TRIALOGUE.


THE TRILATERAL COMMISSION'S 1981 PLENARY CONFERENCE
The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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The 1981 plenary conference of the Trilateral Commission was formally opened on March 29 by David Rockefeller, the Commission’s North American Chairman, before some 200 Commissioners and guests assembled in Washington, D.C. The agenda for this three-day meeting covered such varied issues as the Middle East, “trilateralism” in the international economy in the 1980s, changes in the Soviet Union and Eastern Europe, and the implications for trilateral relations of current economic and political developments in North America, Europe and Japan.

A high point of the conference was the appearance before the group of Vice President Bush, who, accompanied by Mrs. Bush, addressed a session of the meeting open to the press on Sunday afternoon, March 29. The low point was, of course, the news of the attempt on President Reagan’s life, in the afternoon of Monday, March 30: Consternation and anxiety prevailed throughout that afternoon and evening as the participants, after a brief recess, were kept informed of the condition of the President and of the three wounded aides.*

Despite the tragic events of that afternoon, the participants were to hear on the following day, Tuesday, March 31, from two key spokesmen for the Administration: Secretary of Defense Caspar Weinberger was the Commission’s guest of honor at lunch and spoke informally to the group on a wide range of economic and security issues of concern to all three regions. Secretary of State Alexander M. Haig, Jr., received the participants that evening for dinner at the State Department—the closing event of the conference. The text of the Secretary’s speech to the Commission, “Human Rights and American Interests,” is reproduced on p. 8.
Other special speakers at previous events of the conference included former Prime Minister Fukuda of Japan, who discussed some of the trade and security issues now central in Japan's foreign relations and stressed the importance of trilateral cooperation. Mark MacGuigan, the Foreign Secretary of Canada, was guest of honor at a Commission luncheon, and called for "a total consultative effort"—bilaterally and multilaterally, in particular with NATO and in future summits—in order to "secure broad international agreement on an agenda of critical issues for the 1980s" and agree on a coherent strategy of economic and political responses. David Owen, the former British Foreign Secretary, reviewed political and economic developments in Great Britain and the hopes of the new Social Democratic Party, of which he is a co-founder. And, former Colombian Finance Minister Rodrigo Botero Montoya spoke of the problems and prospects of inter-American relations (see Mr. Botero's paper, "Inter-American Relations in the 1980s: The Economic Context," p. 32). Finally, Senators Charles Percy, Chairman of the Senate Foreign Relations Committee, and Claiborne Pell, the Committee's ranking minority member, met briefly with the participants.

The first day of meetings in Washington—on March 29—was devoted to a series of seminars on current economic and political developments in America, Europe and Japan and their implications for trilateral cooperation. The session on America focussed on changes in the national mood, in Congress, and in the economy and economic policy. The European and Japanese sessions centered on political changes and the economic outlook in both regions. Large excerpts from the presentations of the American, European and Japanese speakers at these sessions are reproduced in this issue (pp. 11-25).
The afternoon of the following day—March 30—was devoted to a discussion of changes in the Soviet Union and Eastern Europe. The three opening presentations—covering such issues as the future prospects for East-West relations, the economic outlook in the Soviet Union and Eastern Europe, Soviet leadership changes and the Polish crisis—are also largely excerpted here (pp. 26-31).

The remaining sessions of the meeting, on March 30 and 31, focussed on the draft reports of two Trilateral Task Forces presented to the Commission by their respective authors: The first, entitled “The Middle East and the Trilateral Countries,” has now been published; the second consists of a set of three papers on “The Trilateral Countries in the International Economy of the 1980s.” Now being revised, this set of papers is expected to appear by the end of the year. Some of the most salient points in the discussions which followed the presentations of both reports in Washington are reviewed below.

* The Commission’s three Chairmen, David Rockefeller, Georges Berthoin and Takeshi Watanabe, had been scheduled to be received by President Reagan at the White House on the very afternoon of the shooting. On behalf of the entire group, they subsequently sent to Mrs. Reagan a telegram expressing their concern and dismay.
The Middle East and the Trilateral Countries

An increasingly important theme in past trilateral discussions,* the Middle East occupied a central place in the Washington meeting, with the presentation of a draft report on "The Middle East and the Trilateral Countries" by its four authors: Garret FitzGerald, a member of the Irish Parliament, Leader of the opposition Fine Gael Party, and former Foreign Minister of Ireland; Hideo Kitahara, former Ambassador of Japan to France; Arrigo Levi, columnist for La Stampa of Turin and the London Times; and Joseph J. Sisco, former U.S. Undersecretary of State for Political Affairs.

The result of a year-long exercise in joint drafting, the report also involved consultations by the authors with some 50 officials and scholars in their respective regions, and with leading political figures and experts in the Middle East during visits to Egypt, Israel, the West Bank, Jordan, Syria and Saudi Arabia.

In its main sections, the report seeks to "identify the issues" in the central area of the Middle East—The Arab-Israeli dispute, the larger question of security in the Gulf, and their "growing interaction." On the Arab-Israeli dispute and the Palestinian question, it reviews in detail alternative approaches for the West Bank and Gaza; the attitudes of the parties in the region; the "room for maneuver" in the Camp David process and the attitudes and roles of Europe and Japan; the "major remaining differences"; and what the authors view as "requirements for progress." It also examines trilateral oil dependence, instability in the Gulf, and the broader challenge from the Soviet Union in the area. The report's "broadest conclusion," in the words of one of the panelists in Washington: "While there have been divergences in approach and sometimes misunderstandings among the trilateral partners on Middle East issues, there clearly is a basis of common ground; however, existing consultation mechanisms among us have proved defective and require drastic improvements." The report—which, as usual, represents only its authors' own views—has since been published in final form and is available from the Commission.*

*See, most recently, Triolague No. 23 ("The 1980 Trilateral Commission Meeting") and No. 24 ("The Middle East: What Chances for Peace").

A Test For Trilateralism

Among some of the salient issues in the report raised during the discussion in Washington were:

- The potential "complementarity" of the autonomy approach and the territorial approach. One panelist: "Camp David, a major step forward which has achieved significant results in a number of areas, also has the merits of not being a straight-jacket; it offers us a point to build upon." Another panelist: "Autonomy, adding one million Arabs to a unitary Israeli state, is not viable as a long-range alternative to the current occupation; however, it can be a phased, step-by-step part of a process ultimately leading to a Jordanian territorial solution."

- The Palestinian question and the PLO's representativity and future role in the peace process: Rather than "discourage a priori" such a PLO role, should we not "probe the PLO to find the limits of its actual negotiating positions, seek
to obtain clarifications of its possible postures in negotiations, since it is likely in the end to be an essential element in any settlement?,” a participant asked. Or, as another suggested, is it not clear that, rather than “try to bring the PLO into the negotiations, our best course is to promote momentum towards a political solution on the West Bank, which some groups of the PLO may eventually join, but which can only be put together by working with countries like Jordan and Egypt?“

In this speaker’s words, these alternative courses represent a “fundamental strategic question,” one which “remains to be settled intellectually” among trilateral countries lest “we develop contradictory strategies.”

— The internal volatility in the Arab world, particularly in “moderate Gulf countries,” the degree to which the lack of a solution to the Palestinian problem contributes to it, and the larger strategic dimensions involved in the area’s security.

— The security needs and the policies of Israel: Several participants underlined the Israelis’ “creation of faits accomplis” through settlements and its political implications for the area; others stressed Western solidarity with Israel. A German Commission member: “I cannot understand, nor agree with, the Israeli Government’s chauvinistic and expansionist policies, nor, as a banker, its mismanagement of the economy, nor, as a liberal, its religious policies; yet, as a democrat, Israel is the only country between Athens and Tokyo where I feel at home—a country that shares our values of democracy and freedom, a trilateral country in the broad sense, which therefore has a right to demand our support for its continued existence and political process. . . .”

However, by far the dominant theme in the Washington discussion had to do with what several speakers referred to as “a test for trilateralism” in the Middle East. Some stressed that, in an American participant’s words, “the problem is not primarily a negotiating problem, but a conceptual problem among our countries—the lack of an agreement on what we are trying to do in the Middle East”; or, in another American’s words, the “sharp differences in perceptions between the United States and Europe (and to a smaller extent Japan) with respect to Western security in the Middle East and our respective roles in trying to resolve the Arab-Israeli dispute.”

Although general agreement was stressed upon long-term trilateral objectives—a “peaceful, stable, moderate Middle East”—the modalities of an adequate “division of labor” among North America, Europe and Japan were often in dispute. Reflecting upon past efforts in the region and the “failure of comprehensive blueprints,” some deplored the substantive character of the European 1980 Venice Declaration—which, in an American’s words, “was too little for the Arabs and too much for the Israelis, gave solace to one side, and was doomed therefore to complicate the negotiating role of the United States, the only power acceptable to both sides.” Europe’s action, this speaker argued, would have a “better chance of being truly complementary if it worked quietly through diplomatic channels to try and bring about change in the positions of the parties.” Others, however, particularly from Europe, stressed the legitimacy and usefulness of recent “European soundings”; the reports were not as a “plan in itself,” but as a “needed contribution”; that they were first postponed upon U.S. request, then undertaken with U.S. agreement, at a time when negotiations seemed at a standstill, when Is-raeli policy on settlements created a potentially dangerous situation for the West, and when the American initiative was paralyzed by the U.S. pre-electoral period; that Europe, because of its “vital interests” and long-standing cultural and political ties with the Arab world, has a role to play to maintain “balance in the Western approach”; and that a “comprehensive settlement” remains a necessary goal. As a former American official recalled, “accommodation on the Sinai issue and Prime Minister Begin’s autonomy plan were in fact accelerated by Israeli concern that failure of a partial, segmented approach would lead to renewed effort towards a comprehensive approach.” In his words, “a somewhat divergent European approach can be a complementary element and a useful accelerator in the peace process—provided it does not seek to derail the immediate procedural arrangements of Camp David by changing the number of participants or injecting immediately the Soviet Union or the PLO into the process.”

In the end, a number of participants observed that the wider, strategic dimension of the Middle East was increasingly perceived as a major concern by all trilateral countries—at the risk of making “disputes over last year’s European moves obsolete,” in the words of a European commissioner—and that “a number of convergences do exist on this between the three regions.” Current and further possible complementary contributions by the trilateral countries, not only in the military field but also in the economic field, were emphasized by many Commission members—particularly by a former Japanese diplomat whose call for a “balanced” and above all a “better concerted” approach to the problems of the area perhaps best captured the spirit of the discussion.
Still in a preliminary stage, the second draft Task Force Report presented to the participants in the Washington meeting—"The Trilateral Countries in the International Economy of the 1980s"—consisted of a set of three working papers: "Trilateralism and the Governance of the International Economy in the 1980s," by Miriam Camps, Senior Research Fellow with the Council on Foreign Relations in New York and a Fellow of Wolfson College in Cambridge; "Emerging Issues in Trilateral Relations with Second and Third World Countries," by Ryokichi Hirono, Professor of Economics at Japan’s Seikei University; and "The Stagflation Issue," by Karsten Laursen, Professor of Economics at Aarhus University in Denmark.

"There are grounds for questioning some of the assumptions underlying the 'trilateralism' of the 1970s and for suggesting that we may be better served by a somewhat different conception in the 1980s," Miriam Camps writes in the opening working paper; and she goes on to sketch five broad "propositions" about the governance of the international economy of the 1980s. In the second paper, Ryokichi Hirono sees growing differentiation within and interdependence among industrial, developing and centrally-planned economies—a world in which the "trilateral" label would be less meaningful. Instead of across-the-board groupings of countries, he sees "different coalitions on different global issues, cutting across different power groupings now existing," and calls for "more realistic" rules for international economic conduct. Karsten Laursen analyzes the "stagflation" issue that has so bedeviled the trilateral countries in the last decade and, among other things, suggests a new dimension of interdependence in the OECD area ("the international element in wage formation") and perhaps a new dimension for OECD area cooperation in some sense: "...Since expectations in wage formation contain a substantial international element, a wages policy is likely to be greatly facilitated if it becomes an integral part of the policy arsenal in all industrial countries. These and a number of related issues were at the center of the discussion which followed the authors’ presentations in Washington."
Human Rights and American Interests

Following is the text of Secretary Haig's address to the Triilateral Commission, March 31, 1981:

The Trilateral Commission has indeed been doing good work. You have brought together leading citizens and the best minds to bear on common problems, enjoying each other's company and the concourse of ideas. Above all, you have done so out of the conviction that the United States, Europe and Japan share an uncommon destiny, to give the world an unparalleled example of security, prosperity and harmony.

In recent years, doubts have been raised about our ability to do these great things together. It is said that we lack will—the will to defend ourselves, to take pride in our achievements, to work and hope for the future. Even though we have the resources—so the argument goes—we cannot draw upon them because we have lost faith in ourselves.

The national or individual will is one of those things that no one talks about until it is missing and once it is missing no amount of talk will ever bring it back. Last November, responding to President Reagan's call, the American people demonstrated clearly their rejection of the notion that nothing much could be done because we lacked the will to do it. The problem is not will but confusion, not lack of strength but lack of clarity. Nowhere in our foreign policy is this more obvious than on the issue of human rights.

The controversy over American foreign policy and human rights concerns four questions:

Firstly, is our concern for human rights in other countries compatible with the pursuit of America's national interest?

Secondly, how does our foreign policy reflect our concern for human rights?

Thirdly, how should we treat violators of human rights?

And the fourth question, how can we advance human rights in the world today?

Unless we can answer these questions, we cannot speak of a human rights policy. And the way we answer these questions tells us a great deal about how we view ourselves as a people and the problems we face today in international affairs.

Let me deal first with the question of whether a concern for human rights is compatible with the pursuit of America's national interest. My answer to this is a resounding "yes." The supreme American national interest is simple and compelling: we want a world hospitable to our society and our common ideals. As a practical matter, our national interest requires us to resist those who would extinguish those ideals and are hostile to our common aspirations. But there is a positive
aspect to our national interest that should be stressed. Let us not make the mistake of allowing other peoples to believe that America and the Western world mean nothing more than sophisticated technology and the consumer society. From its very beginning, the United States has been about life and liberty, not just the pursuit of happiness.

Moreover, a crucial relationship exists between the human rights of the individual, the humane practice of society and the humanity of the political system. Among widely recognized ideals held in many countries are three principles of which we are especially proud:

- respect for the sanctity of the individual and his conscience;
- government by the consent of the governed;
- government by law, not personal whim.

We continue to strive to perfect these ideals. It is in our national interest to do so and to give our example to the rest of the world. Human rights are therefore not only compatible with our national interest, they are an integral element of the American approach—at home and abroad.

How does our foreign policy reflect our concern with human rights? The answer to this question is to be found in a clear understanding of the role of foreign policy. Foreign policy springs from a nation's self-expression; it reflects and therefore expounds a nation's ideals. But the development and execution of foreign policy must be rooted in the world of reality even as it is nourished by national ideals.

One aspect of reality is that we have neither the power nor the desire to remake the world in our own image. As John Quincy Adams said, America is the friend of liberty everywhere, but the custodian only of its own. In this respect, we should look upon the tragic events of the last 24 hours not for what they tell us of one man's hapless obsession but the inherent strength of the American democracy, enabling us to handle the situation in a calm and orderly fashion.

We wish that every people could enjoy the blessings of liberty as we enjoy them. But there are limits to what we can or should do to transform other cultures, customs and institutions.

At the same time, we confront another aspect of reality. The Soviet Union and its allies—countries that reject our concepts of human rights—continue to enlarge their military power and seem increasingly inclined to use their arms to advance their cause.

Unlike the Soviets, we are not going to deprive people of their dignity and choice. Nonetheless, we are not prepared to see the world remade by others hostile to our deepest convictions, convictions held by civilized societies everywhere. We cannot stand back as if we were an island unto ourselves, observing international aggression from a safe distance. Our resistance to this aggression and our assistance to its victims constitutes a defense of human rights that is at the very basis of our foreign policy and our national interest.

The third question about human rights and foreign policy concerns the violation of human rights and how to treat the violator. Let us be clear on one issue: The United States opposes the violation of human rights by ally or adversary, friend or foe. We are not going to pursue a policy of "selective" indignation.

The difficulty here lies not in the fact of violation itself, which must always be opposed, but in how to assess the danger of the violation and how best to deal with the violator. We should distinguish between the deprivation of national rights through aggression and the deprivation of personal rights through oppression. The former is an international problem of long standing; the mechanisms for controlling aggression are an imperfect but workable association of military strength, self-interest and collective security. But the mechanisms for dealing with regimes that oppress their citizens are much more rudimentary and unpredictable. In protesting the offensive domestic actions of a government, we affect the international situation as well. It is a recurrent tragedy of the human condition—and foreign policy—that the choice of a lesser evil is still very evil. It does little good to remedy the grievances of a few if that brings down worse oppression on the many.

The point to be made is that we must be discriminating in our actions, with an eye to the source of the violation and the impact of our protest on the violator. We should distinguish between the so-called totalitarian and authoritarian regimes. The totalitarian model unfortunately draws upon the resources of modern technology to impose its will on all aspects of a citizen's behavior. The totalitarian regimes tend to be intolerant at home and abroad, actively hostile to all we represent and ideologically resistant to political change.

The authoritarian regime usually stems from a lack of political or economic development and customarily reserves for itself absolute authority in only a few politically sensitive areas. I am not making a case for the excellence of authoritarian government: I am making the case that such regimes are more likely to change than their totalitarian counterparts. It should be our objective to hold forth ourselves as a model worthy of imitation as that change occurs and to help the evolution of authoritarian government toward a more democratic form.

The respective impact of the authoritarian and totalitarian regimes on human rights can be seen in one of the worst tragedies in recent years, the massive number
of refugees. They have come mostly from countries under the sway of Marxist-Leninism. From the USSR, Cuba, Vietnam, Kampuchea, Afghanistan—have come productive, able citizens driven from their homes not for a want of patriotism but from the sheer intolerance of their self-appointed rulers. That many of the refugees seek out the United States as a haven remains one of the best testimonies that we rank at the very top of humane societies in the eyes of the truly desperate and homeless of the world.

When dealing with the violation of individual rights, we must weigh not only the international repercussions (does the regime help or hinder international aggressions) but also the domestic prospects (totalitarian or authoritarian), not only the record of those in power but the record and program of those in opposition. We have seen in recent years how a policy not informed by these principles can contribute to the ultimate failure: a collapse of a bulwark against aggression, and the replacement of an authoritarian regime with a totalitarian one or one that distributes its oppression in random fashion. Surely we do not have all of the answers here. Still, we must do better than we have done in the past. This means a more precise calculation of how our action in treating human rights violators conforms to the larger projects—resisting aggression and supporting the evolution of more humane societies.

A very practical question remains: How to advance human rights? This is an issue of both method and purpose, for the way something is done frequently determines whether it is done at all.

Let me put before you a few imperatives for advancing human rights:

The first imperative is to strengthen the U.S., its allies and friends, the main safeguard against the spread of totalitarian aggression.

Second, we must improve our own example as a society dedicated to justice.

Third, we should adopt a sense of proportion in dealing with violators—the authoritarian versus the totalitarian regime.

Fourth, and finally, it is imperative that we examine the credentials and programs of the opposition, as well as the government—we must see clearly what change portends for human rights in the future.

Practically speaking, this means that policy on human rights must be integrated into the sphere of diplomacy, not pursued as if it were the only virtue in a foreign policy of otherwise petty or distasteful acts. We must also develop a balance between private persuasion and public pronouncement. We must care more for results than for rhetoric.

In Conclusion, let me summarize our position:

— Concern for human rights is compatible, indeed integral to our national interest. We have great principles to defend and a great example to give the world.

— Human rights remains a major focus of our foreign policy, especially when we are beset today by the overriding issue of how to stem the advance of the enemies of human rights.

— We should not adopt an undifferentiated attitude towards violations and violators; we should oppose the establishment of totalitarian regimes; we should encourage the evolution of authoritarian regimes toward a more humane society.

— We can advance human rights more effectively than before, through the integration of human rights efforts into our diplomacy, pride in our achievements, and defense of our positions.

Under the President’s leadership, we have begun the arduous process of rebuilding our defenses and organizing a more robust resistance to international aggression. A concern for human rights, bereft of an effective defense posture and strong alliances, is reduced eventually to a hectoring of those we can influence—our friends—and not those whose reaction we fear—our adversaries. The strength of the Atlantic and Pacific allies remains, and must endure, as our primary project.

As we stand on the threshold of the last decades of the twentieth century, the free communities of the Atlantic and the Pacific cannot afford to pass the time away in useless discussion of willpower when the issue is really quite different: the clear thinking that precedes and guides decisive action. Churchill was reported to have remarked: “The enduring problem of international relations is that when nations have been strong, they have not always been just, and when they have sought to be just, they have not always been strong.” Let it be said of us that when we were strong, we were also just, and when we sought to be just, we were also strong.
THE AMERICAN SCENE

Alan Greenspan
President, Townsend-Greenspan & Company
Former Chairman, Council of Economic Advisers

The U.S. Economy—On the Road to Reducing the “Inflation Premium”

Following are excerpts from Dr. Greenspan’s presentation to the Commission’s Washington, D.C. seminar session on the U.S., March 29, 1981:

If we look at the American economy in particular and the Western industrial nations’ outlook in general, it is becoming ever more evident that, today, one single statistic is governing this outlook and therefore clearly directs economic policy: It’s the figure which economists call the inflation premium embodied in long-term interest rates. In other words, it represents the average forecast of inflation—over, say, a period of 8 to 12 years—which the financial markets have as a general consensus. . . .

Prior to 1977 or 1978, it had always been assumed that the institutional infrastructure of the United States, particularly our financial institutions, kept the inflation rate at minimal levels; whenever inflation occurred, it was perceived as being a very short-term phenomenon. As a consequence, long-term forecasts, even during periods of temporary high short-term inflation, reflected modest rates of inflation. Looking at the inflation premiums that existed in the past, you rarely, if ever, find that a ten-year inflation forecast in the United States went above 4 percent on average, and for long periods in our history the number was zero. This is a particularly important issue because we have constructed a set of financial institutions which, in fact, cannot continue to exist at interest rates which are 15 to 20 percent and inflation rates which are in the double digit area. Based upon the expectation of a non-inflationary environment, we have developed a set of institutions—especially in the thrift area—which presupposed that interest rates and inflation would always be low and that short-term interest rates would always tend to be below longer-term rates; we thus developed in the post-World War II period savings and loan institutions which invested in long-term mortgages and financed them with short-term deposits. This type of institution is a viable and flourishing one in a non-inflationary period, but it is on the brink of disaster in a period when interest rates are high and inflation continues to fuel them. . . .
What has happened in effect is a break-down of our traditional consensus about inflation. We now have in the market a built-in expectation of inflation in the United States, close to double-digit for a protracted period of time—i.e., a hard-core inflation rate expectation with which, clearly, we cannot live. If we project, say, 15 percent short-term interest rates (and long-term interest rates somewhat less than that over the next two years) we will be confronted with a major disaster in our financial systems, especially in those thrifit institutions whose assets aggregate nearly 900 billion dollars. The problem is that, in the process of bailing out this group of institutions as they run out of cash—and we are not dealing with 10 or 20 billion dollars, but perhaps 100 billion—we will create an excessive burden on our overall financial system, which may well cause a major acceleration in money supply growth and inflation.

It is clear, therefore, that we have no choice as far as economic policy is concerned: We have to get interest rates down, and rather quickly. They will not come down as a result of some mass psychotherapy by the President or the Congress or the Federal Reserve. The view that inflation is "embodied" at close to 10 percent in this country is a rational view; it will not be undercut by mere intellectual propaganda. Thus we have to go to the root of what is perceived as the cause of the change in inflation expectations and, as best as one can judge, this cause, as perceived by the financial markets, is a tremendously excessive amount of borrowing, direct and indirect, by our federal government; it is perceived that our fiscal processes are out of control, and that we face a dramatic acceleration in the preemption of credit by our federal system—a problem which can only lead to accelerated inflation over the next decade. We must therefore reduce the aggregate amount of borrowing and the aggregate amount of expenditure, and in doing so we must meet two other national priorities in the eyes of the Administration and, to a very substantial extent, in those of the electorate as well: The first is to increase our defense expenditures; the second, to prevent a major increase in the real tax burden on American individuals and business in the event of a continuation of inflation. The Kemp-Roth bill—the three-year, 10 percent per-year tax cut advocated by the President—is really little more than simulated tax indexing, endeavoring to offset the effect of what we inelegantly call "bracket creep"—i.e., inflation pushing individuals' nominal incomes into ever higher tax brackets. Thus, if we conclude that there must be a significant curtailment in aggregate borrowing, direct and indirect, by the federal government by, say, fiscal year 1984, while we prevent at the same time the tax burden from rising and we increase federal outlays on defense, it becomes obvious that we need major cuts in non-defense outlays.

In this respect, there appears to be a critical mass of expenditure cuts—the cuts have to be sufficiently large to bring enough hurt constituencies into the fold, and not so large as to disabuse everybody. I do not know whether or not President Reagan has hit the critical mass, but it certainly appears that there is a surprising consensus for his approach in the country, and I expect that this consensus is due to the fact that everyone is now perceiving that everyone else's budget is being cut to a greater or lesser extent. There is a tendency for the various special interest groups to offset one another; there is such a massive sense of antagonism from the special interest groups that they cannot get their word across because there are just too many of them and all are affected. This is where the critical mass comes into play.

There appears to be some growing evidence that the Administration's program will succeed, and we are seeing that the markets begin to anticipate that, indeed, it may well succeed. We have seen in the past several weeks some modest evidence that inflation premiums are falling. More importantly, the trend seems to point to lower interest rates in the context of a stable exchange rate; this implies we are not witnessing a decline in dollar or Eurodollars interest rates pressure as a consequence of central monetary authority action, but rather a change in inflation premiums which have their counterpart in purchasing power parities. It appears that, if the program succeeds in changing the attitude of the financial market about long-term problems with inflation prospects, we will see significantly lower interest rates relatively quickly in the United States. This could mean a significant improvement in what is now a stagnant economic outlook in the United States; and while I do not envisage inflation as such falling immediately, I think it too will start to recede next year as actual borrowing requirements do begin to fall off.

In short, the overall outlook for a successful program is quite favorable. I would venture that, if one were to project the longer-term outlook for the United States, it would be a rather optimistic one—that is, provided we get interest rates down, meaning that the inflation premiums go down. If we fail, I think we will be confronted with major financial disruption in the United States and, regrettably, that type of problem will work its way through the Eurocurrency system and affect all of the major trading nations of the industrial world. I therefore conclude that getting a successful program through and getting inflation expectations down is something which is not only critical to the United States but to all of us.
Following are excerpts from Mr. Hoge’s presentation to the Commission’s Washington, D.C., seminar session on the U.S., March 29, 1981:

In the middle of the 1970s, the public’s pulse on foreign policy issues was taken in a comprehensive survey by the Chicago Council on Foreign Relations. The results of that widely noted survey were worrisome though not surprising. It indicated that elite opinion was demoralized and divided and that public opinion was anxious and angry. Withdrawal symptoms were acute in the land, support for U.S. commitments abroad were sharply down. Four years later the Chicago Council did an update survey. It found some striking changes in opinion in what is a relatively short historical time frame. I think it is worth noting the main findings of that second survey because they were reflected in our recent national election and they are still running strong today. John Rielly, president of the Council and head of the survey study, summed up the analysis this way: The American public and American leaders are preoccupied with the diminishing position of the United States as a preeminent global power. They believe the declining American influence in the world is due above all to the decline in the value of the dollar and, secondly, to the increase in Soviet military power. Support for defense spending is higher than at any time since 1960. The public and leadership remain skeptical about direct involvement in affairs of other countries in many parts of the world, especially Africa, Asia and to some extent the Middle East. But there is a greater willingness than four years ago to support commitments in certain high priority areas of the world, such as Western Europe and Japan. Despite concern about the growth of Soviet power, there is substantial support for cooperative endeavors with the Soviet Union, particularly in the areas of arms control and energy supplies. As for human rights, there continues to be comparatively strong public support for a policy position in the abstract, but sharply reduced backing for specific attempts to export American values. On the aims of U.S. foreign policy, the survey showed divisions between elite and popular opinion which still create tensions today. The public gave its greatest support to keeping up the value of the dollar, to insuring adequate supplies of energy and to protecting the jobs of American workers. Among American leaders a high priority was given to securing an adequate supply of energy, arms control, and the defense of our allies’ security.

President Reagan’s campaign for office effectively tapped the shifting public opinion illustrated in these Chicago Council surveys. He built strong support around the proposition that inflation was the nation’s number one problem, a problem caused in significant measure by the faulty interventions of big government. Moreover, he crystallized public opinion behind the notion that a Reagan Administration would foster a more productive private sector through tax cuts and reductions in regulations. On the sensitive issue of national security, he built a consensus for increased defense expenditures without creating apprehension that he was trigger-happy or interventionist-minded. To underscore that point, he declined to support reinstitution of the draft.

At this early point in the Reagan term, it is clear that the strongest public consensus fashioned by the President is for cuts in government programs and expenditures. The big surprise in the great budget battle launched by President Reagan has been that, so far, the Democrats have not put up much of a fight. That could
change, especially if lobbies for threatened social programs succeed in generating grassroots opposition to the President's drastic spending cuts. But many Democrats don't expect broad public opposition this year.

There is not the same consensus on President Reagan's plans to leave more funds in the private sector through massive tax cuts. Much of the public remains apprehensive of the inflationary danger of huge tax reductions; meanwhile, specialists are increasing their warnings that too much of the federal budget has been put off-limits to cuts, and too little of the tax proposals have been designed to force savings and investment. Against the Administration's reliance on theory stands the contrary evidence of past experience and the more directed tax policies of Japan and some West European countries. Thus the argument that a change in expectations can transform consumers into savers and investors is greeted by a wary public. If there is growing public concern about an imbalance between budget reductions and tax cuts, one might wonder why this conservative Administration has spared the entitlement programs. Is it that the Administration is leaving such politically unpopular approaches to Congressional Democrats if they don't like the Reagan cutbacks? . . .

Taking the longer view, is it possible to conclude from all this that there is a basic realignment of public attitudes in this country? Those who make the case for such realignment have much to point to: the continued conservative drift of values and ideas; the solidification of a southern and western regional base for the Republican party; the second wave of liberal Senators denied reelection, and more. Yet, in my judgment such a conclusion is premature. The building blocks for a realignment are in place and a few successes in office might indeed provide the cement. But at this stage, I find it a safer judgment to stop with those who argue that what we have seen in recent American politics is best described as "de-alignment." The phenomenon affects both political parties, but the Democratic party most of all: Its traditional liberal- versus conservative-appeal no longer compels, in part because of the tremendous changes in American society. Since the days of the New Deal working class coalition, the populace has been transformed through a vast extension in their education, an exceptional increase in personal wealth and a considerable growth in white-collar employment. This populace is ambivalent about both political parties—it is anti-government on some matters and pro-government on others. Above all, this segment of our population is the least likely to consistently fall in step with either political party. Thus an absence of visible progress on the nation's outstanding problems could well lead to a rather quick shift back to the Democrats—and such visible progress will be hard to come by.

William S. Cohen
United States Senator (R.), Maine

The Mood in the U.S. Congress

Following are excerpts from Senator Cohen's presentation to the Commission's Washington, D.C. seminar session on the U.S., March 29, 1981:

Clearly, the present mood in Congress is one of reducing the size of government, particularly in the field of spending; it is one of reducing unnecessary and burdensome regulation; it is one of reducing taxes; it is one of strengthening our military capability and balancing the federal budget.

Is this to say that there is a conservative wave sweeping the country and the Congress? For the moment, yes. But this phenomenon may prove to be temporary at best unless success crowns the promises of conservatism. In my judgment, the American people are not moved by philosophy as much as by results, and the shift in November was more pragmatic than it was spiritual. I will confess that, if we are not successful in reducing the rate of inflation, and more importantly if we are not successful in reducing the interest rates in this country, and if we are not successful in showing some measure of improvement in our productivity, then I wish I could be a Democrat running in 1982 or perhaps in 1984, standing before a national audience and saying: "Ask yourselves; are you better off today than you were two years ago?"

There is also an anti-regulation mood in this country. Yet, on this subject, there seems to be a deep philosophical schizophrenia at large: At the time of the Three Mile Island incident a couple of years ago, the cry was: "Where was the Nuclear Regulatory Commission?" When a DC-10 dropped an engine over Chicago, the public demanded to know, "Where was the Federal Aviation Administration?" When Love Canal cast a shadow over the "Better Living Through Chemistry" advertisement, again the chant was: "Where was the Environmental Protection Agency?" Thus people tend to be anti-regulation until it comes to an issue or to a tragedy which affects their lives directly; then, their voice becomes a call for more regulation. I think that you will see evidence of this type of schizophrenic attitude on the part of the American people, and indeed on the part of the Congress, in the coming years. . . .

President Reagan has some important assets going for him: He has a majority in the Senate of the United
States, with Howard Baker—perhaps the best consensus builder in Washington—as his leader in the Senate. I think the President will do whatever is necessary to hold the Republican majority together on most of the crucial issues. He will, in my judgment, be successful not only in satisfying the conservative element in the U.S. Senate, but also the moderate and liberal elements to the extent they still exist. President Reagan also has a philosophical majority in the House of Representatives. A number of Democrats who are quite conservative will join the Republicans on issues affecting the economy and national security. Finally, there is a new and remarkable phenomenon taking root in Congress—business is no longer seen as the enemy of the people. Frankly, I never thought I would see the day when prominent members of the Democratic Party would suggest that tax cuts be directed to business rather than to individuals!

How does the mood on Capitol Hill affect foreign policy? In this respect, my chief concern is with NATO. I would suggest that today NATO is perhaps in greater jeopardy than at any other time in its history: I believe that the United States will not support the kind of expenditures that are necessary—some 200 billion dollars in the next fiscal year, or 1 trillion dollars for the next five years—unless it sees a perceptible enemy on the horizon, namely, the Soviet Union. By contrast, many of our European allies, because they do see a perceptible enemy on the horizon which outnumbers them in many respects, are seeking to reduce their defense expenditures, are seeking more in the way of accommoda-

tion. This is due in part to a lack of leadership by the United States, and in part to what the media today describe as a growing “pacifism,” a growing “neutralism” in Europe. I think the test is going to come as to the future of that alliance—as to whether our European allies are in fact going to go forward with theater nuclear force modernization, whether there will in fact be a commitment to a 3 percent real growth in their defense expenditures, etc. . . . I would be the first to agree with those who argue that there is nothing magical in a 3 percent solution—that it is artificial, mechanistic, and perhaps even irrelevant to the real needs of each country’s defense. Nonetheless, it is a measureable standard, perhaps the only one available—and one to which the European allies committed themselves to adhere. To the extent that we see that standard not being measured up to, I think it will produce a backlash in this country. I myself come from a state which is classified as being one of the poorest in the United States, and I can tell you that my constituents will never support my voting for 200 billion dollars in defense if they see a less vigorous or less enthusiastic commitment to defense on the part of our European allies.

I would also suggest to you that there is a feeling on Capitol Hill that some kind of “Maginot line” mentality prevails among our allies, a lack of commitment to defend interests that lie beyond the geographical confines of NATO. This, to me, is simply unacceptable. The United States will not be in a position to bear the full responsibility for defending the interests of the West—which lie like a jugular vein open and pulsating in the Persian Gulf—unless there is a substantial amount of help from our alliance. A partnership implies accepting responsibilities as well as receiving benefits; the mood on Capitol Hill is not jingoistic; it does not favor our becoming once again the world’s policemen. There is a feeling in Congress that we cannot afford to become the prisoner of world events, and that we are prepared to spend large sums of money to reinvigorate our military base; but there has to be some kind of corresponding commitment on the part of our allies. And it will not do to say that Europe or Japan have inflation problems or to argue that there can be a separate détente for Europe and the Soviet Union, that one can draw upon Soviet energy supplies while insisting that one’s defense needs be met by the United States. So there will be no misunderstanding about the current mood in America, let me underscore the fact that underneath our present commitment to a very strong national defense and the defense of our allies also lies a rather deep-seated isolationist tendency in the United States. The isolation will remain latent and subsurface provided that we in the alliance take care to make clear that there is a mutuality of interest and effort in the preservation of freedom.
THE EUROPEAN SCENE

Hervé de Carmoy
General Manager for Europe
Midland Bank

The Western European Economy – 1980-1985

Following are excerpts from Hervé de Carmoy’s presentation to the Commission’s Washington D. C. seminar on Western Europe, March 29, 1981. In his remarks, Mr. de Carmoy concentrated on four basic issues “on a scale of growing concern” for the future economic development of Europe.

The first basic issue is European monetary organization. There, I believe, we have seen very positive developments over the last few years. Monetary cooperation among the major European countries has been reasonably successful, and it has gone beyond the stage of cooperation to that of integration in the European Monetary System. With EMS, we created a structure for the European countries to limit the impact on their own economies of the diverse parity fluctuations. It is our estimate that the existence of the EMS and the monetary collaboration among European countries was one of the factors that limited the rate of growth of inflation after the second oil shock; that rate turned out to be lower than what it was after the first oil shock.

The second issue is oil and energy. We all know that Europe remains very dependent on oil imports: In 1980, imports represented about 45 percent of its total energy requirements. However, this compares to 60 percent in 1973. This saving of about 106 million tons of oil marks a significant improvement which is attributable not only to the slow economic activity, but also to a number of other factors:

— One of them is the energy-saving measures which have been taken all over Europe. A report made in 1974 showed that in the areas of transportation, industrial production and domestic use of energy, there was in Europe a potential saving of about 30 percent. Today, seven years later, we can say that one third of this saving has been achieved, and it is hoped that over the next five years a second third can be achieved.

— In addition, we see encouraging signs in the fact that, in spite of the relatively slow development of nuclear energy, the pace at which we will develop nuclear energy in the future will be fast; it is hoped that what happened in France will perhaps have a snowball
effect—especially if the results are deemed to be adequate from a safety point of view—and that the commitment now developing in the U.S., in Spain, in Italy and in Germany to develop nuclear energy will be translated into specific measures.

— The third factor which should decrease Europe's dependence on oil is gas. It has been anticipated that uses of gas by Europe would increase by 1,000 percent between 1980 and 1985. The sources of supply will be chiefly North Africa and perhaps the Soviet Union. (We are well aware that these two sources of supply create political problems of some magnitude and of a different nature depending on the sources.)

The third issue, of course, is inflation. Europe has been plagued by a stubbornly high rate of inflation. Fundamentally, it seems that the relationship between prices, employment and the overall level of economic activity has been broken. Above and beyond the increases of prices in raw materials and exchange rate fluctuations, we see two fundamental factors behind this inflationary trend: The first is a permanent decrease of productivity in Europe. During 1945-1975, Europe has benefited from what could be called "catch-up" economics—meaning that the Europeans were able either to borrow or to purchase, mainly from the United States, technological and managerial processes which brought about very significant savings and productivity gains. It can be safely assumed in the future that such borrowings will no longer take place in the same fashion, and that the efforts to improve productivity in Europe will require therefore more and more in-depth, expensive investments. Secondly, Europe has known for 30 years steady increases in standards of living; to educate the European public to the fact that the rate of growth and improvement in standards of living has to decrease, and that the times point more towards zero growth than towards the type of improvements of the last 30 years, will require not only shrewdness and good judgment but considerable courage.

Perhaps the most important factor underlying all of the European economies is the staggering increase in unemployment and the impact this is likely to have both on social and political events in Europe as well as on major policies. First, a few figures: Between 1973 and 1980, unemployment in Germany rose from 0.9 percent to 4.5 percent. In France, it rose from 2.6 to 6.4. In the United Kingdom it rose from 3.5 to 8.4 percent. This amounts to a real explosion of unemployment. The question we have to ask ourselves is: Can it decrease in the future? There again, a few figures are important: If France wanted, within five years, to go back to the level of unemployment it had in 1973 (namely, around 3 percent) it would have to create every year for five years over 500,000 jobs—whereas over the last five years, it was only able to create 106,000 jobs per year. If England wanted to return in five years to the level of unemployment it had five years ago, it would have to create 393,000 jobs per year—compared to the last five years' performance, minus 66,000 jobs. Therefore we have to face up to the fact that the question of unemployment is absolutely critical. It is critical because Europe is different from the United States and from Japan. Our social fabric is much more fragile—we should ask ourselves, for instance, whether further increases in unemployment would not have dramatic implications for the social and political situation in Europe.

In the meantime, we can see that this problem of unemployment is having direct consequences in a number of areas which are of concern to many of us:

— First, it has implications for the kind of economic policies that are likely to be followed. We must be aware that within the next few years there could be an agonizing reappraisal in Europe of what has been called conservative economic policies, and this could change profoundly our approach to the future.

— We also have to be aware that the level of unemployment is one of the important factors behind the attitude which many European countries take towards East-West trade. (After all, trade between Western Germany and the Eastern bloc represents 8 percent of total German exports.)

— Finally, we have to be aware that this high level of unemployment is having major consequences on our attitudes today, and probably even more so tomorrow, vis-à-vis protectionism; there is a growing feeling that the risks of unemployment are linked not only to the impact of exports from less developed countries, but also to the extraordinary commercial penetration of Japan into Europe.

We could be tempted to conclude on a somber note and say that the future of Europe looks extremely worrisome. I think we need to take a balanced view. We need to realize that, in at least two areas—monetary cooperation and energy—Europe, both jointly and within each country, has taken steps that have proved to be practical, efficient, and have yielded results. But we also have to be aware that the problems confronting us are broader and deeper, and that traditional methods of solving them will not suffice. What may be needed is a kind of trilateral statesmanship capable of rejuvenating the processes of creation and distribution of wealth, so that in the years to come we can continue to demonstrate that our system and our values can contribute to the growth and development of the world as they have over the last 30 years.
The Exaggerated Threat of the Newly Industrialized Countries and the Problems Posed by Japan

Following is an excerpt from a paper prepared for the Trilateral Commission's Washington meeting by Mr. de Carmoy, entitled "Economic Overview of Western Europe, 1980-85."

Western European manufacturing industry is at risk not so much from the exports of the newly industrializing countries (NICs) as from Japanese exports. Although this has been true for some time, Western sensitivity to this fact has become radically heightened in the last two years, and this development may have some implications for Japan. As it happens, Europe has already become covertly protectionist, and what may happen in the early 1980s is not only an extension of covert protectionism but a frankly overt series of protectionist measures.

The threat to European industry from NICs is exaggerated. Anxieties do persist about the so-called "older" industrial sectors—among them textiles, shipbuilding, iron and steel, and automobiles. Much of the current political opinion that demands a restructuring of European industry is evidently predicated on the assumption that in fact the NICs are rapidly achieving significant shares of world output in the older industries. But is the assumption valid? For the most part the evidence suggests that the NICs are a very long way from posing a major challenge to European industry.

Consider first steel. Part of the problem with European steel does arise from a current excess in world production capacity, but can that excess capacity be attributed to the rise of the NICs? The actual figures point clearly to the answer: no. In fact, the aggregate steel output of the principal NICs last year was only 77 percent of German output, only 23 percent of the output of the major European economies, and less than one tenth of total OECD output. Of course it is true that the NICs' steel production is growing, but far more significant for European and American planners is the fact that despite the world's steel problems, Japan's production has for some time been at a level little different from that of the U.S. and equivalent to nearly three quarters of the output of the major European economies. Is then the automobile industry one where production will gradually slip out of the advanced economies and into the NICs? It may be that alarmists focus too much on Britain's troubled industry, for Britain aside, automobile production has in fact been growing rapidly in the developed nations. For the main third world producers of automobiles, output has risen as well, but far more slowly. However, Brazil's production is lower than the much faster-growing production of Spain, and is still only equivalent to 8 percent of the total output of all European manufacturers. If the European automobile industry faces any real external challenge, it does not come from the NICs but from Japan, whose output is almost equal to the combined output of Britain, France and Germany.

Nobody should doubt that part of European industry faces a difficult period in 1980-81 and in the decade ahead. Inevitably these parts are the older, more traditional industries, but the overall problem needs to be placed in perspective. It is no help to balanced policy formation to exaggerate the difficulties or to misidentify the causes of the troubles. The current exaggeration of the NICs' challenge does both. This is not to say that the European economies face no external challenges, for they do. But ... the most important challenge comes not from the so-called "new actors," but from an old one—namely, Japan.

It is in this context that the strength of current trends to protectionism has to be assessed. Here it is essential to realize that despite the continued functioning of GATT, protectionism has already reemerged. Considerable progress, on less sensitive manufactured items, was made by GATT in the 1950s, after which the pace of tariff reduction then slowed sharply until the Kennedy Round of negotiations in 1963 and 1967, which reduced industrial tariffs. But relatively little progress has been made since that date, during the years of the Tokyo Round. However, reduction of tariffs has been replaced in recent years by non-tariff protectionism, for example, export incentives, direct Government subsidies, standards regulations, etc., which are difficult to monitor. Protectionism has been driven "underground."

The EEC as a group and its members now use almost all the standard types of non-tariff restriction. The main commodities controlled include, amongst others, ships, aircraft, food, steel, textiles, clothing and fuels. For the sake of definition, I consider as "managed trade" those sectors of imports which are affected by one or more of the following forms of implicit control—national planning, state trading, direct import ban, quotas, import licensing, agreements with exporters, minimum price regulations, supervision of standards, and public procurement. Overall, the proportion of managed trade in OECD area imports has grown from 36 percent in 1974 to 42 percent in 1979. But, most striking is the rise in the proportion of trade in manufactures which is managed, for this rose from a mere 4 percent in 1974 to 15 percent in 1979. In brief, protectionism has not been successfully resisted in the recession, and the increase has come from the industrial countries that were more seriously affected by the oil price rise and the subsequent recession in the developed countries.

Given these trends to protectionism in Europe and possibly also in North America, and given that in reality they may be increasingly directed at Japan, it needs to be
asked whether this will affect Japan in a significant way. The answer is: quite possibly, yes.

Of great longer-term significance are a number of trends in the pattern of Japanese trade, particularly ever greater concentration of Japanese exports in a few categories over the last 20 years. Thus, while chemicals, machinery and transport equipment (SITC 5 and 7) made up 44 percent of exports in 1968, they made up 54 percent by 1972 and over 63 percent in 1979. This is a much higher degree of concentration than in Britain or France, where 46 percent and 48 percent of exports respectively fall into these categories. Given that nearly half of Japanese exports still go to other OECD member countries, the heavy concentration of these exports into certain categories means that Japan may be quite vulnerable to protectionist trends as seen growing in Europe.

Theo Sommer
Editor-in-Chief
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Political Changes in Western Europe

Following are excerpts from Theo Sommer’s March 29, 1981 presentation to the Commission on the political scene in Western Europe:

1. Growing Domestic Uncertainties

— One important factor of uncertainty in Europe lies in the exacerbation of industrial relations and the cooling-off of the social climate in a period of zero growth. My own feeling is that, in spite of all, these difficulties can be surmounted as long as we keep intact the safety net which protects our citizens against the vicissitudes of modern life. There are many signs that, provided this condition is met, the peoples and unions of Western Europe are willing to put up realistically with zero growth of their incomes, or even somewhat less in real terms. But I am absolutely convinced that an economic drive along lines such as pursued by President Reagan would be impossible even in Margaret Thatcher’s realm. I am equally convinced that social cohesion would suffer so much from an attack on benefit programs that added defense outlays would never have a chance to make up for the resulting loss of societal stability and consensus. We must recognize here what amounts to a profound difference in the political cultures of Europe and America.

— Another domestic uncertainty in Europe stems from the precarious situation of almost all governments, no matter what their actual parliamentary majorities may be. In France, President Giscard has to put up a stiffer fight for his reelection than most observers had expected.* In Great Britain, the “Iron Lady” does not appear quite so iron any longer; there are growing doubts about both the wisdom of her course and her chances of success. The founding of the Social Democratic Party may change the political landscape as profoundly as it was changed when Labour displaced the Liberals from second to third place; and Labour itself has yet to come up with a new profile appealing to the voters. In Germany, likewise, the “Iron Chancellor” does not look quite so iron any longer. Fiscal constraints limit his field of maneuver; the state of his party compels him either to ignore it or resign himself to immobility. The depletion of the personnel reserve at the top of the SPD; the disarray of the Social Democrats in most of the Landers where they govern; the thickening sense of exhaustion that seems to attach to the Social-Liberal coalition make it quite conceivable that the electorate will opt for a change in 1984. By then, the SPD/FDP will have been in power for 13 years, about as long as Chancellor Adenauer. Elsewhere, there are serious problems of governance—in Italy and Belgium, in Holland and Denmark. All in all, volatility, or at least parliamentary accident-proneness, seems to be the price of coalition politics. To be sure, this is the normal stuff of politics; we’ve learned to live with changes at the top, and there is enough underlying stability to cushion their effects. However, the question that springs to mind is, what will happen to Europe if the extremely successful Giscard-Schmidt team were broken up by the voters of either France or Germany.

— Far more important in my view is a third and completely different domestic uncertainty—one arising from changes of outlook, attitudes, and political inclinations

(*) Since the Commission meetings took place, Francois Mitteand, the Socialist candidate, was elected president of France. (Ed.)
amongst much of the younger generation in Western Europe, particularly in Northwestern Europe. In this respect, what we are faced with is not a political movement but a cultural movement. It is neither left-wing nor right-wing, but basically apolitical, even anti-political. The dominant concern has to do with alternative life styles. The adherents of these new movements want to go back to simpler ways of living. They look for spiritual fulfillment rather than material bliss; they are against modern technology, especially nuclear technology, and against nuclear arms and the whole system of deterrence based on them. They consider the defense effort a wasteful and dangerous misallocation of resources that could otherwise make this world a more liveable and loveable place for billions of underprivileged, undernourished and underdeveloped human beings. They are pacifists, but moral pacifists, not political, or "party-line" pacifists; and I think they are too apolitical to be neutralists in the true sense of the term. Most of them are young; half of the student population, according to a recent survey in Germany, shares their views or sympathizes with them. Apart from the difference in political cultures between the United States and Western Europe, it is important to be aware of this more philosophical cleavage which exists now. It is politically very significant because it is likely to give rise to all kinds of trans-Atlantic misunderstandings.

We have heard from the United States denunciations of Western Europe's pacism. I cannot help remarking that this is as misleading as the previous wailings about the self-Finnlandization of Western Europe. A certain degree of discrimination is in order. Let us take the case of Germany: On the one hand you have the famous 22 Social Democratic Members of Parliament who are critical of present security policy; in no way do they endanger the government's line. Then, you have the adherents of the new movements I have already mentioned—they are well ensconced in the young generation, in the churches, amidst teachers at the universities, in academic and intellectual circles. They pose, no doubt, a real problem, but one which I think we can cope with, if we engage in a dialogue with them and if we consider them as what they actually are: our own children. Finally, genuine objections have been expressed on the governmental level to some aspects of American policies in East-West relations and in the defense field. They spring from an independent and sober assessment of national interests, financial capabilities, the voters' mandate, etc. . To derogate them as neutralism or self-Finnlandization would be wide of the mark. I think it is vital to keep these distinctions in mind. If Chancellor Schmidt is skeptical of the notion of military superiority, it is the result of his own factual analysis; he does not arrive at this judgment because of the pressure exerted by 22 left-wingers, nor because he succumbs to the alternative culture. Facile inferences or imputations of this sort can have only one effect: They needlessly complicate the trans-Atlantic dialogue.

2. Towards a Common European Foreign Policy
The point of a common European policy is to reduce the risks we are faced with by developing an internal European consensus. In this respect, I think the European Community has become an actor in its own right on the world scene. As a body, it has treaties with over a hundred different nations; it has interests transcending the national interests of its several and distinct members; and it is being treated as a single entity by much of the outside world. Furthermore, the Community has developed habits of consultation that have created both a great degree of like-mindedness and an incipient European tradition during recent years. What are some of the main strands of this evolving European foreign policy?

In the field of East-West relations, I see a striking difference both in public moods and official perceptions about the Russian threat: The Americans see the Soviet Union as bent on expansion, they talk about the USSR's geopolitical advance, its intent on translating its military strength into political advantage, its imperiousness to diplomatic persuasion. The Europeans, on the other hand, while recognizing the Soviets' proclivity to relentless armament and expansion wherever the local situation affords an opportunity, tend to discount their hypothetical advantages in the military field, and to focus on Soviet weaknesses rather than on Soviet points of strength. They do continue to put their trust in diplomatic efforts to shore up the faltering process of détente.

This general attitude underlies a number of European views. We cannot, for instance, ignore what is happening in Afghanistan or elsewhere beyond the confines of NATO; but we must not lightly import tensions from outlying areas. The task of diplomacy is to keep tensions isolated, to extend if possible the rules of détente to peripheral areas, and to master the confrontations as they arise without throwing cooperation to the wolves. Most of us in Europe want to maintain the very palpable gains of détente, and it simply will not do to brush these gains aside as negligible. . . . Europe considers its trade with the East as an incentive for normal and stable relations, not primarily as an instrument of punishing Moscow. We generally depend on trade much more than the United States. I think Eastern trade does not make us more vulnerable to Russian influence, intimidation, or pressure. Rather, I believe it also gives us some leverage over the Russians. Similarly, in the field
of energy, increasing Soviet natural gas supplies from 2 percent of our primary energy consumption in West Germany to only close to 5 percent will not make us dependent on the Russians—it may well serve to diminish our present dependencies on Arab producers.

— On defense and arms control: Let us not forget that the European defense outlay within NATO rose from 22 percent in 1961 to 41 percent ten years later; that the stated goal of an annual 3 percent increase in military expenditures in the region has been met, by and large, by most major European NATO partners, and will again be met this year (in Germany, the figure is now 2.8 percent); that the long-term defense program and the two post-Afghanistan programs—Phases 1 and 2—are not doing badly at all: They involve expenditures on procurement of 50 to 80 billion dollars over 10 years. Of course there are shortcomings; of course it will take some doing to keep up the good work! But it simply cannot be said that the Europeans are doing nothing. Similarly, we, Europeans, are already doing a lot to contain out-of-area threats: French and British naval forces are in the Indian Ocean; Germany is propelling Turkey and Pakistan; we are organizing ten new territorial defense brigades against the contingency that the American reinforcement units have to be sent to Southwest Asia; we are taking over some naval missions in the Atlantic. All in all I think the Europeans are all ready to give substance to the concept of division of labor. We are waiting for concrete American proposals. Finally, a brief note on theater nuclear forces (TNF): We are ready to deploy 572 Pershing IIIs and cruise missiles. But, unlike some in the U.S., we do not see that figure of 572 as the absolute minimum before one can enter into negotiations. As had been initially understood, we want early negotiations, genuine and honest ones, with the Russians to see whether we really have to fill the full complement; such negotiations, I think, are an absolute prerequisite for the countries where these weapons are to be stationed to support their actual deployment. Clearly, we see this as a test of American good faith.

— On the third world. Europe as a whole tends to take a much more benevolent view than the United States. We accept the third world on its own merits; we don’t see it primarily as an arena of superpower rivalry. In our view, unrest in the third world has its origins in social and economic ills of long standing, and rarely in Soviet machinations—although the Russians try to profit from it. We are thinking more in terms of political answers rather than geopolitical answers—the quarrel about El Salvador has made this quite clear. In short, we would rather be on the side of reforms than on the side of uniforms.
THE JAPANESE SCENE

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Japan's Economy -- A "Fragile Blossom"

Following are excerpts from Ariyoshi Okumura’s remarks to the Commission’s March 29, 1981 Washington D.C. seminar on changes in Japan and their implications for other trilateral countries:

To the outside observer, Japan's economy may appear to be very strong. Our current inflation rate—based on the Consumer Price Index—is only 5-6 percent, far less than that of the U.S. Our trade balance is returning again to equilibrium, suggesting that we have successfully adjusted to the 1979-1980 oil shock. Our real growth rate, 4-5 percent per annum, is low by past Japanese standards but far higher than that of the U.S. or West Germany, for example. Hence all the talk, both in Japan itself and abroad, about Japan being “No. 1.”

However, a number of us in the business community believe that a closer look at Japan’s economy suggests that Japan is “dancing on a volcano.” There are at least three fundamental weaknesses that concern us:

The first, and the most obvious one, is our petroleum supply problem. Japan’s trillion dollar GNP consumes five million barrels of oil every day, 75 percent of which is shipped through the Strait of Hormuz. It has been estimated that, if this flow of oil were to be cut off, within 70 days Japan would collapse politically and economically. Under these circumstances, who can claim that Japan is No. 1?

Second, although exports represent only 10 to 11 percent of Japan’s GNP, they are of vital importance to our economy. They provide the foreign exchange we need...
to import energy and raw materials which our resource-poor country requires. Japan also needs substantial amounts of foreign exchange to cover food imports, as we are dependent on foreign sources (especially the U.S.) for a far higher proportion of our food than any other industrial country. For this reason, our business community is deeply concerned about what appears to be a growing mood of protectionism in the developed world, whether it appears in explicit or disguised forms.

Thirdly, many Japanese businessmen also believe that Japan is highly dependent on foreign sources of innovation, which we can successfully apply commercially. If there is still an area where we feel that we are basically inferior, it is in the area of creativity and ingenuity. Our industries now face a new situation, where many of the available foreign innovations have already been fully exploited by Japan, the rate of foreign innovations has been slowing down, and foreign countries and companies are more protective about transferring their innovations abroad.

In this situation, it would seem that Japanese firms should spend more of their own money on innovation; yet, my experience in the banking world leads me to conclude that Japanese business would have difficulties making the required investments in higher risk areas. Part of the reason is the declining profit expectations in Japanese industries. Our petrochemical industry, for example, is suffering seriously from the enormous surplus capacity built up in the U.S., and the U.S. advantage in the cost of feedstocks that allows the U.S. to take over many of our foreign markets. As a result, our industry will not be able to devote resources to basic R and D and innovative technology in a satisfactory manner.

Another concern for Japanese business stems from our heavy and perennial budget deficits, now reaching 30 percent of our 200 billion dollar budget. We are coming under increasing pressure from abroad for more spending to share the burden and "assume global responsibilities." While the American Administration and Congress are debating whether to have one-year or three-year tax cuts, we in Japan are faced with the dilemma of having to increase taxes or reduce subsidies and welfare.

How is Japan's industry adjusting to these problems? One bright spot is the substantial progress we are making in energy conservation. Last year, our domestic consumption of oil decreased by 9 percent even though our economy grew at a 5 percent rate.

In the trade area, Japan has already substantially opened its market, as the recent "Wisemen's Report" on U.S.-Japan economic relations has confirmed, and we are continuing to liberalize. Yet while we are doing so, protectionist measures appear to be on the rise in the United States and Europe (particularly in some parts of the latter).

— On the automobile issue: Our automobile industry wonders who would benefit in the end from reductions of our car exports. The foreign consumers?—Definitely not. The foreign industry? Maybe General Motors, but Ford and Chrysler are not in a position to take advantage of import limitations, and such limits might even hurt their industry revitalization efforts. Our industry is also concerned that, if so-called "voluntary restraints" are adopted, it might face law suits from the imported car dealers or run afoul of the Federal Trade Commission. However, the Japanese auto industry is being persuaded domestically, both by other businessmen and government officials, to be more attuned to the cooperative atmosphere desired by our two governments. More generally speaking, it can be said that our country is generally becoming more aware of the foreign impact of our actions. In this sense, we are perhaps more mature and better qualified to be members of the trilateral community....
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Japan's Changing Perceptions of Security

Following are excerpts from Professor Nishihara's remarks to the Commission's March 29, 1981 Washington, D.C. seminar on changes in Japan and their implications for other Trilateral countries:

One of the important changes is our perception of the security of oil. Until 1978 or so, we had feared that OPEC's use of oil prices as a political weapon would threaten Japan's trade balance and would impair its economy. But, despite all doomsday speculations, we were not very fearful for the physical security of Persian Gulf oil. However, with the Khomeini revolution and subsequent turmoil in Iran, the Afghan trouble, plus the Iran-Iraq war, we now perceive the Middle Eastern situation as increasingly volatile. This represents an important change in our perception.

Yet—in contrast to American, and to some extent, European thinking—we tend to regard the major sources of political instability in the Middle East as more domestic than foreign-inspired. Ethnic tensions, rivalries among Islamic sects, and conflicts between rich and poor, it seems to us, have more to do with instability in the Gulf region. Most Japanese feel that the Soviets are bearing a heavy political and economic burden in Afghanistan, Vietnam, Cuba and Poland, and cannot afford to intervene in the Gulf. Thus there is a clear discrepancy of views among the trilateral regions.

Second, there have been changes in the Japanese view of the direct Soviet threat to Japan. Naturally, we tend to be particularly concerned about the Soviet military posture in Eastern Siberia and the Western Pacific. While the Soviet presence and recent buildup there have become too large to make us comfortable, the Japanese government is careful not to say that they actually threaten Japan. Instead, it says that "the potential threat from Soviet military power is growing." I would note, however, that some government leaders do believe that the Soviet threat is an actual rather than potential one, but think that to explicitly say so would only encourage Soviet intimidation tactics.

A large majority of the Japanese public, of course, disapproves of Soviet behavior around their country, but still finds it extremely difficult to foresee a Soviet "blitzkrieg" attack in the near future. It is true that the Soviets, with their force deployments in Vladivostok and at Cam Ranh Bay in Vietnam, are capable of threatening our sea lanes; but the Japanese tend to wonder what the Russians would actually gain by blocking our sea lanes or attacking Japan directly. They believe that the Soviet Union faces serious domestic troubles and probably wants to continue to make use of Japanese capital investment and industrial power. This thought makes us all the more convinced that a strong and stable Japanese economy is what is foremost in our national interest. This is in contrast again with the views of some in the Reagan Administration, who look upon the Soviet Union as an imperialistic, expansionist power which is a major source of international tension and which aims ultimately at the destruction of the Western order.

Thirdly, I should mention our concern about Poland. We naturally pay close attention to this issue, particularly to American and European responses to it. Nevertheless, for us, the road to Warsaw goes through Beijing, so to speak. Since the 1970s, we have regarded China as a friendly country which serves as a buffer between Japan and the Soviet Union. In this sense, a friendly and stable China is in Japan's interests. In 1980, however, we saw growing economic turmoil in China, and most of the Japanese-sponsored economic projects there have been cancelled, straining considerably our bilateral economic relations.

It is in this context that Poland becomes significant for us. If the Soviets should militarily intervene in Poland and the Western powers respond with a high level of alertness, the Soviets may create some tensions with economically weak China in order to divert the West's attention from its Eastern front. North Korea might also take advantage of the situation and raise the level of tensions in the Korean peninsula. This would represent a grave threat to Japan.

Therefore, if we consider these three threats—the Middle East, Soviet power, and Poland—Americans and Europeans alike may tend to treat them as of equally vital importance and argue that détente is indivisible. In
contrast, the Japanese tend to regard the Middle East as
the most important threat, Soviet military power as the
second, and Poland as the third. Furthermore we tend
to treat all of these as more or less important issues.

Under these circumstances, the disparity of percep-
tion between us on one hand and the Americans and
Europeans on the other makes it difficult for us to
cooperate fully with other trilateral countries. It is true
that Japan cooperated with the U.S. in taking economic
sanctions against Iran and in boycotting the Moscow
Olympics. In some ways we did better than the Eu-
ropeans. Japan also joined in the Venice discussions last
year regarding a concerted “trilateral” effort to punish
the Soviet Union economically. And in the past year,
one has observed a growing volume of discussion in our
mass media and in government, business, and academic
circles about the need for Japan to share in internation-
al responsibilities. Self-consciousness about identifying
Japan as “a member of the West” is becoming more
predominant in Tokyo’s diplomacy.

Yet, this discussion focussed almost exclusively on
a larger economic and political role. Japan is reluctant to
expand its military capability and even more wary of
proposals such as a multinational Western fleet to pro-
tect the Gulf, despite our high dependency on Gulf oil.
The government continues to take the position that
joining such a fleet would amount to exercising a
“collective self-defense right” as opposed to an
“individual self-defense right,” and that the exercise of
such a collective self-defense right is denied by the
Japanese constitution.

There are now some strong voices among members of
the ruling party and political analysts, retired military
officers, and some businessmen, favoring revision of the
constitution so that Japan can augment its defense
capability without being hampered by debates on con-
stitutional questions. However, they are still a minority.
The current Prime Minister recently took a rather
strong position against revision of the constitution.

Others in Japan contend that we can play a much
more significant international role within our current
constitutional limits (providing, for example, non-mili-
tary logistical support such as medical aid and food for
members of an allied fleet operating in the Gulf, or al-
lowing the U.S. to use troops and bases in Japan for
operations in the Indian Ocean and Middle East). They
say that Japan should increase its air and naval
capability to have a military presence, if limited, for
some parts of international sea lanes adjacent to itself. I
personally associate myself with these views.

Japan’s per capita defense costs are roughly $100,
whereas in 1980 the figure for West Germany was $378
per capita, for France $371, for Belgium $334, and for
Britain $276. In 1980, the average American spent $527
tax dollars on defense, and this may be increased to
over $700 by the new Administration. This vividly sug-
gests that Japan should do more in this area.

In this respect, most Japanese expect that the United
States will increasingly exert pressure on Japan to in-
crease its defense spending. Some measure of American
encouragement, if done through careful diplomacy and
focused on actual security needs, can be constructive.
However, blatant American pressure can only produce
two results—both unwelcome: On one hand, the Japan-
ese “hawks” may be very happy to increase defense
spending, but not at the behest of the Americans and
not in accordance with Western alliance programs; on
the other hand, the doves could use such pressures as a
pretext not to increase defense spending, and the Amer-
ican effort could produce a backlash of Japanese na-
tionalist sentiments. These kinds of reactions could
become predominant because Japan does not have yet a
large or influential community of internationally-mind-
ed strategic thinkers and defense analysts.

In sum, we have here a picture in which Cowboy
Reagan’s horse is ready to go and its rider is yelling for
the other horses to come along. The European horse
seems willing, although not quite at the same pace, but
with so many riders. What is more, the Japanese horse
is balky, having had little exercise, and having a fat and
fearful rider....

Harold Brown, George Busbee

Ariyoshi Okumura, William Roth, François de Rose
THE SOVIET UNION AND EASTERN EUROPE

Seweryn Bialer
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Soviet Foreign Policy in the 1980s

The readers of Trialogue are already familiar with Dr. Bialer’s views on East-West relations in the 1980s, Soviet domestic problems and leadership changes, and the Polish crisis (see his opening essay, “Uncertainties: West and East,” in our last issue). From his comprehensive presentation to the Commission in Washington, on March 30, 1981, we have chosen the following excerpts—on détente, and on the future course of Soviet foreign policy.

Détente—which was the cornerstone of Soviet policy in the 1970s—has crashed. The blame for this can be assigned to both sides. The American side can be blamed for not knowing how to use incentives and disincentives, sticks and carrots; for not making much use of the carrot and for forgetting that the carrot can work only in combination with a stick. But the fundamental reason for this crash lies with the basic differences in the concepts and expectations of détente on the Soviet side and on the American side. On the American side, détente meant that the U.S. expected its improved relations with the Soviet Union to moderate Soviet behavior in the international arena. On the Soviet side, détente was understood somewhat differently: The Soviet Union simply thought that, having achieved military parity, it had a right to political parity with the United States; while it agreed to a freeze of its expansion in Europe, it also considered it could expand, by military means if necessary, in the great grey areas of the world. There was some lack of synchronization between the United States and the Soviet Union: As we were saying to the Soviet Union, “Behave as we behave now,” the Soviet Union was saying to us, “We want to behave as you behaved in the 1950s.” There was on both sides a lack of awareness of the interaction between attitudes of the two parties. . . .

I share the view that détente yielded very little: If all it has produced is what we now see—uninterrupted arms race, uninterrupted expansionism, and crises such as Poland’s—obviously its results were rather limited. Détente may have contributed, to a limited extent, to destabilization in Eastern Europe—but in some respects, it played the same role with regard to Western countries and the Western alliance. In any case, from the U.S. point of view, détente had to crash: If détente does not imply some curtailment of Soviet military spending and military expansion, it has no meaning.

Looking at the 1980s, the question then is: What takes the place of détente with the United States. In my view, the cornerstone of Soviet foreign policy as it enters the decade is détente with Europe. Quite simply, the Soviet Union is betting on a divisible, bifurcated détente. It seeks—and it may have a chance of success—to split the alliance; to drive a wedge between the United States and its European allies. This, I think, is the policy the Soviets will pursue relentlessly in the coming years if they cannot reach a new accommodation with the United States.

* * *

The Soviet Union’s internal situation and problems are doomed to have an impact on Soviet foreign policy in the 1980s:
First, the incentives for cuts in military spending are likely to be greater than in the 1960s and 1970s. I do not question the continued ability of the Soviet Union to spend as much as it deems necessary to keep the strategic parity it has achieved with the United States in the 1980s. However, the costs will be much higher—hence a greater incentive also for arms control measures.

Secondly, the Soviet Union's need for Western technology and credits will, in my opinion, be substantially greater than it was in the 1970s. And in this respect, I do not think that the Soviet Union has many hopes today of obtaining much from the United States in the 1980s; therefore, the policy of détente with Europe will be an even higher priority in the 1980s than it was in the 1970s.

Thirdly, we are likely to see social and political volatility in Eastern Europe. Poland will not be the only example of such volatility: All of Eastern Europe is facing difficult economic problems and cannot expect much help (e.g. oil deliveries and the like). Economic difficulties in Eastern Europe have a way of being directly and immediately translated into social and political instability.

Fourthly, there is likely to be an additional rationale for Soviet expansionism—especially southward and in the direction of the Gulf. I am not suggesting that Soviet tanks will start rolling out of the blue from Azerbaijan into Iran—I do not consider invasion to be very likely. However, I do think that the Soviet Union has a great appetite for more influence in Iran. One can envision a situation where the Iranian revolution takes another turn and disintegrates into a civil war: In such a context, leftist forces may gain control over some parts of the country and the contending factions may turn to the Soviet Union—in which case the Soviet Union will be ready. The Soviet Union is not famous for self-denial in such situations.

Fifth, I see volatility and lack of strong leadership in the Soviet Union, with a severe temptation for some leaders to gain power in the Soviet Union on the basis of the easiest platform: the platform of foreign adventures. There is no quick fix for the current Soviet economic difficulties, and to build an alliance upon which to rise to power, a consensus on foreign adventures is the easiest to achieve.

Finally, in a period when sacrifices will be asked of the Soviet population, I see the likely development of the rationale of a "foreign enemy" to justify those sacrifices—the promotion, for example, of Russian nationalism and xenophobia to create an atmosphere within the country where the population can be asked to tighten its belt. Of course, what foreign policy is ultimately adopted by the Soviet Union will depend to a great degree on the policy of the United States and its allies—on the perceived possibilities and costs of gaining anything from us and on its fear of losing anything to us. Therefore, we have above all to have strength and patience in the 1980s. I think that Soviet power is peaking and is likely to decline later.

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Changes in the Soviet Union and Eastern Europe: The Economic Dimension

The following paper by Michael Kaser outlines the main points of his March 30, 1981 presentation to the Trilateral Commission session on changes in the Soviet Union and Eastern Europe:

On the eve of potentially cataclysmic change in Poland, one is in danger of examining solely that country, and there can be no doubt that the outcome of the clash between government and people and between the Polish and Soviet ruling parties must affect the direction of future change throughout the region.

The Polish crisis has thrown into prominence the characteristics of the "administrated economy" throughout Eastern Europe. The absence of control over the controllers has led to anergy and irutility which are as much in the political as in the economic sphere, but let me concentrate here on the inadequacy of the system with respect to its citizens both as producers and as consumers.

One of the reasons why Solidarity has emerged at all is that the hierarchy of givers and receivers of instructions obviates the accord of any effective role to labor unions or to any form of collective bargaining at enterprise level. Solidarity has set itself up on local lines rather than on the industrial or craft basis which is the pattern of labor unions in the major market economies.

Curiously this might not have been the case because the Polish government tried to isolate the incipient unions from each other. When the Gdansk shipyard workers signed their first agreement last August, they learned that at other plants the Government negotiators were holding out. They declared they would be "solid" with the others, the name Solidarność was evoked and a
local, cross-occupational, inter-industrial organization was born.

Thus if the Solidarity-type arrangements persist in Poland—and this is what we all hope for as the outcome of the present confrontation in Warsaw—there has to be a new flexibility on the part of plant managements to negotiate. Not only do the political authorities in other East European countries fear the impact on corrupt and self-seeking officialdom, but the economic authorities know that their command economies are threatened by the devolution a Solidarity-type association involves.

This issue of overcentralization is a key to the social unrest from which Solidarity was born, and it can be summed up in a single word—inflexibility.

East European governments have to take the blame for price changes because it is they who fix prices. The role of government differs in Yugoslavia and, to some extent, in Hungary (where there is price control rather than price fixing). When one of the other East European governments fails to set market clearing prices, it either has to provide subsidies or to tolerate shortages, lines and dissatisfaction. There is a remarkable example in consumer prices of energy. Almost everywhere gasoline prices have been raised in response to the increases in world oil prices, but there is an incredible stickiness on other fuel prices. On January 1, 1982, wholesale prices in the USSR of gas, coal and oil will be raised, but the price to consumers for household use will remain at the 1950 level—30 years unchanged!

The Polish case of excessively stable prices is well known. In the consumer sector the riots checked a perfectly rational prices adjustment in December 1970, June 1976 and August 1980. In the enterprise sector wholesale prices, too, did not reflect actual availabilities, but in 1972–76, when the central authorities had a lot of borrowed dollars, pounds and DM at their disposal, they allowed excessive purchases of foreign materials and components. This was one of the reasons for the failure of Giererek's policy of import-led growth: Much of the foreign loans were dissipated on current purchases rather than on capital goods. In other countries where convertible currency was not so plentiful or the central authorities not so lax, the shortages of inputs resulted in a low utilization of capital and of skilled manpower. These inconsistencies—despite the vaunted method of planning by balances of inputs against outputs—caused a generally low productivity of capital assets throughout the centrally-planned economies.

The other inefficiencies of the enterprise under such a system can be summarized under five heads: First, the pressure to produce according to the "command" of a central plan leads to neglect of the requirements of the customer or client. Secondly, the enterprise tries to conceal its productive capacity from the supervisory authorities and, thirdly, to hoard supplies—to the point that a vast unofficial and costly system has to be informally developed to barter surplus stocks outside the administered system. Fourthly, industrial processes experience an uneven pace of operations—interruptions take place when shortfalls occur in supplies and are followed by rushes to fulfill plans towards the end of a plan period.
Finally, the attitude of subordination to the center induces a bias against innovation at the enterprise level.*

Devolution of the administrated economy and some admission of market relationships between enterprises is a ready solution, already tested in Hungary.

If one were to return to the origins, we can start just 60 years ago at Lenin's launching of the New Economic Policy in March 1921. Victory in the Civil War had removed all opposition to the Bolshevik Party, and the establishment of diplomatic relations with Western Europe had furnished a framework of external normality. Lenin had gained control of the government for the Party but in 1921 dismantled the central commands of "War Communism" so as to leave much of the economy to the market. For Lenin, it was enough for the Soviet one-Party government to have control of the "commanding heights" of raw material and capital-good supplies (through the nationalization of heavy industry and of imports through a state monopoly of foreign trade). The nationalized industries as much as the substantial private sector were to respond to market forces: The evidence is that Lenin expected such a system to run for a good quarter century before moves were to be made towards the Communism of fundamentalist Marxism.

It was Stalin who would tolerate no other ultimate decision-making than his, and who abolished the market at home and isolated the economy from markets abroad. He substituted a pyramid of command with himself at the top. There is no need to add that he treated everything else the same way, from inner-Party discussion to artistic expression.

Although Khrushchev relaxed much of the oppression from the top, Brezhnev has brought no fundamental change to the polity or the economy. Such modifications to both as were being implemented between 1965 and 1968 were brought to a halt after the Soviet invasion of Czechoslovakia and, since an intervention by Soviet forces is patently the consequence most to be feared by those who want the Poles to be masters of their own destiny, it is important to look at the Soviet invasion a dozen years ago which halted Czechs and Slovaks on a similar path.

The political implications of the "Prague Spring" were immeasurably more significant to Moscow than the concomitant opening of Czechoslovak industry to entrepreneurs, but concern with economic decentralization did have its place. First, devolution from central planning added to the emerging tendencies towards pluralism. Secondly, the new management at enterprise level was to have had access to Western capital to modernize Czechoslovak industry and to make Czech products competitive again on the world markets.

The perspective as one believes Moscow sees it is quite different today. On the first score, the success of the Hungarian economic reform has demonstrated to the Soviet leadership that devolution need not involve surrender by the Party of the monopoly of power. The economic difficulties of Yugoslavia and a crisis of Western capitalism true to the Marxist typology have worn thin the counter-attraction of "market socialism" and "worker self-management." On the second aspect, Moscow can see that there is nothing to fear from greater dependence by its Comecon allies on the West. The share of East-West trade in world commerce is about one third higher than in the late 1960s, and the West has extended no political influence by reason of having the East in its debt for more than 70 billion dollars. One can see the distance travelled if one recalls that it was the possibility of a West German loan of a mere half a billion dollars which weighed in the Soviet decision of August 1968.

In the wake of that invasion, Soviet pressure forced East Europe (other than Hungary) to retreat from economic decentralization, but the experience of the 1970s should have demonstrated that some new movement to reform was politically acceptable.

Yet it is a matter of record that they have not started again. For the new round of five-year plans each East European country, save Poland, has brought in a modest reform of the economic mechanism, but all aim at improving central planning rather than displacing it. Poland, like China, is taking a hard look at the Hungarian system, but, so far, Hungary alone is operating a regulated market which trades off some retail price inflation and some unemployment for the combination elsewhere in Comecon of frustrated consumers and secure jobs.

The inhibition to systemic change in the economy is in my view internal, as the present Polish crisis seems to prove. To put it, in the interests of brevity, more starkly than one should, political and managerial bosses consider their authority and privilege threatened by such change. A day or two before the August strikes a Polish official, later to be prominent as a government negotiator at Gdańsk, told me that Poland's problem was "moral disintegration." If neither ethics nor profits are admitted as guidelines, the "administrated economy" is corrupt and inefficient. Nowhere do we see the dangers looming as in Rumania, where an economic and political crisis could break at any time.

The supply of Western technology may have helped perpetuate the "administrated economy" of the USSR and the conformist states of East Europe during the

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1970s. But evidence is equivocal. What is clear is that the inefficiency of the "administered economy" has reached its grassest-ever proportions.

In none of the Comecon countries were the aggregate targets for the 1976-1980 Plans met. Last year, aggregate national product growth of 1 percent was only a trifle in excess of population growth, and was the lowest since the regimes were installed. In Poland, production of material goods fell for the second year running, as did farm output in the USSR. It is easy to find scapegoats in the scarcity and increasing cost of the resources for further growth. Soviet oil supplies have been transformed from rapid expansion to modest increase, and supplies to Comecon are to be unchanged in volume but increasing in price during the next five years.

This is not the place for a detailed examination of the energy constraint, but the modesty of the increment in the new Soviet five-year plan for oil compels East Europe to buy most of its increment in energy requirements for convertible currency. East Europe is guaranteed Soviet oil at the 1980 level of 80 million tons a year and will get rather more natural gas and—for the longer term—deliveries of nuclear power equipment. But the Soviet increment in oil production is so low that if consumption continues to rise by 3 percent annually, either oil exports to the West are completely extinguished (on the lower target of 1985 output), or cut to two fifths of their 1979 sales. At 1979 prices this means earnings 6 billion roubles lower than in 1979. The prospect of decreased earnings from oil and the uncertainty of the gold price must weigh against a Soviet intervention in Poland which would involve the shouldering of the Polish debt or much increased responsibility for its economic difficulties.

Returning to the short term, East Europe has been badly affected by the Polish situation. Polish coal deliveries have been interrupted by the strikes. Throughout the region, investment outlay last year was even lower than in the previous year, and manpower shortages are increasingly felt.

The Western recession, inflation, and high interest rates have compounded these difficulties, and the indebtedness already mentioned has induced severe import restrictions which have inhibited domestic growth.

The new five-year plans, so far as they have been published at all, are much less precise than they have been in the past, reflecting the crucial uncertainty of decision-makers. The studied gaps in the Soviet as well as in the East European plans to 1985 could indicate that economic change is accepted as a possibility. It is surely in the interest of the trilateral countries to influence openness to trade and to ideas.

**Fuji Kamiya**

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**Recent Developments in Japanese-Soviet Relations**

Following are excerpts from Professor Kamiya's March 30, 1981 remarks to the Trilateral Commission session on changes in the Soviet Union and Eastern Europe:

Japan-Soviet relations face today the most difficult period since the normalization of relations between the two countries in 1956. This is mainly because the Soviet Union has adopted an increasingly stiffer posture vis-à-vis Japan in the last few years—particularly since the conclusion of the Sino-Japanese treaty of peace and friendship in 1978. The Soviets have considerably increased their military pressure on Japan, strengthening drastically their Pacific fleet, deploying Backfire bombers and SS-20 missiles in the Far East, and even expanding their military facilities to up to one division in the Northern Territories of Japan—by all standards a most unfriendly act to the Japanese people. The Soviet invasion of Afghanistan added more weight to this already alarming Soviet military buildup, and it created great concern in Japan for our own security. At the beginning of this year, the Japanese government made

*Sol Linowitz, Harold Brown, Arthur Burns, Andrew Young,*
February 7 "Northern Territories Day." Ceremonies across the nation were attended by representatives of all political parties including the opposition. In short, it is clear that anti-Soviet sentiment prevails at the moment in Japan.

As we all know, the Soviet economy is currently plagued by a number of structural weak spots—huge military spending, considerable expenditures to maintain its sphere of influence abroad, a substantial deficit in food-price support.... Therefore, the problem for the Soviet Union now is to find ways of breaking out of these economic straits. Perhaps the only way to do so is for them to promote the development of Siberia along the lines recently drawn at the 26th Soviet Party Congress—and for geographical, financial and technological reasons, Japanese cooperation is undoubtedly necessary. In this sense, Tokyo now has an important card to play vis-à-vis Moscow.

So far, the Japanese government has stuck to the position that, unless some clear change occurs in Soviet attitudes towards us, we should not agree to enter into economic cooperation with the USSR. On the other hand, the Soviets have tried to persuade us otherwise. In the first place, they claim that economic considerations should be kept separated from political considerations. It is better, they argue, to concentrate on mutually beneficial economic cooperation, setting the more difficult political issues aside. Furthermore, they threaten us with the possibility that, if Japan continues to be reluctant to follow this road, European countries such as West Germany and France will seize this opportunity to step in and take our place. As a result, there are voices within Japan's business circles (although in the minority) in favor of expanding economic relations with the Soviet Union. They point out that Japan used to be the biggest trade partner of the Soviet Union among the trilateral countries, and now ranks only fifth. This voice could become louder in the future, mainly for two other reasons:

— First, China's modernization process is obviously in turmoil, resulting in the cancellation of a series of major joint projects with Japan. Today, Japanese business circles can no longer feel euphoric about Chinese prospects, and they may turn again to Siberia as a new economic frontier.

— Second, the Japanese government has cooperated very closely with the United States in imposing economic sanctions against the Soviet Union following the Afghan invasion. No matter how effective this was, we are now in a position where we still cannot predict what kind of long-term perspective the Reagan Administration will develop vis-à-vis the Soviet Union. We appreciate the pursuit of a strong America which has been in evidence since the presidential election; but it is still hard to see precisely what kind of long-term, comprehensive policy the new American government is likely to adopt in the future. This represents a dilemma for us: Without a clear explanation, and shared understanding, some Japanese could be tempted to consider a more flexible policy toward the Soviet Union....

David Rockefeller, Warren Christopher, Zbigniew Brzezinski, Henry Kissinger
Rodrigo Botero Montoya
Editor, Estrategia

Inter-American Relations in the 1980s:
The Economic Context

The following paper, prepared by Mr. Botero, covers the main points of his March 30, 1981 address to the Trilateral Commission in Washington, D.C. Formerly Finance Minister of Colombia, Mr. Botero was a member of the Brandt Commission and now edits the magazine Estrategia in Bogota.

A Chinese proverb claims that a man never swims twice in the same river, because the river has changed since the first time, and so has the man. It is a thought worth keeping in mind as we try to put together an agenda for a meaningful inter-American dialogue after an interlude of about 15 years. Much water has flowed under the bridges since the early 1960s when common objectives in the hemisphere enjoyed a high priority on both sides of the Rio Grande. The scenery has been altered and the actors are different. Therefore it will not be possible to simply dust off the old scripts and pick up where we were when the lights went out on the Alliance for Progress.

It is perhaps an understatement to say that Latin America has changed during the decade of the 1970s. Had somebody at the end of the 1960s made an accurate prediction of the political and economic situation of the region ten years later, the sanity of that person would have been seriously questioned. Let that be a warning to anyone attempting to look 10 years ahead now. While it is necessary to remind ourselves that inter-American relations cannot be discussed disregarding the past, one lesson of history is the unpredictability of human affairs. Those that would have drawn the map of Latin America today by simply projecting the apparent trends ten years ago would have been seriously in error. Those who would have based their predictions on the impersonal working of majestic and inexorable historical forces would not have fared much better. Without having to belabor the point, the outside world counts, climate counts, chance counts and for good or for bad the human factor counts. The experience of the past decade in Latin America shows that there is still plenty of room for human folly. In this respect we have plenty to be modest about. Yet, if several examples can be cited of societies where rational behavior must wait until all other alternatives have been exhausted, a few cases exist that demonstrate how much can be accomplished by a handful of men and women of goodwill acting reasonably.

Keeping in mind another Chinese proverb on the danger of making predictions, what follows is an attempt to identify those changes in Latin America that are not so obvious, and that will affect the inter-American agenda of the next decade.

One of the events of the last ten years that should be highlighted is the preeminence that has been attributed to economic development as a national objective. It was not so long ago when the stated or implicit goal of progressive forces throughout the hemisphere was to replace what were considered frivolous or ineffectual elites in Latin America with some serious-minded modernizers who would get on with the job of economic management. What has happened in several of the South American republics is perhaps not exactly what the progressive elements had in mind. Be that as it may, as we enter the 1980s, economic development in Latin America is a force triumphant, and in some places in a
terrifying way. In a few countries it is called economic and social modernization, in others it is referred to as economic rationality. Certain of the least attractive regimes in the region have incorporated the concept into a doctrine with the chilling code word of "national security," which serves as the last refuge of the unjustifiable.

In the few remaining democracies of Latin America, the spectacle of the human suffering, institutional dislocation and frightful social costs that the de facto regimes have brought about has served as a warning and a spur for accelerated reform. The perilous path between the pitfalls of repression and demagoguery leaves a narrow margin for error. Whatever else the ruling circles of Latin America — democratic, revolutionary or dictatorial may be accused of nowadays, frivolity is not the most conspicuous shortcoming. In fact, in several of the authoritarian regimes determination has given way to grimness. Governance has become a serious, and even a dangerous business in the region. As the economies become more complex, and the demands on the system more pressing, development becomes a matter of life or death.

The price that some of the authoritarian regimes have been willing to pay for material progress has changed the nature of internal political discourse as well as the tone of inter-American relations. At the beginning of this century a Uruguayan writer gave birth to the enduring myth of the two cultures confronting each other in this continent: a spiritual Ariel representing Latin America and a beastly earth-bound Caliban representing North America. It is the tragic irony of the 1970s that one of the complaints of the authoritarian regimes in Latin America vis-à-vis Washington is the insistence of the pragmatic and materialistic North on the priority of spiritual values.

If there is one thing the outside world need not worry about as it deals with Latin America during the next few years, it is lack of concern for economic development among the region's leadership. Economic development has become the centerpiece of the political process in Latin America. The problem in some countries is rather that the pendulum has swung too far in that direction at the expense of social considerations and individual rights.

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The preoccupation with development and the greater competence in economic management throughout Latin America have not gone unrewarded. The region has maintained a steady and satisfactory growth rate over the last 15 years, even during the post-1974 world recession. The total GNP of Latin America this year is of the order of 400 billion dollars (U.S.). The number of countries in the world with a larger economy than that can be counted on the fingers of one hand: the United States, the Soviet Union, Japan and the Federal Republic of Germany. But behind that figure is a hidden story. By the power of compound interest, a cumulative growth rate sustained over a period of two decades or so shifts from a change in degree to a change in nature. It is not just that the GNP of Latin America is three times what it was in 1960. What is more significant is that Latin American society has been fundamentally altered in the process.

Although the following indicators refer only to Colombia, the trend that they signal is not atypical of what has been happening on a region-wide basis. The population is now two-thirds urban, four-fifths literate. The birth rate has dropped from 3.5 percent at the end of the 1950s to 2.0 percent in 1978. Life expectancy at birth has gone up from below 40 years in 1948 to over 60 years now. Industry now accounts for a share of the GNP similar to that of agriculture, and manufactured goods now make up about one fourth of total exports.

Women have moved massively into the labor force and the educational system. Approximately 30 percent of the urban labor force is female. There are now practically as many girls as boys in primary school. One third of the university students are women. Over 90 percent of the households have radios, about 60 percent have television sets. Electric power generating capacity has doubled over a six-year period.

Improvements in transportation and telephone communications are bringing the region together and increasing intra-Latin American trade even though governmental support to economic integration has declined. The same forces that are bringing Latin America together are incorporating the region into the world economy. More specifically, while the governments looked the other way, and the Alliance for Progress was quietly shelved, Latin America and the United States have become more closely intertwined than ever before. The jet airplane and communication satellites are only partly responsible for this turn of events. Imperceptible but significant human displacements have created a radically different situation. Scholars, politicians and government officials have been discussing at length the implications of the movement of one factor of production — capital — from North to South. Yet the big story has been the movement of another factor — labor — from South to North. Already the United States is the fifth largest Spanish-speaking country in the world (after Mexico, Spain, Argentina and Colombia). By next decade, the Spanish-speaking population of the United States will rank third in the world — after Mexico and Spain — and is expected to exceed that of U.S. blacks.

It is both premature and unwise to speculate upon the
impact of this relatively unnoticed wave of migrants on U.S. society in the 1980s. But if the record of past migrations is any guide to the future, it may not be excessively bold to venture that 25 to 30 million Hispanics living in the United States in the next decade will be felt in the culture, the politics and the international relations of the host country. Incidentally, should anybody wish to see the State Department embrace the Calvo Doctrine (upholding the supremacy of national tribunals in disputes between host governments and foreigners) in a hurry, just bring forward the proposal that treatment of Latin American migrants should be negotiated with the governments of their respective countries or that differences between the migrants and U.S. authorities should be subject to international arbitration.

As the turbulent 1970s come to an end in Latin America, it appears that it is not democracy that is in crisis but rather dictatorship. Just as the national economies are becoming more closely linked to the world economy, so are the political systems of the region becoming more internationally oriented. The hemisphere's only centrally planned economy has close links with the Soviet Union and its Eastern European allies. The civilian regimes in Latin America have developed special relationships with each other and maintain close links with the governments of the industrialized democratic countries. One of the problems of the authoritarian right-wing regimes in the region is their political isolation, now that Spain, Portugal and Greece have discarded dictatorship. There remains the remote possibility of an understanding with South Africa which is not exactly reassuring.

Independently of whether it is attributed to better economic management, just luck or to Divine Providence, the Latin American democracies weathered the world recession that began in 1974 better than the authoritarian regimes. After five years of difficult and painful adjustment to the shock of oil prices followed by the slowdown in the OECD countries, the surprising event is that the ranks of the democratic countries in Latin America have held firm.

The other lesson of the turmoil of this decade is that reform—which had become the object of ridicule and opprobrium—is once again respectable. Populism, demagoguery and promises of instant utopia have become discredited. The track record of the reformist regimes making modest but systematic progress through compromise and consensus has proven to be less news-worthy but steadier than that followed by the breathtaking attempts of a party, a class or a group of officers to impose upon the rest of society its particular vision of paradise.

At great cost, a sense of limits, a feeling for the capacity of the social fabric to absorb stress without being torn apart is being learned.

Perhaps the single largest difference between Latin America as it enters the decade of the 1980s and at the beginning of the Alliance for Progress lies in the field of economic performance. The relevant fact for inter-American relations is that economic stagnation is no longer the overriding consideration.

As a whole—a few exceptions notwithstanding—the region has demonstrated an improvement in its capacity to grow, to transform, to mitigate the impact of external shocks and to manage the transition into industrialization and urbanization. With an average per capita GNP of over 1,000 dollars (U.S.) and a high regional growth rate, Latin America is pulling further apart from the group of least developed countries that constitute the bulk of the third world. The standard of living in the most advanced Latin American countries is now approaching that of the southern European countries. Gradually it is being understood in the region—and accepted, albeit reluctantly—that Latin America is part of the Western world; that is, an extension of European civilization in this hemisphere.

The altered circumstances in which the region finds itself will affect inter-American relations in the next decade in different manners. Some new agenda items will appear, some former items will become irrelevant, and the context in which long-standing issues are discussed will be changed.

Aid is one of the agenda items that has been quietly disappearing. The classification of Latin America among the middle-income countries has meant that increasingly multilateral as well as bilateral aid flows are being directed away from the region and into the low-income countries of Asia and Africa. Of the total Official Development Assistance provided by members of the OECD to developing countries, less than 5 percent goes to Latin America. Furthermore, several Latin American countries are becoming aid donors on a modest scale. By the beginning of the next decade, aid should become a non-issue in inter-American affairs except for a few isolated and preferably multilateral efforts that may still be required in the Caribbean islands and the Central American Isthmus.

Greater concern with economic development—along with the termination of aid—has made the international promotion of development models obsolete. The realization of how much is at stake on the success or failure of the development model has made its design and implementation a critical element in the domestic political process. Attempts by international organizations or by other governments to participate in this process will be of diminishing usefulness. The costs of failure are unevenly distributed between the local practitioner and the outside adviser, no matter how well-motivated. If worse comes to worse, one will write a book about how the natives booted up the take-off, the
other will pay in flesh and blood. Furthermore, the ad-
justment in the development model for a large group of
Latin American countries—given the improvement in
economic performance—will have to be in the direction
of social justice (more equitable distribution of income
and power), which is by definition a domestic political
issue.

Migration will become a significant agenda item, if
not multilaterally then on a bilateral basis. It will be a
high priority issue for United States-Mexican relations.
To a lesser extent, it will become a part of the United
States-Caribbean relationship.

Economic relations will continue to be centered on
the need to improve the functioning of markets for
goods, capital and technology. The context and the em-
phasis of the discussions will reflect the new circum-
stances. The problems of trade will no longer be domi-
nated by commodities. Export diversification in the
major Latin American economies has now advanced to
the stage where manufactured goods are as important as
the principal export commodity, or have already sur-
passed it. Furthermore, rates of growth of exports of
manufactures indicate a trend that by next decade will
have altered the present export structure even further in
favor of manufactures. This does not imply that com-
modity prices and orderly marketing agreements for
certain key commodities will no longer be important for
Latin America. The point is that, increasingly, trade
conditions for manufactured products will become at
least as pertinent as commodity questions.

With respect to capital flows, the relevant issue is not
so much access to financial resources as improving the
terms at which they are made available. Several Latin
American countries adjusted to the 1974 world recess-
sion by borrowing heavily in the Eurodollar market at
short to medium terms. The orderly restructuring of
their debt profile is to their interest as well as to that of
the international financial community. Furthermore, an
increase in the availability of long-term resources for
investment purposes (which would be of special interest
to Latin America and other middle-income countries
around the world) would also act as a stimulus to the
capital goods industries in the developed countries. On
the question of access to technology, management and
marketing skills, the relative improvement in the bargain-
ing position of the Latin American countries is shif-
ting the debate from the ideological to the pragmat-
ic. The question of national control over energy, natural
resources and public utilities has pretty much been set-
tled, even in the smallest and weakest countries. In ad-
dition, the technical capacity of governments through-
out the region to negotiate meaningfully and to defend
the national interest has increased. Indigenous indu-
trialization has diffused technical skills and the under-
standing of technological innovation. Brazil, for exam-
ple, now produces over 70 percent of the capital goods it
requires. At least four of the large Latin Amer-
ican countries are now both sellers and buyers of tech-
nology and management services. Following the path of
the latecomers to industrialization, the most advanced
Latin American countries are searching for tech-
nological self-reliance by investing systematically in the
development of their human capital. The result of all
this is that the negotiations between private or public
Latin American enterprises and foreign owners of
specialized technical and managerial skills can be ex-
pected to become less asymmetrical, more truly busi-
ness-like than in the past.

Adjusting inter-American economic relations to a
rapidly growing and increasingly self-confident Latin
America will not be easy. Several sources of future com-
lications can already be identified.

Increasing exports of Latin American industrial
products will put the United States commitment to free
trade to a severe test. The trade problems in the next
decade will not be exclusively those caused in the United
States market by textiles and leather products from
Latin America, but also those of, inter alia, steel, furni-
ture, garments, motor vehicles, chemicals, home ap-
pliances and miscellaneous electronic products. The
emerging issue is no less than the redeployment of in-
dustrial capacity—with all that implies—within the
hemisphere. Because manufactured goods are such a
dynamic element in Latin America's foreign trade, it is
safe to predict that protectionism in the United
States—and of course in other developed countries—will
be much more of an irritant than in the past.

Both for the United States and for Latin America, the
economic issues are becoming global as well as regional.
There is no single forum for their discussion: GATT in
Geneva for some of the trade issues; the EEC head-
quar ters in Brussels for others; UNCTAD as well as the
specific agreements for commodities; the international
financial organizations for some credit problems, the
private banks for others, and so on. The regional
framework will simultaneously prove too small for some
of the issues of interest to Latin America (monetary
reform, trade restrictions, capital markets, commodity
prices) and too large for others (immigration, relations
with multinational corporations, energy). Presuming
there will still be a mutual regional interest in some of
these issues, however, it will be necessary to overhaul
the institutional hemispheric machinery designed at the
end of the decade of the 1940s if it is to serve its purpose
under radically different circumstances.

One of the contingencies for which provision should
be made is that in their global economic relations, the
interests of the United States and those of Latin Amer-
ica can occasionally coincide. The agricultural policy of
the EEC or Japanese mercantilism come to mind as
areas that offer possibilities for coordinated hemispheric initiatives.

Compounding the institutional deficiencies is the different and, to the outside world, bewildering context in which the United States is conducting its foreign relations in general, and international economic relations in particular. Gone are the days when a patrician elite, firmly in control of foreign affairs, could commit the United States government on a program or policy. Nowadays, even within the executive branch, it is becoming increasingly difficult to find an interlocuteur valable as different departments, regions and political interests participate vigorously in the formulation of international economic policy. This decentralization of public affairs is both fascinating and admirable from the point of view of the disinterested individual observer. But for a foreign government trying to settle an urgent bilateral question, it can become a puzzling experience.

Yet, if what we are trying to obtain is a more symmetrical relationship in the hemisphere, it is not enough to make a plea for adjustment in the North to the changes that have occurred in the South. Time has not stood still in the United States either, and Latin America will have to make an effort to incorporate the new North American reality into its inter-American economic strategy. To end on a note of modesty, events that we cannot now foresee, imagine or perhaps comprehend will quite probably influence the relations between the United States and Latin America in the 1980s. Without even trying to take them into account, the context and the tone of the inter-American dialogue has been substantially altered by the changes that have already taken place in the hemisphere during the 1970s. An attempt to understand the nature and significance of those changes may be a first step towards coping with the unpredictable transformations that lie ahead.

Editor’s Mail

The following two letters are but a sample of the reactions we received to the Summer/Fall special issue of Trilogue on “The Middle East—What Chances for Peace.” They inaugurate what we hope will be a regular exchange between our readers and our authors, who will of course be given a chance to respond.

Sir:

The blunt and comprehensive view of the Middle Eastern crisis provided by Trilogue in its Summer/Fall issue is the finest overall statement on the subject made available in recent years. In particular, from an American point of view, for once the Palestinian, Arab, European, and Japanese viewpoints are placed beside the Israeli and American positions. The issue clearly shows just how far apart are the American and Israeli views from the rest of the world. Indeed, Trilogue has shown conclusively just how isolated U.S. policy has become from the greater remainder of mankind.

This isolation in policy is dangerous because in the United States there is a mental isolation among the vast majority of people, in part due to the way the issue is presented in the media, and in part because of the ineptness of the Arab-Palestinian presentation of the case. This mental isolation cannot be and will not be broken until "evenhandedness" in the presentation of the issue is reflected in the American media. That Japan and Europe see the Middle East crisis with different eyes needs to be further publicized.

Yet I could not help feel that something is left out. For there is no vision as to what a viable Middle East can and should be. Indeed so deep are the wounds on all sides, that no one seems willing to say how a peaceful Middle East would work.

Israel, aside from its military strength, is an economic pygmy at present. In a peaceful Middle East, the economic base of Israel would have to be expanded. Presumably in a peaceful Middle East, Israeli technological and managerial competence would be linked to Arab oil wealth. Yet where has anyone suggested such a linkage of Israel to the greater Middle Eastern economy?

Likewise the Arab states all face problems of economic development. Lebanon, Syria, and Egypt face herculean efforts to raise standards of living. Saudi Arabia faces the problems of modernization and growth with a restricted population base. Yet again, the vision of a scheme to create a peaceful, developing Middle Eastern world that not only includes Israel, but also the Arab world does not seem to exist.

This lack of vision for peace raises the question as to what does peace mean? The arguments for “security” or “human rights” seem abstract because the translation of these terms into a concrete set of peaceful relationships does not exist. At present, peace is a function of penalties. There are no concrete “premiums” in terms of wealth, ease of travel, and development. There is a need for a regional economic and political structure within which national goals can be achieved and preserved. Yet regional ideas are not truly available.

To secure peace, to see the region as a region with a life of its own, there is a need to portray a world of economic development, finance, and trade where all the nations have a role to play. Until this is done, there is little hope that Israel will fit into the area or that Palestinians will again have a nation in which to deploy their talents. There is a need to begin speaking of a Middle Eastern monetary fund, of an ASEAN-like structure of trade, of a Middle Eastern regional structure of industrial planning, of a Middle Eastern technical exchange system, of a Middle Eastern program for labor migration, of an Islamic world food system, of a Mediterranean economic zone. Only in this context can each nation fit its resources into a greater structure that secures its peaceful development. Unfortunately, this does not yet exist. Thus there are few positive incentives for peace.

This suggestion is not made lightly. For years intense national rivalries have found their best solution through positive regional structures: the EEC, ASEAN, the OAS, LAFTA, Mideast. For Euro-Middle East, Japan-Middle East, or U.S.-Middle East relations cannot be secured unless there is a Middle East structure with which to deal. Israeli hopes and Palestinian demands need a structure to secure their futures. It is time regional institutions and not geography became the center of attention.

Jeremih Novak Consulting Editor, The Asia Mail
Sir,

I have read Triolbague's Middle East issue several times carefully. What particularly strikes me is the contrast between the approach of Shlomo Avinit and that of the others. He recognizes the continuing problems of the region and takes into consideration the interests of both sides. One can't say enough about current water rights would be preserved, future water sources would be shared and "outside parties would be invited to share in a regional water program."

Incidentally, there is also agreement that elections will be "freely held," that there will be "freedom to campaign," "freedom of the ballot" and "freedom of expression.

If Professor Said is insisting upon an immediate, totally sovereign, PLO-controlled state on the West Bank as the price of his continued support, it is simply not in the cards now. So long as the PLO wants ultimately the entire elimination of the Jewish State, it would be a constructive contribution if Mr. Said would stop his obstinate, blind refusal to understand why

Although not learned in the law—he's a professor of English—Mr. Said has decided that according to International Law, Israel is guilty of creating "four new, illegal settlements." There is much persuasive legal authority that not only are Israeli West Bank settlements perfectly legal but that Israel's continued possession of the entire West Bank is justified under settled International Law. Eugene V. Rostow, Sterling Professor of Law and Public Affairs at Yale, in an eloquent restatement of the law on the question, one of many that have been widely disseminated, sets forth the proposition simply. He says that if a nation (Israel) seizes an area of land (the West Bank) from an aggressor nation (Jordan) wages war upon it, especially an area of land that has been illegally seized by the aggressor (Jordan) in the first place, the attacked nations (Israel) may retain the territory won. Israel is, nevertheless, ready to return most of it under protected circumstances.

Mr. Said apparently forgets that it is not the U.N. that makes the rules of International law; the U.N. makes political decisions according to the views and objectives of those who control that body. But the Professor is naturally supportive of a United Nations that long has been a captive of a Soviet Bloc-Third World-Arab League combine, and, like the U.N., he, too, blames Israeli "rigidity and inequity" for the failure of Middle East Peace. He is bitter that there has been a rejection of the "alternative, largely United Nations framework for reconciliation and peace." By the United Nations? Reconciliation? Peace?

The Professor lambasts that the "assonamy talks include no Palestinians," thereby ignoring the almost weekly public invitations to the Jordanian (Palestinian) Government from American, Egyptian and Israeli spokesmen to join the Camp David follow-up negotiations. He blinks, too, at Israel's repeated offers to deal with any West Bank Palestinian representatives except the PLO leadership that has sworn the end of the Jewish State.

As much as Mr. Said distorts the Israeli picture, he apparently feels compelled to admit the existence of an "active, visible peace community in Israel, with important ties to sectors of the American Jewish world." But all he can say in behalf of an Arab peace counterpart (other than President Sadat's efforts which he roundly condemns) is that there are a "considerable number of statements" by Palestinians indicating "willingness to recognize this existence to end armed struggle." And he is trapped with this absurdity to prove his claim: "PLO Chairman Arafat told Anthony Lewis he wanted a final negotiated settlement." Presumably, after Arafat frightens the Israelis into submission by killing their children.

Finally, Professor Said does not hesitate to lecture the American people for what he alleges is their Middle East blindness and misconduct. We Americans, he writes, "ignore the world's opinion, except for what official Israeli and South Africa have to say." It should escape no reader's attention that Mr. Said has dragged South Africa into the argument from the out of the blue and despite the patent falsehood of his accusation against us about South Africa. Surely no inattention on the Professor's part. Coupling South Africa with Israel, in face of the known widespread, intense American hostility toward the apartheid nation, is his clever way of innocently smearing the Jewish State with the South African brush.

In the final analysis, Edward Said would do far better to encourage his Arab friends to talk and set the language of peace—no Covenant, no boycott, no terrorism—than to reinforce their rejectionist tendencies. As the peace between Egypt and Israel already demonstrates, the key to Middle East progress is an Arab break from their destructive past.