing countries have not been accepted. For what reason? Only for reasons of economic powersharing.

We cannot look upon what’s happening in developing countries with benign neglect. A more vigorous action is required for the future equilibrium of the world. At the same time, it would be very interesting for us to stimulate growth in countries which think that it would be in our interest if they accept and respect the conditions which are established by international institutions to help them. Interdependence is so great now that we cannot give up any opportunity to facilitate the adjustment process by opening markets and by developing trade and other economic relationships between the developed world and the developing world.

* * *

I would now like to underline two other points. First, I was very much impressed this morning by what Mr. Corrigan said [see pages 68-70 of this publication] concerning the savings gap in the United States. However, there is a savings gap in many industrialized countries. Western countries are now spending a lot of money on consumer goods and services. The propensity to save is deteriorating. At the same time, I observe that international competition, which is so important now, is not only competition between products and firms, it is also a competition between socio-economic entities. Culture is a decisive factor in favoring or in undermining competitiveness. Our main competitors are the Japanese, the South Koreans, and the peoples of the NICs. Look at the socio-economic model in those countries: You perceive that they have built their economic strength and their economic development on a high propensity to work, on savings, on investment and innovation, and on a constant adaptation to the evolution of world demand, from time to time launching new products in order to create the demand for their products.

Competition is linked to the rate of savings in the various economies and the rate of the saving is linked to budgetary deficits: private people do not save, and they want a lot of advantages which are financed by the government. At the same time, they do not want to pay more taxes, leading to a budgetary deficit which is regularly increasing or which is at best stabilized. It is very difficult in such situations to accumulate savings, the financial resources which are necessary to finance investment, innovation and research, unless the country borrows abroad—and this situation cannot last for a long while.

In the forthcoming years, it will be very important for us in Europe and, after what Mr. Corrigan said this morning, in the United States, to try to increase the rate of savings— that is, to stimulate private
tions. What I want to say is that after 25 years in European affairs—in Brussels, in Paris—and working with my German colleagues, I am convinced that the Federal Republic of Germany belongs to the West and wants to remain in the West. We have to understand that the Federal Republic has some specific interests, mainly as regards the countries of Central Europe. We have to understand that the Federal Republic is inspired by the prospect of economic development in the Soviet Union. But nobody knows how perestroika will turn out. We have to wait and see. We have to avoid an escalation in the competition in the West over ensuring the best place Eastern economies. I think that the Soviet Union is a weak country. I think that the Soviet Government has many options and could make various choices. And I think, personally, that their foreign policy has not changed.

What I want to tell you, as a Frenchman, is that we cannot conduct a policy if we do not trust our partner. Forty years ago we chose reconciliation and cooperation with the Federal Republic. In the memoirs of Jean Monnet one can read that Chancellor Adenauer told Jean Monnet: “I agree with your program because it is not only an economic program; this program is of moral interest.” He was referring to the reconciliation of two peoples. It remains the basic foundation for a European Union, for security on the European Continent, and for equilibrium for the world. What I told you is perhaps not fashionable, but I think that when speaking about monetary problems or our special relationships with the Federal Republic, we have to consider the future and to build our Community on mutual understanding and on mutual confidence.

▲ Raymond Barre is a Member of the National Assembly and former Prime Minister of France.
If we look at the broad outlines of the present situation, the following pattern emerges: on a worldwide scale improved East-West relations, and, generally speaking, an overall tendency towards the resolution of most crisis situations. There are two other main trends which are more specific to the European continent: one concerns confirmation of the establishment of a solid, coherent and unified system in Western Europe; the other involves the movement of reforms affecting the policies, ideology and organization of Soviet society and productivity, as well as that of other communist countries in Europe.

The first two tendencies I noted, improved East-West relations, and an evolution towards the resolution of crisis situations, work together and mutually reinforce one another. Over the past ten years, France often observed that the intrusion of the East-West factor into regional trouble spots only aggravated the situation and made finding a solution more difficult. This remark was sometimes proffered under the guise of friendly criticism directed at the United States, whom we reproached for being obsessed with the communist threat—the Castroist or the Soviet threat—and their perception that it was behind various popular movements to the point of forgetting the basic social or economic causes creating these movements. On the other hand, we have seen the Soviet Union actively engaged in Asia, Africa, Latin America, and the Middle East, exploiting opportunities in areas of tension. Moreover, we have condemned the Soviet Union’s direct military intervention in Afghanistan.

The withdrawal of Soviet troops from Afghanistan and the Vietnamese decision to evacuate Cambodia represent major political shifts which, thanks to the new U.S. Administration, are reflected in the establishment of a propitious climate for the reduction of tensions in Central America and the establishment of the democratic process. In Southern Africa we hope that a series of mutual concessions will open the way for independence in Namibia and, perhaps, a national reconciliation in Angola.

These favorable developments, however, do not mean that all our problems will be solved anytime soon. With Soviet troops out of Afghanistan, the Afghans must now find a way of setting up a truly representative government in order to end the civil war. We must help them to that end, if necessary, but it is principally their problem. In Cambodia,
it's essential that the withdrawal of Vietnamese forces be accompanied by an internal understanding between all the Cambodian factions. My country, as you know, is in a position to facilitate effectively this process, and that of the international conference which will determine and guarantee the settlement of the Cambodian problem. Recent news from that region reinforces these hopes.

What I am trying to point out is that the diminishing Soviet-U.S. confrontation is allowing the crises themselves to be clearly apparent, along with the intrinsic causes which must be dealt with. To this end all forms of goodwill are welcome, whether they originate in the United States or in the Soviet Union.

A Positive European Role

Allow me to speak briefly on behalf of Western Europe. For our part, we Europeans over the centuries have gained a certain wisdom and expertise in Africa, Southeast Asia, Latin America, and the Near East. We have strong ties, friendships, and a certain sphere of influence in these areas. Our empire-building days are behind us, and no one can suspect us of wishing to return to that era. Our initiatives, our advice and our cooperation are therefore perceived as being non-expansionist. As a result (particularly now that antagonism between the two superpowers is easing), each of us has the capacity to mediate, and the possibility of providing political know-how at the service of peace and for the settlement of crisis situations. In short, the Europeans are ready and willing to make their contribution to such causes. I am particularly pleased at the reinforced political cooperation within the European Community.

The presence of Western European countries throughout the world, and of the Community as such—through the Lomé agreements and its preferential cooperation agreements with countries neighboring Europe, particularly in North Africa (the greater Maghreb is a good example) and the Middle East—represents a factor of stability and equilibrium. This type of relationship allows us to lay down, throughout the world and in different regions, a kind of long-term substratum of understanding and cooperation not motivated by immediate political considerations. This, of itself, represents a factor of security and equilibrium. We may also add to this everything we do collectively or individually in the way of providing development aid. In the great dialogue concerning international development and indebtedness—of utmost concern if the world is to effect a breakthrough—my country, as you may know, has consistently promoted useful initiatives which reflect our constructive approach, including the recent proposals put forward by François Mitterrand.

The Middle East

However, an uncertainty remains. In the general approach to seeking solutions to crisis situations can we include the Middle East? The terrible current events in Lebanon are not encouraging in this regard. There should be no mistake about this: tragic as these events are for Lebanon, a brave country with which we have had particularly close relations, these events go far beyond the boundaries of Lebanon. If brute force and civil strife have continued to paralyze the daily lives of an entire population without regard for world opinion, then, what form might this basic violence take should a peace settlement ultimately be at hand—a settlement supported by responsible governments, on the one hand, yet openly opposed by others?

Nonetheless, in certain respects, a solution to the Israeli-Arab conflict seems closer now as the Soviet Union adopts a constructive attitude, the PLO bravely accepts realities which it refused in the past, and the United States draws, as a result, the conclusions necessary to opening a dialogue with the PLO. To find a solution, the efforts of the entire international community will not be excessive: the United States, the USSR, the Europeans, the permanent members of the Security Council, and the General Secretary of the United Nations. The obstacles are enormous.

European Construction

The very fact the construction of Europe is actually
underway ranks very high among the positive factors of the present international situation—not only because the creation of a real common market in Western Europe will, far from creating a fortress as some are inclined to assert, be beneficial to the expansion of international trade and will, therefore, contribute to economic growth for all, but also because the consolidation of the European Community will have a powerful effect on the European continent as a whole. This, of course, is on condition that the establishment of the Single Market be accompanied by and followed up with the other steps necessary to the realization of an increasingly coherent entity—a system which would ultimately include, beyond the existing political consultation and cooperative mechanisms in place, the creation of a genuine structure capable of making democratic decisions taken in the name of all the citizens of the nations of the Community. In short, that the political construction of Europe go hand in hand with its economic construction.

If there exists outside the European Community the impression that the construction of such a coherent whole is underway—to such an extent, in fact, that at times we have the feeling that the work of building Europe is more clearly perceived by those outside than by ourselves—it is perhaps because we tend to focus more on the obstacles and quarrels, while our friends on the outside are more aware of the real force driving Western Europe to unite.

If this is achieved, I am convinced that the E.C. will be capable of exercising considerable weight within the continent as a whole. At this time, many democratic Western European nations outside the E.C. are asking questions concerning their membership or relations with the Community. I believe that there can be no question of disappointing their desire to enter into a comprehensive cooperative relationship with the Community under consolidation, and that a degree of imagination will be necessary if we are to determine the best ways to collaborate.

We must also consider the countries of Central Europe—cut off from Western Europe by the cold war, and for whom the developments taking place open the possibility of closer relations with us once again. The Community must here also show some imagination in finding formulas which allow extensive collaboration, while respecting the alignments they may wish to maintain.

**Concluding Remarks**

It is clear that the two principal factors influencing the future of Europe include the development of the Community and the transformation of the Soviet Bloc. The question which remains is knowing in what manner the effects of these two forces will combine.

The goal that Western European countries must pursue includes encouraging reunification and integration with those who are today part of the different halves of Europe, while, at the same time, ensuring that the nature and pace of these relations do not provoke reactions which would counter the whole process.

I would like to end with two remarks on this subject. First, this is, by definition, a European problem. The nations of Western Europe are particularly well-qualified to deal with it themselves, and that includes their relations with the Soviet Union, while maintaining their close collaboration and understanding with the United States.

Second, this process of change can have a fortunate outcome only if the political concertation evolving in Western Europe is accompanied, within the countries taking part, by a strong will for unity and a well-developed sense of mutual defense. Europe can only progress if it has the necessary will to be itself, including in the area of defense.

*Perestroika* and the reforms underway in the East have a dual effect on the evolution of the European situation. On the one hand (and insofar as they comprise a certain recognition of the superiority of Western values and democratic methods), they reinforce our attractiveness for Eastern Europe. On the other hand, as they confer an image of openness and détente on the USSR, they could reinforce tendencies in the West towards the unilateral reduction of defense levels, or towards neutralism.

A race is therefore on between the success of democratic societies and their diminished sense of defense. We must ensure that this latter tendency does not gain the upper hand.

△ Roland Dumas is French Minister of State and Minister of Foreign Affairs.
“Europe 1992”
Change in Japan
U.S. Challenges,
U.S. Directions
That the 1993 Single European Market should take up all of our attention is understandable. It was this idea that motivated the renewal of European construction. I would be failing in my duties if I did not try to position this central idea within the context of what Europeans have been striving for during the past 40 years—the overall endeavor for the organization of Europe. Therefore, I should first like to discuss this organization of Europe, before addressing the European Community as a global partner.

Constructing Europe

The aim of the European people—an aim solemnly restated at the time of the modification of the Treaty of Rome—is to achieve a political union of Europeans, or rather a European Union, in accordance with the formula stated in the preamble of the Single European Act. They have chosen to move forward along two parallel paths: the first being economic, monetary and social integration; and the second being increased cooperation in matters of foreign policy. Although such cooperation already existed before the Single European Act, it had not been formalized in a treaty.

The method which they chose, and which has proven its value over the past 40 years, was an organization in which many decisions are taken by a majority, and not by unanimity. The European Parliament is elected by universal suffrage, and plays an increasingly important legislative and political role. In the European Commission, the Community has a standing body with the right of initiative—competent not only to enact legislation, but to oversee its effective enforcement. I believe that it is by constantly referring back to this brilliant method, conceived by the fathers of the Treaty of Rome, that we can understand what is happening in our Community.

In the past few years, we have put two threats behind us. The first, political incantation, can be expected to reappear at the time of the European Parliament elections (the Europe of culture, the Europe of currency, and the Europe of education)—as if it were that easy. The other threat to which I refer, pragmatism without perspective, was no more conducive to progress.

Now that we have recalled the method and the spirit of European organization, what should we do, and what can we do between now and 1992? We
can finish what we have begun; we can deepen our union; and lastly, we can strengthen our ties with the other Europes—for the 12 member countries of the Community cannot claim to represent all of Europe, especially in the current context.

**Finishing What We Have Begun**

First of all, we must finish what we have begun. Our efforts are based on a few simple principles:

1. We must take advantage of our single market without borders to develop competition among the companies of the European Community, and between these companies and others.

   However, there can be no competition without cooperation—whether this be the spontaneous cooperation between European companies, which is becoming more and more frequent, or the cooperation taking place within the different frameworks that we offer companies, for example, that of research and technology cooperation. We must never forget that, at the present stage of European construction, competition and cooperation must go hand in hand.

2. At the same time, we would like to eliminate all of the obstacles to trade, and to see the full implementation of the four freedoms: the free circulation of people, goods, services, and capital. But such a market could not conceivably function properly without a few essential rules. This implies the reinforcement of the competitive policy and minimum regulations for controlling concentrations of market power, in the context of Europe as well as of the world.

3. The principle of “subsidiarity”—that which can be done at the company level must not be done above that level; that which can be done at the regional level must not be done at the national level; that which can be done at the national level must not be done at the Community level—must be rigorously maintained. One of the European Commission’s essential responsibilities is to resist the temptation to legislate on everything and anything. In Europe, we need a minimum of common legislation and no more, in such a way as to maintain respect for the fourth principle, that of pluralism.

4. By pluralism, we mean pluralism of political trends and movements, that is, the diversity of ideas. This is a point that is rarely understood. For example, the 12 countries would have never agreed on the reform of the Common Agricultural Policy had each one not consented to examine the agricultures of the others in their specificity. This principle of diversity is essential for reaching dynamic compromises.

On the basis of these principles, we are simultaneously pursuing six objectives (of unequal importance, I admit):

—The achievement of a single market without borders.

—Regional development policies that will allow each region an equal chance. We must not forget that in our 12-member Community, if we take 100 as the average per capita GNP, some countries are at 55, while others are at 140. Thus, we cannot envisage a single economic community without the solidarity that will allow every region an equal chance.

—Cooperations in technology and research.

—Monetary cooperation. (Europe just celebrated the 10th anniversary of the EMS, which has been considerably strengthened in the past few years.)

—Improvements in the social dimension.

Although this is a controversial area, it is important to realize that the aim of our common endeavor is to combat unemployment and improve living and working conditions for everyone.

—Environmental protection.

The reason I have enumerated these areas is to demonstrate that European construction does not only concern the Single Market, even if this market has been responsible for restoring Europe’s impetus.

This renewed dynamism is reflected by three figures: last year, the Community posted its best growth rate in 12 years; its investments were the highest in 21 years; and it created 1.8 million jobs, whereas it had lost one million jobs in 1982. Although our performance in the area of employment is still far behind that of Japan and the United States, the process has been set in motion and a new

The second way in which we can deepen our union is by coordinated action in the area of foreign policy.
climate prevails. Certainly, the international environment was favorable in 1988, but 1992 also had a lot to do with this dynamism.

We must finish what we have begun. And we are in a very good position to do so in that, concerning the Single Market, we have already obtained 50 percent of the directives necessary. The most important of these concern the removal of obstacles to the free circulation of capital, people and goods.

**Deepening the Union**

The second objective we hope to achieve between now and 1993 is the deepening of our union. Of the prospects that are regularly evoked, two are particularly worthy of attention, in that they both necessitate an institutional or qualitative leap in terms of behavior.

The first of these prospects is Economic and Monetary Union. Last year, the 12 heads of State and Government decided to consider the final step towards political unity in the economic realm: extremely close cooperation on macroeconomic policies and a common monetary policy through the full and complete realization of the Economic and Monetary Union. By following the discussions taking place between the heads of State and Government, it will be known before the end of the year if this project has a chance of becoming a reality within the next few years. In any case, there is a long way to go before the Economic and Monetary Union is achieved. If such a decision were made, it would further reinforce Europe’s economic dynamism.

The second way in which we can deepen our union is by coordinated action in the area of foreign policy. Obviously, economic integration is easier to accomplish than foreign policy integration. We are 12 nations, each with its own traditions and diplomatic culture, each with its own nostalgia for its past grandeur. Common positions are thus not always easily arrived at. But Europe cannot hop along on one foot, which is just what will happen if it continues to strengthen economic cooperation while its member countries maintain excessively divergent foreign policies, or if Europe is not sufficiently present on the international stage.

**Strengthening Ties With the “Other Europes”**

Our third objective between now and 1993 is to expand our relations with the other Europes: the countries of the European Free Trade Association (Sweden, Norway, Iceland, Finland, Austria, and Switzerland); the countries of Eastern Europe; and the countries that I call the orphans of Europe: Yugoslavia, Malta, and Cyprus. All of these countries are waiting for us to answer two questions: Can they, too, reap the advantages of the Single Market? Can they cooperate with us in other areas?

I believe that this represents one of the most dangerous areas for the 12-member European Community. On January 17, I proposed a third alternative to the countries of EFTA—a solution between membership in the Community, which does not seem possible for some years, and the continuation of the Luxembourg Agreement. This third alternative would entail the creation of a political link with the six countries of EFTA. In doing this, I believe that I also provided an eagerly awaited answer to a question that Hungary, Poland and Czechoslovakia have been asking. These countries, too, are now looking towards the European Community for a very simple reason: Not only are we relatively prosperous countries, but we are also a Community based on the rule of law, in which each member has equal rights and an equal say.

**Europe as a Partner in the World Context**

Let us come back to Europe as a partner in the world context. We are active in the three areas of economic relations: trade, finance, and currency. In trade, our main goal is to obtain an agreement within the framework of the Uruguay Round; to this end, we have arrived at an agreement with our American friends on agricultural policy. This is important not only to preserve our interests, but also to ensure that the two elephants, the American and European, do not continue to fight each other with ever-larger subsidies at the expense of other countries, particularly those of the Third World.
We have, of course, a common trade policy. I have always wondered why Europe should not be allowed to have such a policy, when both the United States and Japan have one and make no attempt to hide it. Do the accusations that Europe is building a fortress around itself really disguise a desire to see a Europe without direction, without a soul, a Europe that is simply a market? Our aim is not to create a market, but rather to build a Europe in which the destinies of 12 nations are partially united.

We see the Single Market as a source of opportunities for all, not as a fortress. I will not go into detail here, but I will simply observe that Europe’s purchasing power—the total value of its imports—is $800 billion. Its purchases outside the Community alone total around $400 billion. We are the largest market in the world, and we intend to remain the largest market in the world. It is in this way that we will continue to contribute to the expansion of multilateral trade and to world economic growth, without which there can be no solution to the problems of underdevelopment and indebtedness.

Obviously, multilateral trade does not hold the answers to every problem. Some people are shocked at our use of the word “reciprocity.” Reciprocity is a very simple notion for anyone who is willing to understand it. We would like our companies and banks to be welcomed in the United States and Japan in the same way that we welcome American and Japanese banks and companies in Europe. Is this too much to ask?

As for other finance and finance-related problems, the Community unanimously took the initiative last year to reduce the debt of the poorest countries. The Community intends to offer the same forgiveness for middle-income countries. I believe that the Community will address this issue a second time—and with the same unanimity, I hope—at the meeting of the European Council in Madrid in June.

In the area of currency, we will have to continue our long internal discussion before we are able to take a coherent external stance.

**Political Responsibilities**

Finally, in our capacity as a partner in the world context we have political responsibilities. I have already spoken of the other Europes. But there is also North Africa (which will have a population of 100 million before the end of the century), and we have ties of cooperation with other countries in Africa, the Caribbean and the Pacific.

I would like to come back to the East-West dialogue, for I believe—and this is my personal opinion—that the Community could play a role here, in close cooperation with the United States and Japan. The objective is simple: to encourage the peaceful development of the Soviet Union and the countries of Eastern Europe and to resist the temptation to destabilize them by provoking the return of the cold war. The other objective, if the political conditions are fulfilled, would be to provide these countries with the aid they need, within a framework of economic cooperation. For what these countries need most are managers and entrepreneurs. We can help them, without reviving the illusions of the first détente, by seizing opportunities to promote peace and freedom.

Why have I said this? Because for us, Budapest and Warsaw are also Europe—these are cities that we know well. But also because our relations with other countries must not be simply a succession of trade disputes, particularly in the case of the United States. We must revive the spirit of partnership and show how this partnership can be beneficial for all concerned.

We must raise the quality of our relations and place them within a global framework. I could say the same thing for Japan—and I have explained many times to Japanese leaders that we must pay close attention to our trilateral relations, which are not only economic, but are political and cultural as well.

If I end on this note today, it is because I feel that the Trilateral Commission, because of the very spirit behind it, will be able to understand my message better than anyone else.

▲ Jacques Delors is President of the Commission of the European Communities and former French Minister for the Economy, Finance and Budget.
WE EXPECT 1992 WILL GIVE A MORE UNIFIED look to Europe: a single European market rather than a customs union; a European industry rather than a collection of national industries; a European contribution to world competition; and a European currency.

What is the chance that all this will happen? I would say rather good.

Granted there is considerable resistance from national governments inside Europe, which fear losing electoral consensus, and which face lobbying from local interests. Moreover, antiquated feelings about sovereignty are still strong. At the same time, however, Europeans have two powerful allies on their side. Public opinion is strongly in favor of unification, although the depth of those feelings varies from country to country. In addition, European industry has long been preparing for the Single Market. The intensification of takeovers, joint ventures and mergers between companies in different E.C. countries have merely anticipated the 1992 deadline. There is a very good chance that unification will take place on schedule.

Naturally, this unification process will involve industry in a second major wave of restructuring, this time on a continental rather than on a national scale. This restructuring will be hard work, beset with problems, but the process will give rise to a European industry that is more efficient, more innovative, and more competitive vis-à-vis the rest of the world. We also expect the integration of the commercial and financial markets to produce rationalization in areas that have, until now, been protected from international competition—the banking system, the public sector, and the service sector. In the last analysis, we expect post-1992 Europe to be industrially more advanced, more selective in its internal competition, and more powerful in the international market.

The effects of 1992 on Trilateral relations is the central question today. There is concern and worried speculation—in both North America and Japan—about how open Europe will be to penetration by external competitors. The way things are today, this speculation says more about the anxieties of others than about the intentions of us Europeans.

Our belief in free markets has a strong—and essentially historical—foundation. The Europe we know today would not exist if, 30 years ago, we had not decided on the gradual elimination of the trade
barriers between our countries. And the fact that Europe’s internal trade figures are nearly 40 times as high as they were in 1958 shows that we made the right choice.

No step towards European integration has ever marked a step backwards from our open market policy. Currently, trade between the E.C. countries and the outside world amounts, on average, to 24 percent of our GDP, compared to Japan’s 23 percent and the United States’ 14 percent. Presently, Europe attracts over 40 percent of total U.S. investments abroad, and 19 percent of Japanese investments abroad. Of all the industrially advanced areas, Europe is the one most open to foreigners. Any reversal of this tendency is unthinkable today. As in the past, our future depends on keeping our doors open to the world.

Nevertheless, we do have to consider what role a united Europe will play in the international economy. The problems that face us all today demand that Europe, North America and Japan assume joint responsibility. The countries of the Trilateral area produce over 70 percent of the world’s income and are, politically, the world’s most advanced in terms of freedom and democracy. They possess the economic and political strength necessary to guide the world towards more orderly economic relations, more relaxed political dealings, and the conferring of greater powers of intervention on international organizations.

Collaboration is essential if we are to play our part effectively; and collaboration is most easily achieved between partners of comparable strengths. We may ask whether such parity exists at the present time. We can hardly claim that it does. If we take trade flows as an indicator, we find that Europe receives 15 percent of Japan’s exports, while Japan takes only 3.5 percent of Europe’s exports. Although there is substantial parity in trade between Europe and the United States, the United States takes 42 percent of Japan’s exports, but it places only 15 percent of its own total exports in Japan. These disparities certainly reflect a difference in competitive conditions, which is perfectly acceptable in a free market. But, it also reflects unequal market access, and that is contrary to the spirit of free trade.

In this area, none of us is blameless. Our joint commitment should not be to answer closure with closure and sanction with sanction, but to seek to remove any obstacles we find to the balanced flow of trade, investment and innovation between our areas. Permanent, on-going negotiation is the only way to derive any benefit from confrontation, and, even then, only if particular needs and situations are kept in mind.

Europe is currently on the verge of major developments. We Europeans bear grave responsibility for having allowed our internal divisions to weaken our competitiveness with respect to the other industrialized areas. Now we are trying to rectify that error by unifying our internal market. We honestly believe that a more united Europe can make a decisive contribution to the expansion of industrial supply and to the creation of new outlets, thus giving an extra boost to economic growth. On the other hand, we also believe that a weak Europe, and a European market that exists primarily to absorb the exports of others, will slow down the pace of collaboration with other Trilateral areas, as well as propagate imbalances and tensions outside our areas.

European integration has now entered a delicate transitional phase. It would not be reasonable for Europe to handle its transition by raising barriers of protection and opting for isolation. Instead, this is precisely the time to open a cycle of negotiations designed to establish effective reciprocity in our terms of trade, equal opportunity in investment, and equal access to innovation. On this score, a great deal remains to be done.

If Europe is committed to making up lost time, and to acquiring prestige and credibility in the eyes of her Trilateral partners, the United States should make a greater effort to reduce its public spending and trade deficits, and Japan should move faster to overcome its mercantilist approach to international trade.

At the present time, the Uruguay Round of negotiations is crucial. The present deadlock over agri-
cultural problems is extremely dangerous not only for that particular sector. The failure of these negotiations would slam the door on any possibility of extending GATT rules to the entire service sector.

Given our joint responsibilities, we cannot restrict our vision to short-term objectives or pursue private strategies aimed at hegemony, that would inevitably result in economic imbalances and monetary disorder at the cost of world growth. War, even economic war, is no longer compatible with the now worldwide desire for peaceful development towards ever greater prosperity and a better quality of life.

The 1992 deadline could trigger new tension and new uncertainty if the spirit of collaboration weakens in this delicate transitional phase. It could also, if we so desire, do a great deal to strengthen the position of the Trilateral countries—offering the opportunity for a more balanced division of our responsibilities towards the rest of the world.

Sixteen years ago it was our awareness of common problems that brought us together in the Trilateral Commission. The discussions we have had since then have shown us that an exchange of views is always the best way to identify problems and to find solutions that benefit all of us. Today, the prospect of the Single European Market makes this debate even more relevant. I am convinced that there are adequate solutions to the difficulties we face; but we shall find them only if we work together.

▲ Giovanni Agnelli is Chairman of FIAT.
Georg Büchner, the European business leader in financial services who helped open up the “1992” session in Paris, chose to focus on his own industry, the insurance industry. The following is an excerpt from the Büchner remarks:

It is easy to predict that insurers and their clients will take advantage of the Single European Market. Insurance demand will necessarily increase as the market reflects the acceleration of economic growth and the strengthening of prosperity. Competition will also increase (to the advantage of customers), as diverse insurance products develop.

The internal insurance market offers not only opportunities, it also holds risks. As the diversity of products rise, market transparency will decrease. As a result, the customer runs the risk of buying a bad product from a bad insurer at a bad price. On the other hand, industrial customers can support this risk, and for them many industry deregulations have already been decided.

It is very difficult to predict the development of markets. Hence, I hesitate to forecast the future of financial services within the Single Market. For many people the idea of financial services has nearly become a religion. It seems obvious that the distance that separates banks from insurance companies will continue to diminish—but it cannot be reduced to zero and we have to accept that banks and insurance companies have different identities and tasks. Up until now, I have not observed anywhere in the world a “nuclear fusion” of these two identities. The difference between insurance and other financial services lies in the fact that the insurance business does not lend itself to the globalization phenomenon we see in the banking sector. The impact of the appreciation of different risks in different geographic regions on the insurance business is ready an obstacle to true globalization. Experience also teaches us that most insurance customers give a true preference to insurers located near them and disposing of a permanent presence.

Finally, how should the insurance market be opened to non-European insurers? Contrary to certain fears stemming from the United States, the European insurance industry does not wish to build a “fortress.” In fact, it is in favor of opening its borders. That applies also to the concept of “reciprocity” as spelled out in a Brussels directive for
the banking sector, and afterwards for life insurance. Following the terms of these directives, subsidiary companies of non-E.C. companies in Europe will only be allowed to operate if the third country concerned permits an equivalent reciprocity national treatment for E.C. banks and insurance companies.

It is obvious that a true international free trade system has to rest essentially on the principles of reciprocity and non-discrimination. As a consequence, it is legitimate to consider reciprocity as a general obligation. It is, however, another thing to fix this principle in legal directives and in a way that leaves no flexibility. In practice, the implementation of such a reciprocity clause will have limited impact on the European insurance market since most, if not all, of the foreign insurance companies concerned have been present in the Community for years. I therefore agree with the German Finance Minister, Gerhard Stoltenberg, who recently declared that "reciprocity is not the appropriate instrument to develop trade in goods and financial services at the international level." In these conditions, I am happy that, following the latest information, Sir Leon Brittan has asked to review the reciprocity clause concerning the banking sector and—hopefully—will do the same for the insurance industry.

▲ Georg Büchner is President of the Association of German Insurers and Chairman of the European Insurance Industry.
LET ME PREFACE MY REMARKS BY SAYING THAT they are heavily influenced by my own personal experience...

First, by the fact that I am a U.S. citizen, and second, by my business experience.

Johnson & Johnson has from its very beginning been an international business; we have 166 companies and manufacture in 53 countries of the world. We are highly decentralized and very diversified. In addition, Johnson & Johnson has over 25 percent of its worldwide business in the European Community. We have 61 companies located in 11 countries, and over 90 percent of our management in Europe is European. We currently employ nearly 18,000 Europeans in their home countries, or 22 percent of our global work force.

Our approach in the E.C. has been successful, with growth rates compounding at 14 percent over the last ten years. A very small percentage of our sales arises from foreign trade, with 95 percent of our business in Europe locally manufactured. We also invest heavily here in research and development, with R&D spending in the Common Market last year totalling $135 million, or 20 percent of our worldwide research budget.

As Europe moves forward with its harmonization plans, we see an important opportunity for improved manufacturing and distribution efficiencies. However, the real advantage to us resides in the rapidly improving growth rates that we foresee.

Like many business leaders, I became convinced early in this decade that what Secretary of State Shultz called “European rigidities” seemed to ensure stagnating growth rates, increased unemployment, and increasing rates of inflation. I am now just as sure that future business opportunities in Europe are greater now than at any other time in history. Thanks to the leadership of Jacques Delors, I have no doubt that Jean Monnet’s great dream will become a reality, and that as the process unfolds virtually everyone can be a winner. Certainly, business organizations like ours will benefit; the public will be served as well with a constantly improving quality of goods and services, lower prices, more jobs, and by the accelerated creation of wealth that is bound to follow.

There is no doubt that business leadership in the United States does, to a large extent, share my enthusiasm. Our confidence is rooted in historical relationships and in our very strong beliefs in free
markets. This attitude does, of course, in and of itself add very significantly to the “self-fulfilling prophecy” of Europe 1992.

However, there is also a growing feeling of anxiety about 1992 in the United States, exemplified by some deep and, at the same time, rather contradictory concerns. Let me touch on the three issues most frequently mentioned—that many I talked to feel are simple issues of fairness.

The first is the matter of standards. There is a very persistent worry that “Euro-Standards,” on whatever basis, could become a cover for blocking U.S. and Canadian products.

A second, and corollary, concern is the ultimate definition of what is European, as it relates to both companies and to products. All of us recognize the internal pressures to discriminate, and that these will intensify as governments and business in Europe come face-to-face with increasingly competitive markets. Foreign parentage, rules of origin, and even health and safety, become very enticing points around which to build defenses. They are also, for obvious reasons, highly emotional “hot buttons” in North America.

The third area of deep concern is the issue of reciprocity, particularly as it affects financial institutions. This is a complicated and difficult area. As the Community wrestles with definitions here, I would add that the U.S. government may resist any approach toward U.S. exporters and investors which is less than national and “most favored nation” treatment.

Reciprocity, the definition of what is European, and the standards set for market access will be the three key issues that bureaucrats in all nations must concern themselves with as Europe moves forward in its plans for 1992 and beyond.

At the same time, thoughtful leaders in the United States agree about the importance of coordinating developments in Europe with the Uruguay Round in GATT. Following the historic U.S.-Canada Free Trade Agreement, we have the potential to achieve the most far-reaching and important GATT round in post-war history, raising trade levels among more than 90 nations around the world. Significant overlap with Europe 1992 exists in such areas as government procurement, agriculture, services, intellectual property, and investment. The concern is that the European agenda might result in distortions that could undermine progress. The opportunities at hand for the world are enormous. It is felt by those that I talked to that it would be tragic if goodwill and good faith did not prevail among all parties concerned.

We also all know that political institutions are limited in their ability to direct rational change—and herein lies my own greatest concern. I am, frankly, somewhat appalled by the depth of protectionist feeling that still exists among many in the U.S. Congress. Suspensions that 1992 may be designed to keep Europe for the Europeans are rampant. I would hope that the bureaucrats in Europe would guide, but not dominate the evolution of the internal market. And at the same time, I would hope that the politicians in North America would resist the temptation to react to issues of little long-term substance.

I believe that the European Community will achieve its potential in direct proportion to the power of its own free marketplace. The prospect of a single market of 320 million consumers prospering from the free flow of goods and services is an intoxicating one.

On this point, I would like to make an observation that may be biased by my own personal experience.

I am convinced that liberating commercial television will...aid in the process of unifying Europe....
sumer demand through advertising as Europe does. This gap is already beginning to narrow with advertising expenditures rising by 12 percent annually in Europe, or twice the rate of increase of the United States.

In human terms, consumers everywhere increasingly have the same interests, the same tastes, and buy the same products. This does not mean that the global corporation can ignore the needs of national cultures or local markets, but it does mean that, henceforth, international ideas and global behavior will permeate every free market in the world.

I am convinced that liberating commercial television will not only accelerate growth in consumer demand, but it will also aid in the process of unifying Europe in a social as well as in an economic sense.

Most of us can remember the early 1960s when Jean Monnet and President Kennedy talked about the future of Europe and the importance of its relationship with the United States. During that same period Europe was swarming with young Americans and Europeans with knapsacks on their backs, meeting each other, trying to learn for themselves what this world of theirs was all about, and finding more similarities than differences among one another. That flood of young people from all over the world has continued unabated for a generation.

This face to face knowledge of the world, augmented by the ubiquitous media, is creating a generation of new leaders in the private and public sectors who see the world more clearly than we do. They like the same music, the same clothes, enjoy each other’s food, feel at home anywhere in the world, and share the same hard-headed concern for this fragile planet. We should remind ourselves also that they are less interested in national borders than we are! They have in their hearts what the Jesuit French scientist and philosopher Teilhard De Chardin, more than 40 years ago, called “a great hope held in common.” Teilhard, in his book *The Future of Man*, published in 1946, went on to say “Not all directions are good for our advance: one alone heads upward, that which through increasing organization leads to greater synthesis and unity. Here we part company with the individualists, the egotists who seek to grow by excluding or diminishing their fellows, individually, nationally or racially. Life moves toward unification.” Teilhard’s thoughts were spiritual, but they seem to me to encompass the words of Jacques Delors, whose vision for Europe is a free market “controlled by democracy and tempered by social conscience,” which he believes offers the best chance for individuals to develop the gifts God gave them.

If this vision of Europe becomes reality, and I believe it inevitably will, all of us should rejoice. And appropriately the European Common Market has chosen its anthem well—the triumphant “Ode to Joy” from Beethoven’s 9th Symphony.

\* James E. Burke is Chairman of the Executive Committee of Johnson & Johnson.\*
I have a long association with Europe beginning with my days in the 1930s as an engineering student in Copenhagen. Knowing Western Europe in the tense period prior to the Second World War, I can fully appreciate the significance of the European unity movement. Without doubt, the development of the full Common Market is one of the great political and economic achievements of the second half of the 20th century. I think that most Japanese, certainly most of us in industry, recognize the political importance of this European achievement. Moreover, as businessmen who have had to deal with the many separate European legal and administrative systems, we also appreciate the potential economic value of a larger, unified market.

Despite this, much of the attention that has been given in Japan to 1992 has been cautious or negative. There are a number of reasons for this. Like the Americans, we fear that the compromises that are being made among Europeans may be at the expense of those not at the bargaining table. Moreover, as citizens of the first major nation outside the Atlantic world to join the list of advanced industrial powers, Japanese may be especially sensitive to potential discrimination. Even today, every E.C. country except Britain maintains some quantitative quotas against Japanese imports. Against this background, fears of a “Fortress Europe” arise easily, especially in these early stages of unification when the promised benefits for outsiders of the completion of the common market have yet to be proven.

Adding to our caution has been the European discussion of incorporating reciprocity requirements before extending the benefits of a more open market to non-E.C. countries. As a general principle, reciprocity is not unreasonable. However, it has often been used as a cover for protection. Strict, sector-by-sector reciprocity sets up an unrealistic standard because of systemic differences, and it could be as easily applied against the Community as against any other economy.

In sum, we Japanese are hoping that the single European market will truly be an open one, and that Europe will consult closely with its partners in the 1992 process.

Let me give an example drawing upon my personal experience as the recent president of the International Standards Organization. The purpose of the ISO is to remove barriers to trade that can arise from differences in technical standards. The har-
monization of standards is, of course, an essential part of building a common market. In this instance the E.C. was working closely with EFTA to harmonize standards on a regional basis. However, the fact that the Community and EFTA placed a higher priority on developing regional rather than interna-

There needs to be a better effort by both sides to understand each other’s sensitivities....

...tional standards diverted their attention and resources from the global effort.

I sought, therefore, to encourage the Europeans to harmonize their standards in close consultation and cooperation with the ISO, hopefully giving impetus to our work. The European representatives have promised to cooperate, and I hope this process will lead to a single European system that is compatible with, and a part of, the international system.

I should add a short note on Japanese investment. In anticipation of 1992, Japanese companies have stepped up their investments in Europe. Much of this investment has been defensive in nature, and it appears to have increased European fears of a Japanese over-presence. Investment by Japanese subcontractors in several industries seems to have given new impetus to European antidumping measures and to local content requirements, based on the fear that the new investments represent “screwdriver” assembly plants. There needs to be a better effort by both sides to understand each other’s sensitivities to ensure that Japanese investment flows more smoothly and to the mutual benefit of both regions.

I want to close by pointing out that as part of the debate on the meaning for Japan of 1992, a number of Japanese commentators have called attention to the need for Japan to increase the accessibility of its own markets. For example, some have asked how we can complain about possible collusive discrimination by the E.C. when Japan and the United States have made bilateral sector agreements to resolve trade conflicts. These can easily be interpret-
ed as discriminatory by outsiders. Again, turning to standards, I found that while Japan conforms to the ISO standards, there are more than 40 Japanese industrial certification societies, some imposing standards beyond the international rule and then refusing to certify those products not meeting these additional standards.

It is obvious that if Japan is to expect openness from its major Trilateral trading partners, it must demonstrate openness itself. Threatening sanctions against each other usually does not help increase openness, but rather feeds the forces of protectionism. Instead, I am hoping that an open European market in 1992 will be a model and, thus, a force for a more open world market.

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THE SHOWA ERA

In January, with the death of the Showa Emperor and the accession of his son, Akihito, Japan began a new “Heisei” era. To understand the challenges of this new era, we must also appreciate the achievements and changes in the previous era.

The Showa period, which had begun in 1926, was not only the longest reign by a single Japanese monarch, but it was also the most dramatic 63 years in Japanese history. It was divided into two distinct parts—prewar and postwar Japan. The 1945 defeat marked a critical turning point in Japan’s pursuit of modernization and development that had spanned over 80 years of three different eras—Meiji, Taisho, and Showa.

First and foremost, Japan abandoned military strength as an instrument of national power and switched the thrust of its productive efforts toward the development of a high-growth economy based on the manufacture of industrial and commercial goods.

Second, in foreign affairs and defense, the bilateral relationship with the United States became the cornerstone of Japanese government policy.

Third, the United States also became the key to future economic prosperity as Japan turned to that country both as a trading partner and as a source of advanced technology.

These three policies formed the political and economic paradigms under which Japan pursued its postwar development. Breaking away from its militaristic past, Japanese at all levels of society—in government, in finance, and in industry—committed themselves to rebuilding the nation. National economic growth was the top priority for the postwar Showa Era, a goal which was pursued with an intensity and dedication that transformed Japan and propelled it into the status of an economic superpower. By the end of the Showa Era, Japan had surpassed the Soviet Union to become the world’s second largest economy, and had assumed the position of the world’s largest creditor nation.

A QUESTIONING OF FUNDAMENTAL ASSUMPTIONS

Ironically, this achievement undermined the assumptions and values on which it had been based. The passage to a new era has become a time for public reflection on the path that Japan had pur-
sued and its future directions. Two forces in particular have stimulated a reassessment of Japan’s basic assumptions. First, the Japanese people found that despite all their hard work and discipline, they had not necessarily achieved the quality of life found in other advanced industrial societies. Second, they discovered that their economic power and policies made them a target of world animosity.

At the present time, of course, Japan is experiencing one of its worst political scandals. This crisis raises very serious questions about political and bureaucratic influence peddling. It represents in itself a questioning of old practices. It is part, however, of a broader picture of the questioning of past values by a changing society.

How different these new attitudes are was illustrated by a 1988 poll of 18 to 24 year olds in 11 different countries. Only 5.5 percent of the Japanese respondents stated that they would be willing to sacrifice their own interests for the broader interests of society. This was the lowest figure for any of the 11 societies. In contrast, 57 percent of Americans would sacrifice interests for the national interests.

Less than three percent of the Japanese respondents said that “working on behalf of society” was their goal in life. This figure again was the lowest. On the other hand, 44 percent of Japanese respondents said their biggest complaint is that “hard work is not rewarded.”

What about Japan’s role in international society? On one hand, a reduced American capacity to support the free world security and the free trade system raised questions about Japan’s dependency on the United States. On the other hand, a Washington Post-ABC News poll reported that 40 percent of Americans believe that Japanese economic power is more of a threat to the United States than the military power of the Soviet Union. Similarly, European leaders of prominence blame Japan for its “destructive” strategy. And Asian friends are concerned about the Japanese arrogance, and not quite sure about our identity vis-à-vis Asia. These are sentiments that Japan cannot ignore. The Japanese people face the task of redefining their view of the outside world and of developing a new spirit of international participation and responsibility sharing on the basis of a broader perception of what is in “the national interest.”

In summary, by the end of the Showa Era there were early signs of a decoupling of relationships that were once thought of as synonymous and inseparable. We Japanese began to discuss new alternatives and philosophies on which to base our national policies.

First, we have begun to move away from the notion that we can achieve economic development with little defense burden. We realize that Japan must more actively shoulder its share of international security burdens.

Second, we are moving away from a single-minded pursuit of economic growth toward a more diversified set of goals, placing more attention to the quality of life, including cultural, spiritual and environmental dimensions.

Third, we are moving away from a position of an almost total dependence on the United States toward a more diversified economic and foreign policy, looking more toward self-reliance and toward other friends in Asia, Europe and the rest of the world. Of course, we still look to the United States to play the major international leadership role, but on the basis of sharing policymaking responsibilities and powers associated with them with other countries, including Japan.

Fourth, Japanese society, and particularly the young, are rejecting the ideal of self-sacrifice for the company or state, and emphasizing individual goals.

Finally, in the wake of the current political crisis, and perhaps more speculatively, there may be a greater questioning of the association of political stability with political domination by the ruling Liberal Democratic Party. Multi-party government may be a practical alternative. And, frankly speaking, I personally do not think this is at all bad in view of some “sobering” effect it will bring upon the Japanese political system.

THE HEISEI ERA

Emperor Akihito is now 55 years old. If he has a lifespan similar to that of his father, the Heisei era
will continue for two or three decades. "Heisei," to the Japanese ear, implies something quite different from the turbulence and rapid growth of the Showa era. It implies success based upon serenity and self-confidence.

Some of the issues that the Heisei leaders will be addressing are quite clear. Japan's demographic structure, for example, is changing very rapidly. Until 1985, Japan had the youngest society among the advanced, industrialized countries. But Japan had already embarked on a process of aging that will telescope demographic changes that took a century or more to occur in Western Europe and North America into three or four decades. By the year 2010 or so, Japan will have the oldest labor force in the world, and by 2025 almost one quarter of the Japanese people will be age 65 or older. This has obvious implications for labor policies, health policies, and the future of Japanese productivity.

Another rather clear-cut, continuing policy question is how Japan can reduce its current account surplus by further opening its market and bringing its investment and savings rate into equilibrium. So far, most of the progress has been based on exchange rate changes rather than the kind of economic fundamentals that change the parameters. These exchange rate changes are rapidly losing their effectiveness as Japanese industry has adjusted to a higher yen and restored its competitiveness.

More fundamentally, Japan will be continuing the task of shaping a new set of values and international role in response to decouplings that had set in toward the end of Showa era. This shift coincides with the rise to positions of influence of a new generation. Although the views of this generation, now in their 30s, 40s, and 50s, may not be so extremely self-centered as indicated by the poll of 18 to 24 year-olds that I cited earlier, there are differences in their outlook from that of today's leaders. These differences, in such areas as the quality of life, the prerogatives of the individual, and international burden-sharing, will eventually become dominant, not simply because of generational change, but also because domestic and international realities are moving Japan in these directions.

Although some new directions will be set, especially in economic policies and in educational policies, the changes in Japan's international role may not be very evident in the near future. The current generation of leaders and even the emerging generation, of the early and mid-Heisei period, have not been fully schooled in international realities and therefore they are not prepared to naturally and confidently lead Japan into a new role as a real international leader.

In the longer run, hopefully by the end of the Heisei era, Japan may have in place a second generation of truly internationalized new leaders prepared and capable to embark on a course of leadership in cooperation with the leaders of other democratic countries. I believe that the key to achieving this goal lies in the reformation and strengthening of the educational system. By this I do not mean simply the formal educational system in school, but the broader process of education that also occurs in homes and businesses.

A second key lies in the external environment, particularly those developments that will impact heavily upon Japan. Some of these developments include: (1) the way in which the international and Asian regional roles of the superpowers will be re-defined by Mr. Bush, Mr. Gorbachev and their successors; (2) the future role of the Europe following 1992; (3) the evolution of the economy and political life of the Korean peninsula; and (4) the evolution of various problems associated with China, including restoration of Chinese rule in Hong Kong, the relations of Beijing and Taipei, and the future of China's economic, political and security role in Asia.

How these developments in the world and internal arena play out will help shape the outlook of the second new generation of Japanese leaders. This second new generation will be much more used to Japan facing international and regional issues in a changed environment, one in which the United States is less dominant. Hopefully, by that time multilateral consultations and leadership, including a leadership role for Japan in political as well as
SEIZABURO SATO

In the discussion which followed the Kobayashi speech, Seizaburo Sato analyzed the decline of support for the LDP, a decline in which the Recruit affair is only one factor. Mr. Sato is Professor of Political Science at the University of Tokyo.

UNTIL QUITE RECENTLY IN JAPANESE POLITICS, there had been a steady decline of support for the opposition parties, and a remarkable increase of support for the governing LDP party. Suddenly, support for the LDP started to decline (also, support for the Takeshita Administration started to decline) last fall, and especially since the beginning of this year.

What are the basic reasons for this change of attitude? First of all, I would like to insist that, despite the fact that support for the LDP has been declining, there is no sign of increase in support for the opposition parties. More people now are saying there is no party they would like to support.

Then why did the decline in the support for the LDP start, especially since January? It seems to me there are three basic factors.

One is the introduction of the sales tax, which started this April. The tax reform bill passed the Diet at the end of last year. That is exactly the time support for the LDP started to decline. According to the opinion polls, tax reform is the single largest factor in the decline of support for the LDP and the Takeshita Administration. No one is ready to pay more tax. But in order to cope with our aging society and the increasing cost of medical care and welfare, and also to cope with its new international responsibilities, Japan needs a more solid income basis. That is why the sales tax has been introduced. Therefore, what the Takeshita Administration did—introducing the sales tax—is the correct policy.

The second factor is the so-called Recruit scandal. Mr. Kobayashi used the word "so-called," and I would like to follow his usage. The reason is that there are very few really criminal actions involved in that scandal. So the word "scandal" is not the proper word to describe that case. There are some criminal actions involved, especially among some ranking government officials (including some of the former Vice Ministers of the Labor Ministry and Education Ministry) and some businessmen (including the Chairman of the Recruit Company), but no important political figures will be indicted or arrested for that reason. You can criticize those regulations, but what they have done is not criminal. What upsets people are the really huge amounts of money involved in that case. Mr. Kobayashi was correct when he pointed out it is a matter of a sense of balance.

The third factor in the decline of support for the LDP and for the Takeshita Administration is its instance in pursuing market-opening measures, especially for agricultural products. Japanese farmers have been one of the most solid bases of LDP support, despite the fact that there numbers are not so great. Many of them, especially part-time farmers (which account for 70 percent of all farmers), are terribly frustrated about the government's attempt to open the Japanese agricultural market. The government decision to open the Japanese market is a correct one, and Japan should do more in that direction, but those people whose vested interests are hurt are not pleased. They try to cancel their support for the LDP. There is no sign of the farmers changing their party affiliation. But they have stopped voting for the LDP.

These are the three main factors contributing to the decline of support for the LDP.

Economic affairs, will be a norm. For that to happen, however, the single most important external challenge which Japan's new leaders must meet will be the harmonious and meaningful integration of Japanese presence in the Asian scene. Japan will no longer be the only developed OECD country in Asia. Japan has to have a home, a bigger home than Japan itself, on which Japan's regional identity is built.

In the meantime, we cannot sit still simply waiting for the emergence of a second new generation of leaders. It is critically important, therefore, that the present and early Heisei era leaders become as ex-
posed as possible to competent analysis of key issues and their international management. This is true of our business leaders as well as our politicians.

I would end by noting that institutions like the Trilateral Commission play a critical role in this educational process. I can point to my own personal experience as a member of the Commission for more than ten years. Meeting the members of this Commission and often becoming involved through them in other international conferences and activities have given me the opportunity to educate myself on the broader international issues affecting my country and my business. It has also given me access to a community of experts in foreign businesses, the academic world, and the political worlds I can call on for advice and guidance. It is still rare in Japan for our politicians and business leaders to have this kind of opportunity. This, in my judgement, is a part of the reason we in Japan are grateful to Mr. Rockefeller and the other founders of the Trilateral Commission. No doubt, the Commission itself will evolve both in substance and form as the Heisei era unfolds. But the esprit de corps which has permeated the Commission from the outset, and the relationships that have been built and will continue to be developed, intellectually, personally, professionally, and otherwise, will be an invaluable source of strength and wisdom on which Japan’s future leaders will draw heavily as they shape Japan’s new course in the Heisei era.

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NEEDED GROWTH PATTERN

Whether viewed in the context of the U.S. economy or the industrial world as a whole, 1988 and early 1989 were very good in terms of economic performance. The question is whether in some sense it might not have been a little too good. In the United States and, indeed, in most of the industrialized world pressures on capacity utilization and labor markets are such that inflation could begin to cause problems.

In the case of the United States, it appears that we are now at economic full employment. When we look at the industrial side of the economy, capacity constraints, particularly in export-oriented industries, are in evidence. In that context, and over the past 12 months or so, we have had a significant firming in monetary policy that can be measured in any number of ways. For example, short term interest rates over that period are up roughly 400 basis points in the United States. And any measure of money and credit growth shows that the growth in money is proceeding at a very modest pace. In these circumstances, long-term interest rates in the United States have been remarkably stable over the past 12 to 15 months. That’s not to say that there haven’t been some ups and downs.

In the eyes of many, that suggests that inflationary expectations are still within reasonable bounds. But it is also fair to point out that the underlying rate of inflation has moved up somewhat. Again, it’s hard to be terribly precise about these things. In a few words, it can be said that the underlying rate of inflation has probably moved from four percent annually a year or so ago to approximately five percent at present. While that is disturbing, at least at the moment there are no signs of the accumulating, violent type of inflation that we saw in the United States and elsewhere in the late 1970s and early 1980s. That does not minimize the case for vigilance on the inflation front. Indeed, while we all would recognize that there are a number of possible things that could trigger a downturn in economic activity, any significant increase in the inflation rate would ultimately produce distortions in interest rates that would create the seeds of, if not the reality of, a recession. That is the foremost reason why it is so vitally important that we not let the inflation genie out of the bottle.

For the United States it means that we need to
see the economy settle into a growth pattern of no more than roughly 2.5 percent in real terms. There are now some signs to suggest that process is taking hold. And let’s hope it is. It’s very important to recognize that, if the economy can only grow at something like 2 to 2.5 percent and if we are to continue to have a measure of success in winding down the trade deficit, growth in domestic demand in the United States must, as a matter of simple arithmetic, be less than the rate of growth in the real GNP—less than 2 to 2.5 percent. In that sense, the U.S. economy is looking at a rather sustained period in which the rise in the standard of living as measured by the rate at which the economy as a whole consumes goods and services must moderate.

The Adjustment Process: The Three Gaps
That brings me to the second topic which needs mention: the adjustment process in trade and finance and some of the domestic imbalances in the United States. For analytical purposes, it’s useful to think of this problem in terms of the three “gaps.” The first of these gaps is the external gap. And that is simply the difference between total exports and imports of goods and services, in other words, the current account. The second gap is the spending gap, the difference between national output and national spending. The third gap is the savings gap, the difference between national savings and investment.

All three of these “gaps,” as a matter of definition and arithmetic, have to be about equal to one another. Indeed, in thinking about the policy prescriptions, we have to think not just in terms of any one gap, but in terms of all three, since they are in some sense the mirror image of one another.

Let’s start by looking at the external gap. If you look at the United States over the entire post-war period up to 1982, or if you look at the subperiod from 1968 to 1982, the external position or external gap of the United States was roughly in balance. But, for the period 1982 to 1988 there will have been a cumulative external gap of $700 billion which, in terms of an annual average, has been about 2.5 percent of GNP. More recently, the size of that external gap has come down somewhat; however, it is still very large.

Another way of looking at the imbalance is through the domestic spending gap. Beginning again in about 1982, the cumulative excess of domestic spending over GNP began to grow, peaking at about 4.5 percent of GNP at the end of 1986. It’s come down a bit since then, but there is still, in cumulative terms (using 1982 as a base), approximately a three percent domestic spending excess over GNP. The primary reason for that is to be found in consumer spending. Again, if we look at the 1982-88 period, the rate of consumer spending was about 2.5 percentage points of GNP larger than was the case for the post-war period as a whole. The loser in this process has been investment. If we look at the U.S. economy for the entire post-war period, net investment has averaged about seven percent of GNP. But in the recent period, investment has been only about five percent of GNP. And in the non-foreign business sector, it has been only about two percent of GNP.

The third gap, the savings gap, is where everything comes together. The consolidated governmental budgetary deficit in the United States (that is, federal and state and local) is running at about—using 1987 numbers in order to make some international comparisons—2.5 percent of GNP. The federal deficit is in excess of three percent of GNP, which means that state and local surpluses are reducing the impact of the federal deficit. A consolidated governmental deficit of 2.4 percent of GNP is quite respectable by international standards, but the problem is that our net private savings rate was only 4.4 percent of GNP during the same period.

...80 percent or more of the adjustment in the United States must come from the manufacturing sector....

Our net national savings (in other words, the difference between private savings and consolidated budgetary deficits) was only two percent of GNP. And, by any international comparison that is a very low number. If we look at the net national savings rate for the post-war period as a whole, rather than being two percent of GNP, it was in the area of six to seven percent of GNP. In other words, in this recent period the combination of historically low rates
of private savings with historically high federal
budget deficits relative to GNP has left that net na-
tional savings rate very small, even by our own his-
torical standards.

The initial phase of the adjustment to these gaps,
beginning in about mid-1986, has gone rather well
in many respects. The budgetary deficit relative to
GNP is down from about 5.5 percent of GNP to
three percent of GNP. Exports, measured in GNP
terms, peaked at about $160 billion in the third
quarter of 1986 and are now at about $100 billion.
Domestic demand abroad, especially in Japan, has
picked up rather smartly, and domestic demand in
the United States has moderated somewhat (but not
sufficiently in my judgement). If we take the G-7
countries other than the United States, the fraction
of their GNP that takes the form of exports to the
United States has declined from about five percent
to four percent. Even more important, the share of
net national savings from these countries that is
flowing to the United States has declined from about
20 percent to a little over ten percent.

More recently, two things have happened. First,
the statistics suggest that the adjustment process
has slowed down. The question is whether that rep-
resents a pause or a stall. I believe it represents a
pause. But it’s also fair to say that the next phases
of the adjustment process will inevitably go more
slowly than did the first phase.

More important, there is a point of view surfac-
ing in the United States and elsewhere which is un-
settling. To put it in U.S. terms: “We’ve had this big
budget deficit for all these years and we’ve had
these gaps, yet things have worked out pretty well.
What are we worried about?” It’s stated somewhat
differently among the surplus countries: “Maybe
this isn’t all that bad. Maybe our destiny in life is to
be a big surplus country and simply continue to ex-
port savings to the deficit countries.” Whatever the
context, these arguments are very disturbing be-
cause a continuation of the adjustment process is
absolutely essential. Indeed, the current situation is
unsustainable for at least one powerful reason:
Even the United States, as big and as rich and as
dynamic as it is, can face a financial constraint.
And the financial constraint that looms out there in
the great beyond is simply the willingness of for-
egnigners to continue to acquire dollar-denominated
assets at exchange rates and interest rates compat-
ible with sustained economic growth in the United
States and elsewhere.

Looking forward, we’re going to have to be pa-
tient, because under the best of circumstances it
seems that a full measure of adjustment will take
approximately four to five years.

In terms of the spending gap, reducing the bud-
etary deficit works in the right direction. But we
also have to see the rate of consumer spending rela-

...we cannot delude
ourselves into thinking
that debt reduction in
and of itself constitutes
a solution.

...
manufacturing that are essential to deal with the external gap.

At this point you’re probably saying to yourself, “Can this all be done?” The answer is yes. It can be and it will be, because it must be. The implications of not doing so are so profoundly serious that we simply must make that transition; and that “we,” of course, is all of us.

LDC Debt

There is an impression in some circles that the systemic risk associated with the developing world debt problem is largely behind us. It is reduced, but that does not mean that it is behind us. There still are important systemic risk issues at stake here, certainly in terms of the global trading system and global prospects for economic growth generally. That said, more progress has been made over the past six and a half years than has been widely recognized. I would argue that at least three of the so-called Baker-15 countries—Chile, Colombia, and the Philippines—might have some market access right now, were it not for the overhang of the problem as a whole. And in other cases, notably Mexico, the amount of adjustment that has taken place is truly impressive.

I welcome the recent initiative—the ideas and suggestions, to use his own words—of Secretary Brady, which have the effect of officially sanctioning and, at least to some extent, officially financing debt reduction or debt service reduction. In some sense, that is simply a confirmation of what has already been going on over the past two years. Banks on a global basis have already voluntarily reduced debt to these countries by roughly $28 billion.

Now, let me add four “but,” because the “but” are very important. They relate to the matter of perspective. The first “but” is that under any set of initiatives the key to success ultimately rests in the economic policies and performance of the debtor countries themselves. All we have to do is look at a case like Peru, that essentially “solved” its debt problem, but did not thereby solve its economic problems.

The second “but” is that we must keep the international financial institutions, especially the IMF, at the center of the process. We must do that for two reasons: first, they’ve got some money; and second, they and they alone can, in my judgement, provide the locus for the policy coordination and conditionality process that is essential.

The third “but” is that we cannot delude ourselves into thinking that debt reduction in and of itself constitutes a solution. It does not. First of all, as a very practical matter, there’s not enough money around to finance debt reduction on a large enough scale to make a difference. But more important, even if there was, we would still need a balanced approach to finance for these debtor countries. That means, among other things, that we must keep new money as a prominent part of the process. To put it differently, a well disciplined, well thought out overall program of finance that includes elements of debt reduction is one thing. A program that tries to rest solely on debt reduction or even largely on debt reduction is something else. It is not only impractical, but it is also not in the best long-run interests of the debtor countries themselves. These countries have to be financed not just for 1989 and 1990, but for many years to come. It seems self-evident that we do not want an approach that drives the private creditors further away from those countries.

The final “but” is that as a practical matter the details of the next stages of this overall process are going to have to be worked out in specific cases. It would be impractical to think otherwise. My own best guess is that the likely framework will center around multi-year financing programs like the one being worked out for Mexico, which is very close to an agreement with the IMF on a four-year program. Similar programs are within reach in the case of the Philippines and Venezuela.

All of that is simply a long-winded way of saying that today, as a year ago, two years ago, or six and a half years ago, there is no black box that is going to produce an instantaneous and viable solution to the LDC debt problem. We’re going to have to continue to struggle with it, piece by piece, bit by bit, year by year. And we can and we will, so long as we keep that perspective.

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The reality of the last election was that the American people feel extremely comfortable with divided government. President Bush was elected by the electoral votes of 40 states—a significant victory for him. And yet, at the same time, the Democrats retained control of the United States Senate and increased their majority in the House of Representatives. So divided government—mostly Democratic leadership in the Congress and mostly Republican Presidential Administrations—remains a continuing reality in our politics. One can make the argument that it’s not been all that bad. Some very important things have been accomplished with divided responsibility: the Marshall Plan, civil rights legislation, and a number of recent achievements.

From the perspective of the Democratic Party, the 1988 Republican campaign was substantively very weak, highly negative, even demagogic, but brilliantly organized and administered. It proved enormously effective and resulted in a clear victory.

After the campaign ended, the President-elect immediately changed the mood and tone of the dialogue. He reached out, as the saying goes, and became openly solicitous of support from Democrats and other elements of the country that had not supported him in the campaign. He talked about cooperation, conciliation, mutual respect, and set an extraordinarily positive tone for his inauguration and the beginning of his Administration. Some in the press took a rather cynical view of this: when positive statements were made by Democrats about the President’s attitude, they accused the Democrats of being easily seduced by the new rhetoric. Personally, I believe the change in tone was not only sincere, but necessary. It has set a very good mood for cooperation between the Administration and the Congress.

There are two additional points that need to be made. First, because of the separation of powers, it is possible to have two winners in any Presidential election. Democrats clearly thought of themselves as winners by increasing their majorities in the Congress; therefore, there was not as much difficulty in accepting the election results as might have been true under different circumstances. Second, President Bush has a long history of association and involvement in government and many friends in both parties. His approach to the appointment of principal cabinet officers and others has been to choose people of experience and principled prag-
matic judgement, which has won wide support and approval in the Congress in both parties. The confidence these appointees bring to their responsibilities and the high reputation they enjoy is very important to setting a positive tone. There are few of what we would regard as ideologues in the Bush Administration. On the other hand, the remarkable lack of insistence in filling the principal positions of government is striking. I'm told that approximately 100 out of 800 political positions have been filled so far. I cannot remember a presidential transition that has been this slow. Part of the problem seems to be the insistence on extraordinarily careful security and background checks, even of people who are well-established in the government and who have held positions in the last Administration. (If these appointees present a problem, we're all in trouble, because many of them have been exercising responsibility at the highest levels for many years!)

As the President fills these appointments, it is assumed that his legislative program will become more active. There is a very big difference, however, between the Administration of Ronald Reagan in 1981 and the Administration of George Bush in 1989. Ronald Reagan came to the presidency with a clear idea of what he wanted to do, an agenda that was fairly well enunciated in the 1980 campaign. He wanted to reduce taxes, reduce government regulation, and increase national security spending. At this time, in 1981, we in Congress were being inundated with public mail calling on us to support President Reagan's program. Although the public seems to have a high regard for the President, that is not happening with George Bush. This isn't a criticism, it's simply a fact.

The principal test of bipartisan cooperation between the Congress and the Administration is whether we can develop a budget compromise. We're working earnestly on that at this moment. The President did say one thing rather clearly in the last campaign: "Read my lips, no new taxes." From my perspective, it wouldn't have been too difficult for then Vice President Bush to convince the American people that he was less for increasing taxes than the Democratic candidate, because the general public view of Democrats is that they are more likely to raise taxes than Republicans. Nonetheless, the President insisted on going on the campaign trail saying he would not only not raise taxes, but getting very specific about which taxes he would not raise.

I contend that there are two sins in American politics. The first sin is committed by politicians who do not keep their campaign promises. The second and more mortal sin is committed by candidates who keep their campaign promises. So far this President appears to be committing the second sin. Now, this doesn't mean that the only way to deal with the budget is to raise taxes. However, many people in and out of government believe that to be very effective in dealing with the budget deficit—to do something more then just meet the minimum terms of Gramm-Rudman—additional tax revenues and restraint on spending, particularly on entitlement spending, is required. The ability to get that compromise is severely hobbled by a President who insists, "no taxes."

We had an opportunity in 1982, in a budget summit effort known then as the "Gang of 17," and again in 1987, with the budget summit that followed the October 19th stock market crash, to do something very significant about budget reduction. We came very close. The problem was the inability to put together a political concordat between the two parties that offered some protection for undertaking difficult and politically dangerous choices. In the United States it is considered politically risky, if not suicidal, to propose any restraints on Social Security spending, including even moderation of cost-of-living increases. And, the 1984 Presidential race fixed the opinion that raising taxes or proposing to raise taxes is politically suicidal.

I think we have to do both. We have to figure out how it's possible for Democrats to give permission to Republicans to engage in some form of entitlement restraint, without undertaking the burden of political wrath from the recipients of those pro-

**Good fun politically is cutting taxes and raising spending....**

grams, and for the Republicans to give permission to Democrats to engage in raising taxes. Neither one is good fun politically. Good fun politically is cutting taxes and raising spending, so we face a difficult problem ahead.

What are the problems in the budget at the mo-
ment? First, there are questions relating to how much we’re going to spend on defense; here we are not as far apart as one might imagine. The Administration is proposing to keep defense spending on a zero real growth basis. That is meant to provide for inflation protection, but otherwise not to increase the defense budget. Democrats have suggested a so-called nominal freeze: we spend the same amount of money this year as last year, without inflation protection. Those are very substantial differences for defense people, but it is a difference which we ought to be able to bridge.

There are also questions about how much we spend on various kinds of entitlements and other programs, but this Administration has taken a much more moderate position on most federal government programs than did its predecessor. Ronald Reagan proposed in the last budget to eliminate 82 federal programs entirely. This is not what the Bush Administration is doing. In fact, the now famous words about a “kinder, gentler” nation have been backed up with some at least symbolic programs in education and health and other areas.

So, I believe that there is the possibility not only of a budget agreement, but of an agreement on a number of other issues in health, education, trade and foreign policy, stemming from the fact that there are two vetoes in the American government. There is the veto of the Congress, which can refuse to pass legislation, and the veto of the President, who can withhold his approval and who can make it extremely difficult for Congress to enact legislation. In most cases, those vetoes are going to be absolute.

The threat to the possibility of a political compromise originates in the nongovernmental side of the political system. The Republican Party is very anxious to take control of the House of Representatives and the Senate, and this is natural. But in the House, in particular, the membership of the Republican Conference is increasingly restive after 34 years of being out of political control. They have recently elected a Whip—number two in the Republican hierarchy—who speaks for a certain aggressive, muscular partisanship in dealing with the Democratic majority in the House. In addition, the Republican National Committee and the Republican Campaign Committee are determined to be equally aggressive in trying to win Democratic seats. That’s all well and good, but when it comes to sensitive issues like the budget, it presents the problem mentioned earlier.

J. H. Warren

Canadian National Elections Held shortly after the U.S. elections resulted in a renewed, even if reduced, majority in parliament for Prime Minister Brian Mulroney and his Progressive Conservative Party. During the U.S. session in Paris, J. H. Warren, former Canadian Ambassador to the United States and North American Deputy Chairman of the Commission, described the election and particularly the debate about the Free Trade Agreement (FTA) with the United States that stood at the center of the electoral contest. “In the end,” Ambassador Warren concluded, “I think the Canadians decided they had to look towards the future, recognize that the globalization of markets required them to be more competitive, that they had the intellectual capacity and resources to have a pretty bash at the U.S. market and to face up to that competition, and that they better choose that route rather than the so-called status quo. Faced with global trends our economy would have deteriorated absent the stimulus for greater efficiency.” Canadian fears of protectionism in the United States, part of the motivation for the FTA, have not gone away. “We are hopeful that the additional exposure of the Congress to things Canadian through the study of the trade agreement and the awareness of the Administration of Canadian concerns and the existence of the treaty itself will help us in dealing with what could be difficult pressures, particularly if we have to face, at some stage or another, a downturn.”

Mr. Rollins, a consultant for the Republican Campaign Committee, said recently that the Committee would attack Democrats who vote to raise taxes. Asked whether he’d support a tax increase that was part of a balanced program with restrained spending, and which was fully approved and supported by the President, he said: “No. We would still attack the Democrats. We do our thing up here; they do their thing down there”—meaning the White House.
Maybe that was just an enthusiastic response by a well-paid operative, but there is a growing concern in Washington about the "good cop" and "bad cop" approach to bipartisan relations. And this can work in the case of either party. The good cop is George Bush. He is the good elephant who puts his trunk around you and walks with you through the forest into the high savannas of bipartisanship and cooperation. But, behind him in the dark forest one hears the rumble of the rogue elephant herd—the very tough, very effective political operation of the Republican National Committee and Campaign Committee anxious to stomp to death the first Democrat they find exposed.

Just a quick comment on foreign policy. I have argued that there has been more cooperation and bipartisanship in American foreign policy than is often recognized. The complaint that one hears often is that we ought to return to the good old days of Senator Vandenberg when we had bipartisanship in foreign policy, in contrast to the current bad days when we're constantly battered by partisan disagreements over foreign policy. The two important but, I think, exceptional cases of partisan fighting over foreign policy are Nicaragua and South Africa. Putting these exceptions aside, there have been substantial majorities of both parties supporting all the principal foreign policy positions of the United States. There has also been some partisan difference over trade, which is a very important area, but even that is narrowing. The recent agreement...there has been more...bipartisanship in American foreign policy than is often recognized.

on humanitarian funding of the Contras for 11 months was a remarkable agreement because this is the most theologically difficult issue in U.S. foreign policy. This agreement speaks of the possibility of moving forward on difficult issues as long as the mood of the President and the Congressional leadership is right.

I am increasingly optimistic that we can make significant progress in dealing with national prob-
I
N SPEAKING ABOUT THE DEFENSE AND FOREIGN
policy of the Administration I am speaking as
a sympathetic observer, but certainly not as a
spokesman. I wish to focus my comments on three
aspects of the new Administration: the people, the
procedures, and the policies.

THE PEOPLE

My broad generalization—and I certainly do not
have any invidious thoughts in mind in saying this
—is that this Administration probably represents
one of the best teams in the areas of foreign policy
and national defense that the United States has had
in a long time. Different administrations, at different
times, have had some outstanding decision-makers
in the area of foreign policy, but different Administra-
tions also had glaring weaknesses on their national
security and foreign policy teams. This Administra-
tion strikes me as being without any glaring weak-
nesses.

Although it may not, as of now, have any spec-
tacular stars, it is a strong team across the board.
The National Security Advisor is a highly expe-
rienced, strategically-minded expert in foreign affairs.
The Secretary of State is, operationally, extraordi-
narily skillful and very sensitive to the domestic and,
particularly, the bipartisan dimension of foreign
policy. The new Secretary of Defense, who was gen-
erally considered to be one of the more outstanding
and more intelligent members of the House, will also
prove strong in relations with Congress.

In turn, this strong team is backed by very able
people. The Deputy Assistant to the President for
National Security Affairs is a man with personal ex-
pertise in Soviet affairs—he knows the bureaucracy
well, and has worked both in the White House and
in the CIA. The Deputy Secretary of State has a
wide-ranging grasp of European affairs and a gen-
erally broad expertise in foreign affairs, as well as
considerable experience at the State Department.
The Under-Secretary for Policy in the Department
of Defense, who has had considerable exposure to
East-West issues and, more recently, to Asian prob-
lems, is known as a very forceful and highly intelli-
gent advocate. In the area of arms control, our for-
mer Ambassador to the Federal Republic of Ger-
many, an arms control expert in his own right, will
provide very strong support for the top team. In ag-
gregate, the team is very strong, highly competent,
and highly experienced.
And at the top is a President who himself has a great deal of knowledge, experience and personal interest in foreign affairs. This interest is very genuine. I think that in many respects involvement in foreign affairs represents for George Bush the most creative and rewarding aspect of his personal and political life.

...George Bush is the first President for whom the Pacific is equally as important as the Atlantic....

If I had to identify what I consider to be George Bush’s central foci in foreign affairs, I would point to three as being particularly important. First, George Bush is the first President for whom the Pacific is equally as important as the Atlantic—not as a deliberate intellectual judgement, but as a normal instinctive view of the world (as for a Frenchman the question of Germany and Britain is instinctively important and normal.) In recent years, American Presidents have paid lip service to the equality of the Pacific with the Atlantic. Nevertheless, by and large, since World War II the primary focus of most U.S. leaders has been the Atlantic.

The second focus of his interest, one which may surprise you, is Eastern Europe. This is unusual. There has been no American President for whom Eastern Europe was of personal interest. For George Bush it is. He has travelled to Eastern Europe. And he feels that today Eastern Europe is in the process of very significant change, with implications—major ones—for the American-Soviet relationship, as well as for America’s relationship with Western Europe. And that represents, in my judgement, an important feature of his perspective on the world—somewhat distinctive, somewhat different, and very genuine.

The third point which he tends to stress, and stress quite genuinely, is that foreign policy in the United States, given the nature of American politics, must be based on bipartisanship. I do not think that is just a slogan.

So, in terms of the overall quality of the people concerned, they strike me as highly professional, experienced and very capable of working together as a team—sharing a certain strategic or philosophic perspective.

The Procedures
The Bush Administration has already set in motion a procedural process which recenterizes decision-making in the area of foreign policy in the White House. It reverses the trend—notably under the Reagan Administration—in which decision-making in this area moved increasingly to the State Department. The procedures set in motion revolve around the establishment of committees under the chairmanship of the head of the National Security Council—both on the Cabinet level, and on the level of the deputy Cabinet heads, with the National Security Assistant and Deputy Assistants chairing these committees. And this in turn reflects the President’s own interest in the process. It means that the President will be more directly engaged and will provide—to the extent that it is feasible, given the President’s divided responsibilities and necessary preoccupation with domestic affairs—the coordination necessary to reduce the likelihood of departmental conflicts and interdepartmental struggles.

On the somewhat negative side, there is some concern in Washington that the new Secretary of State has set up procedural arrangements which somewhat divorce him from the heads of bureaus or departments that deal with regional and functional issues. The Secretary of State has brought in a body of very close advisors. There is some feeling in the Department of State that this has created a gap between the Assistant Secretaries, who are usually highly professional specialists in regional issues, and the Secretary himself. This may not prove a major problem, but it could create some difficulties. It seems to emphasize the point that I have stressed on the procedural level—namely, that the center of initiative and coordination will again be the White House.

The Policies
There is some feeling among the new team that during the last two years U.S. policy towards the Soviet Union had become somewhat reactive. For this reason, a comprehensive review was undertaken focusing heavily on the East-West relationship. The new
team is quite pragmatic and essentially centrist in its orientation. It is somewhat skeptical about certain aspects of that relationship, particularly as they have manifested themselves in the last two years.

Their skepticism is particularly evident in consideration of the START negotiations, where they feel too much emphasis has been placed on reductions defined in terms of numbers rather than on reductions defined in terms of a central strategic goal—which in the case of strategic arms ought to be the reduction of the probability of an effective first strike. The difference between these two goals is very important, because one could negotiate a START agreement which is successful on the public relations level—in terms of very deep cuts—but brings less strategic stability than actually prevails in the absence of such an agreement. This is not an argument against START, which remains desirable and important, but instead an argument in favor of refocusing the negotiating process from reductions to reductions for the sake of enhancing strategic stability.

Output from this strategic review should start surfacing in late May or early June. On the European level, it will probably coincide with President Bush's trip to Europe at the end of May. His trip originates in Italy, where the President will meet Italian officials. He will then meet the Pope. This will be followed by visits to other capitals and NATO, where discussions will focus much more directly on security problems, and where the outputs of the policy review regarding arms control and mutual security will become more evident.

With respect to the Pacific Basin, I am not in a position to preview what might happen. However, I...we are not likely to see a unilateralist foreign policy...or a foreign policy of grand maneuver.

do think that the difficulties with Japan over the FSX fighter reflect the Administration's realization that the U.S.-Japanese relationship has reached a stage in which both sides have to define much more concretely and, perhaps, painfully what constitutes the partnership. In particular, what is the meaning of the partnership? How do we define it? And what are the reciprocal sacrifices that need to be made for that partnership to be healthy? The FSX debate has brought all these questions to the fore.

In other pressing areas, I expect that for the foreseeable future the Administration will not try to do much more than diffuse the Central American problem along the lines of the recent agreement with Congress. In addition, I don't anticipate much beyond initial probes, albeit sympathetic and constructive probes, in the Middle East conflict, with no large scale initiatives of the kind that characterized either the Democratic or the Republican Administrations of the 1970s.

Finally, with regard to defense, the defense budget will either remain stable or in fact will be somewhat reduced in the coming years. Both scenarios mean defense reductions, because they do not take into account anticipated growth or the commitments that have been made. I don't believe that Secretary of Defense Cheney will undertake any drastic innovations in the first six months or so, but will afterward be forced to make some very basic decisions. The difficulty lies in identifying the areas to be cut.

The fact of the matter is that the defense budget is relatively inflexible in most areas, except in two areas which have foreign policy implications as well as defense implications. The first is in the area of the so-called large platforms, that is, the large, new, and highly-advanced weapon systems which all three services want. I suspect that this is where cuts will be made. More emphasis will be put instead on technology-oriented force multipliers applied to existing systems. The cuts in large platforms will have some implications for our defense posture, particularly for the Navy.

The second area where there is some flexibility is in military manpower. Excess manpower exists essentially in two places: the Navy (which does not have very large numbers of personnel, but where, perhaps, a ten-percent cut in manpower can be contemplated) and active service Army divisions. More and more experts argue the United States has too many active service divisions in relation to its reserve forces, and that these divisions consume too large a portion of the budget. That in turn raises the question where these divisions ought to be de-
ployed. Obviously, there is one region of the world where a number of them—the best of them—are deployed at the fullest complement of readiness. There will be pressures for some reduction in U.S. forces in Europe, whether one likes it or not. Hopefully, these reductions will be made in the context of mutual arms reductions. In the absence of such mutual conventional arms reductions, cuts could still occur gradually. That will obviously have some implications for all the Trilateral countries.

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The bottom line is that in foreign affairs we are not likely to see a unilateralist foreign policy (as occasionally American policy has been described of late), or a foreign policy of grand maneuver. Instead, we will see a rather prudent coalition-oriented foreign policy, building coalitions at home through bipartisanship and building coalitions abroad by emphasizing the connection with Europe and with Japan. And thus, it will be essentially a restrained pragmatic foreign policy. The question which obviously arises is whether such a foreign policy will rise to the historic challenge of the times. Can the dramatic changes in the world scene be met by a foreign policy that is essentially prudent? I warn against too hasty a conclusion. Such a response would be insufficient.

▲ Zbigniew Brzezinski is Counselor to the Center for Strategic and International Studies, Herbert Lehman Professor of Government at Columbia University, and former U.S. Assistant to the President for National Security Affairs.
INTERNATIONAL FINANCIAL INTEGRATION: THE POLICY CHALLENGES

EAST-WEST RELATIONS

MANFRED WÖRNER

ALAIN POHER

JACQUES CHIRAC
"International Financial Integration: The Policy Challenges" is the title of one of two task force reports to the Trilateral Commission discussed in draft form in Paris. The report was prepared by Shijuro Ogata, Richard N. Cooper and Horst Schulmann. Ogata, formerly with the Bank of Japan for over thirty years, is Deputy Governor of the Japan Development Bank. Cooper, now Mauritis Boas Professor of International Economics at Harvard University, was U.S. Under Secretary of State for Economic Affairs in the Carter Administration. Schulmann, now Managing Director of the Institute of International Finance, Inc. in Washington, D.C., served as Chancellor Schmidt’s Personal Representative for Economic Summits from 1978 to 1982.

The following are excerpts from two chapters of the report:

Today the international economic system is dominated by financial factors. Thirty years ago, most foreign exchange transactions were closely related to the transfer of goods and services across national frontiers. Today only some five percent or less of foreign exchange transactions reflect world trade in goods and services. The globalization of financial markets extends beyond foreign exchange to securities of increasing varieties. The leading example among securities is the market for U.S. Treasury paper, which has become a global commodity (and even a medium of exchange). Barring catastrophe, the globalization of financial markets will continue. Trading around the clock and around the world will not only be an enduring feature of the international economic system but will become even more pervasive.

The decision-making processes and regulatory and legislative frameworks in Trilateral countries were created many years ago and are essentially the children of the nation-state. At best, they pay lip service to a marketplace of worldwide dimensions in which firms with different charters and national origins compete with each other continuously all over the world.

The globalization of markets is thus in tension with inherited arrangements for making decisions by national governments—particularly with regard to taxation and regulation of financial activity, which have traditionally been considered quintessentially matters of domestic policy. The growing international mobility of financial capital will reduce the effectiveness of strictly national taxation and regulation, and may distort the international flows
of capital away from their economically most useful roles, i.e., to direct surplus national savings to productive investments and to help spread risks.

National control of international capital movements is increasingly impractical. The channels for transferring funds from one center to another are numerous, and effective control would require a major move toward autarky in all international transactions, which would be prohibitively costly to economic well-being. To avoid loss of influence altogether, Trilateral countries must collaborate to reduce the differences in taxation and regulation of financial capital which would otherwise lead to extensive avoidance. Over time, the convergence in tax and regulatory policies will have to be extended to other countries as well.

Loss of national sovereignty is not at issue. Sovereignty remains unambiguously lodged with national governments, each with its own constitutional procedures. At issue rather is the ability of sovereign nations to influence their own destiny. That has always been subject to outside events, but in the economic arena the influence of outside events is increasing rapidly. Nations do not lose sovereignty by reaching agreement with other sovereign nations to reassert some measure of political control over the evolution of economic events.

The stakes are high. While international financial integration brings widespread benefits, these benefits are not automatically realized. International financial integration has not been accompanied by increased stability. Particularly since the early 1980s, both the volatility and misalignment of exchange rates have been pronounced, with deleterious effects on longer-term real economic performance. The higher degree of interdependence has quickened the worldwide transmission of changes in interest rates and securities prices, starkly evident in the stock market crash of October 1987. How is reasonable stability to be maintained in a world of growing financial integration? How can governments jointly re-assert some measure of control over the evolution of exchange and financial markets?

The answers to these questions must be sought not only in exchange and financial markets. As long as the current account imbalances of major countries remain enormous, financial markets will remain uneasy and volatile. If stability is sought superficially without adequately addressing the fundamental causes of underlying imbalances, exchange and financial markets might react in a volatile manner. Volatility itself can be a warning to policymakers (and the public) against the misalignment of national economic policies, correction of which is a necessary part of the process of adjustment. We devote one section of our report to macroeconomic policies of the Trilateral countries. The importance of these policies can hardly be overemphasized.

A basic aim which should guide macroeconomic policy collaboration among our countries is, of course, the attainment of non-inflationary economic growth. In the short term, there may be some trade-off between growth and price stability, but in the longer term, confidence in price stability will contribute to steady economic growth. Another basic aim should be the maintenance and promotion of free movement of goods and services. This report will not focus on trade policy, but the successful outcome of the Uruguay Round of multilateral trade negotiations under the auspices of GATT is of great importance. The trade policies of Trilateral countries, even those adjusting large trade and current account imbalances, should be pursued in ways that impose as little strain as possible on other countries and on the international economic system.

After discussion of macroeconomic policies, the report describes the broad structural adjustments in Trilateral countries that are also essential in reducing imbalances and creating an environment more conducive over time to international financial stability.

Following a discussion of macroeconomic and structural adjustments, two sections address issues directly related to exchange and financial markets. They form the heart of this report. However important macroeconomic policies are in correcting the disequilibria that underlie exchange and financial market instability, they cannot substitute for direct attention to the functioning of these markets.

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In addressing the problems associated with changing financial markets, it is neither desirable nor practical for governments to control individual financial transactions. Now that financial activities have been substantially liberalized and internationalized, any attempt to impose direct controls on financial transactions will lead to an endless competition between loopholes and additional controls.
COMMON INTERNATIONAL FRAMEWORK

Nevertheless, it is necessary to improve the transparency and stability of markets and to provide a common framework for financial service activities in the globalized market. In the first instance, national markets and their linkages should be strengthened through improved clearance, settlement and payment systems and better standardization and dissemination of information. Secondly, market participants should be required to comply with certain internationally agreed rules of conduct—including adequate capital ratios for both banks and non-bank financial institutions, disclosure requirements based on common accounting principles, and common rules against unfair and dishonest practices such as insider trading. Since financial activities are globalized, developments in one market are transmitted very quickly to other major financial centers, and any discrepancy in the degree of prudence among different financial markets could lead to the globalization of imprudent practices. International coordination is extremely important.

As far as banks are concerned, the Basle Supervisors’ Committee (a committee of officials concerned with bank supervision, formed in the framework of the Bank for International Settlements and sometimes called the “Cooke Committee” after its previous chairman) has already established capital adequacy guidelines and is studying other prudential aspects of banking. Similar attempts at international coordination should be energetically pursued by securities regulators, securities market committees, and payments system experts in their respective fields. Furthermore, the major central banks should give serious reconsideration to the demands that might be made on them as lenders-of-last-resort given the ongoing changes in the international financial system, such as globalized financial activities and erosion of the distinction between commercial banks and other financial institutions.

HARMONIZATION OF TAXATION AND REGULATION

As long as taxes and regulations differ substantially among countries, avoidance of regulation and taxes can take place by shifting financial transactions to nations with lower taxes or weaker regulations. Unless they are willing to lose the financial activity, governments will be forced over time to reduce their taxes and weaken their regulations in order to keep at home or bring home financial transactions that have sought a more favorable foreign locale. If governments wish to avoid competition in regulatory laxity, which after a point will weaken the stability of the financial system, they should address collectively the norms or minimum standards and tax rates around which such harmonization should take place.

The full published report is available from the New York, Tokyo and Paris offices of the Trilateral Commission.
“East-West Relations” is the title of the other task force report to the Trilateral Commission discussed in draft form at the Paris meeting. The report was prepared by former French President Valéry Giscard d’Estaing, former Japanese Prime Minister Yasuhiro Nakasone and former U.S. Secretary of State Henry A. Kissinger. Yoshiio Okawara, Japanese Deputy Chairman of the Trilateral Commission and Executive Advisor of the Keidanren, read prepared remarks by Mr. Nakasone, who was unable to attend the meeting.

The following are excerpts from the final report:

SOVIET TRENDS

...In Mikhail Gorbachev the Soviet Union has found an exceptional leader, quite unlike any of his predecessors. In his personal style and flair, Mr. Gorbachev has embraced reform more quickly and comprehensively than another leader might have done. We are persuaded, however, that it is the objective necessities confronting the Soviet Union which establish both the need for change as well as its direction. Were Mr. Gorbachev to leave the scene, these realities would probably sustain his general course and direction, albeit at a slower pace and with a less ebullient style.

For any Soviet leader would have had to try to revitalize the economy and overcome the persistent social malaise. Similarly, the deployment—contrary to Soviet expectations—of U.S. intermediate nuclear forces in Western Europe in response to the Soviet military build-up, the extended crisis in Poland, the long dispute with China, the chilly relationship with Japan, and the failure of Soviet military intervention in Afghanistan—have combined to impose a reappraisal of Soviet foreign policy.

Our countries need to define a strategy based on a correct assessment of the necessities propelling the Soviet Union toward sweeping domestic reform and reduced confrontation with the West. We believe that these changes are likely to occur more quickly under Mr. Gorbachev’s continued leadership than they would were his known political rivals in charge.

At the same time, quite different equilibria between economic and political reforms could occur. Conceivably, accelerated effort to meet popular aspirations for improvement in standard of living could be compensated by a reinforcement of central political authority, on the Chinese pattern.

The new Soviet diplomacy has an unprecedented sweep. It addresses not only the standard military
issues, but political and regional concerns. In addition to arms control issues, the Soviets have sought accommodations in some regional conflicts, notably Afghanistan. The combination, if implemented, amounts to a new concept of security. The West can do no less than develop its own coherent policy and security agenda.

Mr. Gorbachev has stated in public, and has reaffirmed to us, his belief that if it is to carry out its domestic reform program, the Soviet Union needs to improve its relations with the outside world. The high priority given to domestic reform in the Soviet agenda is, in fact, of greater significance for our countries than whether or not these reforms actually succeed. For the priority of domestic reform, if nothing else, deflects energies from the traditional Cold War agenda.

The importance of the reform program derives in part from the crisis of confidence that is so evident in the Soviet Union today. Past Soviet leaders had little doubt about the ultimate superiority of the socialist economic system; despite the large gap between Soviet and Western living standards, they believed that it was only a matter of time before Communism caught up to and surpassed the advanced capitalist countries. The collapse of this hope—reinforced by the daily comparisons afforded by instantaneous global communications—rendered unavoidable the change of course introduced by Mr. Gorbachev. Even two years ago, when perestroika (restructuring) was just starting, there was great expectation that the economy would quickly respond to the reforms envisaged by Mr. Gorbachev. As it turned out, the difficulties of implementing the reform program, its complexity, and the long lag between reforms and concrete results were greatly underestimated.

The Soviet Union we saw in January of this year was much more somber. The optimism of past years has vanished; we found a new, more realistic, awareness of the enormous difficulties the Soviets face merely to achieve growth, much less to begin to close the gap with the capitalist democracies. This backdrop of pervasive pessimism impels Mr. Gorbachev to reinvigorate the Soviet economy by accelerating restructuring. This dilemma rather than some abstract pacifist philosophy is driving the Soviet leader to reduce tensions in international relations. He has every incentive to reduce the share of military spending in Soviet GNP and to seek beneficial economic relationships, including foreign investment, with the non-socialist countries.

**Foreign Policy**

...The USSR will remain a major military power in Eurasia. So long as its relative military advantages persist, the threat of force will remain a significant factor in international relations. The democracies have a common interest in resisting the strategy of pushing the United States back to the Western Hemisphere. For were it to prove successful, the Soviet Union could then use its central geographic position to weaken and divide its neighbors one by one. Certain aspects of current Soviet policy, especially in Europe, are consistent with this long-term objective.

Thus, the democracies must learn to deal with Gorbachev's style, which is to flood the Western decision-making process with a rapid series of unilateral moves, some of them involving genuine concessions, others relying largely on psychological warfare. If real progress is to be made, Western policy must winnow the real concessions from the propagandistic overtures, and respond on two levels: the substance, and the public relations aspect. We must develop our own initiatives and policies and put forth our own ideas that reflect what our countries understand by a peaceful world and which reflect the aspirations of our people for progress and democracy.

**THE TRILATERAL AGENDA**

**The Strategic Relationship**

...[T]he democracies should welcome making arms reduction a central theme of the East-West dialogue provided they keep in mind that reductions are not an end in themselves. What made the start of reductions possible was the willingness of the democracies to maintain an adequate deterrent posture. What will sustain the process of reductions is the willingness to ensure that at every level of reductions, deterrence is maintained and preferably strengthened. Such a concept of “deterrent disarmament” must meet two strict criteria: first—to restate the basic concept—Western deterrence must be maintained with no less credibility or capacity than before each stage of reductions; and, second, the capability for a conventional defense must not be weakened, and preferably should be strengthened, as a result of force reductions on both sides....
The Future of Europe

...We are committed to see progress toward enabling the peoples of Eastern Europe to determine their own future. But we do not wish to provide a pretext for new Soviet intervention that would set back the evolution toward liberty in Eastern Europe and strengthen more conservative forces in the Soviet Union. Clearly, we should continue to stress the differences between democracy in the West and the way political systems actually function in the East. We should give support to any movement toward market economies and democratic institutions. We should continue a strong effort to break down the barriers to the freer flow of people and ideas across the center of Europe. And we must insist on the removal of the so-called Brezhnev Doctrine which has been used to justify Soviet military intervention in Eastern Europe.

Mr. Gorbachev's phrase, "a Common European House" ignores the fundamental differences between Western Europe, Eastern Europe and the Soviet Union. On one level, we can recognize in this phrase the desire for a more open and peaceful pattern of relationships, a framework provided for in the Helsinki Final Act and other CSCE documents. In that sense, there is scope for collaboration in some practical areas. Environmental problems, including nuclear safety, and improvements in communications and transport are examples deserving of high priority.

On another level, the concept of a "European House" can be interpreted as an effort to dissociate the United States from Europe. We categorically reject any such policy....

The countries of Central and Eastern Europe have a special character. They are members of the Warsaw Pact and as such participants in conventional arms control negotiations between East and West. At the same time, they have historically been part of Europe and they have a growing wish to participate in certain aspects at least of European unification, as well as to achieve greater control over their national political destinies.

For these countries, it is therefore important to devise a category of association with the European Community based on Article 238 of the Treaty of Rome. This kind of association should be regarded as a new type of relationship adapted to the special circumstances of the countries concerned. This relationship will not include, for the foreseeable future, any political or security dimension. But such an agreement should be accompanied by a full commitment to implement all the obligations of the Helsinki accord and subsequent agreements regarding human rights together with effective provisions for monitoring them.

We suggest that the European Council (the Heads of State and Government of the European Community) should announce its intention to embark on an examination of the modalities of such an arrange-
ment. This should not be linked specifically with the case of any single East European country, but should provide the framework for the kind of association which could ultimately be negotiated in detail with those countries which manifest their interest and meet the necessary conditions....

East-West Economic Relations

...It is in the common interest of the Western countries to avoid periodic massive injections of credit into the Soviet Union: for the Soviet Union it would mean a situation of lasting indebtedness; for the industrialized democracies it would amount to open-ended support for an unbalanced economy—without the necessary fundamental reforms in prices, freer enterprises, and convertibility of the ruble—and a potentially irresponsible conduct of affairs. Thus, we advise against embarking on a global financing of the Soviet Union. But, in an environment of reduced international tensions, we do envisage supporting specific economic and social changes and reforms. If the Soviet Union reduces its military expenditures significantly and behaves responsibly in regional conflicts, we propose that our countries support activities that would promote economic change tending towards market economies and democratic institutions.

Specifically:

- The spread of Joint Ventures for the purpose of producing consumer goods should be encouraged....

- Financial support could be given to new institutions set up in the Soviet Union to provide finance or training for small businesses, new service industries and the private sector of agriculture;

- We favor that the Soviet Union be offered observer status in international institutions, such as GATT and the IMF. This may make it easier for the Soviet Union to adapt its own rules to normal international practice...

Concluding Remarks

The opportunity to put East-West relations on a new foundation is before our countries. To seize this opportunity, our countries must act on the basis of careful analysis, not wishful thinking. We need to recognize that qualitative changes are occurring in the Soviet Union, but be realistic about the limits and uncertainties of change. Our countries should enhance their consultations on the developments occurring in the Soviet Union and their implications, and our countries should increase their efforts to develop a common strategy for the West. We should make it clear to our publics that on this basis we are prepared to make every effort and explore every possibility toward achieving a constructive East-West partnership in the search for peace.

The full published report is available from the New York, Tokyo and Paris offices of the Trilateral Commission.
I was 11 years of age when the war ended. I was 15 years of age when this Alliance was founded. I have my own personal experience as a boy during the war, and just after the war when the free part of my country was rebuilt under the protection of this Alliance. As you can imagine, to be now the first German Secretary General of this Alliance shows that this Alliance is able to adjust.

**Anchor of Stability. Instrument of Change**

I think there is no doubt about the past achievements of the Alliance. It turned an explosive geopolitical situation into a failsafe security system. It enabled Western European moral, political and economic recovery. It transformed the ultimate war-fighting weapons into ultimate peace-keeping weapons. And it contributed largely to the welcome changes now taking place in the East.

There is no doubt the Alliance is living through a period of profound historic change. Whatever you might call these changes, they clearly mark the end of the post-war period. You are all familiar with the manifestations of these changes, so I will not enumerate them. As in the late 1940s, when the Alliance was confronted with new challenges, opportunities and risks, the Alliance is now not only confronted by some old tasks, but also by some new tasks, and likewise, not only by some old answers, but also by some new answers. NATO has to adapt to new situations and, of course, it means that the role of this Alliance will undergo changes.

There is one fundamental difference between the current international environment and that which existed when this Alliance was founded: History is working in our favor, it is on our side. The dynamism clearly originates here, inside this Alliance—in North America, Europe, and Japan. The democratic appeal has never been greater. Liberal values and our economies have decisively proven their superiority.

One hundred and fifty years after the *Communist Manifesto*, communism has manifestly failed. Moreover, its practitioners realize this. The communist “malaise” is not simply economic; it is moral, spiritual, and conceptual. And it is apparent that they have no answers in their ideology.

Consequently, there is reason for optimism, but not for complacency. We have a clear opportunity to determine the course of events, and to shape actively the evolution of a new political environment,
regardless of Gorbachev’s activism and his success in the public relations sphere. The real initiative is with us; and our main task is to maintain this initiative and our dynamism.

This Alliance has never been committed to the status quo, and today it is less so than ever. But, of course, in a period of transition as exists today, there are obvious dangers, uncertainties, and un-

**You have to create and maintain circumstances of military stability...to enable political change to occur in a safe environment.**

...predictability. There are risks of explosive development, temporary reversals, backlashes, and temptations to change the course in the East. Managing this ambiguous international situation clearly depends on the dual role of our Alliance in the future.

On the one hand, this Alliance has to serve as an anchor of stability and reassurance. On the other hand, it has to serve as one of the instruments of change. It has to serve as a dynamic force for further change in East-West relations towards a new order of peace and security, and it has to provide a framework of security so that political change can take place safely at its own rhythm.

That may seem to be a contradiction, but it is not. You have to create and maintain circumstances of military stability, not in order to keep the political status quo, but to enable political change to occur in a safe environment. As the German social scientist Michael Stürmer put it, if NATO’s past was marked by containment, NATO’s future will be to secure and safeguard change.

**OUR VISION, INTERESTS, AND FIRM FOUNDATION**

In periods of rapid change three things are necessary: clear goals (or even call it vision); a sober assessment of your own interests (the best yardstick by which to develop policy); and, of course, a firm ground to stand on. I have never been a friend of those who ask: “Should we help Gorbachev? How do we help Gorbachev?” I have always oriented my own thoughts along the lines of Palmerston, the former British Prime Minister, who, when asked about the eternal enemies of Britain, said that Britain has no eternal enemies, no eternal friends, but eternal interests. I think this is a good yardstick. Help Gorbachev? Yes, as far as helping him advances your own interests. And perhaps, to a certain extent, they coincide.

Our vision is clear and it has three parts. The first is an undivided Europe in which citizens enjoy their human rights and individual freedom, and people have the right of self-determination. That is the new European order we are striving for (as opposed to the concept of Gorbachev’s European House). The second part is a global order in which East and West cooperate to solve global problems. And the third part of our vision is a mature partnership between Europe and North America.

Our interests are not difficult to determine: peaceful competition, instead of military and political confrontation; increased human rights; open borders; the free exchange of persons, ideas, information, and goods; a reduction of weapons, and a lower level of forces; and enhanced stability. We strive for a situation where military forces are limited to legitimate defense needs—not usable for intimidation or perpetuation of the division of Europe. Arms control is one of the means to reach that goal. But it is not an end itself. Its purpose is to increase stability, not to diminish it.

The firm ground to stand on includes two elements. The first is a reliable collective defense and a strong deterrent posture, which is today as necessary as it was yesterday, and which will remain as essential tomorrow as it is today. There is no reason to lower our guard. It is the Soviet potential which counts, not their intentions. Intentions may change, and positions may change. You cannot trust your own security to the good or bad intentions of this or that Soviet leader. I do not doubt the current good intentions of Gorbachev. But it is clear that we cannot make our security dependent upon what happens in the Soviet Union, and we should not allow Gorbachev to talk us into unilaterally disarming ourselves. When you look carefully, the threat from the East may have diminished, but the dangers may have actually increased. The Soviet Union is still an overarmed nuclear superpower; and it has started
down a road which, in the near future at least, will mean less, not more, stability and predictability. So, I believe the basic policy outlined by the Harmel Report over 20 years ago is still valid.

We need nuclear weapons; we need them here in Europe; and we need a minimum of them. I would exclude a third-zero option. We need to keep that minimum, and keep it up to date. Only by keeping weapons up to date can they serve their purpose of preventing war. I think the Soviet Union will have to accept the idea of nuclear deterrence based on a minimum of nuclear weapons.

I see no practical alternative to our basic military doctrine. Of course, depending on the result of arms control negotiations and modernization decisions, there will be changes in the numbers and structure of weapons. For example, there could be drastic cuts in nuclear artillery, and perhaps even in the overall nuclear stockpile.

The second element of the firm ground to stand on is, and will be, the North American commitment to European security. Looking at the current debate, it would be the most inappropriate time to diminish the U.S. presence in Europe or to loosen the ties between the United States and Europe.

**Influencing Changes**

One of our essential tasks is to promote change towards our objectives. It is not easy to define and describe future developments, nor to determine the common lines of our policy towards the Soviet Union and Eastern Europe. This will be the most impor-

...we have to make sure that the Soviet Union knows that we will continue to respect its legitimate security interests.

...the most impor-

 tant task of the forthcoming summit. This summit will have to decide upon the “comprehensive concept” of security and arms control, but it has to do more; it has to give a basic political message on how to deal with the global challenges that face us. We must—and we shall—make use of the changes underway in the Soviet Union and Eastern Europe. We must try to encourage these changes. The question remains: How much influence do we have? And, how can we best exercise it?

How much influence do we have? There is no doubt that, on the one hand, our influence is limited. The hard choices have to be made by the Eastern leaders themselves, as much in the political as in the economic field. We cannot, and will not, relieve them of the burden of these fundamental choices. One of these choices is “guns or butter.” I think Gorbachev understands that if he continues to spend 15, 18 or, some believe, even 20 percent of his gross national product on armament, and devotes a similar proportion of his resources—scientific and engineering resources—to this armament, he will fail. This is a basic choice which we should not, cannot and will not relieve him of.

On the other hand, we have a certain influence. The more they open up their societies, and the more they cooperate with us, the more opportunities we have to contribute to change. Still, our influence will be limited. We will not be able to control or dictate events in the East. And, of course, we have to make sure that the Soviet Union knows that we will continue to respect its legitimate security interests.

But we will use our influence. Nobody will prevent us from doing so. That remains one of our main tasks, in addition to the task of keeping our freedom and peace safe. There are five main areas where we can and should influence change.

First, to promote the success of glasnost and perestroika, the Alliance needs to preserve the model that made Gorbachev’s reforms such a necessity. Without any doubt, Western success is the greatest incentive for change in the East. Without the success of this Alliance, the success of our economies, and the political cohesion of the whole West, there would be no change in the East. The lesson to be learned is that we have to maintain the dynamism of European unification, and the dynamism of this transatlantic partnership.

Second, we have to continue and intensify the CSCE process.

Third, we need to continue to encourage and promote change by cooperating politically, economically, socially and culturally with the Soviet Union and the countries of Eastern Europe. We must encourage their leaders to make the hard choices that
are required; reward those who do so; and remain firm and insistent with those still tied to the old ways, and recall that many policies in the East are still completely unacceptable. Poland and Hungary will give us ample opportunities to demonstrate a reasonable policy of cooperation and assistance. I think we will make use of these important cases to show what we mean by cooperation. It is clear, however, that economic assistance must be linked to reform and other obstacles. We require a Soviet commitment to a new security order—that is the next expectation—in which the recourse to armed force is superfluous; this requires Soviet restraint and responsibility in other parts of the world as well. Finally, there must be the recognition that East-West relations are not a zero-sum game, where one side’s gain is another’s loss. A crucial test for the Soviets will be conventional arms control. This is where basic political and security interests, as well as the respective Western and Eastern view of Europe, are on the table in some form or another.

The Vienna talks will be a reliable barometer of Soviet intentions regarding the European framework we foresee, but only if we in the West maintain cohesion and do not start, now that we have sat down at the negotiating table, to call into question our own proposals. We can, of course, consider further steps. But first let’s try to reach the first step—common ceilings—before discussing how to proceed further. If we start questioning our own position we will not succeed in those negotiations. The Alliance is the crucial vehicle for reaching our objectives and coordinating our policies. Other fora will be used, but only NATO provides the framework to assure stability and safe change, and that engages North America and Europe in a common destiny. It is a truism: United we remain masters of our destiny, divided we will become the victims of circumstances decided by others.

There is no doubt that the Alliance will also undergo changes. First, the political character of the Alliance will become predominant, to the extent that the military potential is reduced and the military situation is stabilized. Second, the Alliance will serve more and more as a platform to harmonize different interests and views on political and economic matters of importance to the powers on both sides of the Atlantic. And third, we have to encourage and strengthen the role of Western Europe. Europe will have to take on greater responsibilities and burdens, both in Europe and globally. Progress in the political and economic unification of Europe is, therefore, in the interest of this Alliance as long as it does not lead to political confrontation or economic protectionism. However, it must be realized that the danger of protectionism is present on both sides of the Atlantic, as well as in other parts of the world where the same tendencies can be observed. We have to try to come to grips with those tenden-

...there must be the recognition that East-West relations are not a zero-sum game....

in order to be effective. That can include training, financial assistance, trade, debt management, and industrial techniques. But this must be kept linked to Western political goals and Eastern progress.

Fourth, we must present to them a comprehensive arms control concept which, at the moment, we are trying to develop inside the Alliance. It is not an easy task. A reasonable arms control concept has to increase stability and, of course, guarantee security for all partners of such an agreement. This means it has to satisfy the legitimate security interests of the Soviet Union as much as ours.

And fifth, the West must engage a more responsible East on global issues. We have to challenge the Soviet Union to cooperate concretely on global issues, like the spread of chemical weapons and missile technology, the environment, population issues, structural problems, and energy. These are all areas where we can derive mutual advantage. Gorbachev’s United Nations speech pointed in this direction, so we should take him at his word with concrete suggestions and proposals.

ELABORATING A NEW FRAMEWORK

As our willingness to cooperate is determined by our own interests, so our cooperation is tied to our own expectations. The Alliance wants to contribute to a new order of peace and prosperity, which requires, in response, the observance of human rights and the free movement of information and people. We must demand the removal of the Berlin Wall
Alain Poher, the President of the French Senate, received members of the Trilateral Commission at the Palais du Luxembourg for dinner on April 8. The following is an excerpt of his broad-ranging remarks:

The people of central and eastern Europe will only be able to achieve their political transformation provided that their economic situation improves. The EFTA and the European Community countries are the only ones in a historic and geographic position to contribute decisively to their success.

It is therefore important that, in Moscow, in Washington but likewise in the European capitals, we recognize this extraordinary returning of the tide of History.

For the first time since the end of the war, Europe—all of Europe—is the necessary and decisive crossroad for any permanent East-West agreement. Hence, and beyond its own future, Europe becomes one of the major actors in the global balance of power.

This evolution will receive its full acknowledgement on condition that the Single European Market be implemented and that the political institutions of Europe develop concomitantly....

In closing, the Alliance will continue to play its role as a global stabilizing factor. It has been the source of global stability, not only European stability. Therefore, we must build close cooperation with those countries in the Pacific—especially with Japan—who share our interests in blocking the danger of conflict and promoting cooperation.

Looking ahead, I am optimistic and confident. I was so when I came into office and today I am even more confident and optimistic. I do not see this Alliance in the middle of a crisis, or in danger of disintegrating—far from that. However, there remain problems, especially in the field of public opinion and public support. These are, first of all, problems of our success. We must mobilize leadership, determination and courage to solve our problems. We have the will to demonstrate those qualities.

Finally, our values and our policy will prevail. Our societies are more flexible, our economies are more efficient, and our values—which count more than anything else—respond better to the nature and needs of man. This Alliance was never a static alliance. It has proven its flexibility and its dynamism, and I am convinced it will continue to do so in the future as well.

Manfred Wörner is Secretary General of NATO.
WE ARE EXPERIENCING AT THIS MOMENT THE most interesting period for the future of our continent since the difficult post-war years. After over 40 years of domination by military confrontation between the two superpowers and the two blocs in Europe, we have entered a new phase in our history: one that I dare call the “post cold-war” era.

The impetus behind this change is not, as is so often believed, political reforms launched in the Soviet Union over the past four years by Mikhail Gorbachev. Fundamentally, the USSR is changing because it has no alternative but to change, unless it accepts the logical inevitability of decline. This point, however essential, is unfortunately often unrecognized by our public opinion. Let me, therefore, say one more word on the subject.

We, democracies, have won the cold war. We have won it because we have succeeded in rebuilding our countries after World War II, in assuring the unprecedented development of our economies, and in showing the world the enormous attraction of our values based on liberty. And we have been successful in doing all of this while “containing” the expansionist ambitions of the USSR, by assuring peace in Europe at a tolerable financial cost to our societies (three or four percent of our GNP compared with 15 to 20 percent in the Soviet Union): In other words, without militarizing our societies. This particular victory is today obvious to everyone in the West, but now also to those in the East. This is the novelty of perestroika and glasnost—the awareness that the Soviet communist “model” which dominated international relations for 70 years has failed. And the Soviet voters who recently went to the polls in order to cross off the name of the single party-member candidate proposed on the ballot of many districts, in their own fashion, showed this quite spectacularly.

The deeper significance of this victory must inspire our strategy for the future. Allow me to share the lessons I have learned from this recent history:

1. It is the cohesion of our alliance which has made the foundations of our economic success possible, and therefore the process of building Europe. Our alliance with the United States will remain a fundamental element of the new system that we must elaborate in the “post cold-war” period, even if Europe’s role is rethought and considerably enhanced.

2. The other key to our security system is its nuclear dimension. We must do everything possible to
avoid undermining Europe’s nuclear consensus and, even more so, the denuclearization of our continent. Minimal deterrence must henceforth become synonymous with disarmament. It is, therefore, fitting that the USSR abandon its crusade against deter-

The greatest challenge we now face grows from our victory.

rence, and that it finally recognize the European democracies’ legitimate right to adopt precautions against the risk of war, either conventional or nuclear.

3. The greatest challenge we now face grows from our victory: our democracies will have to justify both maintaining the alliance and nuclear deterrence, not to mention sustaining a reasonable level of financial effort for defense, at a time when the Soviet Union no longer appears to be a threat. How, in other words, should we handle this victory?

In this area we must demonstrate both imagination and vision. We must be capable of proposing our order of business and our post cold-war criteria, not only to the Soviets, but also to our own publics. And these fundamental criteria must include human rights, liberty and democracy for our fraternal neighbors in Central Europe, as well as symbols, such as the dismantling the Berlin Wall.

It is in the domain of liberties, whose bicentenary we are celebrating in France this year, that we must be able to find new “sources of inspiration,” that we must rethink our relations with the East and, of course, Western Europe’s role in this process.

Herein, there can be no doubt, lies an exalting—but difficult—task for the Europe of Twelve, which has now become an exceedingly attractive model for East Europeans who have been deprived of liberty and well-being for so long. It will also represent a top priority for the French and Germans and other Europeans to manage together, rather than as dispersed entities, this new “Ostpolitik” on an overall European scale.

*   *   *   *

Just one final word on this point. General de Gaulle, in his day, wished for the construction of Europe and Franco-German reconciliation. He also wanted a Europe from the Atlantic to the Urals, based on balanced political and strategic relationships. The French nuclear deterrent force was, from this point of view, conceived as the embryo of a European force which one day would make it possible for Europe to ensure its destiny, in a newly balanced alliance with the United States.

The time has come to return to this grand design. A commercial and technocratic Europe in 1992 will not be enough, unless it also has its political and strategic voice. A “Balkanized” Europe, where defense and security are concerned, would not survive, any more than would the economic structure assembled since 1958. This is the challenge that we Europeans must meet in the months and years to come in close cooperation with our allies. I am convinced that we are up to it—as in the past, the founding fathers of the Atlantic Alliance and the Community were able to assure our peace and prosperity for 40 years.

△ Jacques Chirac is Mayor of Paris and former Prime Minister of France.
Meeting of the Chairmen and Deputy Chairmen with French President François Mitterrand at the Palais de l’Élysée.
Egidio Ortona

At the conclusion of the Paris meeting, Egidio Ortona stepped down as European Deputy Chairman of the Trilateral Commission, a position he had held since 1975 after retiring from a long and distinguished career in the Italian Diplomatic Service. Ambassador Ortona served as Italian Ambassador to the United Nations from 1958 to 1961; Director General and then Secretary General for Economic Affairs in the Foreign Ministry in 1961-67; and as Italian Ambassador to the United States from 1967 to 1975. Ambassador Ortona is Honorary Chairman of Honeywell S.p.A. Italy and Bull H.N. Italy, and remains a member of the Trilateral Commission.

Garret FitzGerald

Garret FitzGerald, former Prime Minister of the Irish Republic (1981-82, 1982-87), is the new European Deputy Chairman. Prime Minister FitzGerald’s career has spanned politics, academia, journalism and business. After twelve years with Aer Lingus, he lectured in economics at University College Dublin (1959-73) and was Minister for Foreign Affairs (1973-77). During this period he wrote at different times for the Financial Times, the Economist and the BBC. He is currently a Member of the Irish Dail and a member of the National Senate of the National University of Ireland.
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