TRILATERAL RELATIONS

AT THE THRESHOLD
OF THE NEW DECADE

Outlook for the 1980s: Robert R. Bowie
The International Economy:
Otto Graf Lambsdorff, Nobuhiko Ushiba
Energy: Ulf Lantzke, Gerard C. Smith,
George W. Rathjens, Ian Smart
Political Trends in America, Europe, Japan:
Gaston Thorn, Yasushi Hara,
Graham Allison
Trilateral '80: David Rockefeller
Editor's Note/Contents

For this first 1980 issue of Trialogue we invited eleven statesmen and scholars from North America, Europe and Japan—a number of them past or present members of the Trilateral Commission—to reflect on the state of trilateral relations as we enter the new decade. In the light of the experience of the 1970s, we asked them to identify some of the challenges before our nations in the 1980s, and what are likely to be the highest priority issues for cooperation.

As we were proceeding with the preparation of our issue, the world situation and the prognostications to be drawn from it were increasingly affected by the protracted crisis in Iran and the Soviet invasion of Afghanistan. These new crises—underlining further, if need be, the importance of both energy and North-South questions—are central to many of the articles and interviews gathered here.

Following Robert R. Bowie's general introduction, Outlook for the 1980s, we have asked our contributors to focus their attention on three groups of issues:

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Finally, we asked David Rockefeller, as the founder of the Trilateral Commission, to reflect upon his experience—and expectations—of "Trilateralism" (p. 43).

As always, the views expressed throughout this issue remain the sole responsibility of their authors. We make them available in the hope that they will contribute to informed discussion of the problems at hands.
Outlook for the 1980s
by Robert R. Bowie

The decade of the 1980s was ushered in by the Soviet invasion of Afghanistan and the doubling of OPEC oil prices. These events dramatized the challenges which will endanger the security and economies of Western Europe, Japan and North America in the decade ahead.

Clearly, to meet them the advanced democracies will have to pursue a concerted and steady course over a period of years. But achieving consensus on what to do, and on how to do it, will not be easy; carrying it out will be harder still. The problems are complex; domestic economies are under stress; attitudes are diffused; and the main arena of direct danger—the Middle East—is fragile and fragmented.

Yet the problems are not new; indeed, they have become more urgent and more grave partly by reason of the wishful thinking and evasions regarding them in the past decade. The first imperative is to be clear about their nature and dimensions.

In East-West relations, the overselling of détente in the 1970s fostered Western illusions about Soviet policy. Based on the Nixon-Brezhnev summits of 1972 and 1973, the Nixon administration heralded détente as a historic watershed in U.S.-Soviet relations. This new era of "normal relations" was to be governed by a code of principles promising to exercise restraint, to seek no "unilateral advantage at the expense of the other, directly or indirectly," renouncing (once more) the use or threat of force, and undertaking to head off conflicts which might increase international tensions. Stacks of agreements, economic, scientific, cultural—the theory was—would constrain the Soviet Union like Gulliver.

The notion that the Soviet Union was becoming a status quo power, interested in stability, was politically popular, catering to a yearning to relax and enjoy prosperity and growth.

For the Soviets, détente was something else. It was the ideal form of "peaceful coexistence" for this period. It gave them access to Western technology, equipment, and credits, discouraged Western military spending, and confirmed the boundaries of Eastern Europe. But, as events would show, détente did not mean any let-up in their efforts to expand Soviet influence and power, hopefully without stirring up the West.

Under SALT I, the USSR continued its steady military buildup across the board, devoting 11-13 percent or more of GNP to military spending, steadily increasing at 4 percent to 5 percent per year. Its strategic missiles are 3 to 6 times more powerful than the Minuteman, with more and larger MIRVs.* It expanded its

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* Multiple Independently Targetable Re-entry Vehicles.
means for projecting military power abroad. It multiplied and improved Warsaw Pact armor confronting NATO, and deployed new MRBMs* and Backfire bombers for nuclear delivery.

Moreover, from the Arab-Israeli War in 1973 on, Soviet actions were hardly compatible with the Basic Principles of 1972. The USSR did not attempt to head off that war, and it sought unilateral advantages wherever opportunity offered. Combining Soviet advisers, equipment and logistics with surrogate Cuban forces, the USSR skillfully exploited instability in the Third World to establish themselves in Angola, Ethiopia, South Yemen and Afghanistan.

While the U.S. (and sometimes its allies) deplored these activities and warned against going too far, the West, in practice, went on as usual with trade, credits, exchanges, technology, and SALT II.

The illusions about détente have been shaken by two factors. Ironically, one was the debate prompted by SALT II which led to concern about the strategic balance. NATO agreed to start a five-year program in 1978 to raise defense spending by 3 percent a year to modernize its forces, and in 1979 decided to deploy theater nuclear weapons in Western Europe to offset the SS–20 and Backfire. In response to critics, the President accepted the necessity to increase the defense budget to counter the burgeoning Soviet strategic and other military programs.

The second factor, of course, was the Afghanistan invasion. The trappings were like Angola and Ethiopia—a "request" from the local regime for Soviet help against rebellion fostered by the "imperialists." But the pretense was transparent when the invading forces killed Amin and brought in his successor. Probably the Soviets expected protests as before, but not the other reactions, especially the condemnation by the Third World and the Moslem states.

The question is: What does the Afghan invasion, on top of earlier actions, tell us about Soviet policy and purposes? That hard-liners have overruled Brezhnev? (He took the lead in justifying the invasion.) Or that the Soviets feared Afghan ferment would infect their Moslem population? (But there is no evidence of such effects from Iran or Afghanistan.) Or that the Soviets have given up on détente? (But Brezhnev and others are mounting a major campaign to keep it alive on Soviet terms.)

Other readings seem more plausible: (1) Extending the Brezhnev doctrine beyond Eastern Europe, the Soviets invaded to prevent the popular overthrow of the Marxist regime resulting from the 1978 coup and to maintain and expand their sphere of control; (2) they discounted the risks involved on the basis of perceived Western weakness and their own growing strength; (3) Afghanistan enhances their capacity for exploiting future opportunities and instabilities in the Persian Gulf area, especially in conjunction with their position in Ethiopia and Yemen; (4) based on Czechoslovakia, they may well expect a "peace offensive" to get détente back on the track by 1981, or to produce strains between the U.S. and its allies.

II

The dependence on Middle East oil is itself a serious vulnerability for the economies of the advanced industrial nations and can be a divisive issue among them. The United States, the largest oil importer, depends on imports for one-half its oil but for less than 20 percent of its energy. The European Economic Community, however, imports about 55 percent of its total energy and Japan nearly 75 percent, overwhelmingly in the form of imported oil.

The first warning came in 1970, when OPEC united to extract a substantial increase in oil prices. But the quadrupling of oil prices by OPEC in late 1973 and early 1974 and the severe recession and stagflation which followed should have left no doubt about Western vulnerability.

OPEC oil is subject to a variety of other risks: (1) the potential instability of a number of regimes, which can abruptly curtail supply as Iran has shown; (2) the political cleavages and disputes in the Middle East, and especially the Arab-Israeli conflict; (3) the impact of East-West rivalry, which could result in subversion or disruption of regimes or even direct confrontation.

Any of these factors could lead to an abrupt cut in oil supply for a period of uncertain duration. The drop in Iranian output in 1979 (offset in part by reserves and Saudi expansion) showed graphically the severe impact of a short-fall of even a few percent.

Reducing that heavy dependence on Middle East oil, by conservation and by shifting to other sources of energy, should have had the highest priority. At best it was bound to take time. Yet the six years since 1974 have certainly not been effectively used by the advanced nations in decreasing their dependence. Only modest steps were taken. The IEA was a useful initiative for the limited purpose of allocating oil in case of serious shortage in supply. The European nations have about doubled their taxes on gasoline—to roughly $1.00 to $1.60 per gallon (compared with $.12 average in the U.S.). In the United States, new car mileage was required to be gradually doubled to 27.5 per gallon by 1985; relatively limited legislation was adopted in 1978, but the domestic oil price was kept under control until 1981. Higher energy costs, however, have encouraged greater efficiency in its industrial use, and economic slowdown has also curtailed energy use.

* Medium Range Ballistic Missiles.
By 1980, the oil consumption of Europe was about the same as in 1973; but in the U.S. it had risen about 10 percent since 1973, and imports were up about 2 million barrels a day, though demand has begun to level off, and for gasoline to decline slightly. Yet total supply and demand were about in balance, because free world output had risen by 3 million barrels (compared to 1973), mainly from Mexico and Britain, while total OPEC production stayed about the same. And until 1979, oil prices, which were close to those of 1974, had been falling in real terms, especially for Western Europe and Japan, due to inflation and dollar decline.

But 1979 abruptly jolted any complacency about supply or prices: First came the sudden Iranian cut in output, and then the more than doubling of prices by year-end.

**III**

The necessity for the advanced industrial states to pursue a joint strategy (1) for managing their energy problem and especially oil imports, and (2) for protecting their interests in the Middle East and elsewhere from Soviet threats seems manifest.

While such a strategy must have many strands, one of the most obvious and urgent is the need to control the OECD demand for imported oil. As already suggested, the flow of such imports is subject to risks of upheavals, conflict, subversion, reprisals and sabotage.

Moreover, even without disruption, supply is likely to be short much sooner than has been generally foreseen. Some of the main oil exporters, especially in the Persian Gulf, are more likely to reduce output than to expand it in the years ahead. The experience in Iran has made many of these regimes uneasy about the impact of unduly rapid development on social stability. Besides, with higher prices, the same or lower output produces all the revenue needed, while prolonging the life of an appreciating asset. Thus OPEC exports during the 1980s will hardly exceed the present rate, and may well fall below it. Any increase in Mexican and British exports will probably just about offset the decline in U.S. output. And the Soviet bloc may well shift from modest exports to imports of 1 or 2 million barrels a day.

Accordingly, if import demand is not curtailed, a tight market will allow OPEC to continue raising the oil price, fueling inflation and dampening economic activity in the OECD countries. Moreover, even if oil exports continue at the present level, the OECD countries will have to support any economic growth either by rigorous conservation or shifting to other energy sources. Alternative sources—nuclear, coal, synthetics and solar—all have lead-times of years, as do many measures to improve energy efficiency. Thus, if they do not control oil demand by their own actions, the OECD nations will face restraint in consumption by economic stagnation or recession, and inflation and unemployment.

Such conditions will, in turn, seriously impair their capacity for coping both with the energy problem and with security. They will hardly be propitious for the heavy investments required to develop alternate sources of energy, or to conserve through more efficient industrial plants, homes and transportation. They will constrain the resources potentially available for defense needs and for foreign assistance as well as impair flexibility in adjusting industrial structure in response to changing trade patterns. And stagnant living standards, inflation, and unemployment will undermine the political base for pursuing coherent long-term policies for energy and security. Serious friction among the OECD nations will be inevitable and will further erode the likelihood of cooperation.

In short, while the OECD countries will require Middle East oil for the foreseeable future, it is essential for them to reduce the degree of that dependence as rapidly as feasible. Otherwise, they will in effect be leaving their economies and their security to the mercy of events and actors beyond their control.

**IV**

Thinking about East-West relations would be clarified by abandoning the slogan terms of "detente" and "cold war" and focusing on specifics. Clearly the West shares with the Soviet Union the abiding interest in avoiding the catastrophe of nuclear war and in cooperating to that end. That has been common ground since 1955. But insofar as "coexistence" means for the USSR steady, vigorous efforts to extend its power and influence, the relation is antagonistic and competitive. The West must shape its policy with a full recognition of that reality. That does not exclude agreements of various kinds, but they should not lead to self-deception about the extent of shared purposes. The inherent difficulty of conducting such a policy will be compounded by the changes and pressures which the USSR will be undergoing during the 1980s.

The Soviet economy is now entering a period of slower growth—gradually falling from 3 percent per year to 2 percent or lower by 1985. Energy is a problem, with oil output peaking, and with the Soviet bloc likely to shift from exporting oil to requiring some imports by 1985. The labor force is growing more slowly, and by 1985 will be increasing at only about one-fifth the earlier rate, with most of that occurring in Central Asia. The capital stock will also be expanding at a declining rate and will have to be devoted partly to costly infrastructure for exploiting Siberian resources. Finally, the perennial problems of inefficient agriculture and low productivity are inherent in the system of management and rewards. In con-
sequence Soviet leaders will confront hard choices in allocating limited resources among investments to improve efficiency, to produce consumer goods needed for worker incentives, for military purposes, and to meet the claims of Eastern Europe for energy and raw materials.

The making of such choices will be complicated by the issues of succession. With Brezhnev now 73 and ailing, the issue could arise suddenly, with no designated heir. If, as is normal, the successor comes from the Politburo, he will be as old as Brezhnev, and would hardly have time to establish his primacy before having to retire. Thus, the succession may be a two-stage process, first with some form of collective leadership and a weak General Secretary, followed by the emergence of a younger leader as the older Politburo members depart. Not until that process was complete (if then) would Soviet leaders be likely to consider radical economic changes or cut back on defense funds.

The regime will have at its disposal awesome military capabilities, including the capacity by 1982, with only a portion of its missiles, to destroy most of the Minutemen silos, subs in port, and bombers on the ground, as well as having growing naval, air and other capacity for projecting power abroad. Until the U.S. Trident subs, cruise missiles and MX missiles are deployed, the Soviets may feel for several years that the strategic balance favors them, although not giving them a first strike option because secure and lethal U.S. forces would remain.

What course are Soviet leaders likely to follow in the 1980s? Will the perceived military advantage tempt them to exploit it for expansive actions or for political leverage in the Middle East, Europe, or elsewhere? Or will their need for trade, credits and technology to cope with their economic problems and for stability during an uncertain period of succession predispose them toward lowering tensions and improving relations with the West? And if so, how much leverage would that give the West against expansionist or subversive conduct?

Brezhnev has, in effect, sought to combine these several courses, and his successors will doubtless seek to do the same. The task of Western policy is to constrain Soviet conduct endangering Western interests by convincing Soviet leaders that it is too risky, or too costly, or unfeasible.

Redressing the military balances generally and in NATO is certainly one component. In the Middle East, a military presence and facilities can underscore the U.S. commitment, enhance the deterrent by raising the risks of escalation, and reassure weak local regimes. And subversion can also be made costly by joint action of various kinds. (The U.N. and Moslem votes, the Olympics, restrictions on exchanges and trade may not be decisive, but they do matter.)

At the same time, the West must seek to limit Soviet opportunities for subversion or coercion by helping to strengthen the local regimes and by assisting orderly change. Given the weakness of many of them, every effort should be made not to impose needless strains on these countries and their governments. Pressing them to provide bases or to line up explicitly with the West may be costly where that can be exploited as domination. Our interest is in the independence and security of these regimes—not in making them allies for its own sake. The viability of some may be enhanced by not being too tightly linked to the West.

Finally, it is essential to reduce and eliminate regional cleavages which are a source of instability and impede cooperation. Of these, none is more damaging to Western interests than the Arab-Israeli conflict. The Israeli program to colonize the West Bank and ultimately to absorb it appears to the Palestinians and other Arabs as indefensible imperialism. And the U.S. failure to block that program and to press for a just resolution of the Palestinian issue, while continuing to subsidize Israel with several billion dollars a year, tar us with the same brush. Top priority must be given to pressing for a solution which assures Israel's security within its accepted borders while providing the Palestinians with a homeland.

V

The decade of the 1970s has shown the propensity of the publics and leaders of the advanced democracies for ignoring harsh realities and for evading disagreeable action. What are the prospects that they will face up to the challenges to their security and their economies and accept the burdens of effective responses in the coming decade? On both tasks there are some signs that are encouraging and some that are not.

The NATO decisions of 1978 and 1979 showed an encouraging ability to act jointly to bolster its deterrent capability. But it is too soon to know whether the allies will reach a consensus on dealing with the Soviet Union in the decade ahead or on an adequate strategy of political, economic and military measures for enhancing the security of the Middle East.

And the outlook on energy is similarly mixed. There seems a growing recognition that this problem is real, and that reducing dependence on Middle East oil is important both for the economies and for security. But it remains to be seen whether that will lead to effective joint measures to constrain demand for oil, foster energy efficiency, and develop alternate sources fast enough to moderate rising prices and reduce vulnerability to unreliable supply.

In view of the lead-times involved, in both security and energy, there is little time to spare for putting an agreed program into effect if it is to have any impact in the next five years or so.
The Practice of
Summit Meetings

Otto Graf Lambsdorff

Otto Graf Lambsdorff has been Minister of Economics of the Federal Republic of Germany since 1977. As such, he was a key participant in the summit conferences held in Bonn, in 1978, and in Tokyo, in 1979, and is deeply involved in the current preparation for the Venice, June 1980 summit. These periodical meetings—a “trilateral” practice par excellence which was inaugurated at Rambouillet in 1975—gather the heads of state and government of the United States, Canada, Germany, France, Britain, Italy and Japan, as well as the President of the Commission of the European Communities.

During a brief visit to New York in February, Graf Lambsdorff—a member of the Trilateral Commission and of its Executive Committee prior to his appointment in the federal government of Germany—shared with Dialogue editor François Sauzay his assessment of the usefulness of these summit meetings. He also discussed such typical summit issues as energy, trade and monetary affairs, as well as some of the likely traits of what will be, in Venice, the first summit conference of the new decade.

Following are excerpts from Count Lambsdorff’s remarks:

Summit Meetings—Do They Work?

Looking back on our overall experience of summit meetings, the answer is clearly “yes.” The summit technique itself—both the preparation and the actual management of these meetings—has developed and improved considerably over the years, and the meetings we have held since this regular practice was inaugurated in 1975 have proved, each in its own way, to be very helpful.

We have had of course different types of summits: Some—in Bonn in 1978, for instance—led to a number of concrete, operational decisions; others—as in the case of the last summit in Tokyo in June 1979—consisted mainly of a general discussion on economic and political targets which was also extremely helpful. Naturally, these summit meetings are no panacea. But one of their greatest merits lies in the very bringing together of the participants from the seven countries involved as well as the Commission of the European Communities. In the first place, they have to know their files in depth beforehand—you could say that the preparation of summit meetings accounts for 80 percent of their success. Second, two full days of discussion and personal contact between the leaders of our countries provide them with a unique opportunity to compare notes on a vast array of complicated matters. In addition to formal sessions, these summits also involve informal meetings over breakfasts, lunches, and dinners which are just as important and substantial as the official ones. This is why, all in all, I think the practice of these meetings at the summit has been a very successful undertaking, and I am convinced that they should and will continue.

Venice, 1980: Towards a More Political Summit?

The next summit meeting, to be held in Venice in June 1980, is likely to be a particularly interesting example of
summitry. The political events in Iran and Afghanistan have been so important, they are dominating to such an extent the discussions we have these days on international economic affairs, that I wonder how a summit could avoid this time a more political discussion. Of course, this will require extensive consultations in the preparatory phases of the summit, and it remains to be seen whether the seven countries and the European Commission are ready to discuss not just economics, or mainly economics, as was the case in the past summits, but hard political issues. In my view, it is very hard to imagine how we could discuss oil and energy without discussing the Russian invasion of Afghanistan; how we could discuss international monetary affairs without being drawn to energy, which takes us again to the overall military and political situation in the Gulf region.

On the other hand, of course, we should avoid turning our summit meetings into defense organization or advance planning sessions—this certainly wouldn't help us at all, as some of the participating countries would inevitably be inclined to stay away from the meetings. There are certain obvious limits inherent to summit meetings, with respect to the items to be put on the agenda as well as the types of resolutions that can be arrived at—and we should not try to go beyond these limits. But an exchange of views on the dominant political elements of a situation like today's, in the privileged framework that summit meetings afford, is in my view both inevitable and potentially very helpful.

The Tokyo Round—The Involvement of Less Developed Countries

The kind of leadership which summitry gave as the Tokyo Round of Multilateral Trade Negotiations (MTNs) was under way is a good illustration of the usefulness of summit meetings. The discussions on trade which we had in Bonn, at the peak of the MTNs—where Robert Strauss for the United States, Jean-François Deniau for France, myself for the Federal Republic of Germany, and others were sitting at the summit table—were crucial to the successful outcome of the negotiations.

The adhesion of the LDCs to the Tokyo Round agreements and, more generally speaking, their insertion into the international economic system, will be one of the issues on the agenda of the Venice summit later this year. In preparation for this meeting, our officials have been working on a paper entitled “The After-MTN Period—Post-Tokyo Round in GATT.” I am naturally disappointed that not enough developing countries have signed as of yet the results of the Tokyo Round; on the other hand, more LDCs have signed than we expected even a few months ago, and as time goes by others come forward and put their signature to various portions of the final agreements. There is therefore a definite improvement, and I take this as a good omen for the future. An increasing number of these LDCs, after careful review of the results of the negotiation, have found them to be in their interest too.

On some points—the selective safeguard clause*, for instance—there remain disagreements. On the specific issue of the safeguard clause, my government has always found itself in a somewhat difficult position: The European Community, it is well-known, asked for a selective safeguard clause, to which the Federal Republic has been traditionally opposed. Since we have to reach unanimous decisions among European countries, and since we have to give a clear mandate to the European Commission, we accepted in the end the decision to include a selective safeguard clause; but we have made it very clear to our European partners that we can accept such a clause only if prior consultation and international surveillance are guaranteed. In our view, the clause is just one way, and not a good one, to avoid the necessary structural changes in the international economy while placing the burden on the developing countries.

In the coming years all of us will have to work in the spirit of the Tokyo Round. It is in the very nature of its results that they be always challenged by the emergence of new tariff and non-tariff barriers. As a result, we have to be constantly on watch if we want to preserve open markets in world trade, and our regular summit meetings can make a decisive contribution in this respect. Our attachment to an open world economic system is essential in my view if we want to be able to hold our ground against what the Group of 77 calls a “New Economic World Order.” As I have said once, rather than a new economic world order, it is in the interest of the developing countries to have the very old and in many aspects very good economic order in which we had a free flow of goods, services and capital unhindered by either tariff or non-tariff barriers. I do believe that we can remedy the weak points of this system without destroying it.

Monetary Affairs: Cooperation with the United States, and the Evolving Role of the Deutsche Mark

Cooperation on financial and monetary matters between the German Central Bank and Ministry of Finance, on the one hand, and the United States authorities on the other, has never been as good as it is now—it is truly

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*The safeguard clause recognizes the fact that, if imports come into a country in sufficient quantity, at a fast enough pace and low enough prices to “disrupt” the domestic market, the government should be allowed to check this flow by one means or another, even if this means suspending its obligation to permit free entry. The major difficulty with safeguards has been to avoid their use for protectionist purposes, and to ensure that the time gained is used to permit the future removal of the import controls. [Ed.]
excellent and we hear no complaints today, from either side. As to the role of the Deutsche Mark, I think it is essential to make a clear distinction between a currency in which people do invest and a reserve currency per se. The Deutsche Mark has undoubtedly become a currency in which oil money is invested. To a degree, this is something we can live with. We do, of course, defend ourselves against excessive investments if they jeopardize the control which we must be able to exert on our money supply—this is the "borderline" which we do not allow to be crossed. Below this line, however, we have to have an open capital market, an open money market, and everybody is free to operate in Deutsche Marks. A reserve currency, on the other hand, is a currency for worldwide transactions; looking at the 100 billion dollar surplus which the OPEC countries will have in 1980, it is obvious that such amounts can only be financed and transacted in one world currency, and that is the United States dollar. Clearly, the dollar is THE reserve currency and will remain so.

As far as diversification efforts on the part of the OPEC countries are concerned, the distinction between the pricing of oil and the transactions themselves is crucial. The actual pricing of oil will be discussed by the Price Committee of OPEC and, as Sheik Yamani recently told me, the Committee is likely to come up with the idea of a basket of currencies. However, that currency basket, as he emphasized, will only serve as the basis for calculation of the price of oil; the transactions themselves will take place in U.S. dollars. Diversification, needless to say, is in the interest of oil producers, especially when they are drowning in money and face therefore enormous investment problems, as is the case this year.

Energy and Nuclear Non-Proliferation

On energy, I believe the lines which have been drawn in past summit meetings to be correct: We have to  1) lessen our dependence on oil, which can only be done gradually; 2) develop alternative sources of energy; 3) give each other the support we need to face our domestic debates on the peaceful use of nuclear energy; and 4) promote as much as we can the development of new energy technologies. As far as the latter is concerned, the report of the International Energy Technology Group will be ready for our next summit meeting, and the participants at the summit table will deal therefore with a number of very concrete technical proposals as to what should be done in the coming years. This is something on which I believe we should be particularly active. We should avoid fostering any illusion on our energy future: The "oil age," which started after World War II, was based on the assumption of never-ending oil supplies which would always be cheap. For more than 30 years, we have been building our economies, our societies and our very private lives on this false assumption. We won't be able to turn things around in a few months: Our ministers and secretaries of energy may well have their work laid out for them for the next 15 or 20 years.

Nuclear non-proliferation does remain a divisive issue among us. There is still a considerable degree of disagreement on whether proliferation is to be controlled by international law and international agreements, or by restricting or denying access to nuclear technology. Our disagreements on this have not been settled—and theoretically at least, a clear-cut decision between these two basic positions may prove to be very difficult, if not impossible, to reach. Practically speaking, however, I feel that a policy of denial of access to nuclear technologies is not helpful and does not square with our desire to cooperate with the developing world. Such denial amounts to a form of nuclear imperialism by the technologically sophisticated countries. I do not think that access to, and the peaceful use of, nuclear power can be so denied a priori to the LDCs. In my view, the only way to control proliferation is through an international ensemble of agreements such as we had in the past—only, a more effective and more binding one.

U.S.-European Relations and Western Solidarity

Europe is part of the West; we stand for the same fundamental values, for the same rights, for the same way of life—clearly we are part of the Western camp, and we intend to stay there. Of course, in this framework, we intend to play a role of our own, and not to be just a forward base of the United States—besides, recent American administrations have never looked at Europe that way. The United States needs a Europe which speaks with one voice; we have tried very hard to achieve this. We all know that it still takes time to formulate unified positions on pressing issues; and yet, the European Community has grown considerably, it has become stronger and more closely integrated in the economic field; this I consider to be irreversible.

In the political field, needless to say, it is even more complicated to reach unified positions and common answers. But there also we are making progress and we are constantly aware of the fact that European integration can make us a more valuable partner of the United States—as opposed to nine countries with different opinions. I know of the occasional disappointment of my American friends at the difficulty of dealing with Europeans, and I share in this disappointment. All of us in the European Community have our own, specific problems, and it is hard for each of us to deal with its eight other partners. Altogether, however, none of us could imagine Europe without integration; we have made tangible progress in this direction and will continue to do so.
On the Road to Trade Liberalization

THE TOKYO ROUND — AND BEYOND

Nobuhiko Ushiba

Nobuhiko Ushiba, Japanese Deputy Chairman of the Trilateral Commission and Chairman for Japan of the U.S.-Japan Economic Relations Group, was Minister of External Economic Affairs (1977-78) and, as such, was Japan's chief delegate to the Tokyo Round of the Multilateral Trade Negotiations (MTNs).

In an interview for Triologue with Tracy Dahlby, Tokyo correspondent for the Far Eastern Economic Review, Nobuhiko Ushiba discussed his experience of the Tokyo Round negotiations and what he sees as the necessary next steps on the road to trade liberalization as we enter the new decade.

Q What would you say are the major achievements, and some of the shortcomings, of the Tokyo Round 1979 agreement as it was eventually formulated?

A Clearly, the major achievement of the MTNs was the lowering of tariff barriers, which will bring about the cutting of tariffs over a period of eight years. Admittedly this is a long-range endeavor, but we have accomplished all that we have promised. Tariffs will be very low for Japan, the U.S. and Europe. The average for Japan will be about 3 percent, for the U.S. 4 percent, and about 5 percent for the European Community. In any case, 3 percent, 4 percent and 5 percent averages are so low that we may not need any further major tariff negotiations. Secondly, we successfully negotiated seven treaties dealing with the so-called non-tariff barriers. This is a new direction for negotiations, and it will be very important for the maintenance of the principle of free trade in the future.

The major shortcoming of the MTNs is that we could not agree on the so-called safeguards with many of the developing countries. Since we could not satisfy them, they have not, except for two or three, yet signed the overall agreement. Of course, I believe we will be able to convince more of the LDCs to sign in the course of the next two years, but it will take time.

Q How do you persuade the LDCs? How do you make it attractive for them to join in?
First, you must keep in mind that the LDCs are trying to get 100 percent of what they want from us, and that is not possible. We can proceed only step by step, for we naturally have our domestic problems to deal with. If they would only agree with us that the step-by-step approach is better than insisting on everything or nothing, it would help. In any case, the LDCs will automatically benefit from the agreement we reached among ourselves even if they do not sign it. But, of course, for the sake of international consensus, it would be far better if they signed at this time. Naturally, we shall continue to negotiate; but we would prefer not to transfer the negotiations to UNCTAD*, for it is not a suitable body for this kind of exercise. We would rather negotiate within the framework of GATT, and I think that is understood by most LDCs.

**Q** Beyond the framework of the MTNs and the Tokyo Round, what can Japan, North America and Europe do to help improve North-South relations?

**A** In the field of trade, the most important thing is of course for us to honor the agreements and obligations we have accepted. We now have seven treaties, but whether or not those treaties are really effective depends on the attitudes of those who signed them: Europe, North America and Japan. Here, the problems are really not so much with us, or with the Europeans, but rather with the United States, because of the peculiarities of the American system. The Americans seem to have difficulty recognizing the supremacy of international agreements over their domestic laws and regulations. Things are particularly difficult with respect to the U.S. Congress, and this is a problem we will continue to face in the future. Naturally, I think the U.S. administration fully understands what the priorities are; Congress has more difficulty with them. At the moment, the tide of protectionism is not so very deep, but some kind of negotiations will be inevitable. With regard to the unemployment rate, for instance, there could well be serious problems surfacing in the United States.

**Q** You have said that the Tokyo Round might obviate the need for further tariff reductions. What do you see, in the context of the MTNs, as being the next major hurdle or challenge?

**A** Of course, I was speaking only of large-scale tariff negotiations such as the Kennedy Round or the Tokyo Round; smaller negotiations are being conducted all the time. The U.S., for instance, has a very high tariff on textiles. Japan has high tariffs on, say, leather goods. European tariffs are better harmonized, but there are also, from our point of view, some high tariffs in certain sectors. In these areas, therefore, negotiations will always be going on. In addition, if China, for instance, joins GATT as a developing country, there will be no need for tariff negotiations with her; but if the Chinese agree to join GATT as a developed country like Japan or Europe, then tariff negotiations will be needed.

Apart from that, I think further reinforcement and further refinement of those agreements that deal, for example, with non-tariff barriers will be essential. For that purpose I believe GATT must be made stronger. In fact, this may well be our most immediate and urgent task. Compared with the International Monetary Fund (IMF) and the World Bank, the GATT secretariat is very weak. Naturally the IMF statute and the GATT agreement are essentially quite different. The IMF statute is more juridical in nature, while GATT is more contractual. In the past, a stronger secretariat was not necessary, but from now on, if we embark on a new effort to eliminate or control non-tariff barriers, a host of problems will surface which will have to be solved by multilateral negotiations, under the aegis of GATT. To serve that purpose, the secretariat will require greater strength.

**Q** Despite the achievements of the Tokyo Round, what do you see as the next major difficulty in world trade? Isn't protectionism already rearing its head?

**A** Protectionism will always be with us; we cannot hope to eliminate it. The danger, in my view, is that there will be a widespread temptation to deal with trade problems through a sectoral approach, as is the case today with textiles. Of course, to some extent this is inevitable. Take textiles as an example: We have been operating under the so-called Multi-Fiber Arrangement for the past 10 or 15 years, and naturally these agreements are the source of considerable dissatisfaction among the developing countries. But as a whole they have been rather successful in preventing the textile problem from overshadowing other, more important problems. The textiles sector is particularly exposed to protectionistic tendencies, and, to be sure, the Multi-Fiber Arrangement did not really secure its goal of facilitating the orderly growth of textile exports. But while it didn't satisfy that purpose to a sufficient degree, it did have the merit of isolating textiles from other problems—for it is the most difficult area in relations with developing countries. Today, however, this sectoral approach threatens to be applied to other areas like steel or even shipbuilding; this is extremely dangerous, particularly if this approach is used to protect declining industries in some countries. In order to avoid this, we must push further the idea of economic restructuring, especially in the developed countries.

*United Nations Conference on Trade and Development*
How is the problem of the safeguard clause likely to be resolved?

I do not think that there will be any easy or early solution for that issue. This is due particularly to the attitude of the European Community. Among the nine countries, some are more enlightened than others. One or two hold-outs are refusing to consider any change in their fundamental attitude, so agreement does not seem imminent. But even without agreement, I think the fact that we have discussed the matter so thoroughly in the past six years—and more intensively in the last two years—will help both developed and developing countries to see to it that this safeguard idea is not misused by the parties concerned.

Another outstanding problem is that of the government procurement code. What are the major differences in this respect?

The government procurement question is a very difficult one for Japan, particularly because we do not really do much procurement by public tender. The U.S. often relies on government tender for its purchases, and authorizes its government offices and agencies to make their purchases that way. Japan's situation is different because of the great number of companies we have in this country—in telecommunications, for instance, there are at least ten companies dealing in telephone exchange, computers, transmission equipment, etc., while Germany has only Siemens, plus one or two others; in France there are only one or two such companies, and the same goes for England as well. By contrast, the use of public tender in Japan is much more difficult. Yet, we must get used to it. We have agreed to the code, and we are not going to make excuses; but to transform almost completely the procedures we have been using for so long will take some time. It is not only a matter of modifying the system, but one of changing our ways of thinking.

We are now negotiating mostly with the U.S., but in the truest sense, these are not just bilateral negotiations: in reality, we are negotiating with the European countries through the U.S. In the field of telecommunications, there are lots of restrictions not only in Japan, but in the U.S. and Europe as well. We have agreed with the U.S. that the opening of the market will take place on a reciprocal basis. Thus, if we are satisfied that the U.S. market will open up by 80 percent, then we shall open our market by 80 percent, but if the U.S. market opens, say, only by 50 percent, then we shall also only open our market by 50 percent. Whether that is agreeable to the European countries or Canada is a question we will have to sort out later. The most important thing for Japan is to avoid being excluded from the procurement. We have already agreed on the method of assessment; we hope therefore to reach a complete agreement even before the end of this year. This is one of the most important issues now pending between Japan and the U.S., and, through the U.S., with other countries.

When the Tokyo Round was concluded, you were quoted in the press as saying that the agreement should help to prevent unreasonable pressures on Japan's trade front. Various problems are now affecting trade between Japan and the U.S. in automobiles and semiconductors. Does this cause you to revise your earlier assessment?

This goes back to what I have said about the difficulty being mostly with the U.S. The Americans do not always understand what kind of international obligations they are under. They sometimes ignore what has been agreed upon in our bilateral, or even multilateral, treaties. The Japanese are also to blame, to some extent: They do not always keep in mind the kind of rights and obligations they have under the commercial treaties or within the framework of GATT. I keep trying to explain it to them, but too often they just do not seem to listen!...This is very disappointing. We witness, for instance, repeated threats, particularly from the U.S. Congress, and from the labor unions who insist that restrictions should be imposed on imports from Japan. But they cannot do this: We are protected by our commercial treaty and our participation in GATT. We are not dealing with the U.S. or with any other countries in some kind of jungle; we have a forum within which to deal with these problems. That must be better understood by our own people.

If it takes longer than expected to reach an agreement in one area—say, the safeguard clause—and if in the meantime a problem flares up with the U.S. over automobiles, for example, isn't there a risk that cumulative reactions of protectionism might damage or destroy the very carefully built Tokyo Round system?

If the U.S. wishes to bring the automobile question before GATT, then we shall be able to fight back on every point the Americans may raise. That is why, of course, the U.S. is not going to do so. The Americans are applying strong pressures on Japanese industries, Japan's public opinion and the Japanese government to achieve what they seek. They want our automobile companies to invest in the U.S.; but the point is that, even if companies such as Toyota decided to invest in the U.S., it would not do anything for the...
200,000-odd workers now laid off by General Motors or Ford: This is quite a different matter. Personally, I rather favor investments in the United States by our big exporting companies, and they should certainly be considered if they prove to be economically viable.

Naturally, we recognize quite well the risks such disputes entail for our bilateral relations. However, our concern for maintaining friendly relations is genuine and great. Japan is very dependent on the U.S., and we benefit very much from our overall relationship; our people—not only our government, but also the companies concerned—are all ready to consider the matter in a way that is favorable to the U.S. I think this is quite clear to everyone. Therefore, I think we need not anticipate any real difficulties. We will be, after all, ready to compromise—but only if it is made perfectly clear that we are not acting under pressure and that the points raised by the American labor unions, for instance, are not really acceptable to us.

In responding to present U.S. demands with respect to investments, how would you define Japan's obligations beyond the GATT agreement?

If, to be specific, Nissan or Toyota are convinced that by their actions they can help the U.S. auto industry, they will do so. The Japanese government agrees on this. But unless there is clear evidence that, first, what they do will really help, and second, that they will succeed—after all, failure would be a disaster—they will not invest. In the end, it must be left to the company directors and presidents to decide whether the risk is worth taking.
Energy—A Continuing Priority for Trilateral Countries in the 1980s

by Ulf Lantzke

Few people today will dispute the fact that future economic success is largely dependent on how well nations manage the energy problem. The accident at Three Mile Island, the New York blackout, the fall of the Shah of Iran, and numerous oil spills made headlines during the 1970s, illustrating the ever increasing vulnerability of trilateral countries to uncertain supplies of energy.

The dramatic, often negative aspects of the energy issue during the last decade overshadowed some significant achievements in the energy field. Improved energy efficiency spurred on by more rational energy pricing and greater public awareness occurred in almost all countries. New oil flows from the North Sea, Alaska and Mexico brought fresh hope for easing dependence on Middle Eastern oil. In the area of international cooperation, the World Bank began an important investment program to open up the potentially vast oil reserves of the Third World, and industrialized countries founded the International Energy Agency, setting up a short-term emergency oil sharing scheme and a long-term program for international energy cooperation.

But despite these achievements, a general feeling of complacency existed as the world entered 1978. Oil markets were slack as production capacity was some 3-4 million barrels a day (mbd) above demand. Forecasts based on conventional wisdom showed future possible OPEC production on the order of 40-55 mbd—sufficient to meet incremental world oil demand for at least another decade. Many major studies did not foresee a critical imbalance between oil supply and demand until the 1990s.

The Near Crash of 1979

Overnight, the loss of Iranian production forcefully reminded industrialized countries of their overwhelming dependence on increasingly uncertain oil supplies. With the stoppage of production in Iran, other producer countries were called upon to increase their production to near capacity levels. Demand for oil in industrialized countries grew at a significant pace, due in part to heavy stockbuilding.

In addition to the precarious supply/demand balance during the year, structural changes in the oil market that had been evident since the early 1970s were accelerated. The major oil companies received less oil from producer countries, and their role as distributor lessened due to increased government-to-government deals. More oil was directed toward the spot market, where prices reached almost twice the official OPEC price. These factors reduced the flexibility of major oil companies to distribute oil effectively, causing spot shortages in some countries and for some products.

Against this background, industrialized countries urged a collective response. In March 1979, IEA countries agreed to reduce their demand on world oil markets.

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by 5 percent over anticipated "pre-Iran" levels. This action precipitated a similar response on the part of EEC countries. At the June Tokyo Summit, participating nations reaffirmed the IEA and EEC actions, agreed to individual country oil import targets, and agreed to discourage trading on the spot market.

These well-intentioned international efforts could not mask a strong element of national competitiveness for limited supplies of oil.

Sweden activated its state oil company, Svenska Petroleum, which evolved as an agent for dealing with producing countries. The United Kingdom increased its indigenous North Sea production but did not commit itself to a parallel program of demand restraint. Norway used 1979 as an opportunity to cooperate more fully with other producing countries. North Sea oil prices moved in consonance with official OPEC prices throughout the year. France intensified its relations with producing countries to replace supplies of oil. In Japan, independent traders bought heavily on the spot market at prices around $40 out of necessity to secure "lost" third party supplies which were cut back by the major oil companies. The United States imposed a $5 entitlement program to "bring back" to the Caribbean oil which they contended was moving to the more lucrative Rotterdam market. Both Germany and Switzerland used their strong currency positions to secure sufficient oil supplies.

These illustrations show that while countries recognized the critical situation in oil markets and agreed to greater international cooperation, they participated, on a case by case basis, in national competition. Such actions have collectively influenced market developments during 1979. While oil supply and demand were in fragile balance throughout the year, competitive national attitudes among industrialized countries, quite naturally because basic to the Western economic system, contributed to an overall climate which finally allowed for a doubling of prices towards the end of the year. This will lead to lower economic growth of at least one percentage point, and higher inflation of at least two to three percentage points.

It has not added any significant new supplies of oil to markets.

Clearly the oil market situation in 1979 is one which nations will not want to repeat. However, the underlying factors in the oil market which encouraged this year's developments still remain.

The Outlook to 1985

Oil supply and demand to 1985 are expected to be in very fragile balance—barring new surprises—largely because of lower economic growth expectations and more energy efficiency brought about by higher prices.

However, despite this "improved" outlook there are several downside risks:

- Iranian production could decrease or even stop again;
- There are indications of increasing internal political strains in some other key producing countries which could threaten future production;
- Increases in production capacity and exploration efforts have been slowed in many OPEC countries;
- Economic growth could recover more quickly than anticipated, increasing more rapidly the demand for oil;
- The Soviet Union and Eastern European countries, faced with declining domestic oil production, could enter the oil market for supplies, putting added pressure on the world's limited production availability;
- Increased complacency by the public could at least temporarily lead to a slowdown in the development of alternative supplies (especially nuclear power, coal, natural gas) and conservation;
- Competition among countries might remain at the levels seen in 1979 or even intensify; this would lead to still higher prices and perhaps even a cutback of production by OPEC to keep competition among industrialized countries intense.

International Energy Relations—Competition or Cooperation?

Against this background, the challenge for the 1980s will be to find effective strategies for dealing with an oil situation in which, at best, oil exports to the OECD countries from the major producers are expected to remain constant. Faced with such a situation, industrialized countries should develop means for equitable burden sharing. Some encouraging progress was made in this direction at the IEA Governing Board at a Ministerial Meeting held in December 1979. Aware of the unconstructive competition that has occurred during the past year, the Ministers called for renewed solidarity among countries. They agreed to:

- set down specific individual country oil import targets for 1980 and goals for 1985, coupled with a rigorous monitoring process to ensure that these objectives are met;
- develop an equitable system for the adjustment of these objectives if oil market conditions worsen;
• coordinate national programs of stockbuilding to avoid putting undue pressure on world oil supplies;
• examine possible mechanisms for bringing more stability into oil markets, including a registration system for all international oil traders, a code of conduct for behavior in oil trading, and “cool-down” procedures which would be enacted in times of erratic oil market behavior.

A meeting of Ministers from IEA countries in March of 1980 will finalize aspects of this program.

The real issue at stake is, how do nations avoid destructive competition in the face of a tightening oil market situation? Certainly some competition is to be expected and is, indeed, a healthy sign in a market economy system. But excessive competition must not be allowed to destroy the system which fathers it.

The development of individual oil import targets, systems for adjustment and monitoring, means for greater consultation on stock policies and “rules of the game” for more orderly oil markets are all examples of our nations’ desire to find the right balance between constructive and destructive competition. The IEA emergency oil-sharing scheme is another, older example of this willingness.

However, the extent to which these mechanisms will be effective will depend largely on the political backing given to them by industrialized countries. All of these are fragile creations, and their implementation must be handled with care. If they are successfully put in place and seriously adhered to we have a chance of getting through the next decade with minimal economic and political damage directly attributable to the energy situation.

The Only Three Alternatives—Nuclear Power, Coal and Conservation

I have thus far only outlined a strategy for an oil market response. The policies adopted by the Ministers will help to smooth over possibly abrupt market conditions during the next decade; however, they are not a panacea. The only real solution to resolving the energy situation, thereby bringing more stability into the world economic and political system, will be to develop as expeditiously as possible the three principal oil alternatives—nuclear power, coal and increased energy efficiency. Serious obstacles, however, have arisen with each.

It is not a secret that our record in nuclear power development over the past few years has been dismal. The reasons for the delay are understandable, but I do not really believe that it is generally clearly understood what implications a non-nuclear future would bear.

IEA assessments of the medium and longer term clearly show that at least a tenfold increase in nuclear capacity is necessary before the end of the century. This should not be considered a “high” projection—such an amount of nuclear power is needed even if we are to have the necessary energy supplies to fuel only moderate economic growth. No growth in nuclear power may implicitly commit nations to no growth in their economies. Therefore, economic and political determination must be brought to bear on reviving nuclear power, paying due respect to the important environmental, safety and proliferation concerns which have been constructively voiced over the past few years.

Another hard reality of the energy future is that OECD countries will require a threefold increase in coal use before the end of the century. Such a level of consumption will require a tenfold increase in the amount of steam coal traded between industrialized countries—reaching some 700 million tons (or about 9.5 mbdcoe) by the year 2000.

We have the tools at hand to achieve such expansion. Coal is widely available; the technology for coal production, transport, use and conversion into synthetics is known and is constantly improving.

The major limitation is our ability to handle the difficult institutional, political and environmental issues. All are solvable; none have easy solutions.

To these ends, Ministers from the twenty IEA countries, in May 1979, agreed on a set of Principles for IEA Action on Coal which are designed to stimulate expansion of world coal trade by providing a governmental umbrella for commercial negotiations between consuming and producing countries. Detailed political commitments were made which seek to create a balance between the interests of consumers and producers.

These principles must be implemented with vigor. Specifically the United States, but also Australia and Canada, should begin to build an export capacity of some 300 to 500 million tons of coal to be available by the year 2000. Likewise, major European countries and Japan should begin today to put in place the necessary consumer infrastructure to increasingly substitute imported coal for oil.

What we do not achieve in developing alternative energy supplies to oil will have to be made up by increased energy efficiency or lower economic growth. Thus the potential for increasing energy efficiency should be given highest priority. It is the last defense of industrialized countries to counter lower economic growth brought on by inadequate energy supplies.

Progress is being made, but nations must evolve towards real structural gains in the way energy is used, not just one-time savings, which have comprised the bulk of the present conservation effort.

The chief means of increasing energy efficiency is the readjustment of national energy pricing to adequately reflect the true costs of alternatives. Where market signals are not read or acted upon, then non-
price measures should be implemented.

Thus, for the medium to longer term, the three pillars of energy policy remain conservation, coal and nuclear power. That was a message which was evident as we began the 1970s and it is the message with which we begin the 1980s.

In all facets of the energy situation, it is often easier to identify problems that to find durable solutions. Governments and industry are beginning the 1980s with a hesitancy about each alternative. The costs—both in political and economic terms—are high. This is especially true today when austere economic measures are also being taken. But it is also becoming increasingly evident that the costs of inaction may be much higher, and each moment we lose makes the toll that much more severe. We no longer can afford the luxury of talking about energy options, or devising a series of scenarios to depict alternative paths. Such discussions will dwindle away the precious amount of time that we have left.

Whereas the 1970s focused on strategy development, the 1980s must be committed to strategy implementation. And the choices have never been clearer. Coal, nuclear power and conservation remain the only alternative options for the industrialized countries to the end of the century.

Conclusion

Until now I have primarily discussed the international perspective. The really tough problem will be to harmonize national objectives with international realities. For the last 20 years energy demand has been built up from the bottom by adding up all consumer requirements. Demand which could not be satisfied through domestic production was imported. Today a reverse decision-making process is required. A first step is for countries to negotiate national oil import objectives consistent with global realities and then divide the oil within their countries by some mechanism—either market or allocation—which defines priorities. This top-down approach as opposed to the bottom-up approach is likely to spark numerous political and institutional problems within nations which will not be easy to solve.

Difficult political problems associated with implementing needed energy measures are likely to be particularly evident in 1980 as many countries head for the polls. Calling for austere measures to cope with energy problems, especially at a time when most nations will be entering a recession, will not be welcome by largely unsympathetic and skeptical publics. This problem can be partly overcome if publics perceive that other nations are making similar commitments and that the burden of energy adjustments is being shared equitably by the international community.

Positive cooperative action on energy can renew a spirit of solidarity among trilateral countries; alternatively, inaction in general or overly competitive attitudes in securing limited oil supplies by each country can drive a serious and perhaps irreconcilable wedge between countries, making impossible concerted action in other areas of political, economic and strategic concerns.

The cost of implementing a strong energy program is far less than the price of ignoring energy realities. We should learn the lessons of the 1970s and in so doing take early energy action in the 1980s. It could be the most important priority of the next decade.
Nuclear Energy and Non-Proliferation in the Wake of INFCE

by Gerard C. Smith and George W. Rathjens

A decade ago, it seemed that in the Nuclear Non-Proliferation Treaty most of the world had reached a consensus on how to exploit nuclear fission for peaceful purposes while preventing the spread of nuclear weapons. The non-nuclear weapons states were asked to forswear acquiring weapons and to accept international safeguards on their nuclear facilities, specifically inspection by the International Atomic Energy Agency to account for fissionable materials; but, subject to these constraints, they would have virtually unrestricted access to all aspects of nuclear technology. For their part, the nuclear weapons states undertook to help in making the benefits of the “peaceful atom” available to the parties to the treaty (Articles IV and V) and to get on with nuclear arms control and disarmament (Article VI). The key to widespread acceptability of the treaty was its promise that the division of nations into two categories, as concerns nuclear weapons, would not carry over to the peaceful use of nuclear energy.

With these as the ground rules, a number of nations went ahead with ambitious nuclear power programs, their attractiveness reinforced by the dramatic increase in oil prices following the embargo of 1973. There was a general presumption that after an initial period of operations without recovery of the residual energy content of spent reactor fuel, it would become standard practice to reprocess that spent fuel, with the wastes then being disposed of permanently and with the plutonium that had been generated, along with the unconsumed uranium, being recovered for use in new fuel for either the current types of reactors (thermal) or, later, for breeders.

The latter should be able to use uranium 50 to 100 times as efficiently as the reactors then commercially available. With a belief that uranium resources would be severely limited, there was little doubt that the future of nuclear power was in the breeder. There were differences of opinion about when the breeder would be required—for the United States and other countries with assured access to large amounts of uranium, there was less urgency than for Japan and Europe—but it seemed that the breeder would be important for all countries with major commitments to nuclear power no later than the first decades of the next century. In order to realize its advantages, reprocessing of spent fuel would be necessary, and with that, the world would enter what some have called “a plutonium economy,” a dangerous prospect in the view of many because once plutonium (or highly enriched uranium) becomes available, one of the major impediments to weapons manufacture will have been overcome.

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Following the Indian nuclear explosion of 1974, concerns about these prospects increased greatly, particularly in the United States and Canada. This, and the likelihood that several additional countries would soon acquire reprocessing and uranium enrichment capabilities, led to a number of American initiatives, all having as their objective discouraging both the separation of plutonium from spent fuel and the spread of facilities which might be used to produce highly enriched uranium. These included:

- a decision not to go ahead with reprocessing of spent fuel from power reactors;
- an effort to reorient the American breeder program, with construction of a large size demonstration breeder to be delayed;
- efforts to prevent the consummation of sales of reprocessing and enrichment technology to Brazil, Pakistan, and South Korea by the FRG and France;
- effort to reach agreement among "supplier states" that in the future they would not sell such technology to other countries; and
- legislation, the Nuclear Non-Proliferation Act of 1978, requiring others to accept an American veto over certain fuel cycle activities as a condition for supply by the United States of fuel, services, and technology.

These actions, particularly the last two, were widely resented and were deemed in many countries to be inconsistent with Article IV of the Non-Proliferation Treaty. Most other countries with an interest in nuclear power were unprepared to follow the American lead in deferring indefinitely reprocessing of spent fuel and the recycling of plutonium in existing reactors, and in foregoing early deployment of breeder reactors.

In 1977 the United States also proposed the International Nuclear Fuel Cycle Evaluation (INFCCE) in the hope that alternative fuel cycles could be identified that would not involve such access to weapons-usable materials as was inherent in those involving separating plutonium from spent fuel. With INFCCE, there was also the prospect of a pause during which there might be some reconciliation of conflicting views about future international nuclear regimes.

As might have been expected, there has not been a complete reconciliation. There has, however, been some convergence, in part because of INFCCE, but also because of the changed prospects for nuclear power. These have diminished largely because of increasing costs, reduced demand for electricity, opposition by environmentalists, and concerns about safety.

This has meant that the need for early breeder deployment has lessened, as has the need for large-scale reprocessing of spent fuel. Also, there appear to be heightened concerns in a number of countries about the risks of proliferation and, with that, a consensus, at least among the advanced industrial countries, that the spread of reprocessing and enrichment capacity to a number of countries would be undesirable. These are favorable developments from an American perspective, but there is much on the other side of the ledger.

- INFCCE did not come up with "technical fixes" to the proliferation problem. While there are some fuel cycle modifications that could make plutonium less accessible, they would be effective primarily in dealing with theft, not in making it more difficult for nations to get weapons usable materials.
- Notwithstanding reduced estimates for demand for nuclear power and more optimistic projections of uranium availability, other nations continue to be concerned about access to uranium and, in the light of that, interest in early commercialization of breeder reactors continues unabated.
- While there has been agreement in INFCCE with the U.S. views that there will be little, if any, economic advantage in recycling plutonium in thermal reactors and that spent fuel can be safely disposed of without separating out plutonium, some other countries have so far not been willing to give up recycling of plutonium in thermal reactors or reprocessing for that purpose or as a precondition to waste disposal. In fact, reprocessing of spent fuel will occur on a large scale in France and the U.K., and on a smaller scale in several other countries. With that, we will see a "plutonium economy," albeit with most of the plutonium reserved for use in breeder reactors, a purpose which the U.S. accepts as "legitimate."
- There has been little acceptance of the requirements that agreements for nuclear cooperation with the United States be contingent on its having a veto over others' fuel cycle activities; much less that it is reasonable to expect others to renegotiate existing agreements, as the 1978 act requires, to give the United States such a veto. Not only are these aspects of American policy widely resented; there is a belief that they are likely to be counterproductive: It is argued that by raising doubts about assurance of fuel supply, the policy will serve as a stimulus to others to strive for independent fuel cycle capabilities, including their own enrichment and reprocessing plants.

It should also be noted that many other countries believe, as they did before INFCCE, that the U.S. attaches disproportionate weight to nations acquiring nuclear
weapons through misuse of nuclear power programs as compared with construction of facilities dedicated to weapons production.

It is against this background, and with mounting concern about dependence on OPEC oil, that post-INFCE prospects for nuclear power and non-proliferation policy must be assessed.

INFCE came up with low and high estimates for the year 2000 of 850 and 1200 GW (1 GW = 1 million kilowatts) for world nuclear generating capacity, excluding that of the centrally planned economies. These estimates were based on data that is more than two years old, and must now be regarded as too high. More reasonable lower and upper bounds might be 450 and 700 GW. Even so, it will be clear that nuclear power is likely to make an important contribution to meeting world energy demand by the end of the century. The upper figure, 700 GW, is equivalent to about two-thirds of current OPEC oil production.

But the uncertainties are enormous: The difference between these low and high estimates, 250 GW, is equivalent to 75 percent of Saudi Arabian oil production. Obviously, the world, or at least the non-OPEC countries, would have much to gain if the uncertainties could be safely resolved in ways favorable to the nuclear option.

It is expedient, though somewhat arbitrary, to focus on four causes of uncertainty.

First, there are concerns about safety and the environmental consequences of nuclear power. These have been particularly significant in the United States, the FRG and Sweden, three countries which together now account for about 60 percent of world nuclear generating capacity.

Directly related are questions of costs and uncertainty about licensing. The average time between a decision to build a nuclear plant and its commercial operation is now of the order of 12 years in the United States, in part because of difficulties in licensing and because safety and environmental considerations can require changes in design during construction. These factors have contributed to an escalation in construction costs that has been so great that it is likely that the cost advantage, if any, of nuclear-generated electricity over that based on coal will be small. With demand for new generating capacity of any kind much below previous expectations, and with the lead-time and capital requirements for nuclear plants much greater than for coal, American utilities have not been ordering new nuclear units, nor are they likely until there is some resolution of these uncertainties. For other countries, coal is a less realistic, or higher cost, option, so the cost effects of dealing with safety and environmental questions will have less impact on their nuclear programs. Still, the near-term prospects have to be judged poor in at least the FRG and Sweden, as well as in the United States—so poor that it is likely that one or more of the nuclear system manufacturers in these three countries may not survive.

For a number of developing countries the controlling consideration in the realization of their nuclear aspirations will be capital availability. Increasing costs for nuclear plants, and increased demands on foreign exchange because of increasing oil costs, mean that almost certainly the ambitious plans of a few years ago of Brazil and South Korea, not to mention those of Iran, will not be realized, even though supplier countries can be expected to offer very attractive terms in order to secure export markets.

Finally, there are the questions of the costs of uranium and enrichment services, and of assurance of supply. As recently as the mid-1970s, it was widely believed that suppliers of both enrichment services, which are needed for roughly 90 percent of the world's power reactors, and of uranium would find themselves in a seller's market in the 1980s. It is now clear that this is not going to happen. With diminished demand, uranium prices have recently been dropping, and there is now the prospect of there being surplus enrichment capacity through at least the decade. Accordingly, fuel costs will be relatively low for the foreseeable future: a few percent of the cost of nuclear-generated electricity. This is not likely to have much bearing on the size of nations' nuclear power programs—the factors discussed earlier will be dominant—but may have an important impact on the nature of those programs. In particular, breeder reactors, and also probably the recycling of plutonium in thermal reactors, will be economically unattractive. This is likely to be true for breeders even if fuel costs increase several fold, and this will be an important consideration in decisions about breeder commercialization in those countries having assured access to uranium.

But most countries with an interest in nuclear power do not now feel confident of future supply of either uranium or enrichment services. Quite the contrary. In the light of the conditions that the United States, and also Canada and Australia, have imposed, and can be expected to impose, on enrichment services and uranium supply, not to mention the experiences of the last decade with OPEC oil, there is widespread concern about assurance of fuel supply. In one respect the problem is less serious than with oil—price is not as important a consideration, but in another it is more serious—the ratio of capital cost to fuel cost is much greater for nuclear power, so there is a greater interest in assurance of fuel for the life of the plant. In any case, the interest of nations in breeders and in reprocessing of spent fuel will be strongly dependent on their perceptions about assurance of access to uranium; and interest in obtaining indigenous enrichment capabilities will be dependent on perceptions about future access to enrichment services.

Thus, to the extent that one attaches importance to preventing the spread of reprocessing and enrichment as
means of reducing proliferation risks, assurances of supply of both enrichment service and uranium could be of great importance. Providing sufficient assurance to induce nations not to proceed with these technologies, particularly with reprocessing, will, however, be difficult. This follows because a nation concerned about energy independence will likely want to begin work on spent fuel reprocessing some years before it acquires its first breeder, be it a commercial plant or a research and development (R&D) facility; and it will want to begin work on enrichment well in advance of the need for actual enrichment capacity. If it is accepted that it is the decision to acquire nuclear weapons and the acquisition of the first few that are most worrisome from a non-proliferation perspective, it follows that it is not large-scale reprocessing or enrichment plants that are of major concern but rather those for R&D, and particularly pilot plants. These will have sufficient capacity to produce enough material for a few weapons per year. They are also likely to be sufficiently inexpensive that nations may believe it prudent to build them even if it is far from certain that commercial-scale facilities will ever be needed.

For a number of countries, probably the most promising approach to assurance of supply of uranium lies in exploration. There has been little such effort in most of the world, and particularly for many larger countries with modest requirements, there is a good prospect of identifying sufficient uranium resources so that there will be little impetus to reprocess and recycle, barring dramatic increases in uranium price levels. Approaches of more general applicability, though perhaps less persuasive, include diversification of supply, i.e., expansion in the number of suppliers of uranium and enrichment service; the development of multinational facilities—mines, enrichment and fuel fabrication plants—so that nations will have a more secure claim on output; and greater assurance (including cross-guarantees) of supply from present suppliers.

All of these possibilities pose a fundamental policy dilemma for at least the United States, Canada and Australia. There is an inconsistency in trying to reduce the impetus for nations to acquire reprocessing and enrichment capabilities by increasing assurance of uranium and enrichment supply while conditioning such supply on consumer nations foregoing the undesirable activities. It seems likely that for the short term the latter approach will be more effective in preventing the spread of these sensitive technologies, but as has been suggested by Europeans, that it will be counterproductive from a longer-term perspective.

There must also be a question about the wisdom of trying to induce countries that already have limited enrichment and/or reprocessing capability, or even in the case of some having none but presenting no proliferation risks, from developing large-scale facilities when such development might contribute to diversification of supply for others, thereby reducing the impetus for those others to acquire their own capabilities.

However these dilemmas are resolved, it is certain that some reprocessing of spent fuel will occur and that there will be an accumulation of separated plutonium in a number of countries during the coming years. This highlights the importance from a non-proliferation perspective of the development of an international regime that will insure that plutonium will be kept under international safeguards and will be released only for internationally acceptable purposes.

With the long-term prospects for limiting the spread of pilot-scale enrichment and reprocessing capabilities not very good, one can only wonder about how much effort should go into trying to prevent such spread. In particular, a question arises about the balance between that approach to non-proliferation and two others: trying to ensure that all fuel cycle facilities are under international safeguards; and trying to deal directly with the cases where nations seem to be moving toward a weapons capability through the construction of facilities not related, or only marginally related, to power programs.

The United States has attached great weight to all three of these approaches to non-proliferation. It has been supported by Canada and in varying degrees by a number of other nations. When INFCE began, few, however, attached as much weight as the United States to proliferation concerns. To some extent this has changed, as we noted earlier. There has also been an increase in sensitivity in the United States to the energy needs of others, and hopefully some realization on the part of all the market-economy states that they will be better off trying to solve their energy problems cooperatively rather than independently.

These developments suggest that it is now time to try to reach a broad consensus consistent with both energy and non-proliferation objectives. This will require compromises by the United States. Other countries, particularly Japan and Europe, should join with the Americans, Canadians, and Australians in conditioning all nuclear commerce on the acceptance of international safeguards on all civil nuclear facilities and weapons usable materials, and in being willing to consider sanctions, including those not related to nuclear matters, as a deterrent to nations acquiring weapons through programs specifically designed for that purpose. Finally, it will be in the interest of all to make nuclear power more acceptable, wherever it can be used safely and economically, so that there will be less demand for oil.
COMMUNICATING WITH OIL EXPORTERS: THE OLD DIALOGUE AND THE NEW

by Ian Smart

At the beginning of the 1970s, it would have seemed, at the least, eccentric to suggest the need for a systematic, multilateral dialogue between the exporters and importers of oil. For one thing, anyone would have been hard-pressed to propose an agenda, since the supply of cheap oil could apparently be expanded smoothly to match an increasing demand. For another, such a "dialogue" might have been thought to resemble a soliloquy, redundant if not illegal, since, despite some novel erosion of their concessionary rights, most of the oil concerned was still produced, exported, imported, refined and marketed by the same companies. All that changed, however, with much else, in 1973. The course of events in the last quarter of that year not only involved traumatic changes in the supply and price of oil; it also threw into sharp relief half-recognized processes of change which antedated the crisis itself: the progressively heavier dependence of OECD countries on Middle Eastern and North African oil; the diminishing ability of the market to cope with interruptions of supply from that source; the transfer of effective control over production and prices from international companies to the national governments of oil-producing states. By the end of the year, as OECD importers agonized about how to regain confidence in the supply of sufficient oil at a predictable price, the question of an organized dialogue between the oil exporters of OPEC and their principal customers was in the forefront of attention.

The impulse to open some channel of collective communication with OPEC countries was never simple, nor ever unanimous. Instead, it was a matter for furious, and sometimes acrimonious, debate among the governments concerned. On the producer's side, for instance, it seemed that some, such as Saudi Arabia, might welcome a dialogue with developed consumers on oil alone, or at least within the restricted field of energy. Others, such as Algeria, were determined that the agenda should stretch beyond energy to wider issues of economic development, and that non-OPEC developing countries should also be involved. And some producers were disinclined to join in any multilateral dialogue at all.

The developed oil-importing countries were, if anything, even more sharply divided. France quickly emerged in 1973 as the leading proponent of an early conference between producers and consumers, just as the United States was swiftly identified as its main opponent. The European Community governments, with varying enthusiasm, espoused the French position, and the United States was ostensibly prevailed upon also to accept it, as the price of Community participation in the Washington Energy Conference of February 1974. Meanwhile, Japan, eager to placate both the United States and the Gulf oil exporters, waited upon events. At

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the Washington Conference itself, however, Henry Kissinger's demand that the developed oil-importing world should formulate and give institutional expression to a common policy on oil, energy and international finance before entering into joint communication with exporting countries was interpreted as postponing that latter event, after all, to the Greek Calendars.

The French, as a result, withdrew to their tents in angry dissatisfaction. Nor were the other West Europeans, although they signed the Washington Conference communiqué, by any means content. Unlike the French, they were persuaded of the need for a new institution to coordinate consumer reactions to problems of oil supply—a persuasion eventually embodied in the International Energy Agency (IEA). Like the French, however, they were profoundly unconvinced by insistent American rhetoric about “breaking OPEC”—or at least breaking OPEC's new-found power to set prices—and saw their best hope in seeking instead to enter into some closer correspondence with some or all of the OPEC governments. Two weeks after returning from Washington, therefore, European Community members, having made up their differences, issued a private invitation to the Arab League, which included all the major oil exporters of the Middle East and North Africa except Iran, to discuss possibilities of economic cooperation. The United States government, which had not been consulted, was furious at this defiance of consumer solidarity, and its protests were sufficient to postpone the official opening of any separate discussion between the Community and the League for more than a year. Yet the alternative of a wider dialogue, between all OECD states and all exporters of oil, made no progress in the interim.

The Sixth Special Session of the U.N. General Assembly, in April 1974, was an occasion for recrimination rather than discourse, and the vision of a producer-consumer conference seemed as far away as ever. All that remained were bilateral contacts and negotiations between individual OECD and OPEC governments: a form of dislocated and semi-clandestine dialogue, sought in different ways by almost all developed oil importers, which provoked the maximum suspicion and resentment and yielded, on the evidence of 1974, the minimum result.

The 1970s: A Fragmented Dialogue

It was not only Atlantic disagreement which delayed events during 1974. It was also that, with the end of Arab exporters' embargos and production limits, the focus of attention shifted from the supply of oil to its price and to the potential effect of exporters' surplus revenues on the financial system: issues which demanded a reconsideration of consumer tactics, as well as policies. The United States found itself again at loggerheads with a number of its European allies on both levels: over whether the aim should be to reduce or to absorb higher OPEC prices, and over whether the politically appropriate body to organize extraordinary means of financing oil imports was the IMF or the OECD. The latter argument was only settled in early 1975, by the obvious if pusillanimous device of setting up separate “oil facilities” under the aegis of both organizations. The former disagreement was resolved more subtly, but not more courageously, by a reversal of American policy, from seeking to reduce OPEC prices quickly to seeking instead to establish a “floor price” high enough to reduce consumption to a level capable of constraining oil prices in the longer term, followed by a cosmetic arrangement in the IEA, accepting the principle of a “floor price” but setting it too low to have any practical effect. Only when those assorted strategies had been carried proudly to a conclusion by the developed oil importers was progress towards initiating a collective dialogue with exporters resumed.

The OECD governments were undecided about the most fundamental question of all: whether their long-term aim was to maintain indefinitely a supply of oil no smaller than they had enjoyed in 1973, or to secure only enough oil to support a determined and urgent transition to lower relative energy demand and alternative sources of supply.9

The dialogue which got under way in 1975 bore little resemblance to anything that OECD governments would have conceived, proposed or resisted at the end of 1973. In the first place, it was fragmented. The Euro-Arab Dialogue, between teams from the European Community and the Arab League, had no communication with the Conference on International Economic Cooperation (CIEC)—the eventual fruit of the proposal for a general conference of producers and consumers—which involved selected governments not only from the OECD and OPEC but also from the non-OPEC Third World. And neither was more than tangentially related to the wider network of discussion before and during the Seventh Special Session of the U.N. General Assembly, which generated its own rhetorical consensus on harmony between the exporters and importers of raw materials. In the second place, none of the fragments of this disjointed correspondence was specifically aimed at cooperation on oil, or even energy, alone. The CIEC boasted an energy committee, but OPEC and other Third World governments had only agreed to take part in it on condition that the conference talked in parallel about larger questions of development and international finance. Moreover,
even in the committee dealing with energy, discussion of policy on the production or pricing of oil was effectively debarred, by the producers’ suspicion, on the one hand, and by the consumers’ refusal to contemplate linking the prices of their oil imports and manufactured exports, on the other. Similarly, in the U.N. Special Session, exchanges between producers and consumers about oil were largely submerged beneath a more ethereal exchange about the principles of North-South relations. Meanwhile, the Euro-Arab Dialogue carried that tendency to a further extreme, by explicitly excluding oil production, supply or prices from its consideration. All in all, the proponents of new channels of communication between exporters and importers of oil had achieved their dialogue, but at the expense of their agenda.

The fragmented and diffuse multilateral exchanges which began in 1975 withered and blew away in the winds of the next three years. The CIEC alone collapsed in a visible manner, in June 1977, crippled by disagreement, borne down by the weight of its over-elaborate mandate, and leaving no legacy. The Euro-Arab Dialogue bred technical sub-committees on various aspects of trade and industrial policy, as an alternative to the intolerable prospect of politics, and, having failed to identify the sense of common purpose which it was afraid to seek, finally fell victim in 1978 to the inter-Arab hostility ignited by the Camp David agreement between Israel and Egypt. The United Nations could give no practical effect to the studiedly vague principles which its members had endorsed, especially when the developed countries, even had they not been antagonized by the exigence of such Third World texts as the Charter of Economic Rights and Duties of States, were economically and psychologically imprisoned in their own economic predicaments. In any case, the oil was still flowing, and its price, in real terms, was stable or slowly falling. Above all, however, the heart had gone out of those OECD oil importers who had formerly sought a dialogue. Even in 1979, when the Iranian crisis put renewed pressure on oil supplies and precipitated a new surge in real prices, the voices raised in favor of an attempt to discuss those problems with producers were few and frail. The European Commission and the Long-Term Strategy Group of OPEC danced a brief and hesitant minuet in the shadows, but sprang apart when the eyes of the press fell upon them. Otherwise, the common instinct of exporter and importer governments was to address their respective and considerable difficulties in isolation from each other, leaving the market which both had castigated in 1974 to reconcile, and implicitly to define, their distinct policies.

The OECD Importers Divided

It is easy to give reasons for the sharp difference between OECD importers’ reactions to oil problems in 1973-4 and in 1979. In 1979, for example, renewed tension in East-West relations, culminating in Soviet intervention in Afghanistan, preempted a lion’s share of political attention in Western capitals and, rightly or wrongly, was thought to raise no question of closer joint communication with OPEC governments, even in the Gulf. Nor did the agonies of Iran seem appropriate matter for a new dialogue about oil, even when they impinged so obviously on its availability and price. No one believed that inter-governmental discussion with Iran about its oil policies would be possible—or, even if possible, productive. Nor was there a sense, as there had been in the analogous circumstances of 1974, that other oil exporters had adopted policies in response to the Iranian conflict which were politically rather than economically motivated and which might be modified by collective discussion. At the same time, the exporting countries were also driven by recent events to concentrate on policy issues other than oil: on external security, in the face of Soviet advances, and in particular on the internal stability of their régimes and societies, in the light of the Iranian revolution, the dissident attack on the Great Mosque of Macca, sporadic rioting and Sunni-Shi’a clashes in such countries as Bahrain and Syria, and the whole panoply of resurgent Islamic fundamentalism in its widely various forms. Directly or indirectly, both the Iranian revolution and the errancy of Soviet policy had an impact on the supply and price of oil, but those consequential problems were overshadowed, in both the importing and exporting worlds, by preoccupation with their original causes.

Among importers of oil, the United States was especially and naturally subject to that preoccupation with larger strategic issues. The fact that other OECD governments, even if more hesitantly, shared that view of relative international priorities was testimony, in part, to two other changes since the frenetic days of 1974. First, there was the fact that demand for oil in the developed world had levelled off, to an extent which few in 1974 were prepared to predict. Having risen by 42 percent in the previous five years, OECD oil consumption in the five years since 1973 had hardly risen at all. Even allowing for the effects of economic recession, that argued a more optimistic view of the continuing capacity for demand constraint in response to rising prices. Any suspicion that the argument might be somewhat facile, or based on flimsy evidence, was mitigated, moreover, by the fact that OECD oil stocks at the end of 1979 were extraordinarily large and supplies, despite the Iranian situation, ample. Second, the furious criticism of bilateral government-to-government negotiation and agreement on oil supply, which had corroded consumer relations in 1974, had given way by 1979 to a general acceptance that such transactions were normal, necessary and of increasing importance. Government-to-government deals,
in the oil market circumstances of the late 1970s, had not preempted supplies to the detriment of other consumers. Nor, on the whole, had they involved dangerously inflated prices—unlike the so-called spot market, which became the target in 1979 for the sort of criticism reserved in 1974 for “bilateral” transactions. As a result, governments in Western Europe and Japan no longer faced the wrath of the United States—or of each other—in that latter regard, while they themselves no longer sought so eagerly to respond by condemning United States bilateral links with Saudi Arabia through the Aramco partnership. Oil “bilateralism” had come to be regarded as the right of all, rather than the prerogative of a few, and the desire to disarm and contain it by establishing a principle of collective importer government action with a collective importer-exporter dialogue had accordingly faded.

"With or without reference to production, a dialogue which opened the way not to ultimate price constraint but to a more predictable pattern of price changes, presumably involving some form of indexation, could do nothing but good."

Finally, those few in the OECD world who still saw reason in 1979 to establish a collective dialogue with oil exporters found themselves facing a novel difficulty. They no longer knew whom to talk to. For the European Community, the descent of President Sadat upon Jerusalem in November 1977 and the Camp David agreement of September 1978 had indefinitely disrupted not only the Euro-Arab Dialogue but also the Arab League itself, so that the Community was deprived of its surrogate correspondent. For all the OECD countries, however, it was much more important that neither OPEC nor OAPEC (the Organization of Arab Petroleum Exporting Countries) clearly remained an interlocuteur valable.

It had always been an irony of the mid-1970s that those in the industrial world who deplored the power and cohesion of OPEC, and wished to diminish both, frequently spoke in the next breath of plans for a dialogue with oil exporters, which implied the need for a coherent and influential group of producer governments as a party to that exercise. At the end of the 1970s, OPEC was still in existence, and its fundamental cohesion could more easily be under-estimated than over-estimated. But its collective ability to determine the flow or, above all, the price of oil had been greatly reduced, first by the temporary acceptance of a two-tier price structure in 1977 and then, more seriously, by the effective collapse of OPEC price discipline in 1979, under the strain of events in Iran. Between 1974 and 1977, in the CIEC and else-where, OPEC governments had shown themselves hypersensitive to the risk of revealing divergent views on production or pricing in any dialogue with importers, even when their collective discipline was apparently strong. It was frankly unthinkable that they would expose themselves to the greater risks involved in a collective dialogue when their facade of discipline was preserved only by cosmetic contrivance.

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Looking back from the beginning of a new decade onto the short and inglorious history of dialogue between oil exporters and importers, the temptation is to stop at the point of identifying these superficially obvious reasons for failure. After all, the OECD countries have obtained OPEC oil in sufficient, if not ample, quantity without a systematic and successful dialogue, and the prices they have paid, although undeniably contributing to inflation, have not brought about any of the national bankruptcies once feared. It might not seem unreasonable, therefore, to congratulate them both on having made the effort to launch a dialogue and on having survived its regrettable defeat, and to conclude that the cost of repeating the attempt in the 1980s would probably exceed the benefit. It may appear all the more eccentric, in that case, to advance two contrary assertions: that OECD governments were fortunate in finding that a collective producer-consumer dialogue during the late 1970s was thwarted by largely extraneous events, and that, having understood their good fortune, they should nevertheless prepare themselves to engage in such a process during the 1980s.

The reason for believing that OECD governments had a fortunate escape in the 1970s—that the Camp David agreement or the shredding of oil questions into the indigestible goulash of North-South politics were blessings in disguise—is not that the idea of a dialogue was ill-convinced but that the developed countries which sought to engage in it apparently ignored the two basic rules familiar to any novice dealer in an auction room. As between the goods potentially on offer, they did not know what they wanted, and they had not decided what they could and would pay for it. Had they been put to the test, as they were not, they would, in all probability, have paid a considerable price for the proverbial bathtub filled with odd left boots.

The Reasons for a Failure

To be more specific, OECD governments, almost without exception, showed every sign of incomprehension or indecision during the later 1970s on at least three related and crucial issues. The first issue was oil supply itself. Did they wish OPEC producers, especially in the Gulf, to
produce and export the maximum possible quantity of oil, at the expense of depleting their reserves more quickly, initially accumulating larger revenue surpluses in the international banking system, and possibly overheating their own economies to a socially, as well as economically, dangerous extent? Or did they want the producers to constrain production, but to do so in a predictable and preferably agreed manner? And, if the latter, on what basis did they want OPEC production levels to be determined: with regard to maintaining some substantial production for as long as possible, by reference to the minimum supply needed to support some particular rate of economic growth in importing (including developing) countries, in relation to a deliberate policy of promoting a transition to non-oil sources of energy—or what? Traces of all those desiderata were to be found in remarks by OECD politicians and officials during the later 1970s. Few traces were to be found of an awareness that they were commonly incompatible.

The second issue was price. Did the OECD importers want to minimize OPEC prices, and thus to permit rising consumption of oil for as long as possible—as the United States, for example, apparently wanted in early 1974? Did they, alternatively, want OPEC to maximize its prices, and thus to assist policies of conservation and accelerated development of other energy supplies—as some in the United States had come to argue by the end of 1974? Or was it rather a steady and more predictable movement of prices which they sought, instead of the occasional erratic leaps of 1973/4 and 1979? Again, the record yields evidence of all those desires, but little evidence of a conscious need to choose between them.

The third issue was OPEC itself. Did OECD governments, by promoting or by spurning a dialogue, want to "destroy" OPEC: to procure, that is, a degree of conflict between its members sufficient to ensure that they would be incapable of joint policy or action? Did they, more moderately, want only to deprive OPEC of its collective power to fix prices? Conversely, did they wish to sustain, and if necessary to reinforce, OPEC as a multilateral institution, in the interest of maintaining some order in politics and the market, or merely to have a partner with which to conduct a collective dialogue? Or were they willing, perhaps, to take OPEC institutionally as they found it, working neither to disrupt nor to sustain? Once more, the prevalent tendency of those who proposed a dialogue was to treat communication as an end in itself, and thus to evade such delicate questions of ulterior motive with astonishing ease.

Still more astonishing was the reluctance or inability to see the necessary connections between questions about production, price and OPEC politics. The general relationship, in the medium or longer term, between prices, supply and demand was little enough considered. More particularly, the strong inclination to press Gulf producers, and especially Saudi Arabia, to increase production while continuing to moderate price increases was rarely if ever seen to be ultimately self-defeating. Saudi Arabia's repeated and largely successful efforts between 1974 and 1978 to restrain its more ambitious or aggressive OPEC colleagues from raising prices more rapidly, warmly welcomed by political leaders in North America, Western Europe and Japan, depended, in the end, on that one country's clear ability to increase its own production at will, in order to defeat any attempt to escape from the organization's collective price structure. Yet OECD governments, led by the United States, consistently urged Saudi Arabia to bring its actual production closer to the effective maximum of its capacity, without regard to the fact that each new step in that direction diminished Saudi influence over the pricing policies of other exporters, and thus eroded the only sources of durable price discipline in OPEC as a whole. Finally, at the end of the 1970s, with Saudi Arabia no longer capable of offsetting or negating any plausible production cut or price increase by other Gulf exporters, the price discipline of OPEC collapsed. Yet few in the OECD countries were prepared, when that happened, to attribute the major part of the responsibility, as they should have done, to their own confusion of aims.

There was parallel confusion in the later 1970s over the rewards which OECD countries should collectively offer to OPEC exporters in return for their cooperation in and through an organized dialogue. At first, the assumption seemed to be that they could purchase OPEC governments' practical sympathy by aiding their development plans. At the same time, but quite separately, the United States, with some help from other armament exporters such as Britain and France, could offer support to Gulf states against external aggression, while the United States, in addition, could bring pressure on Israel to make concessions to its Arab neighbors and their Palestinian guests in the interest of a settlement. In one way or another, however, all those assumptions proved ill-founded. Oil exporters with ample revenue, including the crucial producers of the Gulf, had little use for multilateral development assistance, since their wealth guaranteed access to the necessary skills, equipment or credits through bilateral channels, and from the private, if not the public, sector, especially when OECD governments were individually so eager to cover the current account cost of their oil imports. By the end of the 1970s, moreover, the experience of Iran and the rumblings in other Gulf states such as Saudi Arabia had generated a strong suspicion that the social and political risks of such rapid industrial development might be dangerously high. What the exporters wanted, rather than collective OECD support for their development, was collective OECD insurance for the revenue obtained or obtainable from producing and exporting oil—indirectly, by linking oil prices to the prices of
OECD manufactures, and directly, by maintaining the stability of the dollar and by guaranteeing the security and value of their deposits and investments, as well as their ultimate access to non-oil markets, in the developed countries. And those were things which the OECD governments could not or would not promise—as, on one point, the United States sequestration of Iranian assets in 1979 demonstrated all too clearly. In addition, OPEC governments wanted more OECD assistance for non-OPEC developing countries, not least to off-set the burden of increasingly costly oil imports, which was again rejected as both unreasonable and impossible.

As to physical security, reinforcement or protection against external threats was welcome enough to some of the Gulf leaders, but the stronger desire of many OPEC governments in the Gulf was for assurance of their own regimes against internal challenge or attack—an assurance which it was politically inconceivable that OECD states would give collectively and which, even if conveyed, within necessary limits, bilaterally, proved in Iran to be of dubious, and possibly negative, value. And, finally, support for the Arab case against Israel, beyond the merely declaratory formulae adopted by the European Community and Japan, was significantly reduced in value, at least temporarily, once other Arab states had decided to reject, rather than imitate, the example of Egypt. In the end, therefore, OECD governments were left with no winning cards ready to play.

The Case for a New Dialogue in the 1980s

If this panorama of discord, short-sightedness and confusion seems to be unduly critical of OECD governments in the 1970s, so be it. It is difficult, however, to form a more charitable view on the evidence so far available, or to avoid the conclusion that those governments lacked a clear, common view of what they wanted from oil exporters or of what it was worth to them. It was not only that they failed to resolve dilemmas of shorter-term policy and negotiating tactics, the difficulty of which was unquestionable. It was also that they were undecided about the most fundamental question of all: whether their long-term aim was to maintain indefinitely a supply of oil no smaller than they had enjoyed in 1973, or to secure only enough oil to support a determined and urgent transition to lower relative energy demand and alternative sources of energy supply. They spoke the language of transition, but they frequently pursued the policies of status quo, with all the inconsistency of a drunkard wavering between whiskey and the Salvation Army. Why then suggest any dialogue with oil exporters in the 1980s, since there is little sign that that fundamental dilemma has yet been resolved? Why not rather acknowledge the incapacities and disagreements within the OECD, together with the obvious danger of exposing and exacerbating them in any larger multilateral forum?

*Those few in the OECD world who still saw reason in 1979 to establish a collective dialogue with oil exporters found themselves facing a novel difficulty: They no longer knew whom to talk to.*

The answer to that must start with a set of bald statements of expectation for the future. First, it is to be expected that OECD countries will remain crucially dependent on OPEC oil throughout the 1980s, whatever their longer-term objectives, and that, assuming present prices and supply levels, their demand for it at the end of the decade would be higher that at its beginning. Second, it is to be expected that OPEC oil production in 1980 will not be significantly higher, and may be significantly lower, than in 1979. Third, it is to be expected that non-OPEC developing countries' demand for oil, if any tolerable level of welfare is to be maintained, will rise steadily during the 1980s, and that, even if little of their increased demand has to be met from OPEC sources, it will readily absorb new supplies obtained elsewhere in the Third World. Fourth, it is to be expected, in these circumstances, that, without some compensatory action, OECD countries will come under growing pressure to compete more actively and aggressively with each other for secure access to OPEC supplies, and that all but the winners in that competition will face increasingly serious inflation and unemployment. Fifth, it is to be expected that, if OECD demand remains high enough to provoke such competition, the real price of OPEC oil will rise no less erratically, but more steeply, in the 1980s than in the 1970s, and that, unless some other circumstance intervenes, the combination of stronger demand and rapidly rising real prices will defeat efforts to restore collective price discipline in OPEC. Sixth, it is to be expected in the 1980s that the revenues of OPEC countries will increase, that a diminishing proportion of them will be translated into domestic economic development, especially in the Gulf, and that, as a consequence, the volume of surplus oil revenues invested in developed countries or injected into international financial markets will grow more quickly than in the last six years. Seventh, it is to be expected that the recent industrialization programs of a number of OPEC countries will begin to bear fruit during the 1980s, and that some of their non-oil products will be increasingly aired at OECD markets, particularly in Western Europe, against a background of rising pressure on those same markets from other newly industrializing countries outside OPEC. Eighth, it is to be expected that, even if the climate of East-West relations again improves, the possibility of Soviet efforts to acquire greater political influence in the Middle East and Africa, and
particularly in the Gulf, will continue to demand local and global attention. And ninth, it is to be expected that inter-state, inter-factional and inter-communal relations in the Middle East will remain at least as volatile, abrasive and sporadically violent as in the past.

If those tersely stated expectations are plausible—and none seems to defy evidence or reason—then OECD governments can find strong arguments, under at least three headings, for contemplating a new and rather different process of collective communication with oil exporters in the coming years. In the first place, there are arguments implied by issues originating outside their own relationship with OPEC states. One such argument relates to the non-OPEC Third World, and to the potentially shared OECD and OPEC interest in sustaining its peaceful development while protecting it against the harshest effects of scarcer and more expensive oil. During the last year, there have been increasingly frequent signs that other governments in the Group of 77 are becoming disenchanted with the performance of OPEC states, and that the latter are becoming increasingly sensitive to that disenchantment. It is more likely in the future than in the past that OPEC and OECD governments could identify a shared interest in jointly assisting oil-importing developing countries, possibly by combining OPEC funds and OECD skills in an accelerated effort to develop their indigenous supplies of oil and other energy sources, together with more efficient means of using them.

Another such argument relates to the security of Gulf oil-producing states in the face of extra-regional, and especially Soviet, threats. It is clearly inconceivable that OECD governments should offer a collective security guarantee to Gulf countries—just as it is unthinkable that the latter would accept it if they did. Nor is joint defense planning, on a multilateral basis, plausible. If any stronger military assurance or protection is to be provided to Gulf oil exporters, it will have to be the product of discreet bilateral arrangements. It is, however, possible, in the aftermath of Afghanistan, to envisage a convergent interest, as between OPEC states in the Gulf and members of the North Atlantic alliance, in developing the embryonic consciousness of a common security predicament by exchanging considered analyses and appreciations of the nature and extent of external threats, the credibility of which to Gulf governments might be enhanced if the analysis reflected a multinational, rather than national, assessment on the part of important oil consumers. The difficulties and sensitivities are obvious, but the prospect is not to be lightly dismissed.

In the second place, there are arguments for a new form of dialogue which flow from recognizing particular dangers facing OECD oil importers in the 1980s. The most obvious is the danger of a fiercer competition between them for available supplies of OPEC oil. It might be argued that this is a risk which the OECD governments themselves must contrive, in concert, to avoid. But that would be to ignore the role which uncertainty and apprehension about producer policies must play in stimulating the competition. Any dialogue which conveyed to importers a sense of greater predictability in assessing the future of oil supplies from the Middle East, even if the predictions pointed to a reduced flow, would be of incalculable value in that connection. How much further a cooperative dialogue of that sort should go would be for later consideration. It is not, however, impossible that, to avert damaging competition in a chronic supply shortage, OECD countries will eventually have to envisage some more permanent system for allocating available oil supplies between them on the basis of relative need. If that were to happen, an effective consensus with the suppliers of oil might be an important component of the system.

"It is not that the idea of a dialogue was ill-conceived, but rather that the developed countries which sought to engage in it apparently ignored two elementary rules: They did not know what they wanted, and they had not decided what they would and could pay for it."
detrimental to importers and exporters alike. With or without reference to production, a dialogue which opened the way not to ultimate price constraint but to a more predictable pattern of price changes, presumably involving some form of indexation, could do nothing but good. The benefit would be increased if the dialogue in the 1980s also involved a more systematic exchange of information between importers and exporters on national plans for the production and consumption of oil in the longer term, including plans to conserve energy or to satisfy demand by other means—not with the aim of directly modifying intentions on either side, especially in the short term, but in the hope that economic planning by countries in both groups, in and outside the energy field, could be based on a fuller and more nearly compatible corpus of data. Indeed, a successful effort to communicate planning information might actually help to prepare the ground for discussing more sensitive questions of oil pricing. It might also pave the way, on another and wider front, to a more ambitious dialogue about industrial policies in the OECD and OPEC countries, and about their potential impact on each other: a dialogue in which oil would figure much less than issues of industrial location, public procurement and market access.

The case for a new dialogue could be elaborated at much greater length. So could the difficulties which stand in the way. Both, in any case, deserve more careful consideration by OECD governments than they have yet received. If the arguments in favor of a fresh attempt seem then to prevail, there will be important lessons to draw from the 1970s, and important decisions to take about the form and focus of any dialogue for the 1980s. In the former context, for example, it will be essential to define OECD objectives more clearly than in the past: to accept that the unrealistic goal of maximum oil supply at a minimum price must give way to the objectives of greater predictability and order in the market place, as a basis for planning and bringing about a systematic reduction in relative dependence on OPEC oil, a deliberate measure of industrial restructuring, and a tolerable level of economic welfare in both the OECD and the Third World.

It will be equally important to define what the OECD countries can offer which OPEC countries will also value: to acknowledge, for example, that obtrusive industrialization may be less valuable than the security of earnings, investments and deposits and the stability and accessibility of markets. In general, therefore, the aim should be to use a collective dialogue not to address conflicts between the two sides, but more modestly to identify and build on necessary convergences of interest.

As to the latter context—the form and focus of a new dialogue—it would have to be accepted that no such collective debate could usefully seek to conduct or intervene in the oil trade itself, nor to dictate or supervise the ineluctably bilateral relationship between buyers and sellers. Multilateral dialogue should focus rather on the wider and long-term issues of economic planning and regulation. And the dialogue should be conducted, at least initially, through channels which emphasize the technical, rather than political, aspects of those issues. To that end, much might be said for minimizing the formal and direct involvement of national governments, especially at the ministerial level. The principal forum for much of the discourse on oil pricing, the oil market, industrial policy or the Third World might, for example, bring together the secretariats of the OECD (including the IEA) and OPEC—not least because one purpose should be to reinforce, rather than weaken, the cohesion of OPEC itself. Similarly, a dialogue about stabilizing or regulating financial markets might involve central banks, rather than ministers of finance. To go further than the tentative suggestion of such possibilities would be idly speculative, since the precedent question is whether OECD governments will be moved to seek any new dialogue at all. Equally, however, the precedent hope must be that they will address that question without succumbing to merely negative memories of the hazards they consciously or unconsciously endured, or the failures they encountered, during the last five years. Past errors do not have to be repeated, especially in the face of future needs. The use of experience, after all, is not to deter endeavor but to improve performance.
GASTON THORN

Foreign Minister of the Grand Duchy of Luxembourg

Gaston Thorn, like his country always at the center of European affairs, has been Minister of Foreign Affairs of the Grand Duchy of Luxembourg since 1969, and served simultaneously as Prime Minister from 1974 to 1979. President of Luxembourg's Democratic Party and a member of the European Parliament, M. Thorn chaired the 30th Session of the United Nations General Assembly (1975–76). He is also President of the Federation of Liberal and Democratic Parties of the European Community.

In a wide-ranging conversation for Triologue with Martine Trink, European Secretary of the Trilateral Commission, the Foreign Minister discussed the present political climate in Europe, the prospects of the European Community's continuing drive towards greater unity, and the responsibilities of Europe in the face of the global, East-West and North-South challenges looming large as we enter this new decade.

Following are excerpts from the Minister's remarks.

Inflation, Energy Dependence—The Challenge for European Democracies

Democracy is at all times a difficult system to manage, because you have to look for a balance between many conflicting interests, without infringing on the fundamental rights and liberties of anyone; this is of course what makes democracy worthwhile to defend.

Our political systems have, in the past given proof that they can cope with difficult situations, and they will be able to do so in the future. However, in a period of crisis a greater sense of discipline and self-restraint will be called for. It will be very important on the part of those in charge of government to explain clearly, and tirelessly, the problems that arise, and the rationale of the proposed solutions. Above all, when sacrifices are necessary, it will be essential that everyone be asked for an equal contribution, according to his means. Privileges, or the like, may be tolerated in a period of general affluence, but in difficult times they would destroy the consensus which must be the basis of democracy. In brief, governing will increasingly have to mean more foresight and sticking to principles, and less piecemeal politicking.

Towards More State Intervention?

I believe in the market economy and in the free interplay of the institutions of competition and democracy, and I believe that the necessary adjustments will take place.
Yet, we should not be excessively naive: In a very difficult economic situation, almost everyone calls for state help and intervention. These natural tendencies, both protectionist and interventionist in nature, have to be resisted. At the same time, our governments must constantly be aware of the need to assist their people. To provide such assistance does not mean that one should protect and freeze any given structure or system. Even those governments which presently intervene to help their people weather difficult times must be sure that their intervention does not amount to a freeze of the existing situation—in which case such actions would be a waste and, once out of the tunnel, we would find ourselves in the very same inextricable situation.

A Turn to the Right in Europe?

Unfortunately, a crisis like today’s always entails a risk of polarization. What has been referred to in recent months as a swing of the pendulum to the right in several European countries reflects precisely such polarization: On the one hand, those who are utterly dissatisfied with what has been achieved so far are tempted by leftist extremism; on the other hand, those who accept the system and realize that, in the face of today’s challenges, things were not so bad after all, tend to react in a sharply conservative manner. Such reactions are reminiscent of the 1930s. Our task is to fight against these instinctive reflexes, and to explain tirelessly to our people that an excessive turn to the right may very well, in turn, tomorrow or the day after, push the pendulum too far left. Clearly, we have to walk on this middle ridge of patient reform—a narrow path to be sure, but also the safest and the only valid one. All in all, rather than a real trend towards the right, I think we are witnessing an instinctive reaction of fear, and one which in my view will not last. Fortunately, in today’s improved social context, these reactions of fear do not have as far-reaching implications as they used to, and the swings of the pendulum tend to be less extreme.

* * *

European Unity: Progress and Setbacks

The Community has made definite progress in recent years. Though I consider that this is not sufficient, I want to emphasize the efforts made to set up the European Monetary System, the direct elections to the European Parliament, and the increasingly unified relationship of the nine EEC members with third countries.

These are important achievements. At the same time, I deplore that progress within the Community is slow and still far away from what the initiators of the integration movement had hoped for. The Community has still not achieved its main goal, i.e., a fully integrated ensemble based on fundamental solidarities. I could quote many examples to illustrate these shortcomings. Commercial exchanges are one: The disappearance of tariffs has been accompanied by the creation of new non-tariff barriers. The most promising economic sectors in terms of future expansion are cautiously left to national initiatives, whereas the Community limits the bulk of its action to declining industries, and still in a very ineffective way. In these times of crisis, we see national selfishness growing. Though progress has been made in external relations, the Community still speaks two different languages, one in Brussels, the other—slightly different—in bilateral talks with third countries.

The European Monetary System

Clearly, there now exists a greater entente and comprehension among European countries on monetary matters. Many thought we were dreamers when we began to work on the European Monetary System (EMS). To be sure, this system has not solved all our problems; but it did start on the right foot and preserved us from even greater monetary turmoil. The system has amply demonstrated its viability and the positive role it can play in the smooth development of trade relations between EEC member states. I think that Great Britain and a few others would now like to join the EMS again, if it were not for external contingencies which complicate matters for them at the present time.

I also think there now exists in Europe a greater will to cooperate, not only among European countries, but also with Europe and the United States. In the long run, we, on both sides of the Atlantic, will have to sit down and try to rebuild a monetary system which has been demolished and which we have not been able to replace. In the meantime, the European Monetary System should certainly not be viewed as being directed “against” the dollar. It is, from a European point of view, an element of defense against possible aggression and, above all, against an excessive dependence on the American system. Neither would it be possible, nor would it be in our interest, to sever completely the existing relationship with the dollar. However, if we Europeans want to be able to put forward valid proposals and, in so doing, to be taken seriously, there must be on the European side a common view and a common approach. In that sense, the European Monetary System is a major step forward.

The European Parliament

Developments since the first direct elections to the European Parliament were held, in June 1979, have clearly shown the difference which exists between a parliament directly elected by the European population and the
body that existed previously. The work of the European Parliament has gained a new quality, and its members have become increasingly aware of the fact that they have a real part to play in the Community. I dare express the conviction that the Parliament will assume its role in full responsibility, and I formulate the hope that, in so doing, it can usefully contribute to promoting progress in European integration and on wider issues. The European Council of Ministers, for its part, must be made aware that it will have to deal in the future with a responsible and mature body, drawing its legitimacy from true elections. Within the Parliament itself, we now witness the beginning of a restructuring among the three great European political families—the Christian-Conservative family, the reformists of the center, and the Socialist Left. We are clearly observing a profound reorganization of the political parties at the European level, the outcome of which can make a tremendous difference for our countries and for the Community as a whole.

Obviously, the activity of the European Parliament still remains dominated by a number of divisions and quarrels of a national nature—and it will be so as long as the Parliament is not given a sense of a new Community-wide "frontier." In the absence of a great European design, no true European commitment can be expected from such a parliament.

Towards a Common Energy Policy

It is not only desirable, but indeed indispensable, for the member states of the European Community to adopt a more collective position on energy-related problems. Until now—in great part out of selfishness and short-sightedness—we have been incapable of drawing the lessons of the 1973 oil shock and its aftermath. I consider it to be far one of the most ominous failures of the Community. We need a common energy policy, and it is imperative that we give it another go without delay. I would go as far as to say that, in my view, the very success of our communiterial effort as a whole depends on this. Our countries have recently come to realize the full extent of this need for collaboration—but I regret to say that so far they have not yet gone beyond this realization. For the time being, we are stumbling on political difficulties from the British side—difficulties related above all to the Community's current budgetary problems, and which, I think, will prove to be temporary. If we can surmount this obstacle, the next logical step for the Community will be to talk energy.

The Community Looks Southward

The entry of new EEC members from the south of Europe will inevitably entail changes and have repercussions on the definition of the Community's future policies. In this sense, it is a challenge—and we must make all possible efforts to avoid a dilution of the Community. At the same time, I also think it will add a new dimension to the life of our Community.

When you look at history, geography appears as the only stable and reliable factor. If our Community is to comprise in the future a greater number of Latin and Mediterranean countries, it will undoubtedly undergo, for geopolitical reasons, some change in orientation. It is only natural that enlarging the EEC to include countries such as Greece and Spain should lead us to carry the dialogue further towards the southern confines of the Community. Similarly, with Spain's full membership in the Community, the Hispanidad will be within our reach and we will inevitably be led to intensify our exchanges and dialogue with Latin America. This is also true of the Euro-Arab dialogue, which we have always favored: The inclusion within the EEC of other Mediterranean nations can only make such a dialogue more meaningful.

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East-West Relations: Détente or Cold War?

I think détente is essential. We could have made a true success of it, had we not neglected two fundamental things: In the first place, détente between East and West was built on the basis of two homogeneous, close-knit blocs. The East thought of us as a valid counterpart on the road to détente precisely because it looked as though we were about to succeed in being more integrated and cohesive, both militarily—through NATO—and economically—within the European Community. To the extent that our cohesion has eroded, both within NATO and within the Community, new temptations have arisen on the Soviet side, which never misses an opportunity to apply the old rule of divide ad impera. This is why it is so imperative at this stage for us again to strengthen our cohesion. We should never lose sight of the fact that détente can only exist meaningfully between two well-balanced groups. Secondly, in our pursuit of disarmament, we seem to have forgotten at times that equality is an absolute prerequisite. If we learn our lessons on these two points, then we will be able to achieve a truly valid and constructive détente.

Europe's Role and Credibility

Faced with aggressive Soviet policies, it is essential for us to make the Soviet Union realize that we are ready to make the necessary military efforts when threatened; that we are ready to fight if attacked; and that we will not yield to pressure beyond a certain "line." If we manage to
send such signals, then I think the “line” in question will not be crossed and the temptation to cross it will no longer exist.

This is why one should welcome the readiness of Germany, Italy, England—and even that of our Belgian and Dutch friends—to have a new generation of theater nuclear missiles installed on their soil as an important step in this direction. We must, once again, be ready to take the necessary measures to restore the kind of equilibrium without which no real détente is viable.

Needless to say, it is more essential than ever for the West to have a well-organized defense based on a solid infrastructure. Personally, I would have preferred a European army; in the absence of such an integrated European effort, NATO remains the only answer. But I do not despair of seeing one day, within NATO, the development of a truly European defense—one which will be able to serve as what was called in John Kennedy’s days the “second pillar” of Atlantic defense.

Continuity and Change in the Kremlin

I did not bring my crystal ball and do not know who the successors of Mr. Brezhnev will be. I simply note that, since the end of World War II, the Soviet Union has done nothing but expand: In the wake of the Second World War, the Soviet Union did not give back an inch of territory even to its closest and “safest” allies. Today, the Soviet forces happen to be much farther away from Moscow than they are from Paris—which had never been the case in the past for a Russian army. Therefore, we must realize that, over time, the Soviet leaders have demonstrated a great deal of logic and continuity in their expansionary drive. This is why I believe that our main task is to make our interlocutors in the East understand that some limits cannot be overstepped.

* * *

The North-South Dialogue

It is obvious that today there is a very great danger of a widening of the gap between the rich parts and the hungry parts of this world. We know that, unfortunately, demography plays an important role, and that that portion of the world which is now hungry is becoming numerically greater and greater, while the industrialized portion becomes comparatively smaller—hence the risk of serious tensions. It is therefore imperative that we achieve a notable transfer of wealth between these two worlds—not only for humanitarian reasons (although these would constitute a sufficient incentive in themselves) but also because it is in our very interest! In short, we have to make trade possible and increasingly easy between these two parts of the world. If trade among the countries of the European Community has been such a success and has served the interests of all parties concerned, it is because one can trade more and in a better way with a partner who is able to pay. In order for us to reach a new market, new buyers in the world—and there are billions of such potential buyers, who have real needs which we can no longer find in Western Europe—we have to give them in the first place the means to take off. What is required of us is, literally speaking, an investment—but one without the usury rates which we presently know.

I am convinced a North-South dialogue is possible. One wonders how, in a world so rich with inventions and revolutionary innovation, we have not shown yet the imagination needed to connect and harmonize the three poles of what I would call today’s “triangle”: a triangle where we have, on the one hand, an unused industrial capacity which feeds unemployment in our countries; hundreds of billions of unused monies on the other hand which create an ominous peril, like some atomic cloud hanging over the world economy; and finally, entire populations whose vital needs in goods and equipment remain unfulfilled.

In the next issue of Trilogue (Spring 1980):

THE TRILATERAL COMMISSION MEETS IN LONDON

...A full report of the three-day, Spring 1980 plenary meeting of the Trilateral Commission in London. The conference’s major addresses and discussion summaries of each session on the agenda: on the state of trilateral relations; the global security balance; technological and structural changes and their implications for employment; and North-South trade...
From Passive Accommodation to Independent Self-Assertion

by Yasushi Hara

Foreign observers invariably react to the story of Japan's post-war economic development as the ultimate success story. They believe no country has ever been so lucky in achieving such high rates of growth. Most Japanese, too, are convinced the prosperity they enjoy is the best of all possible worlds. Yet the behavior and attitude demonstrated by Japan throughout its climb to big-power status somehow makes one wonder if Japan really has been all that fortunate. The ambivalence and inconsistency of Japanese attitudes toward the international scene seems certain to be followed in the 1980s by a series of "identity crises." Political and economic instability, too, promise to be chronic.

Following the disaster of World War II, Japanese efforts to make a fresh start undeniably benefited from very favorable international conditions. The IMF and GATT systems, first of all, enabled Japan to take full advantage of the free exchange of money and goods encouraged under those systems and reach economic take-off by the late 1950s. This meant that just as Japan took shelter under the American nuclear umbrella during the cold war period, it cultivated economic prosperity under the protection of the "dollar umbrella." Japanese were free to ignore the strife and friction occurring internationally, free to devote their characteristic diligence to rebuilding their country and economy.

The experiences of the 1950s greatly influenced Japan's subsequent international behavior, leading to progressive loosening of trade restrictions and liberalization of exchange and capital transactions in the 1960s in keeping with its level of economic growth. However, this liberalization was carried out mainly under strong external pressure. Having taken for granted the protection of the "dollar umbrella" for so long, Japan's leaders were unable to spontaneously formulate liberalization policies that would take into account its own national interests.

Then, with the 1970s, Japan was faced with the decline of the dollar resulting from the defeat in the Vietnam war. But not until the dollar was taken off the gold standard, forcing the revaluation of the yen, did Japanese finally realize how the international economic environment had changed and how important their economic power in the world had become. In the early 1970s, Japanese leaders initiated policies for structural change in Japan's economy to create an advanced welfare state. The established framework was based on a system of laws and regulations designed to favor and encourage corporate activities, and the fruits of Japan's economic growth thus went chiefly to the corporations which turned such profits back into further investment. In the effort to improve the quality of national livelihood, the government tried to revise the system of profit distribution to incorporate policies to upgrade housing conditions, tackle environmental pollution and promote local development projects. At the same time, by re-
structing its export-oriented economy it undertook to
become both in name and fact a responsible member
of the world community.

Unfortunately, however, just as these voluntary
structural reforms were begun, the oil shock of autumn
1973 arrived, throwing well-intentioned plans and com-
fortably established economic patterns totally off
balance. An importer of 100 percent of its oil, Japan was
keenly reminded of the subtle balance in which its
prosperity hung. Since the dollar is an international cur-
rency, the United States has the privilege of printing as
many dollar bills as it desires. Meanwhile, in order to
survive, Japan is forced to export more to earn more
dollars to purchase increasingly higher-priced oil.

Thrown on the defensive, Japan turned back to the
export policies of the 1950s. But the economy of the
1970s was industrially advanced and factories were
equipped with the latest in modern technology. Its in-
dustrial products quickly penetrated every corner of the
world market. Europeans, Americans and others criti-
cized Japan for "exporting unemployment" to other
countries also facing the oil crisis and demanded that
Japan cut down its surpluses and raise the value of the
yen.

In responding to this criticism, Japan once again
adopted the passive posture relied upon in the 1960s.
Interpreting criticism from overseas as external pressure,
it took measures to stimulate the domestic market and
liberalize imports, but its very reluctance to do so in-
dicated that Japanese attitudes had again grown intro-
spective and brooding. The structural improvement
program of the early 1970s had to be put off until the
1980s.

The events of the 1970s created in Japanese minds a
sense of ambivalence. On the one hand, as an industrial
country with scant natural resources, Japan was con-
stantly haunted by the awareness of being a "have-not"
nation, the awareness of inexorable vulnerability and
inferiority. Each time foreign countries demand that
Japan should take more international initiatives as ap-
propriate to its status as a major economic power, this
complex is intensified. Still, having managed better than
some to deal with the oil crisis, Japanese have gained a
measure of confidence in their economic acumen. As
tandem inflation and deflation, the former caused by
soaring oil prices, the latter by a recession, flared for the
first time since World War II, Japan was prompt to take
effective measures to cope with the situation. It was able
to successfully hold down domestic commodity prices
and maintain a certain degree of economic growth with-
out sacrificing employment. Corporations responded,
too, by streamlining inefficient sectors and initiating en-
ergy conservation measures.

While these achievements helped the Japanese gain
confidence in their ability to cope with crisis, they also
brought down renewed criticism from overseas. The
small measure of self-confidence gained was tempered
by the acute awareness that Japan is small and weak and
resource-dependent. Rather than responding actively
and constructively to overseas criticism, Japanese
became resentful of the United States, which made little
serious effort to conserve energy or defend the dollar,
and of the European Community, which stereotyped
Japanese as "workaholics" living in "rabbit hutchess."

"Japan As No. 1," a recent publication of Harvard
University professor Ezra Vogel which points out that
Japan has much the West can learn from, became a
best-seller when it was published in Japan. Behind the
popularity of this book is an unusual mental attitude
which values the affirmation of its superiority by an
American intellectual more than that of a Japanese.

In terms of the history of economic development, it
is clear that Japan now stands at an important crossroad.
The 1980s offer the opportunity for Japan to turn in the
right direction and throw off its small-country inferiority
complex so that it can take up a responsible role in the
world community through genuine, mature self-assertion.
During the century since the Meiji Restoration
(1868), Japan developed from a feudalistic, backward
country to a developing and then an industrialized
power. Throughout, it was the conscious or unconscious
objective to catch up with, and surpass, the Western
advanced nations. The summit conference of heads of
the industrially advanced countries sponsored by Japan
in 1979 symbolized the fact that this goal, for good or
ever, has been achieved.

In the remaining years of the twentieth century, new
industrial countries promise to arise, taking much the
same path to industrialization that Japan did: from
textiles to shipbuilding and steel manufacture, to au-
tomobiles and electronic devices. In these cases, how-
ever, the time required for industrialization will be short-
ened by technological innovation; the process of eco-
nomic development that took Japan thirty-odd years
since the end of World War II will be accomplished in ten
years or less, as the example of South Korea suggests.

These fast-emerging economies pose a singular
challenge to the industrially advanced countries, which
must respond by further adjustment of their industrial
structures and by further expanding the advanced sector
of their economies. Yet the new oil crisis and the rising
tension in international politics have produced growing
protectionist sentiments in the advanced countries.
Japan is pressed to choose between aligning itself with
other advanced industrial nations to maintain the share
of these nations in the world market, and welcoming the
developing countries to that market as nations that have
followed in its own footsteps.

Developing countries have long regarded Japan as
their model, and Japan itself has asserted that it is a
model of success in economic development. If it is to
maintain that stature as mentor for developing countries,
Japan must be ready to open its domestic market to the products they develop. The bold structural reforms for the economy that will be required if that is to be possible, however, cannot be made with the same passive attitude Japan has fallen back upon ever since the end of the war. Political judgments will have to be made and domestic interests weighed carefully in the balance. Clearly, in the 1980s Japan requires an independently determined standard of action by which to guide its decisions.

Unfortunately, the international political situation may not wait while Japan is still groping about in the effort to identify its role in the world community. Rising international tensions caused by the Islamic revolution in Iran and the subsequent occupation of the U.S. Embassy there, as well as the Russian invasion of Afghanistan, are forcing Japan to become involved, like it or not, and limiting its options for economic action in the process.

At the end of 1979 the United States stopped importing oil from Iran. When Japan purchased the boycotted Iranian oil at high spot prices, the U.S. Secretary of State protested to the Japanese Foreign Minister of this country's "insensitivity" vis-à-vis the American stand. But Japan had valid reasons for buying that oil: it imports almost 100 percent of its oil, 10 percent of which is from Iran, and when its supplies from major U.S. oil companies were cut as a result of the boycott, it was forced to buy more from Iran. The U.S. protest plainly ignored that exigency, but the Japanese government response was to send top officials responsible for energy policy to Washington to apologize for the affront. Later, the U.S. Secretary of Defense, stopping in Tokyo on his way home from a visit to China, asked the Japanese government to increase its national defense expenditures, even going so far as to suggest a specific percentage of the GNP.

In the eyes of the Japanese, there is about these two incidents the unpleasant aftertaste of interventionism. Far from helping to improve Japanese understanding of the international situation, they have given many in this country the impression that their government is easily controlled by external pressure from the U.S. or by other developments overseas. In addition, the recent U.S. grain embargo against the Soviet Union reminded Japan again of the strategic purposes for which resources and products can be used, and renewed their anxiety about Japan's paucity of resources.

Japan is still unable to rid itself of the ambivalence of the 1970s, of being both confident in its economic power on one hand and anxious of its vulnerability and small size on the other. If Japan continues to react to outside pressure with a half-hearted big-power mentality, and to allow its policy decision-making to be influenced by external pressure, it would not be strange if a narrow-minded nationalism inspired by the instinct for self-protection once again developed in this country. In the rapidly changing international situation that prevails, if people abroad begin to stereotype Japan as an easy scapegoat, and Japanese themselves become convinced that their country is too often made the scapegoat, who knows what dangerous path they will set themselves upon in the decade to come?

(Translated by the Center for Social Science Communication, Tokyo.)
American Domestic Trends and Trilateral Relations:
The Gyroscope, The Crowd, and The Challenge

by Graham Allison*

A gyroscope is a device that assists in keeping a vessel subject to turbulence. It does this by mobilizing the forces of gravity to counterbalance torques. In the foreign policy of a nation, gravitational forces arise from strategic interests, threats, values, and history. These forces can be harnessed by national institutions and processes that constitute, in effect, a gyroscope of foreign policy. Thus, for example, bipartisanship in foreign policy, or congressional deference to executive expertise, or the tradition that debate about foreign policy stops at the water’s edge, stabilized the basic conception of post-war American foreign policy, moderating contrary impulses.

Standing at the end of the 1970s, peering toward the 1980s, a prudent forecaster must acknowledge the cloudiness of his crystal ball. Nonetheless, the question our Triadlogue editor asked me to address is: What are the major trends in American domestic developments in the 1970s that will have important implications for relations among our trilateral nations in the 1980s? Other articles in this issue will answer this question for developments in Europe and Japan.

Reduced to a single, unguarded proposition, my answer is this: Changes within the U.S. in the 1970s have dismantled important elements in the national gyroscope, leaving the American ship of state vulnerable to more violent swings in foreign policy. Such swings are not inevitable—only possible. The 1980s will test the courage, the commitment, and the creativity of statesmen who care about the values trilateralists share more severely than in any decade since the 1940s. Policies that serve these long-term interests of Americans, Japanese and Europeans will not prevail unless we enter the domestic political fray and fight for the causes we believe right as effectively as others who believe other concerns deserve higher priority.

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The proper starting point in examining trilateral relations is to recognize the breadth and depth of commonality that gives special meaning to our use of “we,” beyond the bounds of common humanity. Grounds for optimism about relations among the trilateral countries in the 1980s can be found in these gravitational forces: the strength of shared interests, values, history, and threats. Because these factors are relatively stable, we frequently neglect them in analyzing problems. But consider what we hold in common, fundamental commitments to freedom and dignity of individuals; to parliamentary democracies in which leaders are selected by the unconstrained choice of citizens; and to economic prosperity through free markets and free trade. Each nation’s prospects for success in pursuing these ends are

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*The author wishes to acknowledge the assistance of Paul Zigman.
enhanced by the fact that each is not alone. Espoused by leaders throughout the world, these values were more often breached than honored in most nations of the world in the 1970s and, unfortunately, will be so in the 1980s.

The primary grounds for concern about the American role in trilateral relations in the 1980s must be traced to domestic developments that have unhinged important components of the nation's foreign policy gyroscope. Restricted by space to not more than four trends in the U.S. in the 1970s, likely to continue in the 1980s, and likely to have significant consequences for trilateral relations, I identify the following: (1) frustrations of slow growth in the American economy; (2) heightened American consciousness of the "vast external realm"; (3) "atomization" of American political institutions; (4) " politicization" of American foreign policy.

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1. Frustrations of Slow Growth in the American Economy.


In the 1960s, GNP grew at a rate of 4.1 percent per year. In the 1970s this growth dropped by one-fourth to 3.1 percent. In the 1960s inflation averaged 2.5 percent; in the 1970s it tripled to 7.4 percent. In the 1960s, on average, 4.8 percent, or some 3.5 million people, were unemployed; in the 1970s, 6.2 percent or 5.7 million.

The meaning of these changes appears starkly when one considers what has happened to the actual take-home pay of the average American worker; this is, as George Shultz has pointed out, perhaps the single most important political statistic: "It is about as close as we can come to measuring directly what the average working guy really cares about . . . whether his take-home pay buys more or less than it did before." Over the 1960s, stated in constant 1967 dollars, the average American worker's weekly take-home pay grew from $82.30 to $91.40. By October 1972 it had reached $98.04—its peak. Thereafter the decline began. Over the last eight years, workers' take-home pay has dropped by 10 percent. Today the figure is $88.30.

The causes of this poor economic performance are the subject of lively, inconclusive debate. Productivity, that is output per employee per hour, which had grown 2.9 percent annually in the 1960s, fell by half to 1.5 percent in the 1970s and, in fact, in 1979 became negative. Similarly, capital formation, reflected in constant-dollar investment in plant and equipment, dropped from a growth rate of 7 percent a year through the 1960s to 2.5 percent annually in the 1970s. Behind these declines in productivity and investment lay an expansion of government regulatory activity (three new agencies and programs per year through the 1970s), the entry of an abnormally large number of youth and women into the workforce, a growing litigiousness throughout the society, OPEC's sevenfold increase in energy prices, general uncertainty about risks and rewards, and other factors which we do not understand.

As the U.S. enters the 1980s, President Carter's latest economic report finds few rays of hope. For 1980 it predicts negative growth in GNP, double-digit inflation,
and an increase in unemployment to 7.5 percent. While economics does not determine politics as directly as Marx thought, it can disturb politics substantially. Coming down from his Camp David mountaintop last summer, President Carter proclaimed a crisis of the American spirit. As evidence of this, he cited his pollster's findings that, for the first time since polls began, a majority of Americans had shifted from optimism to pessimism about their own personal futures and about the future of the country. President Carter added metaphysical causes for this malaise. A more economical explanation can be found in the fact that the disposable income of a majority of American workers has in fact been declining. Slow growth or no growth, especially after two decades that reinforced Americans' expectation of significant growth, makes people unhappy. Snarly citizens fuel snarly politics. In conditions in which their personal economic circumstances are worsening, the willingness of citizens to sacrifice on behalf of common interests in ways that subsidize, or appear to subsidize, others will be limited. If these "others" live in foreign nations, the temptation to find scapegoats abroad for problems at home may become irresistible.

A sustained period of no growth, or even very slow growth, would raise fundamental questions about the viability of American political institutions and practices. My own view is that a prolonged period of no growth in the American economy is incompatible with healthy democratic politics and a positive role in the world.

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Historically, Americans have taken pride in their "splendid isolation" from the rest of the world. Since World War II, American involvement in the "vast external realm" of which George Washington warned us has grown steadily. The 1970s raised Americans' consciousness of events abroad dramatically. This heightened consciousness of foreign affairs will grow through the 1980s, spurred by four principal objective factors.

First, over the last quarter-century, the U.S. and other advanced industrial countries have become entwined in a global economy: a single system of trade, monetary arrangements, resource access, and population movement. As a consequence, the basic economic conditions of Americans' lives—their wealth, jobs, prices—are importantly affected by developments or decisions taken in Bonn or Tokyo or Riyadh. Numbers suggest why. In 1950, exports of U.S. goods amounted to 3.5 percent of GNP; in 1980 they constitute 10 percent of GNP (an amount roughly double defense spending). In 1950, multinational corporations mattered little; today their business accounts for one seventh of the world's gross product, and production outside their headquarter-nations exceeds the level of world trade. In 1950, the management of the American economy could concentrate almost exclusively on the control of domestic factors; in 1973-74, half of the increase to double-digit inflation experienced in the U.S. was caused by foreign-inspired increases in fuel and grain prices, and another quarter by the depreciation of the dollar on international money markets. The principal significance of these developments can be summarized in a single assertion: During just that period in which the U.S. government, like all other central governments, assumed full responsibility for the nation's economic stability and growth, its power to fulfill that responsibility through autonomous action slipped away. Because of this extensive involvement with foreign economies, Americans enjoy greater wealth, lower prices, and a wider selection of products. But these benefits are bought at the price of diminished national control of the economic conditions of citizens' lives. Increasing economic interdependence will continue to expand Americans' consciousness of other nations, as a source both of satisfaction and of pain.

A second objective factor heightening Americans' consciousness of foreign nations will be the growing awareness of threats from abroad. The principal threat is, and will be, the Soviet Union. A decade of steady increases in Soviet military expenditures, matched by steady declines in American expenditures, when combined with the Soviets' long-standing willingness to use military force to advance political interests, inevitably meant a revival in American consciousness of the Soviet threat. Debate over SALT II and reactions to the Soviet invasion of Afghanistan suggest that this revival has begun. The initial reaction has been to fall back to cold-war concepts, almost like slipping on a pair of old shoes. Nonetheless, Afghanistan will be more than a domestic political event. Though exploited for domestic political purposes, I believe it will become an occasion for fashioning a new defense posture for the 1980—90s—a posture that recognizes the centrality of military force in international politics and world order. Similarly, awareness of dependence on foreign sources of oil for nearly half the daily consumption of gasoline, and of the vulnerability of these supplies to arbitrary interruption, brings home to Americans the end of American omnipotence and the importance of events in faraway places like Saudi Arabia. Finally, the prolonged incarceration of American hostages by Iranian militants, hammered home nightly by the networks in the longest-running media event since Vietnam, may erode from the American consciousness some of the more simplistic lessons of Vietnam.
The third and fourth factors reflect technology: communications and travel. Communications satellites beam "live" pictures to Americans' television screens from Cambodia or Teheran, giving reality to the concept "spaceship earth." Travel abroad develops these pictures in three dimensions. The number of Americans, especially younger Americans, visiting foreign countries grow yearly. By 1970, the number of passports issued to Americans under 30 exceeded the total number of passports issued in 1960. In 1979, 8.9 million Americans traveled abroad, as compared with 1.6 million in 1960. It is premature to talk of "global consciousness." But Americans' awareness of the plight of millions of other human beings less fortunate than they will motivate repeated efforts to help.

Together, these four factors are raising, enlarging, and refining Americans' consciousness of the external world. The specific effects of heightened consciousness are difficult to predict. But as Americans' pictures of the world abroad become more vivid and detailed, it seems likely that their concern about particular nations and causes will become more intense. A minimum result of this American consciousness of the world is that events abroad have become subjects about which many individuals and groups in the society are more informed, having differentiated views which they are prepared to express and advocate.

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Traditionally, American political institutions have supported a politics of coalition-building. The building blocks of coalitions have been relatively cohesive lumps led by individuals who could say yes or no to policy proposals. So, for example, the President for the executive, the leaders of Congress and congressional committees, the political parties, or labor have constituted blocks that contested and combined in policy-making. Over the past decade, these blocks have fragmented to such an extent that the term "atomization" only slightly exaggerates the point. While reflecting deeper developments in American society and culture, this atomization appears clearly in the present state of four key institutions: Congress, political parties, special interest groups, and public opinion.

Congress has been enfranchised (in foreign affairs), decentralized, and individualized. The authority and resources of individual members of Congress have increased significantly, and the power of congressional leaders and committee chairmen has declined dramatically. As a consequence, the Congress of the 1980s differs radically from that of the late 1940s when the compass of post-war foreign policy was fixed. Then, congressmen, as well as other American opinion-leaders, believed that Congress as a body could not be trusted to play a major role in foreign policy-making—the lesson of its performance before World War II in attempting to enforce neutrality and limit preparations for the war. Democratic President Truman and Republican Senator Vandenberg established a principle of "non-partisanship" in foreign affairs, giving the President wide latitude in return for informal consultation with a limited number of congressional leaders. The protracted failure of presidential war in Vietnam ended the presumption that in foreign affairs the President knows best; the revelations of Watergate washed it away. While imminent danger to important U.S. interests will align the electorate where such threats always do—behind the Commander-in-Chief—Congress is now deeply embroiled in foreign policy-making and will remain so. Indeed, this congressional involvement will mark the single largest difference between American foreign policy in the last quarter of this century and that of the post-war period.

The Congress that participates in foreign policy-making resembles only faintly that of the late 1940s. In the transformation, the big winner has been the individual member of Congress, who now has a large personal staff (for example, the junior senator from New York has a staff of nearly 100 and an office budget of over $1 million), a vote in picking committee chairmen (in 1975, when this change took place, three chairmen were deposed), increased job security (96 percent of those standing for reelection were returned to the House in 1976 and 1978), and an opportunity to speak out on any issue he likes. The big losers in the shift have been, first, the "club" that ruled the Senate in the 1940s (a collection of Southern committee chairmen who controlled a majority of major committees in both houses, but who are now altogether gone) and the leadership, whose command of their members has collapsed and whose control of carrots members need is very limited.

The dissolution of the political parties as instruments for nomination and election surpasses the disintegration of Congress. Direct, binding, popular presidential primaries have replaced the regular party structure in selecting presidential contenders. In 1948 there were but nine presidential primaries that committed delegates to a particular candidate; most delegates were selected from among party regulars and "bosses." In 1980, presidential nominees will be chosen by popular vote in 36 primaries. Predominant reliance on radio and television advertising for building personal followings in election campaigns, the emergence of campaign organizations managed and staffed by professional campaign consultants hired by the candidate rather than the party, changes in campaign finance that restrict individual donations to $1,000 and special-interest contributions to $5,000 and thus limit the influence of party patrons—these and related changes have led one of
America's most astute columnists to conclude that "the party's over."*

Coincident with the decline of parties, but not coincidentally, has been an explosive increase in the number and impact of single-issue, idea-dominated, special interest groups. Focused on causes—abortion, ERA, the Israeli or Greek government, nuclear power—interested citizens form loose coalitions to press causes. In the 1978 election, 1,911 independent, non-party groups reported spending over 76 million dollars. With the individualization of Congress, these groups target members in their congressional district and threaten defeat for wrong stands on single issues. Freed from party discipline, as independent autonomous office-holders, congressmen are also freed from party protection when they confront independent, autonomous interest groups in an unmediated power struggle that leaves little place for national interests. This spectacle encourages increasing majorities of voters to express their dissatisfaction with the entire process—by not voting.

Finally, public opinion—an important factor in American government not only at the time of elections but in daily governance—has been fragmented by the quantum increases in the amount of information broadcast by the media daily. These broadcasts give immediacy and reality to issues and abstract ideas that would never have touched so many individuals several decades ago, or never have touched them so quickly. This encourages rapid shifts in moods and opinion unsettling the base of politics. Our understanding of the impact of the media as an independent factor in breaking down, speeding up, and stirring popular opinion is quite limited. But the fact that larger numbers of individuals are activated, informed and opinionated is clear.

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4. "Polarization" of American Foreign Policy

An infelicitous tongue-twister from political science, the term "polarization" means annexation to the realm of politics, a domain in which differences of value and view are resolved by pulling and hauling among individuals who share power. American foreign policy has always depended on broad political support. But for two decades after World War II, foreign policy escaped the full play of domestic politics by an agreement that "politics stopped at the water's edge." This exempted important decisions about American actions abroad from the normal political process. The President and his subordinates in the executive had a license to lead, as long as they consulted with key congressmen and nurtured the broad foreign-policy consensus.

Those days are gone, probably forever. Today, domestic politics no longer stops at the water's edge. Most of the reasons for this transformation have already been noted.

Tightening economic interdependence between the U.S. and other nations has shifted the content of foreign policy. No longer are U.S. relations with other countries dominated by issues like the terms of military alliance, the duration of base rights, or the breadth of security guarantees. They are also shaped by efforts to regulate and adjust trade, money, and access to resources. These efforts importantly affect Americans' prices, jobs, and conditions of everyday life. Pocketbook issues are the stuff of domestic politics. It is this development more than any other that makes citizens' interest and congressional activism inevitable.

The forms of congressional involvement reflect the character of the institution. Decline in the power of leaders and committee chairmen, combined with enhancement of the role of individual congressmen, leaves every member a potential source of independent policy. Exponential growth of professional staff gives each member the resources to dig into issues of interest and creates pressure for him to do so. Diffusion of committee jurisdictions provides dozens of committees and subcommittees, and thus hundreds of members, handles for initiating or amending policy on issues like energy or even SALT. The changing composition of the membership toward younger men and women with advanced degrees and extensive interests in the world outside the U.S. fuels the process. The collapse of the "legitimacy barrier" in both domestic and foreign policy means that, as James Q. Wilson has observed, "once politics was about a few things, now it is about everything."* Pressure from a dedicated single-issue lobby, whatever the cause, can be translated into a proposed amendment or bill to stop arms or aid to wherever, or to require the executive to do this or that before taking action. Congressional creation of a new oversight role for itself, embodied in over 100 new "strings" that require by law congressional review of or input into executive decision-making, guarantees that regular congressional involvement in foreign policy-making will not be a passing enthusiasm. American foreign policy-making today is literally a new ballgame.

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Frustrations of slow growth, heightened consciousness of events abroad, atomization of political institu-


tions, politicization of foreign policy—what do these developments imply for America’s role in trilateral relations? In my view the principal significance of these developments, taken together, is that elements of the gyroscopes familiar to observers schooled in post-war foreign policy have been dismantled. The U.S. government is now more vulnerable to violent shifts in policy as a result of some special interest that succeeds in legislating a severe restriction (for example, the Turkish arms embargo), or a swing in public mood (against what appear to be unfair trade practices, for example). Summed to a single, predominant implication, these developments leave the U.S. with a government that shares the contradictory tendencies of a human crowd—"to move either very sluggishly or with extreme speed." The metaphor is British political scientist Anthony King's, and it captures an important insight.* Sluggishness in establishing a serious energy policy on the one hand, and rapid conversion to increased defense spending and cold war rhetoric on the other, are two faces of the same crowd.

Should this government be a source of comfort and confidence for its trilateral partners, or even for American trilateralists? The issue is: compared to what? Churchill's epitaph for democracy—"the worst form of government known to man, except for all the others"—applies aptly to the U.S. The challenge of the 1980s for trilateralists will be to stand and fight on the battlefield of American politics for the values they share. If collective security assured by the capacity and willingness to go to war truly serves Americans' interests, then relevant majorities of American citizens must be persuaded that this is so. If a regime of free trade that encourages specialization according to comparative advantage really produces more for all, then the advantages for Americans must be demonstrated clearly and convincingly to them—a job that will not be easy in light of the particular pain suffered by various declining industries. If the U.S., in fact, bears no more than its fair share of the burden of collective security and prosperity, then key individuals throughout the society must be encouraged to examine the facts and reach this conclusion for themselves.

Without prejudging the conclusions of those who are writing about Japan and Europe, I assume that citizens in those countries will demand no less. If so, our challenge is to enter the arenas of national politics, and there to make the case issue by issue, for actions that build the kind of world we want. That world must both serve the long-run interests of citizens in each of our countries and recognize the legitimate aspirations of 3 billion other human beings with whom we share this planet.

Given the extraordinary complexity of American politics, this call for steady participation in the complex process of democratic politics may be forbidding—especially for colleagues from countries where politics seems tidier. But mine is not a counsel of despair. In the past, Americans have proved themselves a most ingenious and resourceful people, capable of adjusting to meet the challenge, whatever its proportions, once a clear perception of the problem took hold. It has been but seven years—not long in the metric of history—since our dependence on foreign oil was sharply exposed by the embargo of 1973. It has been only six years since we first encountered double-digit inflation. Just five years ago we swallowed defeat in our longest war. Only in the last three or four years have attentive publics become vividly aware of the Soviet gains in force levels, conventional as well as strategic. During this same period we have had to accept in trilateral countries what Japanese and Europeans used to experience in the U.S.: the prohibitive cost of a hotel room and a cup of coffee or tea.

Staring straight at the developments described above and considering where I would invest in land for my 21st-century grandchildren, I find no country outside the trilateral sphere that dominates those within, and none within that I prefer to the United States.

TRILATERAL ‘80

David Rockefeller

David Rockefeller, Chairman of the Board of the Chase Manhattan Bank, is the founder of the Trilateral Commission and has been its North American Chairman since 1977. In the course of a brief conversation in February, we asked him to look back at some of the principal developments since those days in mid-1972 when a small group of concerned thinkers and “doers” began to meet with him—a prelude to what was soon to become the Trilateral Commission.

We asked Mr. Rockefeller to reflect, seven years later and at the threshold of a new decade, on his experience and expectations of this trilateral exercise. We also broached the present situation in the Middle East and the future of détente in the wake of the Soviet invasion of Afghanistan. Following are excerpts from his remarks.

The International Economy: A Greater Trilateral Ability to Cooperate

Clearly, international economic problems are not any less great; in some respects they are in fact greater—particularly because of the impact of oil price increases which have profoundly affected all three regions. And yet, I think that the ability of the trilateral nations to cope with these problems together is much greater. Back in the early 1970s, for example, there was a real sense of crisis between Japan and the United States over imports and the Japanese trade surplus. I felt at the time that a rather disagreeable relationship was in the making, one almost of hostility. It seems clear that, more recently, although the problems are at least as great as they were, even on the trade front, they have been handled much more skillfully and sensitively on both sides. I think this is one of the areas where the Trilateral Commission has played a truly constructive part. After all, a number of people who participated in these negotiations had been involved with the Commission—starting with Kiichi Miyazawa,* then with Nobuhiko Ushiba,** and now with Saburo Okita.*** On the Japanese side, all three have played a key role in improving our relations, and I would like to think that their ability to communicate effectively with us—and with the Europeans—has been aided to some extent by the kind of dialogue which took and still takes place within the Trilateral Commission. This I find quite encouraging. On the other hand, the dialogue between the Europeans and the North Americans, needless to say, was much better developed and the mechanisms were already in place at the time of the Commission’s founding: I don’t think, therefore, that it would be realistic to say that Trilateral had a significant impact there.

The Middle East: A “Cooperation Failure”?

Our European partners have certainly not been particularly supportive of recent U.S. initiatives in the Middle East. The question is: Why? First, I think I would have to lay part of the blame at the door of the United States: I don’t think we have always kept our partners very informed, nor did we make them feel that they were taking part in the decision-making process. To a degree, they may feel justified in being somewhat annoyed, and this had given them an excuse not to be as supportive as we would have liked. On the other hand, it is also true that both France and England used to play a major role in the Middle East: Since we have taken their place, they may be somewhat resentful of our new role and therefore “wish us good luck” with it. . . . Finally, the dependence of most European countries on Middle Eastern oil is such that they do not want to take positions which would endanger their supplies from the oil-producing countries—and of course Arab-Israeli relations play a key role in this respect. One could argue therefore that it is somewhat understandable for the European countries not to be willing to take a position which the Arab countries in general would be unhappy with. The Camp David agreement is a very good example, since most

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**Nobuhiko Ushiba, Japanese Vice Chairman of the Trilateral Commission, is a former Minister of External Economic Affairs and Chief Trade Negotiator for Japan.
***Saburo Okita, a founding member of the Trilateral Commission, was appointed as Japan’s Foreign Minister at the end of 1979.
Arab countries—with the exceptions of Egypt and Sudan—have expressed strong opposition to the treaty. The combination of these reasons explains to a large extent our "cooperation failure" with regard to the Middle East. Yet, I continue to feel that this failure is very regrettable; and that in the long run we would have stood a much better chance of getting more things done, and more efficiently, had we all worked at it together.

**The Moderate Arab Countries and the Peace Process**

I do not think these countries are going to join unless they see significant evidence that things will move from the Camp David stage toward a true settlement of the Palestinian problem. Clearly, the assessment of most Arab nations is that the net result of Camp David was a purely bilateral agreement between Egypt and Israel which resolved the Sinai problem; in their view, as far as the West Bank and Gaza are concerned, all Camp David did was to provide for a five-year transition period during which there could be discussion on autonomy—but an autonomy confined to a very narrow framework which did not imply in any way Israel's relinquishing its sovereignty claim. Since then, Prime Minister Begin has made this very clear. From the point of view of the other Arab states, this is totally unsatisfactory. Therefore, as long as the peace negotiations remain within the present autonomy framework, I do not think the other Arab nations will give their approval. To a certain extent, recent events in Afghanistan and their implications for the security of the entire region have made a number of Arab countries more ambivalent. They do recognize the need to work more closely with the United States on security matters, and from our point of view this is a positive development. However, again, as long as there remain few prospects for a solution of the Palestinian issue, they will continue to feel basically uncomfortable with the current peace process.

**Détente in the Wake of Afghanistan**

I would hate to see us return to the cold war climate which prevailed prior to 1970. I think the new and more aggressive posture of the Soviet Union—as evidenced first in Africa, then in South Yemen, and more recently and more dramatically in Afghanistan—is a very disturbing development, and one which is not acceptable to the rest of the world. Accordingly, it is important for us to take firm measures to indicate how strongly we feel about this. Nevertheless, I hope this can be done in a manner which does not foreclose the resumption of détente and more cordial relations in the future. We cannot close all doors, and it should be possible to maintain some form of dialogue, for the time being on a different and more subdued basis.

**Enlarging the Trilateral Framework?**

For one thing, discussion among nations on the great issues of our time should certainly not be restricted to the trilateral framework: It has to be broader, and a number of other countries and people naturally have to be involved in the process whenever there is a logical reason for them to be included. On the other hand, as far as the Trilateral Commission itself is concerned, I am not convinced that we should enlarge its membership—if only for the very practical reason that it is hard to invite new members from two or three other countries without offending many more nations than you can please. I would rather continue to make sure that the scope of the reports we produce covers a broad variety of topics, extending well outside the trilateral nations. In the preparation of these reports, we can promote as full and as free a discussion as possible with all interested parties. But I don’t see how we could usefully and productively expand the membership itself.

**The Trilateral Commission: Myth and Reality**

A good deal of the criticism directed at the Trilateral Commission is based on pure and simple ignorance of what the Commission is and what it does. One sees emerging here and there this mythical image of some kind of great conspiratorial body, some powerful inner group, which is thought to control the world and to have all sorts of evil designs for the rest of the planet. The reality is so totally different that it is very hard to give a serious answer to such absurd charges. The original objective of Trilateral—which I think has been pursued very effectively—was to get a group of well-informed people not directly involved in our governments to identify, study and discuss a number of serious issues facing the world. This is precisely what we have done. In the process, the Commission has produced some excellent papers, and I personally have found some of our debates to be extremely productive and rewarding. Our reports have been made available to anyone wishing to see them; it may not always have been clear enough that, in the end, these reports represent the thinking of their authors, not of the Commission as such. But one only has to look at the composition of the Commission to realize that you could never get a group representing such a broad range of political views to agree to any specific point of view on controversial issues. Beyond this, the notion that the Commission pursues a number of specific objectives and tries to get governments to act against anyone’s best interests is simply ridiculous.