THE SAN FRANCISCO MEETING OF THE TRILATERAL COMMISSION, MARCH 1987
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North America:  Europe:  Japan:
David Rockefeller  Georges Berthoin  Isamu Yamashita

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The Trilateral Commission (North America)
345 East 46th Street
New York, New York 10017

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San Francisco
March 1987

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Editors
Andrew V. Frankel
Charles B. Heck

Circulation
Peter Witte

Graphic Design
John Hair

Photographs
Tom and Jon Vano
The San Francisco plenary meeting demonstrated the continuing importance of the Trilateral partnership among the three great industrialized democratic regions: North America, Western Europe, and Japan. Our countries face significant political, security and economic challenges, and have unusual opportunities for progress in strengthening cooperation on a variety of economic issues and in improving the climate of East-West and North-South relations. We believe that discussion of such issues at the private level enhances the bonds among our countries and provides a forum for the consideration of innovative ideas. We are proud of the role that the Trilateral Commission has played in developing relations among our countries, and we have come to the decision that our organization should continue for another three-year period.

Our San Francisco meeting included discussion of a wide variety of issues ranging from the problems faced by new democracies in Latin America, to the implications of unemployment/employment trends in our countries, to the role of science and technology in international relations. Two particular areas stand out as highlighting the value of trilateral consultation and collaboration: relations with the Soviet Union and the international debt crisis.

Our discussions of relations with the Soviet Union were dominated by consideration of the foreign policy implications of domestic reform in that country and the renewed prospects for an arms control agreement on intermediate-range nuclear forces. Our members, of course, expressed many different points of view on these questions, but there was a sense that Soviet leader Mikhail Gorbachev has brought a different style of leadership to the Soviet Union and, to strengthen his country, has a genuine interest in significant domestic reform. Some Trilateral members believe that his attention to
domestic reform requires a less tense international environment, but not at the expense of traditional Soviet foreign policy interests.

The prospects of an INF agreement along the lines of a zero-zero option was welcomed by some members who regard it as a step forward of both symbolic and substantive importance. It is regarded with considerable concern by other members who fear a decoupling of U.S. and Western European security. Members of both persuasions, however, believe that a coordinated approach by the Trilateral nations is vital for providing a continuing sense of confidence in Western security and for extracting the maximum benefit from any new agreement. The United States is negotiating with the Soviet Union on an aspect of arms control that affects European and Japanese security as much if not more than U.S. security. It is essential, therefore, that a continuing and genuine process of consultation among partners be carried out. This consultation should focus on long-range arms control and security issues and how an INF agreement relates to these, as well as on shorter-term questions relating to the immediate negotiations.

We also discussed at length the evolving debt crisis. The renewal of concern about this issue, which has important implications for the health of the world economy in general, reflects two basic facts: first, there has been no new net lending to debtor countries in the two years before the new Mexico package—in fact, there have been substantial reverse resource transfers; and second, that slower economic growth and protectionism in our countries have limited the prospects for the expansion of exports of the debtor countries and thus the prospect for foreign exchange needed for debt service.

Our members differ on such questions as the desirable roles of governments and private banks in addressing the debt problem and on the degree of relief required, but there was broad agreement on three matters: that beyond the technical aspect, there is an important human and political dimension; that a substantial rate of economic growth is needed in the debtor countries to allow them to discharge their debt obligations to lenders and provide an improvement of livelihood for their own peoples; and that some level of new net credits is a prerequisite to growth.

One important theme underlying much of our discussion is the continuing importance of U.S. leadership in addressing international issues. The United States is the interlocutor with the Soviet Union on arms control issues. Its banks hold 40 percent of the debt of the developing countries, and its policies (including the Baker initiative 18 months ago) set the agenda in this area. Strong U.S. leadership is also desired by the Trilateral partners so long as it is accompanied by close consultations and sensitivity to allied interests. In turn, America's partners must recognize their own enlarging roles in sharing the international responsibilities before us all.
When I was asked last November to speak here today there were no negotiations going on and there seemed to be great unanimity that Reykjavik will not be recorded in diplomatic history as a stellar achievement of the art of foreign policy. So I thought I was on reasonably safe ground. Since then there has been an evolution; and I thought the most useful thing I could do is to present more or less controversial ideas. Those of you from abroad who disagree with me can console yourselves that I'm performing my usual function of uniting Americans by getting both liberals and conservatives mad at me simultaneously.

Let me state my view on the current state of East-West negotiations in three propositions:

1. There may indeed be an important opportunity to make progress in East-West relations, an opportunity on two levels—to fix the basic strategic problem produced by the excessive reliance on nuclear weapons, and secondly, to begin putting East-West relations on a new basis.

2. None of the proposals now being discussed in the military field, in my view, improves the situation. And several make it worse.

3. We are witnessing a process in which arms control is being transformed from a strategy into an obsession, a process in which every intellectual current bears a part of the responsibility. Political leaders are so obsessed with public relations and short-term impact that they are not addressing the fundamental political problems.

UNDERSTANDING OUR OPPORTUNITIES

Let me say a word about the two levels of opportunity. For a decade or more it should have been clear that reliance on Mutual Assured Destruction would lead eventually to the demoralization of the West. It is not possible indefinitely to tell democratic publics that their security depends on the mass extermination of civilians, unopposed by either defenses or a mitigating strategy, without sooner or later producing pacifism and unilateral disarmament.

Secondly, I believe we do have a new situation in the Soviet Union. Gorbachev is different from any Soviet leader that I've ever seen, or that I have ever heard about. And there's no doubt that the people around him conduct themselves with an openness and flexibility that is unprecedented. But the question is, do we reward them; do we pay in foreign policy coin for their domestic reform? I would argue
that the task of Western leadership is to translate an opportunity into foreign policy objectives and to fix the problems that produced the tensions. Of course, domestic reform in the Soviet Union has attractive features, but if it does not lead to a change in foreign policy conduct, we would be taking the odd position that a strengthened adversary is better for us per se than a weakened adversary—which at least is a new theory of international relations. I repeat, I think these reforms can be very helpful, but we must be able to translate them into foreign policy objectives.

In this effort, we need some understanding of what Gorbachev and his associates represent. There are at least four possibilities: One, he is a traditional Leninist risen through the ranks who wants to see the Soviet Union strong, and has decided he needs domestic reform. Two, he is caught in a bureaucratic dilemma—on the one hand he wants to reform the economy, on the other he cannot take on every power structure in the Soviet Union simultaneously; and therefore, we might easily see a combination of domestic reform and foreign policy conservatism. (I must say that I do not find in the Soviet proposals that have so far been made in the military field much that is different from either the past or from an attempt either to maintain a Soviet advantage or to increase it.) Three, we are seeing here a new phenomenon in the sense that for the first time, here is a Soviet leader in restless motion looking for domestic approbation among the mass of the population and not in the party apparatus itself. (In the field of international policy this could lead to extreme fluctuations and does not at all guarantee, necessarily, eternal conciliatory policy.) Finally, maybe there is a genuine change.

CURRENT PROPOSALS: INF

I’m not going to choose between those four options. But I would say that the policy of the West today will not tell us what is really the motivation of the Soviet Union because we are not putting forward propositions that we can in good conscience say are an improvement of the situation. We are putting forward propositions that we believe will be accepted. Or we are putting forward propositions that satisfy short-term domestic pressures in our countries. Let me illustrate this by some discussion of the looming agreement on the zero option on the INF. I will be in the tiny minority that does not consider this a milestone in Western statesmanship; in fact, I do not think it is a good agreement. And I think it is amazing that there has been so little discussion of some of its problems.

What was the purpose of INF? It was asked for by the Europeans, allegedly to close a gap when the Soviet Union introduced medium-range missiles into its arsenal in the middle- and late-70s. That technical military argument was always somewhat dubious. To resist the SS-20s we could have used sea-based missiles or our strategic missiles in the United States. The most valid argument for placing American medium-range missiles in Europe was to couple the defense of Europe and the defense of the United States in some organic manner. With American missiles capable of reaching the Soviet Union stationed in Europe, the Soviet Union could not engage in nuclear blackmail against Europe without risking American retaliation from Europe; that would bring general nuclear war; and that is presumably unacceptable. The same argument could be made with respect to a conventional attack on Europe, on the theory that a Soviet planner could not assume that the United States would permit these missiles to be overrun.

The fundamental argument for having these missiles in Europe was to create a certain automaticity in the American response. It was an argument, admittedly, that nobody made explicitly, and therefore, the whole discussion has been off on technical military issues. This coupling is being destroyed by what is now being negotiated.

It is perhaps useful to discuss briefly the forces in the United States that generated the zero option.

"...the Soviet Union is on the verge, and may have already achieved a veto over nuclear deployments within NATO."

Among the principal forces were people who, throughout the ‘70s, opposed arms control agreements as a snare and as a delusion and as encouraging a misapprehension of Soviet motives. They argued not that they were against arms control, but that they were against arms control that only froze the existing programs. They were in favor of reductions; this became an article of faith. (Others argued
in a similar manner for on-site inspection.) Thus zero became symbolically a desirable goal whatever its political or even military significance. Other forces in the generation of the zero option were military technicians who say it doesn’t make any difference where the weapons are stationed, as long as we use them. And finally, there were neo-isolationists, who really want Europe to take care of itself. You non-American Trilateralists therefore confront a coalition of neo-conservatives, neo-isolationists and arms controllers who have come together on this proposition and who will give it momentum, especially in the absence of anybody making explicit what they’re privately thinking.

The zero option originated in the Defense Department; it was opposed by Secretary of State Haig. It was packaged by public relations people whose knowledge of strategy was minimal, and of arms control was less. But it had the great advantage that it was not possible to top a proposal that offered to go down to zero. Europeans, rattled by their own domestic opponents, followed the same strategy. They applied the hoary well-established doctrine of the Harmel Report that we simultaneously pursue negotiations and armaments. And therefore, the zero option was supported on both sides of the Atlantic with the confidence that probably the Soviets would never accept it, and as a device by which we could proceed with the deployment.

Let me explain my concerns about the consequences of this agreement. It is said that the Soviets are giving up more warheads than we are. That’s probably true, though it should give us some pause from Europe. That is a psychological not a numerical fact. It discrédits and discourages those who have elaborated the existing defense doctrine.

For the third time now in the last 25 years the United States has unilaterally reversed—in different Administrations—decisions which it had urged on the Europeans. It withdrew the Thors and Jupiters in the context of the Cuban missile crisis, within less than five years of deployment. It abandoned the neutron bomb within two years of committing Europeans to it. And it is now well on the way to withdrawing the INF within three years of its deployment—indeed, before its deployment is even completed. Therefore, it is unlikely that any European leader will again stake his political future on following American strategic prescriptions opposed by the Soviet Union. This is another way of saying that the Soviet Union is on the verge, and may have already achieved a veto over nuclear deployments within NATO. This is all the more true because this decision also forecloses important European alternatives. I do not see how the Federal Republic can agree to the stationing of French medium-range weapons on its territory, were that ever offered, after having just got rid of the American ones. Indeed, the long-range strategy of the Soviet Union must now be to accelerate the denuclearization of all of Germany; and therefore, to heighten the psychological distinction between the Federal Republic and those European countries that have nuclear weapons.

The Asian part of the agreement gives me great worry as well. It permits 100 Soviet medium-range warheads in Asia balanced, if that is the proper word, by 100 American warheads that the Soviets insist be in the continental United States. From there they cannot reach the Soviet Union in case of a Soviet attack on China, Japan or Korea. Even if the Soviets should make one of their famous concessions and permit the stationing of these warheads in Alaska, I believe that those who know something about our military budget will agree that it is highly improbable that the United States would for long maintain 100 warheads in Alaska which can cover Soviet territory only at huge expense, when there are so many other means available.

The Soviet Union does not need 100 warheads aimed at China, Japan and Korea for military purposes. It has a surplus of warheads for that purpose. What it does need is our approval of that deploy-
ment, because that shows that we are making a dis-
tinction between Europe and Asia. And it is there-
fore a political weapon.

For all these reasons I am extremely worried, and
I'm even more worried about the fact that there has
been no serious debate going on. We are told that
the argument in favor of the zero option is that the

"I do not see how Mutual
Assured Destruction the-
ory can end in anything
else but unilateral disar-
ment and pacifism...."

Soviet Union is giving up more warheads than we
are giving up—I've already dealt with that. We're
also told that the impending agreement will permit
verification. But verification, which was used by so
many conservative opponents of arms control to kill
what they didn't like, is not an end in itself. Verifica-
tion depends on whether you understand what scale
of violation is needed to upset the agreement and
what measure you can take to respond and how
quickly you can respond. I would be astonished if it
were possible to reintroduce American medium-
range missiles in Europe after they have been with-
drawn. And therefore, what exactly are we going to
do if it turns out that the verification procedure tells
us that there is a violation. (Incidentally, I do not
assume that there will be violations, given the bal-
ances that I have described, at least not in the im-
mediate future.) We are told also that the impending
agreement is a test towards something more useful.
I would ask this question: When are we going to do
something useful? What is the purpose of symbolic
agreements that you cannot explain in substance?
Why not make a substantively important agreement
now?

I have spent this much time on INF because it
shows the intellectual problems all of us are facing. I
believe it would have been infinitely better to pro-
pose a 50 or 75 percent reduction which kept some
American missiles in Europe, and make the rest of
the withdrawal conditional on some amelioration of
the conventional balance. We would have had all
the benefits that I've described and few of the pen-
alties. We cannot blame the Soviets for the zero op-
tion proposal since we put it forward. So we'll prob-
ably have to go ahead with it. If we do, it would be
highly desirable to find ways of stationing aircraft
carriers or cruise missile ships close enough to
Europe to make it clear that we are still physically
committed, or to accelerate the creation of European
forces—in other words, to undo in part what we
have inflicted on ourselves. But, in the atmosphere
that will be generated, I doubt that this will happen.

CURRENT PROPOSALS: START and SDI
Now, I would argue that some of these attitudes are
reflected, as well, in the general negotiations on
START and on SDI, which I cannot cover in detail.
With respect to START, I do not oppose a 50 percent
reduction, but I defy anybody to tell me, except
symbolically, in what way it improves the situation
—given the way it is now being negotiated, in which
all essential weapons are being maintained, except
at a lower level. It neither reduces the danger of
surprise attack nor does it reduce the danger of civil-
ian devastation. I have no problem living with this
as a symbolic move. I would have preferred a nego-
tiation designed to abolish MIRVs, which would
have made a difference.

Now let me say a few words about SDI. SDI has
become an almost mythical issue. Much of the oppo-
sition to SDI is generated by the conviction that it is
an obstacle to arms control agreements, an obstacle
to the very agreements that I have analyzed previ-
ously. I am generally in favor of SDI, though not of
the arguments that the Administration has ad-
vanced on behalf of it. I am in favor of SDI because I
do not see how democratic leaders can insist for the
indefinite future that their populations must live in a
world in which they are forever exposed to mass
extermination. I do not see how Mutual Assured
Destruction theory can end in anything else but uni-
lateral disarmament and pacifism; and in that sense
the left wings in many countries have carried the
argument to its logical conclusion. I do not under-
stand why it is immoral to have weapons aimed at
weapons but it is moral to have weapons aimed at
people. I do not accept the proposition that strategic
defense must lead inevitably to an escalating arms
race. Why is it not possible to have a negotiation to
establish a balance between offense and defense that
maximizes obstacles to aggression by either side?
One reason it is not possible is because more intel-
lectual energy is expended on either proving that
SDI is technologically feasible or ridiculing it, so that
in the process we are building what I believe is a major trap for ourselves. I do not think we can get to the right conclusion by the legal exegesis of ambiguous clauses in an agreement. We can get to it only by stating a definition of the various objectives we want to serve and beginning a discussion, hopefully on a nonpartisan basis, of the various goals—from preventing limited attacks and third country attacks, to protecting retaliatory forces—and how these could be related to offense/defense relationships.

What bothers me is that we are sliding into a situation where the Administration has already accepted in effect a twelve-year moratorium: ten years of moratorium plus two years of negotiations—in other words, three presidencies from now. This is now being reinforced by Congressional pressures that will make testing very difficult, if not impossible. We would be unilaterally abandoning SDI without negotiation, without clarifying its possibilities.

CONCLUDING THOUGHTS
How comfortable can we all be when at a period of maximum Soviet weakness we solve for them the problem of European missiles and the problem of strategic defense without getting anything for it except a 50 percent reduction of strategic forces which a) solves no danger, and b) should be symmetrical?

What bothers me is that we are caught in a dilemma of our own making. The arms controllers are caught in the categories of the '50s, when there were single warheads, fixed missiles and relatively few warheads. The opponents of arms control are caught in the categories of the '70s, in which they attacked what they wanted to kill with technological arguments which are now coming home to roost. And the politicians are more interested in what they can say than in what they can think. There are no incentives for dealing with the long-term future. It is odd that with two summits coming up we have been so reluctant, all of us, to raise any political issues. Linkage has been condemned for 30 years, and yet, when are we ever going to speak about the political projection of Soviet power abroad, from Nicaragua to Angola to Cambodia? Great fun has been made of the attempts of the Nixon Administration to begin talking about rules of conduct, but nobody has yet come up with any other kind of discussion.

So, we are living in a period in which the Soviet Union is in great difficulty. It may or may not have a leader interested in serious change. Surely, they cannot undertake their domestic program and sustain aggressive international policies simultaneously. I could use a phrase that President Reagan used in his campaigns, "If not now, when? And if not we, who?" When are we ever going to make a difference?

I would like to conclude with two quotes. One is from a Swiss play called "The Arsonist." A Swiss bourgeois in a town which is reported to have arsonists takes two people into his house; and it gradually dawns on him that maybe these are the arsonists. The arsonists become more and more confident and more and more aggressive and keep asking him for proofs of his good faith—that he doesn't suspect them of being arsonists—culminating in their asking him for matches, which he then hands over. His wife says, "You must be crazy, handing over matches to arsonists;" and the play ends with him saying, "If they were arsonists would they be asking me for matches?"

The second quote I would like to mention is from Prime Minister Lee Kwan Yew from Singapore, who alleges that there exists the following Chinese proverb: "When there's turmoil under the Heavens, little problems are turned into big problems, and big problems are not dealt with at all. When there is order under the Heavens, big problems are reduced to little problems, and little problems should not obsess us." What worries me more than I have ever been concerned in my political life is my fear that we are not turning big problems into little problems. I wonder whether we are contributing to order under the Heavens.

Henry Kissinger was U.S. Secretary of State in the Nixon and Ford Administrations.
After Reykjavik: Discussion

The "After Reykjavik" session of the San Francisco meeting opened in plenary with Dr. Kissinger's address and some discussion. After lunch, the plenary broke up into three sub-groups, in which members reacted to Dr. Kissinger's remarks and spoke more generally—and informally—about the state of East-West relations. There was discussion about strategic weapons and SDI. There was also considerable discussion of current developments in the Soviet Union and the possible international implications of Soviet domestic reform. The discussion concentrated on the likely "zero option" INF agreement and its implications—on which Dr. Kissinger also concentrated his remarks. What follows is a sampling of comments in this last area.

A German member *shares Henry Kissinger's concern about decoupling. I happen to believe that these systems do have a coupling effect, and that they also have it in the Soviet mind, and that removing them does raise serious problems. "To stop here, however, "leaves out the politics of where we stand...This is the proposal on the table and we are committed...So the question to be asked at this stage is: how do we go on from here?"

This participant *did see advantages in the agreement: If we succeed in getting down to zero on INF, that presupposes a degree of verification that we have never had in the history of arms control and disarmament. It means that there will be inspectors poking their noses in all kinds of places in the Soviet Union and in Western Europe, and in the United States. If that happens, I would argue we are in a different political environment. Now it may not occur. My argument would be to test it, to try it out—that is absolutely vital. It's possible that for the first time in history we will have the scrapping of a new weapons system, which has never occurred before. That would have an effect on East-West relations.

Even on the coupling issue, this participant offered moderating arguments: I would like to add an argument that is not very often considered. I have the hunch that after Chernobyl, the lesson has been brought home to the Soviets—as much as to us, but particularly to the Soviets—that it doesn't make much difference, as far as damage is concerned, whether a weapon explodes on Polish territory or on Soviet territory. Put differently, the SRINF that we retain will still have a coupling effect in that sense; in that the damage they can create to the Soviet Union is enormous. We always tend to believe that they only come down on East German or Polish or on other allied territory, but the impact would also be on their territory.

Finally, the coupling effect is also a political one. I think that under all these circumstances the most coupling effect from the European perspective is the American troop presence. And that is why I am very concerned that at this moment, as we discuss taking out certain nuclear systems, we have a debate beginning about reducing the conventional presence of the United States. I think it comes at the worst possible moment.

A British member *shared Henry Kissinger's dismay about Reykjavik, but was quite positive about the likely INF agreement and rejected the decoupling argument: I've never accepted the political argument about decoupling. It never occurred to me that the Alliance was going to be decoupled. One, because there are some 350,000 American troops—and a whole mass of tactical nuclear weapons which would have to be dealt with first in any Soviet advance. And secondly, because we have the security and service of France and Britain possessing their own independent nuclear weapons as well. It never occurred to us that this was a very serious argument, frankly, for deploying American intermediate range missiles.

A French member *shared Henry Kissinger's concerns. However, although I have doubts over the results of Reykjavik and misgivings about the zero option, I do not want to appear panicky. I don't think it means the end of the Atlantic Alliance. As long as the Atlantic Alliance exists, as long as there are American forces in Europe with nuclear weapons, there is really no reason why the Soviets should embark on a rash and dangerous policy.

My misgivings about the zero option were said this morning, that it would remove from Europe U.S. weapons capable of reaching the Soviet territory. This has been an objective of the Soviet Union ever since the discussion started between the two countries. Twenty years ago they wanted to remove the FBS (Forward Based Systems), and now they want to remove those American systems capable of reaching their territory. Now it is not true—although it appears so—that removing Pershings and cruise missiles on one side and SS-20s on the other is a balanced reduction. Removing the Euro-missiles diminishes considerably the vulnerability of the Soviet Union; whereas the vulnerability of Europe would be exactly the same from the threat of the SS-21s, 22s and 23s as it is from the SS-20s. And we must remember that for political and geographic reasons the Atlantic Alliance has to prepare a forward defense—which means that the forces of the Alliance are gathered within 100 kilometers of the dividing line. With a range of 120 kilometers for the SS-21, more than 50 percent of the forces of the Alliance are under the threat of the remaining Soviet weapons. This move will weaken deterrence by removing a very important rung on the ladder of deterrence, which goes from the first platoon in Berlin to the strategic systems of the United States.
So, what should we do? It's not enough to criticize. Are there measures that we could take or that the Europeans could insist upon that would mitigate the danger of the situation? I think that if it were possible, the aim should be an agreement which leaves both sides with fifty or a hundred weapons—that would be make us feel better. But that's probably not possible. What is possible is that we delay fully completing the zero option until the new U.S. weapons—the Stealth airplane, the cruise missiles on maritime platforms (whether submarines or surface ships)—can be deployed close to Europe, or in Europe. That would be something that would be comforting.

We should insist that we are dead against denuclearization of Europe because of Soviet superiority in conventional weapons, and because denuclearization of Europe would probably mean the end of the Atlantic Alliance. Because if American nuclear weapons are taken back over the ocean, and if Soviet nuclear weapons are just withdrawn a few hundred kilometers to the east, it's very unlikely that the American people and government would feel that they have a situation which is acceptable.

Finally, the situation will call for a certain change in the strategy of the Alliance, which is now that of flexible response—with the end of the ladder the threat of escalation to the strategic level. With the impending changes there's absolutely no doubt that the importance of nuclear weapons will diminish, while the importance of conventional weapons will increase. Now, it's the policy of the Soviet Union to achieve enormous superiority in the field of conventional weapons, telling us that they will not use nuclear weapons first, but that if we do then the punishment on Europe will be frightful. On our part we must put in the minds of the Soviet leaders, both military and civilian, a serious doubt as to their capacity to implement their own strategy, which is one of scoring an immediate, decisive, disarming blow. And that means on our side improving our air defenses, improving our defenses against missiles, having counterforce capability against the rear of the enemy, and improving our conventional forces. I think if we do these things then we will restore a certain balance.

A Belgian member was amazed that the West would consider going back on its own "zero option" proposal. "We are going simply to tell European public opinion that it is a trap and that we must not do it? That's surrealistic." He knows many people, himself included, who would have much preferred sea-launched (not ground-launched) cruise missiles in the first place. "The ground-launched cruise missiles were a requirement of the American military people. We did not want them."

A Danish member's strong views were in another direction: What sent chills down the spine in all the European chancelleries after Reykjavik was the fact that somebody had called our bluff. We have been criticizing the United States over the years almost systematically, with no restraint, and all of a sudden we had publicly to admit that we had been living all these years in a protectorate status. We are not willing to sacrifice economically what it costs to put up sufficient conventional forces. We certainly are not going to develop chemical weapons in Europe. Now, we had at least a social democratic chancellor, Helmut Schmidt, who finally called it correctly—who invited the Americans to deploy the Pershings and the cruise missiles. That was a very brave action. Now, whether or not it was a military necessity, I shall not be the judge of that. While I am willing to accept the view that it was not a military necessity, it was a psychological and political necessity. We cannot live without the coupling effect of the present weapons. And when people talk so, they seem to underestimate the importance of the political work put in by people who had to fight their own public opinion for the deployment of the Pershings and the cruise missiles, and now talk about withdrawing them before they have even been fully deployed. I don't think those in favor of withdrawing these weapons know what they are talking about. The question is that is no European leader, as Henry Kissinger said this morning, will ever again stick out his neck under these circumstances. He cannot. I would even go further than Kissinger and say that there is a psychological and political necessity to have the Pershing IIs and the cruise missiles, even if the Russians had never deployed even one SS-20. The political-psychological balance would have required it.

A number of differing American views were expressed. An American member agreed with some of Henry Kissinger's concerns, but felt the focus now should be on where we go from here. The interesting question is what are the military effects, and then what are the political effects, and then what should we do? The military effects are really very slight. These were political weapons first and foremost. You could hit any target you wanted in Europe with systems already devoted to NATO. The military effects are secondary to the political effects. And the most important of the political effects is the question of coupling.

Now what is coupling? It's the feeling that the Americans will indeed come to the defense of Europe.
That essentially is the whole theory of extended deterrence. All too often we talk as though it depends upon some particular weapon system. The credibility of extended deterrence rests upon the demonstration that we have high stakes in Europe. It rests upon the fact that we have conventional forces there, which are a way of showing that if something happens we are immediately involved. And it rests upon the fact that we also have a nuclear capability to back that up. The removal of one or another weapons system—a nuclear weapons system—need not have a decoupling effect.

That brings me to my next point: What happens to these weapons, whether they have a decoupling effect or not, depends on how we handle it. Instead of complaining about what would've been the ideal agreement—I would rather leave 100 weapons there—one has to ask if it would be better for Alliance cohesion to try to reverse gears. And it strikes me as absolutely clear that to reverse gears at this point would probably be a way to bring about Alliance incoherence and disunity, which really would have a weakening effect on extended deterrence.

These were political weapons going in; they're political weapons coming out. We managed to have effective extended deterrence up to 1983 without them; again we can have very good extended deterrence without them. The key is to maintain Alliance cohesion, which means not speaking too much with alarm, but asking about the practical merits of how we go about keeping the Alliance together on the issue.

Another American member discounted the military importance of INF in Europe, but gave great weight to political perceptions in Western Europe: I don't believe there is any merit whatsoever to the argument that the INF force is required in order to couple U.S. forces to the defense of Europe. I think it's generally agreed that we have sufficient numbers of strategic warheads (some 11,000) to offset the SS-20s. The problem is that Europe feels we won't use them. Now why does Europe feel we won't use them? For the very simple reason that they feel the President—before he'd launch Minutemen from Kansas or SLBMs from off the coast of Belgium in response to a threat from the SS-20s—would be concerned how the Soviets would respond. But what do you think the President will think when he's about to authorize a launch of the Pershings? The Soviets have said that they don't care whether a warhead coming towards the Soviet Union comes from the Pershings or from the Minutemen. So the President is going to think of exactly the same factors and forces in determining his decision. In that sense, I think there is no merit whatsoever to the point that the Pershings and cruises missiles couple us to the defense of Europe. Having said that, if Europe nevertheless believes these weapons are critical, I am for putting the Pershings and cruise missiles in Europe. Why? Not because that couples us, but because the foundation of NATO's security is unity, and we must have unity in the Alliance; and if Europe has the misperception that these INFs couple us to them, then I want them there. And frankly, I wouldn't take them out now.

Another American member posed a question to the Japanese: I have a specific question for our Japanese friends with respect to the Asian side. I can understand why the preference would have been zero SS-20s in Asia as well as in Europe. But, if there's to be a hundred on each side, and if the U.S. puts a hundred in Alaska would that U.S. move be applauded in Japan, or would it be disliked? Do the Japanese specifically worry about being involved in a Far Eastern war that the U.S. gets involved in—and that the Japanese would prefer not to be in. What about that kind of coupling? That may or may not be affected by INF deployments, but I would not be surprised if the question came up if the U.S. actually deployed cruise missiles in Alaska.

A number of Japanese members spoke up in this debate, and in another sub-group a Japanese member addressed the matter of the 100 Soviet INF warheads remaining in Asia. If there is a zero option in Europe and a 100 option in Asia, Dr. Kissinger argued that, because the United States would not deploy a hundred missiles in Alaska, there would be an INF imbalance in Asia. The Soviet Union would have a hundred in Asia and the United States would have none. He said this would worry the Asians. I think it might worry the Japanese, but maybe not as much as he has suggested. Before the SS-20s were deployed in Asia, there were SS-4s and SS-5s, and the Japanese did not make a big issue out of those missiles. Likewise, when the SS-20s were deployed (there are currently about 372), the Japanese tried not to make a big issue out of it, so the public would not make a big issue out of it. Therefore, although the Soviets may be left with 100 missiles in Asia and the Americans none, this will not be a big issue for Japan. A qualification is that if Mr. Nakasone was publicly accused of not adequately conveying Japanese worries and concerns to the American government—given the differential treatment that Japan got compared to the Europeans—he might be in a difficult position.

Another Japanese member "quite agree[d] with the analysis of Henry Kissinger" on the question of 100 Soviet warheads remaining in Asia. He also pointed out how much more difficult the verification issue is with these 100 warheads. Then he turned to decoupling and the possible effects on U.S.-Japan relations of what might happen in
Europe. The Japanese are afraid that the possible U.S.-Soviet agreement may bring some sort of decoupling between the United States and Western Europe—if not of a military character then of a political character. If so, that might lead to a **U.S.-Japan decoupling** of the same character. U.S.-Japan security relations as of now are quite good and stable; the Japanese don't want them to be hurt, ironically, by nuclear arms reductions.

In order to prevent Euro-American decoupling it is more or less essential for Europe to take a more positive posture on conventional capabilities. The Japanese are worried about what kind of impact a possible build-up of conventional capabilities in Western Europe would have on Japan, which has already been under pressure to increase its **self-defense capabilities**. Japan would be driven to face the problem of whether it can follow Europe in the future. The Japanese government has recently finally decided to spend more than one percent of its GNP for defense under severe opposition from various groups. It may not be politically possible for Japan to further increase its defense expenditures significantly.

**In closing, this member noted:** as a whole, the Japanese people do not want the United States to make haste to reach a nuclear agreement with the Soviet Union that puts priority on (American) domestic considerations rather than the considerations of its allies.
A draft of this task force report was discussed at the San Francisco meeting. Much of the draft was devoted to analyzing a variety of debt reform options, from the baseline of the strategy that evolved in 1982-83 after the onset of the crisis. Another key chapter sought to provide the conceptual tools for thinking about the situation of individual countries. The authors decided to draft their conclusions chapter after the meeting. There were differences among the authors on the appropriate conclusions, differences set out in opening remarks that framed the subsequent discussion.

**Martin Feldstein**

*Martin Feldstein, lead author of the report, spoke first:*

I am relatively optimistic about the prospects for the major Latin American debtors—Mexico, Argentina, Brazil, Venezuela and Chile—and I’ll concentrate my remarks on them. I believe that it is possible to restore satisfactory growth in those countries in a way that is consistent with continued cooperation of the debtor governments and creditor banks. I believe that achieving satisfactory strong growth does not require forgiveness of debt or any fundamental change in the nature of debt rescheduling. But it does require three things for at least the remainder of this decade and probably until the mid-1990s.

First, the debts must be rolled over as they become due—that is, no repayments of principal. Second, interest rates on new loans must remain very close to the cost of funds for the banks—that is, a small spread relative to LIBOR. Third, and most important, net new credit must be extended; debt must grow in nominal terms.

The critical point is that although the debts of the debtor countries must increase in nominal terms, the relative magnitude of that debt will decline—that is, the debt may grow at, say, four percent a year, but debt as a percentage of the debtor’s ability to service debt in the future will decline. (Debt can decline as a percentage of the debtor’s GNP; it can decline as a percentage of the debtor’s exports.) Roughly speaking, I think we can have satisfactory growth in the next years if debt remains roughly constant in real terms—growing just enough to keep up with inflation. Growth of debt at such a slow rate also means that the banks’ positions will improve over time. Debt will increase on their books but will decline as a percentage of the banks’ assets.

In short, I think we can restore satisfactory growth in the debt-laden LDCs if the creditors are prepared to provide moderate amounts of additional debt, if the banks are willing to return to lending. I emphasize the word “return”—because for the last two years the banks have done no new net lending to these debtor countries. So, we really are talking about a substantial change in the behavior of the
creditor banks. I’m convinced that the U.S. money center banks, no matter how they may protest along the way, will in the end be willing to provide the necessary additional credit. Our regional banks are a source of more uncertainty, but I think in the end most of them will also cooperate and the system will somehow compensate for those that do not. I’m less certain in my own mind about the European and Japanese banks (that together represent 60 percent of the credits to these countries), although my colleagues tell me that, in the end, the Japanese and European banks will also be willing to provide the roughly four percent a year increase in nominal debt—in other words, maintaining the real value of their loans to these countries.

Dr. Feldstein then turned to the particular case of Brazil—“the toughest problem on the near-term horizon”—to illustrate his general point.

Brazil has a debt of about $100 billion against a GNP of $250 billion, so its debt/GNP ratio is about 40 percent. With a nine percent interest rate on its debt, its annual debt service is between 3.5 and 4.0 percent of its GNP. Debt service requires that exports exceed imports. Exports in Brazil are about $25 billion. In 1985 it had an export surplus of more than $12 billion, more than enough to service all of the interest on its current debt, but not in a way that was consistent with sustained, long-term growth.

The government of Brazil has insisted that the package that comes out of the current round of negotiations be consistent with possible seven percent real growth in the years ahead—certainly a high rate of real growth, but one that is consistent with Brazil's stage of development and its own past performance. They have indicated that that means limiting annual debt service to about 2.5 percent of GNP. That means that the banks and multilateral agencies together would have to provide new credit equal to about 1.5 percent of Brazil's GNP, or about $4 billion a year, of which the banks would probably be responsible for about three-quarters. In other words, behind the very tough rhetoric is the demand from Brasilia for about $4 billion more of new loans per year, an increase of four percent which in real terms is no increase at all.

Continuing down this road—limiting net debt service to 2.5 percent of GNP—over the next several years would cause Brazil to need less additional new money each year, and a time would come when the 2.5 percent of GNP would be more than enough to meet its entire interest obligations. But even before that happened, somewhere out in the middle of the next decade, I think Brazil, if it continued down this path, would have voluntary access to the credit markets.

I have focused on Brazil, but I think the situation is similar in the other major debtor countries—some better, some worse. In the aggregate, restoring growth requires banks to lend about four percent of the existing amount of their loans, or roughly $12 billion a year—about 50 percent more than called for in the Baker plan. I think this lending is going to occur and that more drastic measures can be avoided.

This kind of muddling through with a little more effort and goodwill is not a very exciting proposal to offer you. It doesn’t have the intellectual appeal of a neat plan to restructure liabilities and forgive debt, nor does it have the dramatic appeal of the crisis and repudiation stories that some would imply are just around the corner. But as of now I’ll stick with muddling through and modest debt expansion as the most promising way to achieve satisfactory economic growth and the eventual return of the debtors to the financial markets.

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Hervé de Carmoy

Hervé de Carmoy, European author of the report, set forth a different view. He proposed a more dramatic departure from current practice—"a long-term structured view combined with a case-by-case approach." His view rests partly on a more pessimistic macroeconomic and "macro-political" outlook.

In macroeconomic terms we have to see that overall economic activity is slowing down. Measured against the price of manufactured exports, non-oil commodity prices in 1986 were lower than in 1985 and are at their lowest level in 50 years. Although nominal interest rates have fallen, the real cost of borrowing for developing countries increased in 1986. Public and private long-term debt and financial flows were negative in 1986, even more than in 1985. Protectionist measures have grown relentlessly. And per capita income in most heavily indebted countries has declined significantly. What is the
Macropolitical situation? Many governments face mounting pressure to weaken their commitment to adjustment policies, although some determined action has taken place. The assumed willingness to pay must be increasingly questioned, with a lesser disincentive to default.

Mr. de Carmoy recognized the diversity of cases among debtor countries, which “justifies a case-by-case approach.” But to restore adequate growth, he argued, a broader initiative is needed, including “significant capital resources, a way to improve efficiency in the investment process, a combined approach of all creditors, a long-term approach, and a contractual approach.”

Mr. de Carmoy’s proposal was set out in detail in an appendix to the San Francisco draft. In his opening remarks, he nicknamed it the “Three Cs”:

1. Capital. Up to $30 billion a year should be made available to 17 heavily indebted countries to generate six percent growth. (The World Bank estimates that $20 billion a year is required to achieve a four percent growth.) These funds should be provided in a Trilateral way—from the United States, Japan and the EEC—by commercial banks (one-fourth), multilateral lenders (one-fourth), and governments (one-half).

2. Commitment. The commitment should have three characteristics: it should be a long-term commitment, a shared commitment, and a contractual commitment. A long-term commitment: ten years is the essence for the implementation of the kind of policies required and time is also required for institutions to change the way they act. A shared commitment: it has to be shared by the banks (a price has to be paid for the fallacies of the past, and also the banks have the staff resources and know-how to promote growth), by the multilateral agencies (because they have a wealth of experience accumulated over thirty years), and by governments (because a trillion dollar debt impacting on the lives of hundreds of millions of people is a geopolitical problem). Finally, it has to be a reciprocal commitment: indebted nations will need to commit to legal, fiscal, economic and regulatory policy changes, and these changes will have to be monitored.

3. Character, which etymologically, from the Greek, means “imprint.” An “Action Committee” is needed to administer the fund and agree on the structural reforms with debtor countries. The Action Committee would have a supervisory board comprised of key officials of the United States, Japan and Europe (to provide effective political leadership) and a managerial staff of no more than 100 action-oriented individuals. Such a committee could have an umbilical cord to the World Bank.

To those who are potentially opposed to this approach, remember that restoring growth in the debt-laden countries is the highest aspiration in these countries. It is also vital to the Trilateral countries to cement fragile geopolitical linkages and to restore the strength of the financial and trade system. So we should negotiate for it. We should sacrifice for it. We should innovate for it.

**Koei Narusawa**

Koei Narusawa, the Japanese author, reflected on the evolution of the crisis since 1982. There has been an imbalance “between the adjustment policy pursued by debtor countries and external finance provided by the creditor nations from official as well as private sources.” Too much weight has been put on the adjustment side, while the flow of new money dwindled and then reversed. “The forgiveness of past debt,” Mr. Narusawa argued, “is both unnecessary and counter-productive.” But in order to avoid such an “alternative and more damaging scheme” for reducing the burden of debt, “we have to find a new initiative enabling the creditors to continue to provide a certain amount of new credits to the debt-laden countries.”

One problem is divergent accounting practices and taxation systems (particularly in regard to write-offs and provisions for loan-loss reserves) and bank regulation among the Trilateral countries. This makes coordination and cooperation among commercial banks in the Trilateral countries extremely difficult. So I see a pressing need to make some sort of harmonization or standardization of these rules and practices.

Mr. Narusawa recognized “the heightened role to be
played by Japan as the largest surplus and creditor nation of the world.”

I’d like to stress that we are very much mindful of the need to step up our efforts to recycle capital to the needy countries—debt-laden countries in particular. But unlike Saudi Arabia in the wake of two oil crises, we do not have twin surpluses. Externally we have a huge surplus; however, internally the government is suffering from a large budget deficit. This means that Japan’s surplus is in the private sector. The question becomes one of mobilizing the liquidity (or cash) contained in the private sector for the objective of recycling the surplus effectively and efficiently to the needy countries. A way has to be found to make this feasible.

Paul R. Krugman

Paul Krugman, the last of the authors to speak, concentrated on some analytical points to help put in perspective what the others had said.

It remains true, despite much pessimism about the debt issue, that the underlying algebra for the major debtors remains relatively favorable. If one asks what it would take not to have debt paid off, but to have the debt of major debtors grow more slowly than some measure of their ability to service that debt, the numbers do not seem unreasonable. Therefore, the simple argument that the debt is so enormous that no one can ever repay it is not correct quantitatively.

It is sometimes quite appealing to say that what these countries really need to do is restore confidence. If they can make their creditors confident in them, and especially if they can make their own citizens confident in them, then the debt problem will go away because the creditors will be willing to lend and the flight capital will return. Unfortunately, that is not an operational proposal—how do you restore that confidence? I’m afraid we have to live for quite some time in a world in which new credit is not voluntarily forthcoming, at least not voluntarily in the sense of individual investors choosing without external suasion to provide funds.

That brings me to the next point. To the extent that we are going to be relying upon involuntary provision of new credit, whereby nominal debt grows but not relative to eventual ability to pay, it looks like a very long process—not a three-year view, not a five-year view, probably not even a ten-year view. We have to envision this as an extremely extended process.

How do we make that process work? We need a mechanism for insuring that the nominal value of debt continues to grow. The mechanism that was adopted as the basis of the initial strategy, which in the report we refer to as the “1983 strategy,” was ad hoc. Under that strategy, one mobilized the creditors on an ad hoc basis through moral suasion and appeals to their enlightened self-interest to make new credit available. We must recognize that that strategy did not work as intended. For the first two years, while net new credit was extended, it fell considerably short of the amounts envisaged. During the two years up until the recent Mexican package, no new net credit was provided.

What do we do now? I guess the obvious needs to be repeated. Failure to provide new credit to the debtor countries is not an option. It cannot happen and it will not happen. One way or another the resource transfer will be kept within sustainable bounds. There are three ways in which that can happen short of something even more drastic.

One is a successful renewal of the 1983 approach—ad hoc provision of new credit on a basis which, while not exactly voluntary, is not exactly institutionalized either. That is implicitly the approach of the Baker initiative. It is certainly, if it can be done, the most desirable approach. But we need to think seriously about whether it is feasible.

The second approach is to fill the need for new credit through official lending—essentially, in part or in whole to mobilize the resources of the governments of the Trilateral nations to cover the gap between what is due on the debt and what is a feasible level of resource transfer. The question here is one of desirability and feasibility.

The third way is some mechanism whereby a portion of the interest is relented, not through actions on the part of the creditors, but through some mechanisms that makes it inevitable. I’m talking about some kind of interest capitalization, under whatever name. This third option could take place through some formalized mechanism—that is, through an agreement which creates interest capitalization—or it could very easily take place through an informal
mechanism, namely, the accumulation of arrearages on the part of the debtors.

We need to recognize the reality that these are really the only three options: renewal of the 1983 approach, on a scale larger than that envisaged in the Baker initiative; large official net lending; or some form of interest capitalization, agreed upon or not agreed upon.

* Martin Feldstein is President of the National Bureau of Economic Research and the George F. Baker Professor of Economics at Harvard University. He was formerly Chairman of the U.S. President's Council of Economic Advisors. * Hervé de Carmoy is Director and Chief Executive International, Midland Bank. * Koel Narusawa is Economic Advisor to the President of the Bank of Tokyo. * Paul R. Krugman is Professor of Economics at the Massachusetts Institute of Technology.
WORLD ECONOMY: REDUCE IMBALANCES WHILE REINFORCING GROWTH
In the closing years of the '80s the real challenge facing the world economy is how to maintain and reinforce growth while reducing very large trade imbalances in the three largest countries. These imbalances are not sustainable. How can they be reduced without risking a recession in the United States which would endanger the forward momentum of the world economy?

It is clear that the budget deficit of the United States must be reduced, but how will the diminishing fiscal stimulus in the United States be compensated for by increased stimulus elsewhere in the industrialized world? And will the level of demand for products from developing countries be maintained? The United States has demonstrated a high propensity to import goods from debtor countries. It is not obvious that this role can automatically shift to other industrialized countries without special efforts at trade liberalization—it goes without saying that protectionism has to be resisted—and, above all, without efforts at stimulating growth in these countries. The major industrial economies need to keep the commitments they made at the February Paris meeting: while deficit countries need to put their houses in order, surplus countries—particularly Germany and Japan—need to spur domestic demand. Recent exchange rate shifts are beginning to narrow the imbalances that exist among the three largest countries, but changes in price competitiveness will not be enough if they are not supported by appropriate macroeconomic and structural policies. I would particularly emphasize the latter. There is considerable scope for structural policy adjustments in the industrial countries, particularly in Europe. If we are not able to progress in this field, we cannot expect better growth.

THE INDEBTED COUNTRIES: WAYS FORWARD
Let me turn to the indebted countries. In spite of their efforts at adjustment, these countries have been severely affected by adverse developments in the economic and financial fields. In the economic field there has been a severe deterioration in the terms of trade of most of these countries. For all developing countries taken together, the loss in the terms of trade last year amounted to the equivalent of about $100 billion. The fall in export prices that was mainly at its root also caused a sharp deterioration in debt to export ratios.

In the financial field there has been a sharp decline in net external lending to developing countries, offset only partly by non-debt-creating capital flows. For countries with recent debt problems, net lending has fallen from $87 billion in '81 to under $10 billion in '86. While $87 billion was much too much, $10 billion is certainly not enough. In the absence of compensating flows, the maintenance of debt service has required debtor countries to run large trade sur-
pluses. But how long can this last, given urgently needed investment?

Has the burden of debt for some indebted countries become so substantial in relation to their capacity to service it as to suggest a need to draw much sharper distinctions among debtor countries in the manner of treating their existing debt obligations? There are surely indications that this is true for the poorer debtor countries in Africa. It is indispensable that the international community hold out the hope to these countries that exceptional efforts to reform their economies will be met by exceptional financial relief. Much of their debt is owed to official creditors and the question of how this relief is to be provided must be addressed by those creditors as a matter of high priority.

We are living in a time of special fiscal restraints in the industrialized countries. This means that for the middle-income countries there can be little, if any, expectation that additional official flows could be diverted to them. For the time being it would be mistaken to think that a magic solution can be devised for transferring their debt to official entities or for securing it by an extension of official guarantees. These middle-income countries will continue to depend upon commercial banks and other private lenders.

Does it mean that we are in an impasse, and that there is no solution outside of confrontation or unilateral measures? I don’t think so. On the contrary, I think that it pushes us to secure the real, sound and lasting solution. The turn of events may compel us to accept that the debt problem will persist for a longer time than we had earlier hoped. But the key elements of its resolution remain essentially the same and will continue to rest on enabling the heavily indebted countries to fulfil their real economic potential and to obtain in the market (on normal commercial and competitive terms) financing for their investments. All efforts from all sides (debtors, creditors, multilateral financial institutions) have to be geared in this direction.

It falls primarily to the debtors to recreate the necessary conditions for sustainable flows on normal financing terms. They must be steadfast in the pursuit of strong growth-orientated and outward-looking adjustment policies that help mobilize domestic savings and enable a greater proportion of these savings to be productively invested at home. On the creditors’ side, there is the question of reversing the recent net withdrawal of commercial bank financing and preventing the protracted delays that have attended the implementation of concerted lending. At the heart of these difficulties is a certain loss of cohesion within the banking community. If this problem is not to reach dangerous dimensions, we must deal with it expeditiously.

Do I mean that nothing has to be changed? Not at all. Every effort of imagination is needed. But it has to be geared to reestablishing a climate of confidence between creditors and debtors. From both sides effort is needed to avoid what is especially corrosive of mutual trust, that is, a lengthy process of negotiation, ambiguous declarations by debtors regarding their intentions, and, still worse, their possible consideration of unilateral moves. Does it imply that broader-ranging solutions have to be put aside? Certainly not, as long as they do not seek to pass to a third party the burden of the risk.

ROLE OF THE FUND

In their efforts to deal with the debt problem, banks and debtor countries can count on the continued help of the multilateral financial institutions. Lending by the World Bank has been increasing broadly in line with the amounts envisaged in the U.S. debt initiative announced in Seoul in 1985. And the Fund, which was so active at the beginning of the ’80s in supporting a range of large-scale adjustment programs, will maintain its efforts and actively attempt to adapt its instruments to the evolving situation.

I have refrained today from speaking about the role of the Fund in resolving these difficult problems because I have been at the Fund only a short time. Let me conclude by saying something about my eight weeks at the Fund. I have been in the Fund long enough to understand what the Fund really is; and I can assure you that it is not what you often read in the newspapers. First, the Fund’s policies are flexible, not rigid. There are no straitjackets in our cupboards. Second, the Fund recommends more
growth-oriented measures than politicians are frequently prepared to adopt. Third, the Fund works with the resources, and within the limits, provided by its members. It has been given no magic wand. Fourth, while so much of the discussion of the Fund’s role focuses on the debt problem, the Fund’s most important work remains that of helping to intensify the coordination of economic policies among the major countries in order to ensure a growing but stable world economy, and to alleviate the tensions that insufficient growth exacerbates. The key for growth in indebted countries lies in the industrial world: One has always to have that in mind when dealing with debt. Finally, the world evolves and the Fund must evolve with it. This is true for the debt strategy as it is for all other areas of international cooperation. The Fund has demonstrated its ability to adapt to new challenges and I intend that it shall continue to respond creatively to the challenges that lie ahead.

Michel Camdessus is Managing Director of the International Monetary Fund. The above is an edited version of his address.

Third World debt stumps Trilateral panel experts

By Herbert A. Michelson

SAN FRANCISCO — The world’s leading economists were unable to agree Saturday on how to cover the staggering, multibillion-dollar Third World debt.

Harvard Professor Martin S. Feldstein, for two years chairman of President Reagan’s Council of Economic Advisers, said the approximately $300 billion debt does not mean that donors and lending institutions, including all major commercial banks, are “closed.” But all debtor nations are “closed.”

by U.S. banks. Brazil and Peru recently placed $3 billion in debt payments on its books. Of the $2.5 billion in loans and is trying to borrow another $650 million. Late last week, Mexico borrowed another $7 billion from U.S. banks.

Trilateral Commission report hails Mexico’s fiscal-responsibility efforts

By Jack Schriftman

SAN FRANCISCO — Mexico, among other debtor nations, was included by a Trilateral Commission that foresees a country trying hard to pay its bills and improve its economic position in the world.

The commission’s report on the debt crisis and its solutions was signed by the United States, Brazil, and Mexico. The commission said that the debt crisis was caused by the “excesses” of the 1970s and that the countries had to make adjustments.

The Trilateral Commission, headed by former Treasury Secretary James Baker, said that Mexico had made some adjustments, but that the debt crisis was still a problem.

The commission’s report was widely praised by international economists, who said that it was a step in the right direction.

Economist Martin Feldstein predicts 6-10 years for debt service

Economist Martin Feldstein predicts 6-10 years for debt service.

That’s how long before Latin nations can service their debts.

Feldstein sees hope on Brazil

By Rose Rapace

A foreign banks eventeering the money they American

The Economist, 28 March 1987
CURRENT TRENDS AND CHALLENGES IN LATIN AMERICA
am speaking as a private citizen; I represent no
government and no institution. I am an independent
writer convinced that the reforms Latin
America requires to achieve development and social
justice must be carried out within the framework of
the rule of law and freedom that only democracy
can guarantee.

Seen in this way, the Latin America of today jus-
tifies our cautious optimism. Never before in the his-
tory of our nations—that is, since we became inde-
pendent from Spain and Portugal—has our part of
the world had as many governments created by free
(more or less) elections. Put in another way, never
before have there been so few authoritarian regimes
as there are at present. Bloody tyrannies in
Argentina and Uruguay have yielded to civilian
governments—the same is true in Brazil—as has the
shameful anachronism until recently embodied by
Baby Doc, ex “perpetual president” of Haiti.
Countries in which until 25 years ago no elected
president could finish out his term in office—
Venezuela and the Dominican Republic, for example
—are today models of pluralism and coexistence,
where antagonistic political parties are voted in and
out of power, and where the extreme right and the
extreme left receive fewer and fewer votes in each
successing election. Even in Central America, the
region that has traditionally suffered most from
political oppression, we have begun to see military
regimes resign themselves—not always willingly, of
course—to holding elections and yielding power to
civilian leaders.

But it isn’t only military dictatorships that have
diminished in number to the point that the regimes
of Generals Stroessner and Pinochet are now among
the few surviving examples. The Cuban model of
violent revolution is also undergoing a genuine
thaw, especially if you compare the situation today
in Latin America with what it was just a few years
ago (when guerrilla groups operating in the moun-
tains and cities were hard at work in a dozen
countries trying to turn Che Guevara’s maxim
“Create in our continent two, three Vietnams...”
into a reality). There are exceptions, of course: El
Salvador, although even there guerrilla activities
have lessened; Peru, where the apocalyptic fanati-
cism of the Shining Path continues to take human
lives and destroy property, even though it does not
at this point constitute a real threat to the govern-
ment; and Colombia, where political violence often
gets mixed up with the purely criminal violence of drug traffic. In the rest of Latin America the myth of armed revolution as a cure-all for our problems has ceased to convince people and is increasingly the philosophy of small, marginal groups devoid of popular support.

But it would be unjust to celebrate this process of democratization merely in statistical terms. Of much greater importance, I think, is the way in which this process is taking place. If we compare it, for example, with the period following World War II, when a democratic wave also ran through the continent, we see that the current situation is not the result, as it was then, of external pressures or the work of local elites. This time, the decisive—in many cases the only—reason why governments based on legality, freedom, and popular consent have replaced the arbitrary exercise of force or personal power has been the humble, nameless men and women, the usually poor, impoverished, often illiterate people of our countries. It's true that in nations like Haiti and El Salvador it was essential for the United States to withdraw its support or exert pressure on the military to bring about the change, but even in these cases that external pressure would have come to nothing if the people hadn't shown that they wanted the change with all their heart. Insofar as El Salvador is concerned, I can personally attest to the courage and self-sacrifice with which the ordinary

"...antidemocratic alternatives are running against the will of the people."

Salvadoran participated in the electoral campaign of 1984, how those ordinary people turned out to vote in the face of intimidation and bullets.

This fact seems extraordinarily important to me. For the first time, democracy or incipient democratic forms of government are being established in our countries with clear popular support and with an equally clear rejection of the antagonistic options of Marxist revolution or military dictatorship. Today, these antidemocratic alternatives are running against the will of the people. They are the monopoly of economic or intellectual elites, while the bulk of the populace, now that it has been consulted and has been allowed to express its opinion without interference, has been overwhelmingly in favor of moderate regimes: centerleft, center, or centerright—whichever seems to offer the most democratic possibilities. I would like to cite my own country as an example: In the 1985 elections, which extremists tried to sabotage by unleashing a terror campaign to keep people away from the polls, only seven percent of the registered voters stayed home, a real record when you compare it with voter apathy in the more advanced democracies.

It would be naive to think that the ordinary men and women of Latin America have chosen democracy because of some ideological conversion, the result of some intellectual meditation. Such cases would be few and far between. What has spurred such huge numbers of people in recent years to turn to this option—which was never offered to this extent before in our countries—has been the terrible violence of which they have been the victims. This violence, the result of intolerance, fanaticism and dogmas, has been practiced both by revolutionary terrorists and political or military counterterrorists, and has littered our continent with the dead, the tortured, the kidnapped, the disappeared—and these people in their vast majority have been the poor. The ordinary people have opted for democracy in an attempt to find an escape from this nightmare reality of civil war, terrorism, indiscriminate repression, revolutionary "taxes," blind executions, and the proliferation of torture. These people on whom political extremists inflicted new violence—as if economic exploitation and social abandonment were not misfortune enough—decided to support that system which, intuitively and instinctively, they thought would be able to defend human rights best (or oppress them least), insure a certain social coexistence, and attempt to extirpate the pistol, the bomb, and the electric cattle prod from political life.

This undocumented fact of Latin American life—a democratization process that originates in the people themselves—has presented us with a unique opportunity: We Latin Americans now have the chance to consolidate our legal, free regimes and to eliminate forever the vicious circle of revolutions and military coups, to fight for development by linking our historic destiny to something of which we have always in fact been a part: the liberal, democratic West.

Naturally, this will not be easy. The democratization of Latin America, even though it has an unprec-
edented popular base in our societies, is very fragile. To maintain and extend this popular base, governments will have to prove to their citizens that democracy means not only the end of political brutality but progress, that is, concrete benefits in areas such as labor, public health, and education, where so much remains to be done. But, given the economic crisis Latin America is suffering today, when the prices of the products it exports are hitting record lows and when the weight of its foreign debt is crushing, those governments have virtually no alternative but to deceive the citizens—especially the poor—demanding they make even greater sacrifices than those they’ve already made.

I am not one of those who believe that the problem of the foreign debt should be met with demagogic gestures or with a declaration of war against the international financial system. If such a war were to break out, Western banks might be affected, but our countries would be even worse off because one of the first casualties of the hostilities would be the democratic system. It is hard to imagine how it would survive the chaos and paralysis that would result from a boycott by the developed world of our economies.

But the industrialized nations—their governments and banks—should face up to this matter sensibly and realistically. They must understand that if they demand that our democratic governments pay the service on their debts by implementing policies which will have an exaggeratedly high social cost—and we have already seen the explosions of rage and despair in the Dominican Republic, Mexico, and Brazil that can take place when the fabric of society is stretched too thin—the result, purely and simply, will be the collapse of those governments and the return of military dictatorships.

Military dictatorships are not only the best breeding ground for marxist revolutionaries; they are as well models of ineptitude in the field of economics, as all the recent Latin American military regimes demonstrate. And who reaps the benefit if all this takes place? Not the banks and certainly not Western governments. Only those who are interested in seeing that democracy does not take root in our countries.

A realistic and ethically sound approach to the problem by our creditors would be to demand that each debtor nation pay what it can without placing the stability of the system in jeopardy. At the same time, creditors should provide both the stimulus and the aid necessary to reactivate the economies of the debtor nations: The more they grow the more they will be able to pay back their debts. A veteran revolutionary who today is a genuine believer in democracy, President Paz Estenssoro of Bolivia, formulated a policy which should be considered seriously: The service on our debts should be directly

"...if we Latin Americans do win the battle for freedom we can say we won it for ourselves...."

related to the prices of our exports on the international market and should “float” with them. If the banks and the industrialized nations are not merely interested in being paid what they’re owed but in seeing that our nations emerge from underdevelopment as allies and in solidarity with the West, they should take these kinds of suggestions into account.

I am not trying to insinuate that the future of our democracies depends on you. We and we alone are responsible for our future. Moreover, I am convinced—although I’m not sure whether to be happy or sad about it—that when a Latin American nation chooses democracy it not only chooses freedom and the rule of law but the most extreme form of independence as well. This is because no other type of government receives less support from the West—or seems to have less “sex appeal” as far as the West’s communications media and intellectual elites are concerned—than those regimes in the Third World that try to live the ideals of freedom and pluralism, which are the West’s greatest contribution to the world. While I have no figures to prove it, I doubt that any democratic nation in the underdeveloped world has received the credits and subventions Cuba has received from the Soviet Union since Cuba became a Soviet satellite. And it is certainly true that no Latin American nation fighting to live in peace and freedom within the law ever before aroused the militant sympathy that Sandinista Nicaragua has inspired in liberal and progressive circles in the West. To the contrary, when it doesn’t simply inspire indifference, that struggle for democracy in poor countries usually inspires skepticism and disdain from those who should be its most enthusiastic
supporters. But perhaps this isn’t such a bad thing after all. Because if we Latin Americans do win the battle for freedom we can say we won it ourselves—against our enemies and despite our friends.

If we want democracy to take hold in our countries, our most urgent task is to widen it, give it substance and truth. Democracy is fragile because in so many countries it is superficial, a mere political framework in which institutions and political parties go about their business in their traditionally arbitrary, bullyish way. Naturally, the differences in degrees of democracy vary so much from country to country that it is impossible to generalize. An abyss separates Costa Rica’s exemplary democracy from, for example, Mexico’s doubtful one-party democracy with its institutionalized corruption, or Panama’s democracy, where the civilian authorities govern but the National Guard rules. In Venezuela and the Dominican Republic, on the one hand, democratic tendencies have permeated the armed forces as well as the extreme right and left and have thus drawn these elements into the political process. In Guatemala, Uruguay, and Ecuador, on the other hand, the military still exercises a kind of guardianship or an aloof autonomy that limits the actions of the civilian governments.

The way in which our laws are produced in Latin America is another profoundly anti-democratic factor in the majority of our countries. Laws guarantee sinecures which favor individuals or influential groups in such a way that for the poor to gain access to the legal system or even simply to earn a living of regional integration efforts and the reason for the senseless waste of money in the purchase of weapons. Freedom of the press usually degenerates into irresponsible defamation; the right to criticize into libel and insult. And the politicians with the most democratic programs usually act in private like the henchmen of all-powerful caudillos.

I could go on and on with the catalogue of the deficiencies in our democracies, but why bother? What really matters is that our democracies not only survive but that they also criticize themselves and better themselves. If they don’t, they will perish. No democracy is born perfect and none ever gets to be perfect. Democracy’s superiority over authoritarian and totalitarian regimes is that, unlike them, democracy is perfectible. And unlike dictatorships, which simply weaken if they try to reform, democracies get stronger to the degree they can change and regenerate. Perhaps the hardest struggle we Latin Americans will have will be against ourselves. Centuries of intolerance, of absolute truths, of despotic governments weigh us down—and it won’t be easy to shake that burden off. The tradition of absolute power that began with our pre-Columbian empires, and the tradition that might makes right which the Spaniards and Portuguese explorers practiced, were continued in the 19th century after our independence by our caudillos and our oligarchies, often with the blessing or direct intervention of foreign powers.

For this reason the belief that violence is the answer is not new, much less revolutionary in Latin America—contrary to what our messianic ideologues think. Actually, violence is the worst kind of conformism. It means going on—using different rhetoric and different ritual—in the same old tradition of barbarism and machismo that is in great measure to blame for our backwardness and the social inequity that plagues our countries.

What is truly original, truly revolutionary for Latin America is the other option. The one that gives a long overdue lesson to Latin America’s privileged classes—for whom military dictatorships still represent a guarantee of order—and for intellectual elites, for whom the myth of marxist revolution, of returning to a tabula rasa is still alive despite the fact that history has shown this to be a lie. The other option is the one the innumerable victims and the poor have spontaneously chosen and are now defending. After travelling the hard road of suffering violence, these
people have reached the conclusion that all other systems are worse. Now they cling to the democratic alternative as if it were a lifesaver in a storm. Will the result be a new stage in Latin American history, one that is more humane, more respectful of human dignity? This is neither the time nor the place for prophecy. But I do have a suggestion: Let us all make an effort, each one of us, within the limitations of our own spheres of action, using the means at our disposal, to contribute whatever we can to see that it works.

Mario Vargas Llosa is a Peruvian author.
Mario Vargas Llosa has given a broad perspective on the political dimension of the challenges we are confronted with in Latin America. Everything is strongly linked to the very particular moment in which live, which he defined as the restoration of democracy in most of the countries that lived for decades under authoritarian regimes. The restoration of democracy in Latin America has been a beautiful joint venture of many things together.

I agree with Mario that this democracy is fragile and that it would be a mistake to think that by restoring political institutions and human rights we are safe for the future. One enormous question today is how to meet democratic expectations in one of the region’s most difficult economic periods. Unquestionably, the decade of the ‘80s is the worst since the ‘30s. It is enough to say that the standard of living in 1986 was nine percent in per capita terms below the standard of living in 1980. This is why in some quarters this is called a lost decade.

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When speaking about development issues in Latin America today there are three risks to be avoided. One is the risk of aggregation. There are common features, common elements, but it is always very risky to speak in an aggregate way about Latin America. The second risk is forecasting. We were very much betrayed by our forecasting in recent years. I think it would be dangerous to be either over-optimistic or over-pessimistic. One of the things that recent events in Latin America have shown is a tremendous capacity for adaptation far beyond our imagination—which is good for the region, and speaks well for the future. The third risk is to believe that these issues can be explained only in economic terms. In fact, this is basically a political issue which has to be addressed in all its political dimensions.

FACTORS BEHIND THE CRISIS
I think there are three elements—not just debt—which can explain the situation in the region today. One is the crisis of our economic system, a system that was already showing signs of erosion and failure in the early 1970s. We did not succeed in the postwar period in creating a dynamic, reasonably stable and equitable economy. There are many explanations. Some people emphasize an excessively
inward-looking instead of outward-looking approach. Others say the governments played too large a role in their economies. Some blame pervasive populist trends. Still others stress the use of excessive monetary policies. Whatever the reason, it is clear that Latin America’s current crisis goes far beyond the debt issue. Indeed, Latin America’s crisis is structural in nature—it was postponed in the ’70s only because of our capacity to get money from abroad.

Indebtedness is the second factor behind the crisis. We must recognize that there was a lot of irresponsibility in the ’70s, not only in the debtor countries, but also among the lenders—who showed in many cases an excess of optimism and a lack of orthodox criteria. Latin America today has a burden of debt that is taking four to five percent of our GNP to service. That is a high proportion—for comparison, Germany’s reparations debt in the ’20s took about half that, 2.5 percent of its GNP at that time. Between 1982 and ’86 there was a transfer abroad of something like $130 billion. Well, I understand the reasons why; but when you look at this in comparison to our internal investment needs, you can imagine what the present debt situation means.

Another source of our current predicament has been the behavior of the international business cycle. With all objectivity, we must accept that a series of trends in the world economy have been very damaging to our capacity to respond, starting with interest rates. When the debt crisis emerged in the early ’80s, the total debt was somewhere around $200 billion. Because of high interest rates, our debt quickly grew from $200 billion to $350 billion. A big proportion of our current debt servicing goes to paying those high interest rates. The procyclical attitude of the financial markets and investment trends also played a role. It is also clear that there has been a structural decline in the terms of trade of the region.

In 1986, for example, the prices of raw material exports in many of our countries were below the levels of 1932, which were historically the lowest in modern times in Latin America. Commodities and raw materials still account for 75 percent of exports.

THREE MAJOR CHALLENGES
There are three major challenges that we are facing today in our development strategies. The first one is unquestionably the administration of the debt issue. There have been positive trends. The tremendous internal adjustment that Latin America went through in order to face its commitments represents a major difference with the behavior of the region in the 1930s. And the international financial system responded with a lot of imagination. Notwithstanding these positive elements, I think—and I want to be very honest with you, I have been dealing with this for the last three or four years in the Cartagena group—the situation is changing, and not for the better.

One reason is that we don’t yet see clear signals from the international economy. We see very positive elements in the management of inflation, and some other areas, but all this is not reflected in a very strong international economy that can create for us the markets and the price levels we need. On the contrary, the signals are of a weak economy, and also of a major trap: If the United States deficit is reduced without the strengthening of growth in other major economies, we may find ourselves without markets in the United States and without markets in other OECD countries.

The second reason is a decline in commodity prices. If we had a minimal recovery of those prices, the situation would be completely different. It would not be a structural problem; and it would be very manageable.

This is why I think that we are entering into a period of fatigue—on the side of both debtors and creditors. The trade surplus that we enjoyed in recent years will no longer be there in the same size, which means that if we want to cope with servicing our debt, we will have to place further constraints on our economy. Is this really possible after five years of continuous adjustment? I am not sure. We have already squeezed the most we can out of our imports. Now we need to import more to expand investment, to expand production at a time when the situation appears to be more critical than before.
This is why I now foresee the appearance of new technical moratoriums and increasing resistance to the IMF here and there.

We have learned a lot in managing the debt; but something more must be done to face the coming years. I don’t have any solution—there have been many proposals on the table—but I do know that we need renewed and continuous imagination from both sides in order to manage a situation that might become explosive.

The second challenge goes beyond debt, and it is the clear recognition of all of us in Latin America that we need to undergo tremendous structural adjustment. This is a challenge that we have to pursue in order to continue the process of growth, and this challenge implies investment, technology and knowledge. These structural changes are probably a more important challenge than the debt issue as such. We are trying to undertake some innovative approaches. The recent integration efforts between Brazil and Argentina and Uruguay, for instance, show some imagination. It is not that we don’t believe that we need to continue our integration into world markets, but we think that we must at least explore our capacity for doing things together, precisely to face jointly the challenges of structural adjustment in our economies.

The third challenge is political modernization, basically a modernization of institutions and attitudes. Among institutions my major concern is government—how to focus it in order to achieve enough efficiency to run the economy as a whole. Attitudes are much more complex. Here we have to deal with underdevelopment in our political structures and social capacity to respond.

CONCLUDING THOUGHTS
I would like to finish with a note of optimism because I have the conviction that the Latin America that emerges from this critical period will be much more realistic and pragmatic. I perceive the birth in Latin America of new attitudes, more realistic, more pragmatic, more conscious that the major issues do not depend on external factors, but depend basically on our own capacity to respond.

What do we need from the international economy? In the first place, we need reduced uncertainties. Give us clear signals where you are going, so we can make our own decisions. Secondly, let us continue looking for new, imaginative solutions to the issues, and let us link debt with trade. The new challenge is to have freer trade, to avoid protectionist trends, and to make the GATT function to meet through trade the needs of debt. Finally, we need the consciousness that Latin America is an important partner in the world. And we need investment, technology, and new sources of capital to make it an engine of the world economy. We are condemned to interdependence, so let us try to manage the world economy properly and sustain Latin American participation in that progress as an engine of growth.

Enrique V. Iglesias is Foreign Minister of Uruguay, and former Executive Secretary of the Economic Commission for Latin America. The above is an edited version of his remarks.
Brazil is presently going through a moment of transition. We are also experiencing wild gyrations, especially in perceptions—so much so that I’m already accustomed to Brazil being singled out as a country performing a miracle and then going through a disaster and then recovering again.

POLITICAL TRANSITION
Let’s look a little closer at the transitions through which we are going. First, we are going through a political transition. After more than 20 years of authoritarian rule, a democratic regime came to power (two years ago exactly) without any major upheaval nor any traumatic discontinuity. But one must not forget that this transition was not easy. The 1981-83 recession was the deepest in our registered economic history; and this, together with already existing social tensions, put tremendous pressure on the political transformation. Moreover, the job of political transition is not finished. A constituent assembly has convened and is working in Brasília to carve out a new constitution that would embody the principles and norms to guide our steps into the new millennium. The democratic institutions are quite new, and so they are fragile also....

ECONOMIC TRANSITION
Now, let’s look at the economic transition. In the last 40 years, Brazil has passed from a predominantly rural (two-thirds of our population lived in the countryside) to a predominantly urban society, with more than 70 percent of our population today living in cities; from an agricultural to an industrial economy; from an archipelago of cultural islands and separate economic units to one of the world’s widest cultural continuums and national markets.

Who were the protagonists of these transformations? For better or for worse they were an emerging middle class, an energetic entrepreneurship, a modernizing bureaucracy (both civilian and military) and an embattled working class. What instruments did they use? Those tools of modernity that are hailed by some and cursed by others: the automotive industry, introduced by the Kubitschek regime, together with a sprawling network of roads; the refrigerator; and DDT—today a deadly weapon, but recognized at that time as the only way to implant a civilization in the tropics.

After having made this transformation to an urban society, to a more modern industrial society, we
were struck by a crisis from abroad—two oil shocks, a wild interest rate upsurge, and worldwide recessions followed by mediocre OECD economic performance. We were also struck from within by a too fragile industrial profile—by too little concern given to agriculture or to export, by too little attention given to modern technology and to education.

When we were struck in 1974 by the first oil shock we had to respond. And how did we respond? We responded with one of the most ambitious projects to overhaul the economic structure of a developing country known in recent economic history—an effort to reinforce the industrial profile that was intensely concentrated in heavy investments. These efforts were based on domestic savings (that were already at a relatively high level of 23-24 percent), but that had to be supplemented by international savings (in order to reach in 1975-1976 a level of investment of 30 percent of GNP—a level near the Japanese levels of the '50s). This happened at the moment that international liquidity was available, the first time this liquidity had been available since the crash of 1929-1930. Latin America had called for a Marshall Plan after the war, had called for a Panamerican Operation, had called for the Alliance for Progress, for a United Nations Decade of Development, and had made repeated pleas at UNCTAD meetings, but we were met by deaf ears. So Brazil seized the moment to get hold of massive capital in order to invest—to create something like Singer’s “big push” or Rostow’s “take-off.” And it worked. We modernized our industry, we modernized the infrastructure of the country. But we ran a risk. That risk was to take international savings in the form of floating rate loans. But the risk of not using these resources would have been larger. I don’t think that the decision was an error. Because of these efforts the Itaipu, Carajas and Tucuruí power projects are there, the big four steel mills are producing and exporting, and there are new ports and ships.

After the major upsurge of interest rates in the early '80s we had to adjust very abruptly at a very high cost. That led to a major recession in our economy from '81 to '83. Then from '84 to '86 we were able to recover, to show good levels of growth—8.3 percent in 1985, 8.2 percent in 1986—and to transfer abroad in these three years more than $30 billion of interest plus dividends plus capital repatriation. Such large resource transfers abroad were possible during these few years because there was a lot of unused capacity, because there was a wide gap between potential GNP and actual GNP. But last year, maybe because demand grew above expectations, bottlenecks arose, and as a consequence, our trade surpluses dropped very severely and our reserves were eroded. This erosion of reserves prompted the decision taken last February to suspend temporarily the transfer abroad of the payments of interest on our medium- and long-term debt. But the basic reason behind it was that the annual transfer abroad of up to five percent of our GNP is unsustainable for a long period.

We have to find new ways to try to solve this problem. Maybe we cannot have as complete a solution as some would like, but I don’t think simple muddling through is enough. Maybe—and there I’m

“We are at a threshold in Brazil, at the threshold of modernity. But to arrive there is not easy.”

being Brazilian again—maybe some kind of conciliation between muddling through and a grand solution might be the answer. We have to tackle simultaneously three problems that are deeply interlaced: first, the debt overhang; second, the massive transfer of real resources year after year; and third, future credit. We have to do the three things together. We cannot take an approach that would solve the debt overhang problem but endanger future credit. The basic effort at savings has to be internal, but has to be supplemented abroad because Brazil still is an underdeveloped country.

SOCIAL AND CULTURAL TRANSITIONS
Finally, we have to call attention to two problems that were underplayed up to now. One, is the problem of a social transition. And the second concerns the cultural transition. While Brazil has a good record in promoting growth (six percent average annual real growth of GNP over the last 50 years), in social terms our performance has been dismal—gaping inequalities of wealth and income exist and there are shortcomings in basic human needs: health, nutrition, education, housing, sanitation (like
water and sewage), and mass transport. We are the tenth largest economy in the world, but if we measure our performance in terms of social indicators we might have the fiftieth place, if not worse.

We have a fundamental social debt towards the dispossessed of the fruits of progress. And that is the heaviest of our three debts (heavier than our internal debt, heavier than our external debt). It is the most urgent of our debts, an unpostponable item on our national agenda. Nobody up until now has called attention to the fact that the governments that promoted so much growth in Brazil at the same time had declared a moratorium on our social debt. They had a terrible record in terms of the redemption of this enormous social debt, which certainly is economically counterproductive, socially wrong and unjust, and politically explosive.

And finally, we have the cultural transition to go through. We are at a threshold in Brazil, at the threshold of modernity. But to arrive there is not easy. We have to keep our own identity, but still be open to learn from others. And it is not easy today to learn from others at a time when we have a loss of paradigms. I remember thirty years ago our paradigm was the United States. If we went to the World Bank, they would say, “The United States is like that, you are like this—take the difference and that is the formula to develop.” At some time and for some people the Soviet Union or Cuba or Communist China were paradigms. Today, many books and some conferences point to the “four tigers”—South Korea, Taiwan, Hong Kong, Singapore—as the big paradigm: just take an outward-looking policy, just put a rein on government expenses, and you will develop and everything will be fine. But there are no paradigms. We have to carve out new paradigms from our own heritage while, of course, learning from others. But this is a difficult job. Our modern viability is really at stake, and for this we have to really mobilize all our own domestic energy. But we also have to count on a very wide extension of international understanding and the creation of a more propitious international environment.

Marcilio Marques Moreira is Brazilian Ambassador to the United States. The above is an edited version of his remarks.
HOSTILE GLOBAL ENVIRONMENT
Let me begin my presentation on a rather gloomy note. Uncertainty and speculation have emerged as the dominant characteristics of today's international economic system, and both these forces are being compounded by a high degree of global economic interdependence.

In this hostile environment, at the business level, the investor and the entrepreneur are adrift in a sea of uncertainty. At the national level, the aspirations of entire countries could easily be swept aside by external forces beyond their control. (The adjustment process would be difficult enough under any circumstances.) There is still a great lack of the global vision and political will needed to mount a sustained and focused effort to solve the problems at hand. In the meantime, crisis management of the global economy reigns by default.

The results are painfully obvious to all of us. Most of the continent of Africa is an economic and humanitarian disaster zone; hundreds of millions of Latin Americans find their standard of living falling back down to what it was a decade or more ago; tens of millions of Europeans have been without work for half a decade; and the United States, the world's largest and richest economy, has emerged as the most heavily indebted nation, as the largest net importer of capital and, since 1980, as a net recipient of foreign direct investment. In my own Southeast Asian region, long regarded as one of the developing world's great success stories, 1986 proved to be an unmitigated disaster for all but one of the countries, the worst year in more than two decades of otherwise outstanding economic development.

There are those who will disagree with this somewhat emotional picture of the state of the global economy in 1987. For each of the major problem areas they will point to events denoting significant progress. On harmonization of macroeconomic policies and exchange rates, they will point to the September 1985 G-5 accord on exchange rate intervention and the Tokyo Summit agreement on policy coordination. On restoring growth in world trade, they will applaud the launching of the new Uruguay Round of GATT negotiations. In terms of managing the Third World debt, they will point to the Baker initiative, to the fact that the World Bank lent a record $17.1 billion last year, to the breathing space given the major money center banks to improve their capital base, and probably to the fact that, to date, there has been no widespread, coordinated default on the part of the heavily indebted LDCs.

I hear these indicators of progress repeated often, but I am not totally persuaded by them. The U.S. dollar's ongoing depreciation against other major currencies has not really been controlled or harmo-
nized by official intervention. The depreciation represents a market-driven perception of the equilibrium value of the dollar which had begun six months before the Plaza meeting in September 1985 and continued for another 12 months at the same average rate. The G-5 accord simply gave official endorsement to the reality of the marketplace. The Tokyo Summit agreement on policy coordination has yet to produce any concrete results. The Uruguay Round of GATT negotiations set sail earlier this year with the promise of freer and fairer international trade in the years to come, but the storms of protectionist sentiment threaten to engulf it this same year. And the debt crisis has not gone away as many hoped it would. It is a deteriorating situation in which debt piled upon debt threatens the continuing viability as cohesive sovereign states of at least the fifteen most heavily indebted nations targeted under the Baker Plan.

I have dwelled on what might easily be described as this "environment of despair" to underline the sense of frustration which increasingly pervades the governments and the peoples of the developing world. The problems are clear to all. The resources on a global level are available, and yet, there is little in the way of action, little to offer hope.

STALLLED GROWTH IN THE ASEAN AREA
From a Southeast Asian perspective this sense of frustration is a matter of great concern. We feel like 280 million onlookers watching a Roman Circus, the wild gesticulations of an Empire close to collapse. During the 1960s and '70s the six ASEAN states were often lauded as outstanding examples of successful development. No other developing region in the world grew as fast or delivered the fruits of this growth to its people as well as Southeast Asia. We followed everybody's advice. We moved from an import-substitution to an export-oriented industrial growth path and we had high rates of domestic savings. In general, we borrowed cautiously, diversified our economic structures and had excellent access to concessional funding from the multilateral agencies.

By the early 1980s these efforts had developed a certain robustness. Although growth rates slowed across the region, we weathered the global recession better than all other developing countries and better than most developed nations. By 1985, however, the strains of falling commodity prices, self-imposed constraints on external borrowing, depressed export markets, protectionism and fluctuating major exchange rates began to emerge. Along with the North Asian NICs, the ASEAN economic miracle began to look distinctly frayed.

Since last year we have seen a divergent response in these two groups of countries as they attempt to adjust to current conditions. The North Asian NICs—Hong Kong, South Korea and Taiwan—have rebounded back to their historically high growth rates, their economies driven by falling raw material and energy costs and high export demand. Their problems today are the problems of success: highly visible and large trade surpluses with the United States, partly due to their own industrial base and partly because these countries are all, to some extent, alternative export platforms for Japanese manufacturers. Meanwhile, in Southeast Asia, with the single exception of Thailand, 1985 and 1986 turned out to have the worst average growth performance in more than two decades. Growth rates hovered between plus and minus two percent in countries which had averaged seven to eight percent over the previous 25 years.

FIVE ELEMENTS OF A STRATEGY FOR THE ASEAN COUNTRIES
For Southeast Asia 1985 and '86 verged on the traumatic; and we are still considering possible strategies to prevent this situation from recurring. One obvious strategy is to accelerate ASEAN economic cooperation, and this subject will be the main item on the agenda at the ASEAN summit meeting in December 1987. How can we make better use of our own 280 million people, our $230 billion aggregated domestic market? How can we play a more effective role in international economic debate? How can we counter rising protectionism in the industrialized markets and the impact of speculative financial flows, which today appear to have replaced trade as the main driving force in the world economy? I don't expect to see any announcement concerning

"...ASEAN finds itself being targeted for protectionist legislation in the same category as North Asian NICs."

...
the establishment of an ASEAN Common Market emerging from the summit meeting, but I do expect some significant improvements in the overall level of ASEAN economic cooperation, especially in the areas of trade and investment.

A second strategy calls for greater cooperative efforts between the OECD and developing countries as a prerequisite for economic and trade expansion in the global economy. To achieve this goal, I believe that the ASEAN nations would be prepared to trade-off their short-term interests for mutual long-term benefits. It is my hope that the OECD countries will share this conviction and be willing to trade-off their short-term interests in various multilateral forums, including in the upcoming GATT negotiations.

A third strategy, with more than momentary appeal, is to explore the possibilities of stepping up trade and economic cooperation with Socialist bloc countries. In one sense this is a surprising development since the real motivation for the founding of ASEAN in 1967 was to present a common front to the then-perceived Communist threat. Today, while all ASEAN countries remain staunchly in the capitalist camp, the Communist threat has receded and the attraction of trading with all countries of the world has surfaced as a more pressing priority. Both the Soviet Union (under its new, revitalized leadership) and China are increasing their commercial overtures to ASEAN; and these invitations are no longer falling on totally barren ground. This is one of the most obvious results of a situation in which ASEAN finds itself being targeted for protectionist legislation in the same category as the North Asian NICs. This latter group runs a trade surplus with the United States amounting to over 50 percent of Japan’s trade surplus with the U.S., but ASEAN is not in the same league. And yet, all too frequently over the last two years, ASEAN commodity producers and manufacturers have received the same heavy-handed attention from Congress as the North Asian NICs.

A fourth strategy, which is easy to formulate but difficult in the short-term to implement, concerns ASEAN’s role as a producer of both food and non-food commodities. In spite of a substantial increase in manufactured exports, ASEAN remains a major exporter of commodities. Thailand alone is the world’s fifth largest exporter of food, and the only net exporter of food in Asia. The ASEAN region as a whole is also the world’s leading source of a large number of non-food commodities, including tin, rubber, palm oil, tropical hardwoods and natural gas. However, the future for commodity exporters is bleak. In agriculture, the highly protected agricultural sectors of the Trilateral countries pit the Thai rice farmer in mortal combat against OECD taxpayer subsidies. In the non-food sector the long-term outlook is even worse. Technology is causing a major structural shift in the historic relationship between raw material inputs and production. Manufacturing is becoming more and more technology and capital intensive with a resultant decline in raw material intensity. The solution to ASEAN’s problem as a commodity producer is simple: We must process our commodities and use them as inputs for our own manufactured exports. But such a transition takes time, capital and dynamic entrepreneurial skills.

A fifth and final ASEAN strategy revolves around an increased recognition of the importance of foreign direct investment (FDI). Typically, ASEAN has had a more open-door approach to foreign investment than most other developing countries. Today, the door is open even wider and the available incentives are even stronger. With our self-imposed restraints on foreign borrowing, FDI is now being looked upon as a critical factor in sustaining growth and employment and in acquiring new technologies and export markets.

TRILATERAL ROLES AND RESPONSIBILITIES
The vision, resources and ability to shift the global economy back on to a more stable, more equitable and higher growth track rest almost entirely in the hands of the leaders of the Trilateral countries. Over the last couple of years, as the industrialized world recovered from the worst recession in 50 years, people have talked about a window of opportunity, during which the OECD nations would finally address the major problems of global economic reform. To date I see little evidence of any such move. On the contrary, I see the danger of this window of op-
portunity being slammed shut by increasing trade friction, the return of the debt problem to crisis status and the continued structural imbalances in some of the major economies.

Who is going to address this burning need for a new international economic order? Bretton Woods and GATT, the institutional frameworks which produced unparalleled global growth and prosperity, were born out of the ashes of a World War, largely at the behest of the gentle giant, America. Today, the Bretton Woods vision is dead and the gentle giant finds itself being absorbed into a world economy at exactly the same time as its huge technological edge has disappeared. Keeping in mind the United States' own serious structural imbalances, I believe the major initiative and responsibility for shaping our world's economic destiny must be shifted and shared more by the European Community and Japan. A window of opportunity of a different dimension awaits these two powerful forces. For most of this decade the OECD nations have been preoccupied with the military aspects of global security. But global security has an economic dimension, and it is this dimension which poses the greatest challenge today.

I believe nothing less than a global economic security initiative—to be backed more by the resources of the EC and Japan—is required if we are to secure a world fit for our children to inherit. Such an initiative will require all the key players to resist the temptation of further increasing defense expenditures and the temptation of further delaying needed structural adjustments with increasing subsidies. Indeed, if the resources required for such an initiative are to be mobilized, it will mean a gradual reduction, at least in relative terms, of defense spending and economic subsidies.

I believe the industrialized countries are capable of rising to such a challenge. We all have a sense of destiny and we are now listening to the footsteps of the 21st century. The great challenge for us is to accept that the sense of national destiny must embrace a vision of a better world for all, and to act to make that vision a reality.

Amnuay Viravan is Chairman of the Executive Board of the Bangkok Bank Ltd.
CURRENT DEVELOPMENTS IN THE UNITED STATES AND CANADA
Since 1945, the nations represented here have undergone an extraordinary economic transformation. But beyond that, these nations constitute a civilization, based on shared values of liberal democracy and individual initiative. The contemporary West, in the broad sense that includes Japan, is an unprecedented experiment in democratic community-building on a great scale. The challenge now is to stay united in the pursuit of positive goals. Few countries understand this imperative better than Canada—through our origins and national character, by vocation, and of necessity. Canada is a community of communities, a democracy that holds together across its vast expanse a remarkably small population. Given the great diversity within Canada—ethnic, linguistic, regional and economic—it has been absolutely critical for us to pull together as a nation. We see a clear analogy between Canadian nation-building, where we have pulled diversity together, and the demands of democratic community-building internationally. We see the need for something very much like our own mix of will and flexibility in managing the current international agenda.

**EAST-WEST RELATIONS**

In the Soviet Union we are seeing the beginnings—just the beginnings—of what may be extremely significant changes. The questions of how we deal with the Soviets and what collective strategy we apply now to arms control are of singular importance—perhaps even of historic importance. How significant are the recent developments in the Soviet Union? The verdict is not yet in, but our traditional responses will not be adequate to deal with the Soviets in the years ahead. A more open relationship is not going to be easy: what opportunities occur may be modest, and they will have to be explored with caution. But they should be explored. In Canada there is a history of skepticism about whether closer cooperation with the Soviet Union works in the long term, but the prospect of major changes in the USSR can be ignored only at our peril. The era of an unresponsive and lethargic Soviet Union is probably over. We should therefore anticipate the impact of a dynamic, more powerful USSR, whose ultimate goals have probably not changed. Let me be explicit about the questions that are involved here. Do we have enough confidence in the values we stand for to remain together without rallying simply—even simplistically—around the presumption of an un-
changing external enemy? Are we making the consultative process work, to the extent that we could exercise more flexibility on East-West questions without internal splintering?

I think it comes down to a matter of balance. On human rights, for example, dissidents have recently been released in the Soviet Union. We should welcome that, but we should also make it clear that continued improvement is required to break down barriers and build up confidence. Given the scope and character of General-Secretary Gorbachev's domestic economic ideas, we should be looking hard at the prospects for increased economic relations with the USSR. This is a major area, after all, of overwhelming Western strength. It would be of profound significance, and in our own interest, if we could draw the USSR further into the global economy. As a result, the Soviet leadership may, by degrees, accept the reality that economic dynamism requires real openness. We should be looking at joint ventures and increased trade prospects, within the bounds of Western security interests and on a basis of true mutual benefit. It should be clear that results will be quite constrained in the near term, given the current limitations on Soviet production and on Soviet foreign exchange. It must be realized, too, that the Soviet bureaucracy can probably resist economic reform more effectively than it can stop diplomatic initiatives.

My own country's interest in East-West issues is direct and urgent; and I do not believe this is fully understood abroad. In the United States, we still see a tendency to regard relations with the Soviets as almost a domain for American management. In Europe, the psychology of being on the front line is justifiably strong—but there is more than one front line. A strategic nuclear exchange between the United States and the Soviet Union would take place over Canada. Canadian air space, particularly in the Arctic, will assume greater significance with the increased threat from manned bombers and cruise missiles. We are acutely aware of the growing strategic importance of the Arctic, particularly for submarines. We are factoring that reality into plans for defense upgrading. But it is our very intense hope, for the best of geopolitical, budgetary, and moral reasons, that real progress can be made—and soon—in reducing tensions and bringing about verifiable arms control.

The Soviet Union appears genuinely interested in obtaining an agreement on arms control. They want such an agreement for their own reasons, and clearly their detailed agenda will not be the same as our own. But in any reasonable interpretation of recent events, a parallel in East-West interests is becoming more apparent. There have been very useful talks at Geneva on strategic nuclear forces, on INF, and on space-based systems. But the issues involved in arms reduction are extraordinarily complex, particularly following Reykjavik. It is going to take great skill and a corresponding application of will to achieve real breakthroughs either on nuclear or conventional forces. Let me make Canada's objective clear: we want a major breakthrough and dramatic reductions in all categories of arms. We believe our allies want the same thing.

One particularly complex issue, not just for superpower negotiations, but also for alliance solidarity, is SDI. The immediate issue is how the ABM Treaty is to be interpreted. The longer-term issue is that of possibly profound changes in long-standing NATO strategic doctrines. Within NATO and with Japan, a dialogue at quite a new level of intimacy and sophistication may be required on the relationship between offensive and defensive systems. The alternative to dialogue is unilateralism and incrementalism in changing strategic doctrine. Given the implications for the rest of us, that is not acceptable.

"In Europe, the psychology of being on the front line is justifiably strong—but there is more than one front line."

It is only on the basis of Western solidarity regarding new strategic defense systems that truly effective and broad-ranging East-West arms control agreements can be achieved.

ECONOMIC RELATIONS

Obviously, problems of peace and security can create considerable strain within the democratic community. But the potential for strain in economic relations is even greater. Failure to resolve the strains within our community may prevent us from facing squarely the larger issues of debt and development.
Our economic relations are dictated by the proverbial bottom-line. The industrial democracies compete with one another, often very sharply, under a system of agreed rules. Our economic interaction is a fluid and rather volatile mixture of competition and cooperation. It requires constant management to ensure that the resulting tensions are healthy rather than pernicious. Fortunately, over the past several years our domestic economic policies have been fundamentally sound in coping with extraordinary changes. We have long cooperated internationally within established institutional frameworks: the OECD, IMF and World Bank. Since the 1970s we have established some extremely important mechanisms for macroeconomic cooperation—such as the economic summit and the "quadrilateral" meetings of trade ministers. The summit is, potentially, one of the most useful innovations of the last dozen years.

Despite more regular consultations, two fundamental problems remain. First, on each of our continents, some of the deep structural imbalances that seemed so threatening in the early 1980s are still not resolved. Uncompetitive, highly protected and heavily subsidized industries inhibit the movement toward further trade liberalization. Structural adjustment is taking place, but in certain key sectors it is not happening quickly enough. Second, there is the problem of parochialism. It is true that we talk more. But, as we say of the Soviet Union, the test is not what we say, but what we do. There is in Europe, in Japan, and in North America a strong and growing tendency towards self-absorption, insularity and distorted representations of other countries. At the level where social and cultural attitudes get translated into politics, the shallowness of relations among the industrial democracies holds real dangers. In democracies like ours, convincing leaders is not enough. Broad publics may not start changes, but they can stop them, particularly if they are nurtured by a go-it-alone nationalism or regionalism that sees other competitive nations only in negative terms. We all communicate too much by caricature, and we will not manage our common economic challenges adequately if we nurture false images of our partners—or of ourselves.

In managing our economies, we have to exercise certain types of restraint, even when it hurts. What this means now, above all, is the cooperation required to help correct the unprecedented trade imbalances that currently loom so large. This requires further market opening and policy convergence, and in some cases it requires further stimulation of domestic demand. On a broader level, we are all going to have to do more to deal with one another, not only as markets or military allies but as whole nations and whole cultures. Failure to do that will fuel the kind of nationalism that is reactive and negative rather than positive and affirming. We can do without the kind of Eurocentrism, Japanism, fortress America, and Canadian fear that sometimes get in the way of effective trilateral relations.

The Europe-Japan relation worries me. A reflex of consultation has yet to be developed across a broad spectrum of European-Japanese issues. And it is an unfortunate but inescapable fact that an impetus toward European unity on trade questions since 1982 has moved in parallel with increased friction with Japan. There is too much caricature on both sides. The point is that friction and recalcitrance in Europe-Japan economic relations hurts us all and has a negative effect on the multilateral climate.

By contrast, the United States and Japan have a much denser, more multistranded relationship. But there the issue of the U.S. trade deficit stares us all in the face. We all understand that the basic causes are complex, involving currency misalignments and the effects of the huge budgetary deficit. Nevertheless, there is a real danger that Congress may yet pass Draconian protectionist measures, in part because of the deficit problem with Japan. If that happens, the effects on all trading partners will be extremely destructive.

Even in some areas where the U.S.-Japan relationship is being managed in a way that satisfies both sides, the implications for other economic partners can be disturbing. Japanese-American cooperation in some high-technology sectors, for example, is assuming a worrisome exclusivity.

But is has been in the U.S.-Europe relationship—in the agricultural sector in particular—where fric-
tion has produced the most unfortunate distortions. Agricultural production in Europe is subsidized to an extent that defies all economic common sense. The United States finally responded to this structural distortion with equally absurd export subsidies of its own. The resulting subsidy war in agricultural products has devastated the livelihood of a great many farmers in Canada, and elsewhere in the world. I will not pretend that Canada has been innocent of subsidy in agriculture, or protection elsewhere. But we are trying genuinely to reduce these barriers, and that is not easy when our farmers are bankrupted because of European and American and Japanese policy.

As a nation dependent on exports for almost 30 percent of our gross domestic product—which translates into about a quarter of our total work force—Canada has a critical stake in the maintenance of an open world trading system. As world traders, we must also continually respond to change in the global marketplace. Canada is now the only industrialized Western nation without secure access to a market of more than 100 million people. Clearly, our future as a vigorous and respected member of the community we call the West requires that we meet the rapidly shifting challenges of global competition and global protectionism. Therefore, it is no longer surprising that comprehensive bilateral trade negotiations should be undertaken by Canada and the United States. The trading relationship of our two countries has grown to become, by far, the largest in the world—over $150 billion (U.S.) last year. The Canada-U.S. trading relationship is simply too large, too complex and too interdependent to be governed by existing rules. Our shared goal is the creation of a long-term framework that will see the dismantling of tariff and non-tariff barriers over time and in an orderly fashion. A long-term binding Canada/U.S. agreement also holds the potential to set useful precedents for multilateral negotiations in such vital areas as trade in services and trade-related investment measures. From our perspective, the MTN and Canada/U.S. trade negotiations are complementary enterprises. Any agreement we reach with the United States will be compatible with our GATT obligations.

The new round of multilateral trade negotiations launched at Punta del Este will be the most comprehensive set of multilateral trade negotiations ever attempted, and we must take great care not to allow

Frank C. Carlucci

Frank C. Carlucci, the recently appointed Assistant to the U.S. President for National Security Affairs, addressed the San Francisco meeting on the morning of March 23. His opening comments dealt primarily with the role of the NSC and Congressional-Executive relations. In a question-and-answer period that followed his opening remarks, Mr. Carlucci spoke on arms control, Nicaragua, Presidential trade authority, and a wide range of other issues. Before his appointment as National Security Advisor, Mr. Carlucci was a member of the Trilateral Commission. He had previously held a variety of high-level positions in the U.S. Government.

the political commitments made there to be jeopardized. That could happen if drastic protectionist bills pass the U.S. Congress, or if progress is not maintained on market-opening in Japan, or if there are no signs of demonstrable progress toward resolving the crisis of agricultural subsidies.

Mr. Chairman, there is a parallel between Canada's geopolitical and economic circumstances. Geographically, we are situated between the superpowers. Economically, we are out in the open, directly affected by abrasive encounters among the
larger trading entities. In terms of exposure, freezing northern temperatures are the least of our problems.

THE THIRD WORLD
If insularity in the Trilateral areas is unacceptable in our relations together, so is collective insularity in the face of daunting Third World problems. We must keep developing countries solvent through trade flows. We must continue to implement sensible, coordinated and compassionate policies on Third World debt. And we must do as much as we can to increase the efficiency and effectiveness of our official development assistance.

Another major set of issues in the developing world that calls for both responsibility and coherence on the part of Trilateral states is regional conflicts. The crisis in South Africa is not moving toward peaceful resolution: quite the contrary. The conclusion of the Eminent Persons Group of the Commonwealth last year remains valid today—southern Africa holds the prospect of the greatest bloodbath since the Second World War. The response of nations represented here will be judged, inevitably, in the context of our claims to represent a system based upon democratic values. When Prime Minister Mulroney visited Zimbabwe in January, he was the first Western head of government to do so since Zimbabwe’s independence. Canada has played a leading role in the Commonwealth program to fight apartheid. We would like to see the economic summit look closely at the deteriorating South African situation when it meets in Venice. In the meantime, we must continue helping those Black states which border South Africa, which carry the heaviest load in the fight against apartheid. They must know they are not alone.

Two other protracted regional conflicts of major concern are in Afghanistan and Kampuchea. What is required there, of the Soviets, is full disengagement. Improving East-West relations requires not only Soviet expressions of good intent, but Soviet action. This must mean Soviet military disengagement from Asian conflicts. There is complete unanimity among Trilateral partners on this issue. Let me add that Canadian foreign policy is now placing a new emphasis on liaison and consultations regarding Asia-Pacific security issues.

In the Central American conflict there are obvious differences in approach by our respective nations. The Canadian view is that Third World con-

licts generally have local origins, and that durable solutions must be local too. Canada opposes the further militarization of Central America by any outside power. We think economic conditions are at the root of the conflict, and therefore at the root of its solution.

* * *

I hope my comments today have given you some notion of the Canadian approach to major foreign policy issues. Canadians have been working very hard to strengthen international coordination, and a great deal of that work involves cooperating with the countries represented here today. Indeed, for a country with a relatively small population, we have evolved a remarkable number of international ties. In 1987-88 we will play host, in quick succession, to the Commonwealth, Francophone and Economic Summits. All this is part of the basic Canadian strategy: building coalitions of common cause.

Joe Clark is Canadian Secretary of State for External Affairs and former Canadian Prime Minister.
The situation and outlook in Canada today can perhaps best be appreciated if we recall where things stood three years ago when the Trilateral Commission last met in North America. At that time, Canada was still in the throes of the recession; growth was weak, unemployment high; and there was lingering uncertainty about Quebec’s future direction. Abroad, there was a perception, because of the Foreign Investment Review Agency, that Canada was inhospitable to foreign investment. The Trudeau Liberal government was still in power but its support seemed to be waning across the country.

Much has changed. In September 1984, a remarkable federal election victory brought Brian Mulroney’s Conservatives to power with an overwhelming majority in the House of Commons. Almost as important as the number of seats won was their distribution. Mr. Mulroney gained strong support from every section of the country, nourishing hope of healing the tensions between the center and the regions which had intensified during Mr. Trudeau’s lengthy prime ministership. The business community sensed a new mood of goodwill, based on the belief that the new government would be less interventionist and would create a more encouraging atmosphere for the achievement of business objectives.

Now, half way through the Mulroney government’s mandate, the overall economic health of Canada has improved. Investment is up and interest rates are down. The inflation rate is much lower, although still higher than in the United States. Unemployment is down, but at 9.7 percent is still unacceptably high, especially in the outlying regions. Over the period, Canada has enjoyed a substantial trade surplus, although this is offset by a large and persistent current account deficit, especially with our main trading partner, the United States. Real growth over the last few years has averaged four percent per year, second only to Japan and stronger than the United States. Employment growth, averaging over 2.5 percent over the past three years, has been remarkably high compared to Europe.

Michael Wilson, the Minister of Finance, has succeeded in containing the growth of the fiscal deficit and setting it on a downward path, both in absolute terms and as a percentage of GNP. However, at a projected $29.3 billion (Canadian) for 1987-88, the deficit is still very high and limits the government’s flexibility in economic management. In
relative terms, the Canadian budget deficit is greater than that of the United States, although, of course, it has a much less significant external impact.

Following the election of the Mulroney government, the Foreign Investment Review Agency was replaced by Investment Canada, with a mandate to encourage new investment and to continue monitoring inward direct capital flows. Cultural industry takeovers remain under close control, but otherwise the area where approval is needed has been significantly narrowed and, in fact, there have been no turnarounds over the past year or so.

Steps have been taken to improve relations with the provinces, which, in Canada, are sovereign as regards natural resources and a number of other areas. The Western Accord, signed with Alberta and other western oil-producing provinces, and the Atlantic Accord with Newfoundland eased many years of controversy and acrimony on the energy front between the two levels of government. The Western Accord deregulates petroleum prices and reduces taxes. Under the Atlantic Accord the federal government agreed to give Newfoundland an equal share of control over the development of offshore hydrocarbon resources, which are substantial. Unfortunately for the provinces involved, less than a year after these agreements were reached, world oil prices dropped to under $15 a barrel, so development will have to wait a while.

A TALE OF TWO ECONOMIES
Canada's economic recovery, tributary in many respects to that of the United States, has been good in aggregate, but patchy regionally. Deep disparities exist, and our evolution has become in part, a tale of two economies.

Times are pretty good for the provinces of Ontario, Quebec and Manitoba, where the manufacturing and service industries are concentrated. There has been an interesting development in Quebec, where the "separatist" Parti Quebecois is now out of power and where a new entrepreneurial class of businessmen, working in French, is remaking the Quebec economy on more modern, outward-looking, and competitive lines. Montreal is endeavoring to renew itself as a major French-speaking bilingual economic center, with national and worldwide ambitions.

In the West, the past few years have been hard ones for the provincial economies, as they are particularly dependent on primary resource sectors and related manufacturing and service industries. Depressed world oil markets, a sharp fall in the price of potash, and falling wheat prices caused by serious droughts in 1984 and 1985, combined with an escalation of the export subsidy war between U.S. and European grain producers, have undermined the main props of the economies of Alberta and Saskatchewan. British Columbia has been seriously affected by the decline in metal markets, and for a long period, until recently, by weak markets for lumber and pulp and paper.

Atlantic Canada's problems run even deeper, with a poor economic base reflected in low levels of per capita earned income and very high unemployment rates. Offshore oil and gas resources still await development.

Coping with regional disparities will remain one of Canada's most difficult challenges. Given new substitute materials, more efficient manufacturing, new technologies and increased production worldwide of most of the raw materials Canada produces, it is not clear that the traditional demand for some of Canada's primary resources can still be counted on to be the same generator of economic strength. We can expect Canada to build on other strengths and to try to improve its relative position in the production of goods and the provision of services.

THE DOMESTIC POLITICAL SCENE
One might have expected, with a relatively satisfying economic performance, that the ruling Conservative Party would be riding high in the public esteem. In fact, polls consistently reveal that voter support has plunged, and the phenomenon seems to be more serious than the customary mid-term downturn. The governing party is actually running third in many parts of the country, behind the Liberal Party—its traditional rival—and more surprisingly, behind the New Democratic Party (NDP), Canada's democratic socialist party. A March 11-14, 1987 national poll showed that among decided voters, the Liberals have the support of 42 percent of the electorate, the NDP 33 percent and the ruling Conservatives only 23 percent. This is in marked contrast to the 1984 election, when the Conservatives got 50 percent of the popular vote, and the Liberals and NDP had only 28 percent and 18.8 percent, respectively.

It's puzzling why the government's standing has
dropped so drastically. Federal-provincial relations have improved and, overall, the economy has done well considering the weak oil and commodity situation. The principal ministers are seen to have performed reasonably well, notably the Secretary of State for External Affairs—as well as the House Leader, and the Ministers of Finance and Health. The Conservatives’ track record on promised legislation is not bad. Elsewhere, amongst newer ministerial incumbents and their staffs, there has been an unfortunate rash of improprieties which have led to resignations. While these have somewhat tarnished the government’s image, it does not seem an adequate answer to the apparent decline in confidence and popularity of the Mulroney Administration. Under these circumstances, the current spotlight is focussed squarely on the Prime Minister and his perceived performance.

Sometimes these shifts of opinion can be explained by growth in the popularity of the opposition leader. But this does not seem to be a central factor here. For most of the first two years since the election, John Turner, the Liberal leader, was constantly being sniped at from within his own Party. He is still trying to generate countrywide personal support and continues to run behind his Party in the polls. This may now be changing, but Mr. Turner appears still to have some hills to climb.

A phenomenon bearing on the current low standing of the government that is even more surprising is the growth of popular support for the New Democratic Party, traditionally seen as a perpetual minority party with little hope of ever governing, even in a formal coalition. Although the New Democrats have formed the provincial government at various times in British Columbia and Saskatchewan, and currently in Manitoba, and once formed the official opposition in Ontario, at the federal level they have never had broad support across the country. Now, in several regions of the country (even in Quebec) they are reported to be neck and neck with the Liberals and ahead of the governing Tories. While the NDP leader, Ed Broadbent, is widely perceived to be an effective leader and government critic, his party’s current popularity seems to have more to do with disaffection with the two traditional parties and their leadership, than to any swing of public opinion further to the left.

No one knows what will happen to the NDP’s current support when Canada approaches its next general election in about two years. Should they maintain their popularity, there will be a question of whether their votes would come more from centrist voters disenchanted with the Tories or from the left-leaning wing of the Liberal Party which, like all centrist parties, seeks to a degree to be all things to all people.

Much will depend on whether the Conservatives are successful with their current three main policy thrusts: free trade negotiations with the United States, tax reform, and constitutional arrangements which would permit Quebec to accept with some modifications the major constitutional reforms of 1981. So far there is no public track record to judge the government’s performance on these issues. But that will not be the case two years from now.*

PROVINCIAL-FEDERAL RELATIONS

Canada, like the United States, is a federal state, but we have fewer provinces (only 10). One province alone (Ontario) produces half the Canadian GDP, and our provinces are stronger in terms of their constitutional and operational power than are states in the United States.

In recent years, the provinces have de facto assumed an increasing role in decision-making at the national level, and consensus development in Canada must necessarily take this phenomenon into account. Federal-provincial meetings are now institutionalized at almost every level, giving the prov-

*Since delivery of this address, the Canadian Prime Minister and the Premiers of the provinces have agreed on proposed amendments to the Canadian Constitution which are acceptable to the Government of Quebec. And on June 18, 1987 the Minister of Finance issued his tax reform package, the initial reaction to which was quite favorable.
inces an input on all major domestic issues. These meetings reveal and reflect the reality of economic and perceptual differences between the widely separated regions of a vast country.

These and other Canadian realities are seen differently by the various political parties. For example, depending on how public perceptions evolve, we may see in Canada greater polarization between those who wish to intensify management of the economy through legislation and regulation and those who seek more market freedom.

One major issue that will test the tone of federal-provincial relations and have a marked influence on whether the federal government and the provinces can articulate a national vision for Canada will be the current negotiations for a freer trade arrangement with the United States.

TRADE NEGOTIATIONS: U.S.-CANADA AND GATT

The decision of the U.S. and Canadian governments to negotiate for a freer trade arrangement represents a serious attempt to reduce and eliminate tariff and non-tariff barriers between the two countries. Success or failure will be central to the development of the Canadian economy in the years ahead. The United States would also derive economic advantage. But the negotiations are also important to them (and in part also to Canada) in furthering their interest in having services, investment and intellectual property included—or more fully included—in bilateral and worldwide trade negotiations.

Free trade negotiations will likely dominate the Canadian political economic agenda over the coming months. Political division on the issue was made clear in a recent parliamentary debate. Although the government handily won, dissatisfaction with the Conservative’s motion was evident. The NDP opposed the motion and the Liberal position was heavily hedged by a variety of political, cultural and economic concerns that the party sees as critical to any agreement which they might eventually support. Public opinion across the country is also divided—business and the economic fraternity are broadly in favor, academic positions are diverse, farmers are concerned, and many cultural groups and other strong nationalists are worried about possible loss of sovereignty to the United States. While the negotiations have been joined in earnest, it seems clear that many major issues remain to be resolved before early October when, according to the “fast track” procedure agreed by the U.S. Congress, the negotiations have to be completed, at least in sufficient measure to report a result to Congress.

The importance we attach to our bilateral negotiations does not mean that Canada is less committed to the GATT, or to a more liberal world trading system. On the contrary, Canada actively supported the launching of the Uruguay Round in Punta del Este. Indeed, the ministerial declaration which set out an impressive list of priorities included many issues which are of particular importance to Canada. The GATT negotiations will be lengthy and complex, but it is encouraging that they will be addressing the real problems which have emerged in world trade.

Finally, I’d like to make two points about the interconnection between the bilateral and multilateral trade negotiations. First, the urgency and nature of our main trading problems—including preoccupation with protectionist thrusts in the United States—do not, given our huge trade exposure, permit Canada to await the possible but uncertain outcome of GATT negotiations, which will stretch over four years or more. Secondly, both governments are committed to attempting to negotiate an agreement which would be compatible with the provisions of Article XXIV of the GATT, which foresees the creation of free trade areas, as well as customs unions, such as the EEC.

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Canada is a fortunate nation, but one also with its special problems. We face the future with the confidence of an increasingly strong and mature country more sure than in the past of its capability to discharge an independent and constructive role in world affairs.

* J.H. (Jake) Warren is North American Deputy Chairman of the Trilateral Commission and former Canadian Ambassador to the United States.
From a Democratic congressional perspective, let me try very briefly to cover a number of major issues that we’re now facing, and to suggest that it’s possible (and obviously from my point of view highly desirable) to develop a better relationship and more cooperative spirit with the Administration in the resolution of these problems.

It is typical of post-war American politics for there to be a Republican President and a Democratic Congress. We have now returned to this normal condition of American politics, which obviously has been successful in important ways since the end of World War II, despite the political division. For example, President Truman’s Truman Doctrine and the Marshall Plan were undertaken at a time when there were Republican majorities in the Congress. The civil rights movement had its first great successes in the Eisenhower Administration, when a Republican President was in office and a Democratic majority controlled Congress. Likewise, we’ve seen the successes of President Nixon in arms control and the normalization of relations with China occur with rather enthusiastic Democratic support. So, by no means should one think that the next two years need be a time of obstruction and stubborn stalemate. Instead, what concerns me is that the Administration, from my perspective, is (Continued on page 48)

Don’t count the Republicans out. For that matter, don’t count Reagan out. Only six months ago people were talking about the Democratic Party and its dismal future. Today the situation has turned and people are beginning to say the same thing about Republicans. Frankly, the two-party system is alive and well, and I don’t think we have to concern ourselves about that.

For those of you visiting our country, it’s important to understand that there’s a reservoir of goodwill towards the President. The American people want the President to succeed. And they’re grateful to this man because he has restored confidence in this country. He has turned the country around. I think many of you will agree that he has presided over a sharp rise in American prestige abroad. In fact, in a very real way the President has set a new standard—a new standard for the Presidency against which future candidates will be judged.

Now, that’s not to deny that he’s been wounded by Iran; that there has been an erosion of confidence. How badly will in part depend on whether he had any knowledge of the diversion of funds to the Contras. But generally speaking, the American people are weary of the matter. I think there could be a backlash if people felt the President was being unfairly attacked. I must admit, (Continued on page 50)
demonstrating a certain lack of realism on some principal issues.

THE BUDGET DEFICIT
I know few people who believe that the budget deficit problem can be resolved, or at least the continued reduction of the deficit achieved, without new government revenues—taxes....

I have to confess that it is extremely difficult for my Party to get across to the American people that this is the greatest spending Administration in American history. In fact, the President’s reputation for being a fiscal conservative so overwhelms the facts that it’s difficult to even discuss the subject with many people. When I was first formally introduced to the President after his inauguration, it was at a meeting of the bipartisan leadership in a room immediately off the Senate Chamber, where we sat in a large circle. The President began by saying he was worried there had been some misunderstanding about his intentions regarding government spending. He said he would, of course, submit to Congress every year greater requests for public spending and that would continue throughout his term of office. He was not elected, he said, to reduce federal spending—which shocked the Republicans present—but to reduce the growth rate of federal spending and to change its priorities. Indeed, the Administration has changed the priorities of federal spending, but they have not, in any way that I am aware of, shown much interest, at least prior to Gramm-Rudman-Hollings, in reducing the federal deficit. In 1985 the Administration budget estimated a baseline deficit of $195 billion, and called for a deficit reduction effort of $5 billion—a little more than 2.5 percent. Now the Administration claims that the full impact of Gramm-Rudman-Hollings must be realized in the new budget (a reduction of the deficit to $108 billion). The Administration suggests this is to be done without taxes, while at the same time boasting that its own budget has $22 billion worth of added revenues. Apparently, when the Administration uses certain words they don’t have the common English meaning that one might ordinarily assume. Spending, for example, does not refer to anything in the defense sector of the budget, that is preeminently investment in national security or some other term.

Nevertheless, I think we have an opportunity to deal realistically with the budget if the President can be persuaded to drop the “make my day” promise of vetoing any bill that raises taxes. The problem is that the President has an absolute veto in this area. In my research, never in the history of the United States has a President ever vetoed a tax bill and been overridden by a Congress, except on those occasions when the Congress wanted lower taxes than the President, not the other way around.

Now, that doesn’t mean that reductions in expenditures don’t have to be made as well. But it’s extremely difficult, under the pressure of many different competing demands, for Congress to find ways to reduce even $18 billion of federal spending. One wouldn’t think that’s difficult in a budget of a trillion dollars. But, as you know, so much of our federal budget is already committed to either politically (or thought to be politically) untouchable areas, or areas that frankly are untouchable. Twenty-five percent of the federal budget, for example, is for Social Security, which both parties agree should not be affected in a major way. Fifteen to sixteen percent is in debt service, which cannot be changed. The defense budget takes 25-30 percent, and frankly, it is not going to be cut drastically. Reductions in defense spending in recent years have made the defense budget no longer an easy target for quick budget gains. So the problem is difficult, and without some additional revenues I think it’s politically impossible.

It’s a question of whether the Administration chooses to leave office with a dispute over whether it voided the possibility of serious continued reduction of the federal deficit (with all of the many consequences of that), or whether it chooses to find a political concordat on a deficit reduction policy which would, in my judgement, be of benefit to the United States and the international community. It is within the exclusive and absolute power of the President to do one or the other—to make that budget compromise possible, or to make it impossible—and he must bear political responsibility for his conduct in the coming weeks and months. I desperately hope that a way will be found to deal with this problem.

TRADE
The trade problem is of great interest to all of us. I’m not going to attempt here to take you through all of
the possibilities, but let me offer a word of caution, as somebody concerned about excessive and overly rigorous trade legislation. It is true that many Americans are beginning to see themselves as victims of trade policy. It's increasingly true in Japan and Europe as well. This is political reality that simply can't be ignored. This Administration has been criticized in the past for engaging in patchwork protectionism while espousing the overall principle of free trade. I've not criticized it from that standpoint, but I think it is true that the Administration has tended to view trade as an issue to be put aside after temporary crises were resolved. The Democratic leadership wants a trade bill the President will sign. We're not interested in seeing a bill that is largely a background for a trade plank in the 1988 Democratic platform.

CURRENT INVESTIGATIONS
I speak to Ambassadors from Europe or Canada or Japan who one way or the other express their great concern about the investigations currently underway in Washington. They wonder about the American tendency, as some of them put it, to engage in self-flagellation to the point of weakening its position in the world. I'd like to point out the bipartisanism of the two committees of Congress organized for the purpose of carrying on this investigation. The two committees' staffs have been merged. I think the work of the Tower Commission will be followed by an essentially unified report of the House and Senate Committees. It is impossible in this country, even if the two parties wished to, to simply put an abrupt end to the investigation. An attempt to do that would be denounced in the press and would leave the American people with unanswered questions, which they would fill in, believe me, with theories and opinions which might be much worse than anything the official record would disclose.

It is sometimes suggested that the Democratic Party wants to bring this Administration down. Absolutely nothing could be further from the truth. We have our firm disagreements with the Administration on a number of policy issues, but we realize it would be disastrous for the American Presidency to go through a crisis scarcely ten years after Watergate. Why would it be a political problem for the Democratic Party? In part because the Democratic Party hopes to be in the White House two years from now and would not want the office so badly weakened and hobbled by a lack of confidence that any program we might undertake would be difficult, if not impossible, to achieve. And above that are broader more patriotic reasons. The Democratic Party believes that the Federal institutions are important and that a sense of public confidence in them is essential for there to be proper public policy.

FOREIGN POLICY
Let me just say a word about foreign policy, and I do so with some knowledge of the great wisdom gathered in this room. On arms control, we hope to support an agreement on Intermediate Nuclear Forces, which appears to have a good chance of being concluded in the coming months. There will be, however, some disagreement with the Administration in the areas of SALT II sub-limits and ABM Treaty interpretation. I cannot personally understand what the Administration thought it would achieve by abrogating the SALT II sub-limits last year, or this year by its open talk about early deployment of SDI and attempts to reach a conclusion on the so-called "broad interpretation" of the ABM Treaty. It was clear that would provoke a response in Congress and indeed it has. But I don't think it need interrupt an INF agreement. The Democratic Party continues to support SDI research, but that consensus breaks down at the point where direct confrontation with the ABM Treaty is apparent.

On Nicaragua, the Administration, I think, faces the end of Congressional support for military funding of the Contras this fall. The question is whether it will develop an alternative policy that avoids a sudden crisis when Congress ends that funding. There is a great deal of agreement on the objectives that we seek in Central America. The principal problem is what appears to us to be the almost fixed attitude of the Administration that the Sandinista regime must be removed from power—as the principal goal of our policy in Nicaragua. The issue unfortunately has become something of a political litmus test. If the Democratic and Republican Conventions were meeting this month, I think it would be virtually impossible for a Republican candidate to be nominated who is not in support of military aid to the Contras, and vice versa for a Democratic candidate. Our politics is not generally very ideological (it is a centrist type of politics), but occasionally emo-
tional issues arise that affect the political equation dramatically.

CONCLUDING REMARKS
Let me just close by again saying that we have a system that works well to foster political compromise, but only when there is a certain realism about public attitudes and what is achievable. It was the great Edmund Burke who said that government, indeed every human benefit and enjoyment, every virtue and every prudent act, is founded on compromise and barter. These great issues may seem to be ones that should not be decided on the basis of compromise and barter, but they can be decided on no other basis. For the next two years we have an opportunity in this country to produce some real movement on a number of critical issues: trade, budget, arms control, and the broader issues of foreign policy. If we in Congress take the opportunity, and if the Administration is willing to take it, I think some important things can be accomplished which will be to the benefit of not only both parties in this country but to all those in the international community who wish us well. I hope that will happen.

Roth, continued from page 47

support for the President could erode further, but overall, I think we are moving out of the problems of Iran.

Let me tell you what particularly concerns me about this episode, that is the question of the governability of the United States. To me it’s critically important that every President isn’t faced at some stage with being undercut, as has happened to the last four Presidents. I think it was Dave Broder of The Washington Post who wrote back in the ’60s, when Lyndon Johnson decided not to run for reelection, that the press would not be satisfied until they destroyed every following President. You can make an argument, not that the press necessarily did it, but that that has happened. Watergate, of course, destroyed Nixon. Ford was depicted as a man who couldn’t do two things at one time. Carter was attacked for the hostages. We cannot permit that to happen again. This country cannot become mesmerized with an investigation into the detriment of the key issues that face us. Mistakes have been made—don’t misunderstand what I’m saying. What I’m bothered about is that future Presidents will be afraid to make mistakes; and the man who makes no mistakes is a man who does nothing.

THE ISSUES AHEAD
I think that in many ways the Reagan Administration is off to a new beginning. Let me discuss briefly what I see happening during the next 18 months. I think some progress will be made, but it’s going to be a very political 18 months—that would have been true without Iran, because of the Democrats’ victory in the Senate. I fear that during the next 18 months too much time and attention will be put by both parties on establishing a platform they think will be successful in electing the next President. Make no mistake, we’re already involved in that Presidential campaign.

I think that our becoming competitive in emerging world markets is the most serious problem our country faces. In my judgement, the government should try to create an environment of growth. That means we have to address the budget deficit, the trade deficit, and the problem of savings—to mention just a few.

I’m not very encouraged that much will be done in the way of reducing spending. I agree with Tom Foley that this Administration, in certain areas, has expanded spending substantially. That is certainly the case with defense. The real problem is whether or not we’re going to be able to reign in spending. I happen to agree with the President that it’s a mistake to raise revenue. I guarantee that if we raise revenue we will raise spending—there are too many goodies out there. The only way we’re going to make progress and become competitive, and hold down the growth of government, is by not raising taxes. I think that’s an issue we Republicans will like to face in the next election.

Let me talk briefly about trade. I am cautiously optimistic that we are going to have some pretty good trade legislation. The President has promised to veto anything that is too protectionist, and would be backed in a veto. So if anything is going to be enacted, I think it will be a step forward.

Several weeks ago, before the Senate Finance Committee, Robert Hormats said that either we will solve the trade deficit by positive constructive steps or it will be done by whatever means are necessary. That’s something important for our friends abroad to consider. Either we’re going to work together to
have liberal trade that we all profit from, or we’re going to see this country turn to protectionism. There is a real possibility that protectionism will be the key issue in the next Presidential election.

Let me tell you what’s going to happen in 1988. I think the Democrats have an opportunity, particularly after regaining control of the Senate in the 1986 election and because of the Iran-Contra affair. But the Democrats are a divided party, and there’s also a question as to what kind of record they’re going to create for themselves during the next two years. I’d just point out that in 1946-48 the Republicans controlled the House and the Senate and were charged with being a do-nothing Congress by President Truman. Not only was he reelected in 1948, but a Democratic Congress was elected as well. So, it’s not always a blessing to control Congress. Moreover, the Republicans are entering next year with some pluses. We’re in the 51st month of a relatively strong economy. In that period we’ve created about 12 million new jobs, 800 thousand in the last two months alone. Manufacturing productivity is increasing four percent a year. So, it’s my prediction that if the Reagan Administration is able to put the Iran controversy aside, next year we will elect a Republican President. The House will obviously remain Democratic, while the Senate will be up for grabs, with a slight leaning towards the Democrats.
SCENES FROM THE PLENARY

Georges Berthoin

Plenary session, in the Gold Room of the Fairmont Hotel

(left to right) A.W. Clausen, E. Gerald Corrigan, Vernon Jordan
(left: front to back) William T. Coleman, Jr., Zbigniew Brzezinski, Rolf Bjergaard, Tatsuo Arima; (right: front to back) James E. Burke, Conrad M. Black, Giovanni Auletta, Shosuke Okamoto,

(left to right) Henry S. Rosovsky, Robert Ingersoll, Toshihiro Tomabechi
Takashi Mukaibo

The draft report of the science and technology task force was discussed in San Francisco. Takashi Mukaibo, the Japanese and lead author, described the report as having three main purposes:

First, we describe science and technology issues in the three regions and the state of international cooperation in science and technology. Second, we identify clearly the critical issues that lie in the relationship between science and technology, on one hand, and international relations, on the other. Third, we try to define a framework for Trilateral cooperation, based on general principles but with some recommendations for specific regions.

The creation of our task force is recognition of the growing importance of issues relating to science and technology in foreign policies and in international relations. At no time in the past have societies so consciously promoted science and technology as a means of achieving national security, economic well-being and national prestige. But while science and technology is increasingly international in character, politicians, publics and governments maintain national perspectives—particularly in commercial and defense technologies. Nationalistic notions threaten the free flow of information among the Trilateral countries, and thereby threaten to slow development of new technologies in such areas as space, medicine, transportation, pollution control, and the production of goods.

Dr. Mukaibo talked in particular about trade problems:

Many of the emotional trade issues in Trilateral relations concern high technology goods. High-tech pro-
duction is valued by all regions because it is seen as profitable, clean, important to national security, and a measure of national industrial capacity. Interest in promoting high-tech production in each region is good and competition is healthy. However, policies to promote high technologies should recognize the fundamentally international character of science and technology. We should avoid nationalistic policies that promote competitiveness by erecting governmental barriers to the outward flow of technology or by subsidizing R&D in an exclusive way. We should not adopt an approach that looks at competitiveness as a battle for shares in a fixed global economy, but rather see progress in technology creating opportunities that benefit all countries. We should also avoid sector-specific policies that try to pick winners or subsidize losers. We believe industrial policies should focus on broad “precompetition stages” such as promoting the right economic climate, education policy, and R&D support. We recommend that our regions try to make contributions to the pool of scientific information and technological development more equal to their respective economic sizes.

He then turned more directly to Japan:

It was logical when Japan was catching up with the West that it concentrate on acquiring technology from abroad and on further refining it for competitive advantage. Now that Japan is at the industrial frontier, it also needs to contribute to the stock of basic knowledge—at which it is working. Unfortunately, because of a language barrier, many of the contributions that Japanese scientists and engineers are already making are not internationally recognized. Therefore, we recommend that the Japanese government support the cost of translating published articles from Japanese into English, and that governments and scientific communities in the Trilateral areas support the distribution of those articles within their countries.

National and international systems for the development of engineering standards have become more important because design, development and production are distributed more internationally. As a result, Japanese standards, which are frequently design-oriented, have become a source of complaints. So too have the unclear ways in which these standards are developed. We recognize that Japan’s system differs for historical and cultural reasons, but we believe Japan must move forward toward performance-based standards and transparent policy making processes.

Dr. Mukaibo finished his remarks calling for a “better mechanism for anticipating international relations problems and opportunities associated with new technologies.”

We believe that no existing institution is giving adequate sustained interest to these problems. We would prefer that an existing institution take up this task. But if none is willing, we should explore whether or not we should establish an international institute for science and technology policy to provide early warning to our policy makers.

Harold Brown

Harold Brown, the North American author of the report, began his remarks by addressing several features of science and technology in North America. He then turned to a discussion of three aspects of technology transfer:

First is technology and economic competition... Technology has indeed become a central factor in Trilateral economic competition. Because of its importance in that role, the report concludes that symmetrical access to technology is important to establish. While there’s reasonably good symmetry between the U.S. and Europe, there is less between the U.S. and Japan, and between Europe and Japan. As regards the U.S. and Japan, that asymmetry can be explained in part by the fact that in the United States the technology is largely developed in open places—university laboratories and so forth—while in Japan most of it is the result of industry efforts, where there’s a tendency to be more closed and more proprietary (which is true not only in Japan).

The second technology transfer issue is that connected with international security; primarily it deals with military technology or dual-use technology transfers to the Soviet bloc. (“Dual-use” technology can be used either for civil or military purposes.) The issues flow from a need to preserve a technological lead over the Soviets. There is an apparatus of the Trilateral countries called COCOM, whose purpose it is to control these transfers. Except for the United States, few Trilateral countries have
taken seriously enough the threat to Western security posed by such transfers. On the other hand, in recent years the U.S. government has tried to have such an extensive list of dual-use technologies controlled that other members of COCOM have become unconvinced of the U.S. case—that tends to encourage cheating and bog down the whole system. The same is true for U.S. attempts to use technology transfer controls based on military reasons to put economic pressures on the Soviet bloc. Recently, there have been U.S. government moves to rationalize the whole process, and that’s to be applauded. The sharing of dual-use technology among Trilateral countries is a relatively new issue—that has resulted from Japanese leadership in many technical areas. This new issue is the sharing of Japanese dual-use technology (or even military technology) with the U.S. and Europe. This probably needs government-to-government attention given the sensitivities, both political and constitutional, in Japan on this matter, although in the end the governments may decide to handle this on a firm-to-firm basis under a government umbrella.

Finally, civil technologies transferred to developing nations can be very important for their economic and social progress. Their ability to absorb civil technologies is a substantial problem, however, as is the need to develop indigenous science and technology in those nations. The Trilateral nations need to help build institutions in the developing countries and to work with end-users in those countries to see that the technology is appropriate. It can be as advanced as any in the world and still not get used because the infrastructure doesn’t exist or because the cultural or sociological fit is wrong.

*Dr. Brown closed with a few recommendations that were especially directed at North America:*

First, we need to retain open access to technology, but one conditioned on symmetrical treatment; and relatedly, firms, universities and governments need to create incentives for researchers from the U.S. and Canada (whether from universities or from industry) to spend time in Japanese laboratories, and to make that a positive contribution to a career pattern.

Second, an effort needs to be made to raise the level of scientific and technical education and understanding, of the public and of political leaders. With respect to industrial leaders, a manufacturing emphasis is particularly important, both for technologists and for operating executives.

Third, those who make U.S. national security and economic policy should balance controls on the transfer of technology to Third World and Soviet bloc countries against the need for high-technology competitiveness in sales and in production. The important thing is that once a conclusion is reached, the policy should be adopted and should be consistently followed.

All of these recommendations are rather general in nature, but they are not so easy to implement—in part, because their importance has not been adequately realized and accepted. Technology remains an engine of change, but like other engines it doesn’t tell us where to go. If we don’t direct our own course, technology will still take us somewhere. We ought to choose some directions.

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**Luis Solana**

*Luis Solana, the European author of the report, concentrated on his hope for a “Europe of R&D.”*

I suppose a Japanese speaker can easily represent the strategy of his country and an American speaker may represent it, but it is difficult for a European speaker to present a scheme for R&D accepted by all Europeans...The Europe of R&D is only beginning to exist; it is not real yet.

Mr. Solana saw four main supporting elements in encouraging a “Europe of R&D” over time. First is the current effort of the European Community to complete a unified internal market by 1992.

[This effort is] most necessary to create a demand for European research...We must not forget that the market has to be created first for the research to make sense. If there is not a real common market, what reason is there for a European company to give part of its resources for European research? In more or less protected national markets, a company’s own resources are usually enough...Technology without market would be a miracle.

*The second supporting element would be “only one European education system.”*
I don’t mean uniform, but united. Without an equivalent European education, the idea of European R&D is hard to reinforce. Obviously universities are the key, but other levels must be kept in mind.

Third are joint projects, such as the Channel tunnel. He noted Euratom and Airbus. He saw virtues in SDI-type projects.

I’m not going to make any political evaluation. I only want to say that I wish Europe were able to define projects—capital-reinforced R&D—as has been done by SDI.

The last but not least of Mr. Solana’s four supporting elements is more economic and political power for Brussels, for the Community. He noted that only three to four percent of the Community budget is dedicated to R&D.

Can there be in the future real Trilateral competition? I believe that if Europe does not react urgently it will be difficult. The Euro-optimists can point to the many areas of science that have developed in Europe, but they must also note how many of them have been applied to business in the U.S. and Japan, and how few in Europe. At the same time, we must tell the Euro-pessimists that large American multinational companies are developing their R&D in Europe and with European scientists.

Someone might think that I am advocating European protectionism. By no means. I want Trilateral competition, but the problem is that the European side of the triangle is not yet strong enough.

* * *

The authors were joined on the dais by their two associate authors, Fumio Kodama and Lewis Branscomb, who both participated in a question and answer session that followed the opening presentations.

Takashi Mukaibo is Acting Chairman of the Japan Atomic Energy Commission and former President of the University of Tokyo. Harold Brown is Chairman of the Johns Hopkins University Foreign Policy Institute and former U.S. Secretary of Defense. Luis Solana is Chairman of the National Telephone Company of Spain. Fumio Kodama is Professor of System Engineering at Saitama University in Japan. Lewis Branscomb is Director of the Science, Technology and Public Policy Program at Harvard University and former Vice President and Chief Scientist at IBM.

"High-Tech" Development

One reason the meeting was held in San Francisco was to afford members an opportunity to visit the "Silicon Valley" area south of San Francisco. On March 24 an optional program concerned with the dynamics of "high tech" development was held. The group visited a) Genentech, where we heard, among others, from G. Kirk Raab, President and Chief Operating Officer; b) the Center for Integrated Systems at Stanford University, where a program that focused on Stanford's role in high-tech development was organized by Dr. John G. Linvill, Director of the Center; c) Hewlett-Packard, where we heard from John A. Young, President and Chief Executive Officer, and toured a computer assembly area; and d) Intel, where we saw a short film and heard from Robert Noyce, Vice Chairman and co-founder, who talked about "high-tech" trade issues.
Unemployment-Employment Trends
and Their Implications

EUROPE
HEINZ KLUNCKER

At the beginning of 1987 unemployment in Western Europe reached its highest level since the Great Depression in the 1930s. The unemployment rate is currently 11.8 percent (about 20 million persons), not including those looking for work who are not registered as unemployed. Young people, women, unskilled workers and the physically handicapped have been the most severely affected. The length of time people are unemployed has also increased. With a predicted European growth rate of 2.0 to 2.5 percent for 1987—and uncertain export markets—we can expect increased unemployment or, at best, a stagnation of the employment figures.

THE CAUSES OF UNEMPLOYMENT
Unemployment is above all the result of the organization of the economy and, therefore, also the organization of work. It is aggravated by the fact that those in responsible economic and political positions are not seriously interested in fighting unemployment effectively. There are several causes for the volume and duration of unemployment. One is a drop in demand. As a result of the economic crisis and the negative effects of austerity policies, there has been a noticeable decrease in people's incomes and, therefore, a drop in demand on both domestic and foreign markets.

Another cause is the application of new technology. Politicians, economists and scientists make different evaluations as to whether and to what extent the application of new technology—for example, the use of microelectronics—causes an increase in unemployment. Some facts are clear, however. In recent years investments to rationalize production have dominated investment decisions. Through the use of more effective technical, and above all electronic aids, human labor has been replaced by technical installations, leading to the dismissal of employees, who are not in a position to find new jobs. In Western Europe, productivity has increased more and more rapidly in recent years. When productivity increases, to prevent a rise in unemployment, demand must grow and/or working hours must be considerably shortened.

Finally, as a result of a neo-conservative offensive, public services have been totally or partly abolished or have been privatized. This has meant the dismissal of employees, most of whom have not been able to find suitable jobs again because of the tight job market. (Continued on page 60)
or those of you who are devotees of science fiction movies, you'll remember in the Star Wars movies that there was a light and a dark side to the "Force." What I want to do this afternoon is talk about a light and dark side to the economic forces that generate jobs in America.

THE LIGHT SIDE
The good part of the story is that the American economy creates jobs like crazy, and it's not something that we just discovered with the beginning of the Reagan Administration. From 1972 to 1976 under Presidents Nixon and Ford, the American economy generated 6.5 million jobs; from 1976 to 1980 under President Carter it generated 10.5 million jobs; and from 1980 to 1986 under President Reagan it generated 11.4 million jobs. Although the Carter Administration created 0.7 million more jobs per year than the Reagan Administration, the fact is that regardless of who's been running the American economy, it has created a very high number of jobs.

If you look at the period from 1980 to 1986, employment in agriculture, mining and manufacturing fell 1.2 million. The number of jobs in transportation and utilities increased by 0.5 million and in government by 0.7 million. During this same period we created 1.0 million jobs in construction (mostly building new homes) and 1.4 million in finance, insurance and real estate—mostly in finance. We created 3.2 million jobs in wholesale and retail trade, largely by going to 24-hour retailing; and we created 5.4 million jobs in the service industries, about 40 percent of these in health care.

The reason for America's strong gains in employment is easy to understand: Very strong macroeconomic stimulus was injected into a very receptive microeconomic environment. From 1980 to 1986 the American money supply (M1) grew 76 percent, or more than 10 percent per year, while the fiscal deficit rose by $145 billion or 3.5 percent of GNP. Combined, these factors produced a classical Keynesian reflation—in a big way.

In the microeconomy productivity grew very slowly—only 1.3 percent per year from 1980 to 1986. Because demand grew at a higher rate, the result was job growth. (With one percent productivity growth and a three percent growth in demand, employment grows by two percent. But with a four percent increase in productivity and the same three percent rise in demand, (Continued on page 61)
EFFECS ON INDIVIDUALS AND FAMILIES
Long-term unemployment causes a drastic fall in the standard of living of the families affected. In fact, we can justifiably speak of "poverty" again in Western Europe. Even short-term unemployment can have a lasting and damaging effect, for example, when particular professional qualifications are no longer required. This can lead to a permanent loss of income.

The only way to obtain complete information on the negative effects is to listen to what the unemployed have to say. In the meantime, the results of scientific tests are available which deal with somatic illnesses and behavioral disturbances that have been caused by unemployment. Work is more than just a source of income. A person's self-confidence and self-esteem can be negatively affected in many ways because of the loss of a job. The effects can be just as harmful if school-leavers can find neither a trainee position nor a suitable job. All too often the development of these young people is permanently and negatively affected. The family is also affected: there are more family conflicts; in the case of children, their development is disturbed and their school work suffers; there is an increase of psychosomatic disturbances among wives; and there are more divorces, and more cruelty to children.

EFFECS ON SOCIETY AS A WHOLE
Before the present economic crisis there was a certain social consensus in most European countries between the relevant groups: the political parties and their most important representatives in parliaments and governments, the employers' associations and the trade unions. The longer mass unemployment lasts, the greater the danger that basic consensus will be destroyed. This is particularly true in those countries in which there has consciously been no attempt to achieve full employment through legislative measures.

Mass unemployment can also weaken people's faith in a democratic state—recall Central Europe at the end of the '20s and beginning of the '30s. Nobody can say exactly when unemployment becomes destabilizing. But the danger is particularly acute when unemployment lasts a long time and is constantly increasing.

Financing social security systems, and especially old age pension schemes, has become increasingly difficult as a result of the number of unemployed and of the length of time many of them are without jobs.

POLITICAL ACTION REQUIRED
I am sure that the present economic crisis and the resulting unemployment are not natural phenomena and are not irreversible. Unfortunately, many European governments and the political forces which support them do not see the necessity for government action to fight this deplorable state of affairs. It is high time there was political action to reestablish full employment. Parliaments and governments bear a great part of the responsibility, as do intergovernmental institutions such as the OECD and the European Community.

It is becoming more difficult to influence fully economic forces at a national level, but it would be fatal if national governments used problems at the international level as an excuse for their own inactivity. Lack of results at the so-called "Economic Summits" makes it all the more necessary for the state to try to improve the employment market with domestic measures.

Unemployment cannot be fought effectively solely by economic, financial and fiscal policies that are aimed at increasing the quantitative growth rate. Everyone who supports industrialized society must, at the same time, stand up for adequate investments to ensure full employment. This is where the real problem begins. It is very important for the social acceptability of economic activities and for the safeguarding of full employment which kinds of investment are made.

If those holding responsible positions in industry and politics do not change their attitude, unemployment in Western Europe will not fall. On the contrary, there is a danger that in some countries it will even increase because of demographic development and structural changes. The aim of all those who are responsible must be to give everyone who wishes to work the opportunity to do so. The following kinds of legislative measures are possible: government investment programs to increase environmental protection, to save energy, and to redevelop towns; increased government financing of training programs; increased government financing of basic research; and tax relief for investments which have a
positive effect on employment. Besides these legislative measures, the collective bargaining partners should put their efforts into shortening working hours in any way which could create jobs.

Heinz Kluncker is Former President of the Public Services and Transport Workers Union in the Federal Republic of Germany.

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employment decreases by one percent.) Low productivity growth hurts the growth in real income but it helps job growth.

Changes in the relative prices of capital and labor have also helped to increase employment. Since 1972 real weekly earnings have fallen 14 percent for nonsupervisory workers in the U.S. economy. At the same time higher real interest rates have led to a much higher real cost of capital. With lower absolute and relative wages, American employers received strong economic signals to hire people rather than move toward more capital-intensive production methods. Capital deepening has not occurred. On the contrary, in some recent years capital-labor ratios have actually fallen.

Limited unemployment insurance coverage also helps to increase employment by creating a labor force that is willing to accept jobs even if the wage rates offered are far below those previously earned. In 1986 only 33 percent of those unemployed received any unemployment insurance payments whatsoever, and those receiving such payments replaced only 42 percent of their gross wages.

The U.S. is also an economy marked by great variance in wages—in particular a low-wage sector that is absent from most other wealthy industrial countries, and has an impact on employment. Thirty-one percent of the U.S. labor force earns less than $7,000 per year. Minimum wage laws contribute to this situation. The U.S. minimum wage is low ($3.35 per hour or just 38 percent of the average wage) and is widely ignored (approximately ten million U.S. workers earn less than the legal minimum wage). The law is lightly enforced and the penalties for violation are minimal.

The final aspect of this microeconomic environment is the ease of hiring and firing people. In the United States workers are genuinely a variable cost, while in much of the world they're a fixed cost. There is no law requiring advance notice of layoffs or severance pay when laid off. Because workers are easy to fire, U.S. employers are willing to hire them when demand rises.

Put all of these factors together and you have an economy where strong Keynesian stimulus leads to millions of jobs.

THE DARK SIDE

While millions of jobs have been created, most of them have been low-wage jobs—of the new jobs generated since 1978, 49 percent pay less than $10,000 per year; in contrast, only 39 percent of all jobs paid less than $10,000 per year in 1978. On average, new jobs pay substantially less than old jobs. The result is a rapid rise in income inequality. In 1985, the bottom 60 percent of all American families received the lowest share of total income that they had ever received since the statistics were first collected in 1947. The Federal Reserve Board recently reported that the income share of the top ten percent of the population has risen from 29 percent to 33 percent. Wherever one looks, income inequality is now rising in America.

The reasons are not hard to find. Many of the new growing high-tech industries pay wages substantially below those of the old, declining rust belt industries, such as the automobile, steel or machine tool industries.

International trade also plays a role. The U.S. trade deficit has eliminated many high-paying blue collar jobs. In U.S. manufacturing it takes one million full-time workers to produce $40 plus billion worth of goods. Thus, last year's $170 billion trade deficit represents a loss of four million U.S. manufacturing jobs. These jobs have been replaced by new jobs, but they pay less. Using input-output techniques it is possible to calculate the average wage paid in import-competing industries ($19,583 in 1983), in exporting industries ($18,607 in 1983), and in domestic industries that neither export nor compete with imports ($16,168 in 1983). And so, as we lost jobs in the international sector and gained jobs in domestic industries, we had a shift towards lower paying jobs.

On a related point, the import of manufactured products from low-wage Third World countries is also putting downward pressure on U.S. wages—
especially at the bottom of the wage scale. Where factor price equalization used to be an intellectual curiosum taught in courses on international trade, it may be becoming a reality. While the United States imports 63 percent of all manufactured products exported from the Third World, Europe imports only 23 percent and Japan only seven percent, yet Europe’s GNP is larger than that of the United States and Japan’s GNP is now half that of the United States. Whatever downward pressure does occur from the import of lower-priced Third World goods is concentrated in the United States.

INTERACTIONS
Unless you believe the United States can run a trade deficit forever, at some point those jobs are going to come back to America and the rest of the world is going to lose four million jobs. Based on bilateral trade flows, about one-third of those jobs would come from Japan, about one-third would come from Europe or Canada, and about one-third would come from the rest of the world. Employment problems in the rest of the world are going to become worse.

But it is equally true that when the United States cures its trade deficit, its income distribution problems will become worse. The United States will lose $170 billion worth of consumption that it now does not pay for, will have to start paying interest on its international debts, and will suffer a deterioration in its terms of trade as the dollar falls to bring the current account back into balance. Yet a “soft landing” (a slow cure for the U.S. balance of payments) is in many ways worse than a “hard landing” (a rapid movement toward balance in international trade). For the slower the cure the bigger the ultimate trade surplus the United States will need to meet its interest payments on its international debts. For example, if the United States were to cure its trade deficit at the rate of $20 billion per year and pay six percent interest on its international debts, its current account would be balanced in the year 2001. At that point the United States would have an international debt of $1,800 billion and annual interest payments of $100 billion, which means that it must run a perpetual trade surplus of more than $100 billion per year — increasing job problems in the rest of the world.

When it comes to a quick improvement in the U.S. balance of payments, there are three options. The first option we all know well: we all cooperate to solve these world trade problems with a minimum of pain. This requires that the United States raise taxes to cure its federal budget deficit problem (so that the United States needs to borrow less money in international money markets). It requires that Japan and Europe stimulate their economies to encourage faster domestic growth (so that U.S. exports could rise rather than its imports fall, in lessening the current imbalance more rapidly). If this is not possible, and neither side is willing today to do what is necessary, then the dollar must fall enough to bring about the necessary rebalancing of international accounts. No one knows how far it must fall, but all of our current evidence indicates there’s a long way to go. If neither of these two options occur, the only remaining option is for some kind of unilateral U.S. action to cut imports—such as auctioning off import certificates—to prevent itself from plunging ever deeper into international debt. Now, the third option is not desirable, but if we won’t or can’t do options “one” or “two,” I’m personally in favor of “three.” If that makes me a protectionist, I’m perfectly willing to stand up and be called a protectionist. I would argue that unilateral action is better than doing nothing until a crisis in international exchange markets forces a solution upon us.

Lester C. Thurow is Dean of the Alfred P. Sloan School of Management at the Massachusetts Institute of Technology.

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after they reach retirement age. However, job opportunities for the aged are still very limited. To maintain a vital and sound society with a rapidly graying population, the problem of employment security for the elderly needs to be promptly addressed.

Japan is also facing a crisis in its relationship to the world economy. Recently, newly industrialized countries (NICs) such as Korea and Taiwan have been exporting cheaper products than Japan. Although Japan’s products have been blamed for an increasing number of jobless people in the United States and Europe, Japan is itself confronted by similar pressures from the NICs. Moreover, the recent sharp appreciation of the yen has put considerable pressure on the employment structure, and many of
Japan’s industries have been dealt a severe blow. Industries such as shipbuilding, steel, coal, machinery and transport-equipment manufacturing have lost their international competitive edge, and are under heavy pressure to dismiss redundant workers. In the areas where these industries are vital to the local economy, there has been a sharp rise in unemployment, an increase in the number of people living at the poverty level, and a decrease of revenues for the local government.

Many fear that our new record high unemployment rate of three percent—the highest rate since the government first began compiling employment statistics in 1953—signifies the beginning of an upward trend. It does reemphasize the need for effective countermeasures to cope with these problems.

Last April, the Law Concerning the Security of Employment of Older Persons was enacted to increase employment opportunities for the aged. Under this law, the government advises companies to extend their mandatory retirement age and to devise extension programs. In addition, companies with six percent or more of their workforce aged 60 and above are given subsidies. This subsidy scheme is funded by contributions made by all employers in proportion to the total wages they pay.

The Japanese government has admitted the necessity for change in the industrial structure—to decrease exports and increase domestic demand and supply of products and services. To prevent an increase in unemployment in the course of this change, the Ministry of Labor has plans to launch an emergency program. Roughly, the program provides subsidies for employers who keep redundant workers on the payroll while providing them with in-company education and retraining or outside vocational training, instead of dismissing them. The Ministry of Labor also plans to assist employers’ organizations to establish employment security centers that promote the transfer of workers from depressed industries to growing industries. This program is also funded by contributions made by all employers in proportion to total wages they pay.

We are faced with the formidable task of making these countermeasures effective. The training of older workers in new skills is not easy. The transfer of workers from depressed industries—mainly in manufacturing—to growing industries—mainly in the services—means that interregional adjustment of employment is needed. More workers will have to move into urban areas where the growing opportunities are. This will require adjustments not only by displaced workers, but by their families as well. It will also exacerbate overpopulation in big cities and the socioeconomic decline of rural areas.

Although Japan’s outlook for the near future does not appear bright, we are endeavoring to adjust to these drastic internal and external changes in order to create a new and well-balanced industrial structure and to improve trade relations with other countries.

Ginko Sato is Director-General of Women’s Affairs at the Japanese Ministry of Labor.
Yoshio Okawara is the new Japanese Deputy Chairman of the Trilateral Commission. He assumed this role in 1986, after having joined the Trilateral Commission in 1985 upon retirement from a distinguished diplomatic career. Ambassador Okawara had entered the Ministry of Foreign Affairs after graduating from Tokyo University's Faculty of Law. He rose through the ranks, ultimately becoming Ambassador to the United States in 1980-85. Ambassador Okawara is now serving as an Advisor to the Minister of Foreign Affairs and as Executive Advisor to the Keidanren. As Japanese Deputy Chairman of the Trilateral Commission he succeeds the late Nobuhiko Ushiba.