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TRIALOGUE.

Washington, D.C., April 1-3, 1984

America, 1984: Daniel Yankelovich, Excerpts from the discussion

Living With the United States: Henri Simonet, Mitchell Sharp, Naohiro Amaya

George P. Shultz
Jacques de Larosière
Jesus Silvà-Herzog

Central America: Excerpts from the discussion
The Trilateral Commission held its 1984 plenary conference in Washington, D.C., April 1 to 3, under the chairmanship of David Rockefeller. The conference was highlighted by a reception at the White House with the President and Mrs. Reagan, and the Vice President and Mrs. Bush; and by a closing dinner at the Organization of American States with Secretary of State George P. Schultz. In addition to the text of Secretary Schultz’s major address on this occasion (see p. 24), this issue of Trialogue contains, out of necessity, only a selection from the many presentations and key interventions made during three days of debates which included sessions on:

☆ The American economic and political scene in this election year (see p. 3).

☆ “Living With the United States” (see p. 13).

☆ Canadian politics at the end of the Trudeau era — a luncheon discussion chaired by Mitchell Sharp, the Commission’s North American Deputy Chairman, and opened by Darcy McKeough, a former Minister in the Ontario Government; Herb Breau, a Liberal member of the Canadian Parliament; and John Allen Fraser, a Progressive-Conservative member of the Canadian Parliament and former Minister.

☆ The international financial situation and the debt problem — with addresses by Jacques de Larosiere, Managing Director of the International Monetary Fund (see p. 30) and Jesus Silva-Herzog, Minister of Finance of Mexico (see p. 35).

☆ Central America — a discussion (see excerpts p. 40) opened by former Secretary of State Henry Kissinger; Miguel Herrero de Minon, a member of Spain’s Parliament and Speaker of the Opposition; and Kyoaki Kikuchi, Ambassador of Japan to Mexico and formerly Deputy Minister of Foreign Affairs.

☆ Scientific, commercial and military uses of space — a discussion led by Professor Keichi Oshima of Tokyo University; Jean-Claude Bouilhot, Head of European Programs at the French National Space Agency; and Hans Mark, Deputy Administrator of NASA.

☆ “Democracy Must Work: A Trilateral Agenda for the Decade” — the title of the draft task force report to the Commission discussed in Washington. The report was presented by its three authors: former U.S. National Security Advisor Zbigniew Brzezinski; David Owen, a member of the British Parliament, Chairman of the Social Democratic Party, and former Foreign Secretary; and former Japanese Foreign Minister Saburo Okita. Subsequent to a full day of discussion among Commissioners in Washington, the report was published as Triangle Paper 28 (New York: New York University Press, 1984).

A special dinner hosted by David Rockefeller on April 2 at the East Wing of the National Gallery provides its motif to the cover of this issue of Trialogue.
Following the pattern of past meetings of the Trilateral Commission, a major session of the Washington conference was devoted to a review of current developments in the host country—the United States. The discussion of the American political and economic scene in this important election year was led by Daniel Yankelovich, Chairman, Yankelovich, Skelly & White; Alan Greenspan, former Chairman of the U.S. Council of Economic Advisors; Andrew Young, Mayor of Atlanta; and Richard Darman, Assistant to the President of the United States. We reproduce below a large segment of Mr. Yankelovich's introductory presentation and excerpts from the lively debate among the participants which followed.
Our conference takes place at an interesting time in U.S. political history. We are in the middle of one of the most surprising and volatile campaigns in our history and I would like to approach it by looking at the cultural changes that are taking place in the United States.

If you examine the Democratic campaign, for example, it is impossible to understand the Gary Hart phenomenon without referring to recent cultural change. What makes it particularly interesting is that Mr. Mondale is not looking at the issue in that light. In New Hampshire, he missed the Hart phenomenon altogether, and his approach to the campaign right now (April, 1984) suggests that he’s not making any real effort to talk to the Hart constituency in the language which has caused it to emerge with such abruptness and drama on the American scene. I want to emphasize that I don’t believe a cultural perspective is as central to the drama as, say, the economy. It is like Ophelia in Hamlet: Ophelia is a minor character, but the action is incomprehensible without understanding her role in it.

The reason cultural change is important is that in the United States, we are entering a new era, a transformation of culture that is the third since World War II. I am going to focus on one aspect of it for which there is no good word in English. We use the vague term “mood” or “outlook” to refer to people’s assumptions and values and world views. The French have a more precise term when they refer to “mentalité” and probably the German term zeitgeist is the most apt one.

In the immediate post-War period, roughly from the end of World War II to the mid-’60s, the zeitgeist in the United States was, to a surprising extent, dominated by the trauma of the 1930s Depression—the fear of economic insecurity. Our surveys show that fear of the Depression didn’t die out until the mid-1960s. In this period, Americans were, by and large, optimistic, because we did seem to be winning the struggle against the Depression. The key characteristic of the period was the very high value that Americans placed on economic security and material well-being; they approached these values with a depth of concern that would be incomprehensible without the experience of the Depression—a concern tinged with anxiety, with a sense of accomplishment in improving material well-being, and with a certain grim determination to succeed further. Phrases of the time are revealing: “Keeping one’s nose to the grindstone,” “Saving for a rainy day,” “Counting one’s blessings.” This was a mood that endured for almost a full generation.

A major change in outlook came in the mid-late ’60s. It surfaced in the form of the so-called “generation gap.” The generation gap was based on the accurate perception of young people that their parents were wrestling with ghosts. Their attitude was: If you have to sacrifice, all right; but why sacrifice the important things in life when it really isn’t necessary to do so? Their premise was that their parents’ sacrificial outlook was irrational, given their presumption that our resources were limitless and boundless.

In fact, there never was a generation gap in the literal sense of the term. It was really a factor of social class. The gap existed between college-educated young people and their parents. The differences in social class were much greater than the generational differences, which is a point that becomes important when we turn to the present. I also want to stress a strong cultural lag in both periods—in the first phase, the Depression-bred feeling that, if we let up for a minute, disaster will strike lasted long after it was appropriate. Likewise, the feeling that our resources were boundless and inexhaustible and that we could do anything that we set our minds to do continued throughout the 1970s, even after the oil embargo, the recession of the mid-’70s and many other tell-tale signs of limits in resources.

The best symbolic expression of this second phase was the commitment on the part of John Kennedy to go to the moon, its successful achievement, and the pride in that achievement expressed in the question: “Well, if we can go to the moon, why can’t we clean up the environment, cure
cancer, give everybody a decent education, feed the hungry, open the system to those who have been excluded”—a kind of expansiveness and presumption of unlimited possibilities, opportunities and resources. Only now, in the last few years, do we face the beginning of a real shift in that outlook.

Features of the New Zeitgeist

The period we are entering now is different in that it does not have a sense of unbounded resources and possibilities. In fact, the sense of limits is very strong. But it is also unlike the period of the ‘40s, ‘50s and early ‘60s: There is no return to the Depression psychology of scarcity; instead, we have a new outlook in its earliest stages. I would stress three features of the new zeitgeist that are beginning to become clear.

The first is a fierce determination on the part of the majority of Americans not to surrender the gains that were won in this last period. By gains, one should not think only of economic ones, but also of gains in lifestyles and values that people felt were achieved: the enhancement of autonomy and independence, particularly for women. Women feel they have won certain gains in being recognized as people in their own right and are determined to hold onto and build on those gains. Men express it as well by participating in the workplace. They are not just employees or part of the rank and file; they have a kind of autonomy and independence. We see it also in the continued trend toward disaffiliation and the challenge to authority—a move away from allowing your political party, or any other authority, to make your decisions for you. People feel that how they vote and how they decide other matters is their decision, their choice, and to some extent, this is the reason for the enormous and growing influence of the media. If you are going to make up your own mind, you will get your information from the media, rather than the leadership of the organizations to which you belong.

Another gain which is greatly cherished is a stress on the self-expressive side of life, not the old attitude that life is a chore and a set of obligations—that “nose to the grindstone” mentality—but an approach to life and work that emphasizes fun, adventure, pleasure, personal style, challenge, novelty, physical health and well-being and a certain competitiveness of spirit. People are acting as individuals, with a determination not to surrender those gains although we live in a different and tighter kind of world.

This attitude leads to the second characteristic of the present zeitgeist, and that is a change of tactics. If resources are limited, then one has to be shrewder, more careful and more cunning. One has to be more “strategic,” more willing to set priorities, more willing to give up certain things in exchange for more important things, cut some corners, scramble a little. There’s less compassion for others in this mood. There’s a more calculating and more pragmatic outlook. It is very pugent and very different from the recent past.

A third characteristic of the zeitgeist is a certain spiritual yearning, which is partly the opposite of the disaffiliation, individualism, autonomy, selfishness and hedonism of the ‘60s. It expresses itself in a concern with quality and excellence, with a turning back to religion, with a focus on ritual—formal marriages, engagement parties, a greater emphasis on wisdom and experience as distinct from mere technology, a turning to the local community for succor. Together, these disparate elements form a new outlook, and I think they’re very useful to keep in mind as one looks at the election.

I believe that Ronald Reagan is the major issue in this campaign. Americans are either going to vote for him or vote against him—and to some extent the lines are already drawn. To date (early April, 1984), you have about 35 percent of the electorate who are solidly pro-Reagan and it would take an extraordinary set of circumstances to change their votes. You have another 35-38 percent who are just as strongly anti-Reagan, and it is almost inconceivable that they would not vote against him. This leaves a rather large swing group of 27-30 percent who now are leaning toward Ronald Reagan, but who could move
in either direction. In this swing group, several sub-
groups are disproportionately represented—three in
particular. The first is the young, affluent, well-
educated independents, sometimes referred to in
the newspapers as "Yuppies." They are, for the
most part, doing well economically. They support
Mr. Reagan because they credit him with beating
inflation and with economic growth, but their at-
tachment to him is wholly pragmatic: They would
abandon him overnight if weaknesses appeared in
the economy, or if there were some other pragmatic
reason to believe he would not continue to be
successful.

A second sub-group comprises women who are
concerned about their status, not in a strongly
feminist sense, but in the sense of being people in
their own right. They are concerned with the
nuclear arms race, with the Reagan assertive style in
foreign policy ("You don't push Ronald Reagan or
the United States around"). Some of these women
are not as enchanted by what they see as a "macho"
element in this assertiveness as many of the men
are—particularly blue collar men. This blue collar
group is the third subgroup. They normally vote
Democratic. Forty percent of them voted for Mr.
Reagan last time and are leaning toward him this
time. They do so more because of foreign policy
factors than for economic reasons. Economically,
they perceive him as unfair and as favoring the rich,
but they endorse his strong anti-communist stand
against the Russians.

THE CANDIDATES

Let me comment briefly on the candidates in the
light of these considerations (except for Jesse Jack-
son, for whom I simply don't have a good feel,
except that he's running an impressive campaign
and is reflecting the concerns of his constituency).

Mr. Mondale is running a campaign that is out of
tune with this new *zeitgeist*. It's almost as if it
belongs in another era. It comes back to the point
about the generation gap not being a universal
phenomenon. Mr. Mondale's empathy is with the
group who did *not* go through that generation gap
experience and it seems to me that, as a political
leader, he is not sensitive to those who did. To give
you an example, a few weeks ago Lane Kirkland was
cornered by the press about the blue collar vote and
his comment was, "Don't worry. The rank and file
will follow." *Everything* is wrong about that remark.
First of all, the rank and file won't necessarily
follow. Secondly, the very phrasing runs counter to
the kind of autonomy and independence and anti-
authority outlook that is now so prevalent. If Mr.
Mondale is nominated, he cannot be elected if he
does not attune himself to this new cultural outlook
and to the particular group in the population who
embodies it.

With respect to Mr. Hart, I think we have to
distinguish between Hart the Symbol and Hart the
Person, because the outpouring of support for him
occurred at a time when people didn't know Mr.
Hart as a person. If you asked people why they
were voting for him, they said "because he promises
new ideas." When you asked what these new ideas
were, they said, "Well, he's young and attractive."
The support was for what he represented, the
perceived need for new ideas, not the substance of
any particular ideas.

I would emphasize that the Hart phenomenon is
symbolically an authentic political impulse. Its
basic strength is the deep-down realization, on the
part of millions of Democrats and Independents,
that the old approaches are outdated—the welfare
state programs, the old arms control approaches,
the old labor-management adversarial relationships,
the economic practices of many industries like auto,
steel, rubber, etc. From the point of view of his
constituency, his voters say, "At least Hart knows
there is something wrong, and Mr. Mondale
doesn't." The notion of "new ideas" cannot be
dismissed derisively. It is a message of tremendous
political importance that is simply not going to go
away, irrespective of who the candidate is.

With respect to Mr. Reagan, it is impossible to
understand the campaign unless one grasps his
special appeal. It is implicit in the public opinion
polls, which show consistently that his overall per-
formance as President is much higher than his
performance on specific aspects of foreign and
domestic policy. There's something special there, an
X-factor. It's often identified with his likeability as a
person. I would like to suggest that, like Hart, Mr.
Reagan fits very well certain aspects of the new
*zeitgeist*—the reluctance to give up gains, the knowl-
edge that something is wrong with the old,
unrealistic means, and a spiritual yearning. Ronald
Reagan's message to the American people is, in
effect, that we can keep our gains without making any real sacrifices if we go back to traditional values and take a new approach to government. This appeal is partly a corrective to the liberal sins of the ‘60s and the reaction to Mr. Carter’s management of the economy, and it partly contains a strong element of wish-fulfillment on the part of the American people.

I stressed in each of the other outlooks of the post-War period a certain lack of realism, an unreality—in the 1950s and ‘60s, a struggling with the Depression that no longer existed; in the ‘60s and ‘70s, the illusion of boundlessness, the lack of limits; now, we encounter a strong element of wish-fulfillment, the hope that the answers will be easy ones. In today’s campaign, the struggle for the soul of the American voter turns on how strong this element of wish-fulfillment will be versus an equally strong streak of realism and pragmatism. Which one will prevail depends on the campaign itself, the people who are nominated, and the themes they develop.

The campaign should be very interesting, and critical in determining the next phase of American outlook. Ronald Reagan has given some clear answers to the great questions of our time—on the economy, the role of government, relations with the Soviets, defense and nuclear arms. Between now and November, Americans are going to be struggling with their desire to accept those answers that don’t require a great deal of sacrifice. At the same time, they have doubts about how realistic these answers are.

Right now, the balance is in Mr. Reagan’s favor, but, at least in theory, the Democrats have an enormous opportunity. There has been no real swing to the right in this country. There have been vacuums created and political leaders who have filled them. In principle, Mr. Reagan is quite vulnerable to a Democrat who could challenge his answers for the three swing groups—women, young affluents, and blue collar men—with credible alternatives that are realistic and hopeful at the same time. But the Democrats may not be able to capitalize on this theoretical opportunity. The one thing you can be sure of is that we’re in for more surprises in this, the most volatile and interesting election of the post-War era.
A Sampling of the Discussion among Commissioners:

THE CANDIDACY OF JESSE JACKSON

A former New York official: I think it is very significant that the Jackson phenomenon has not come up earlier in this discussion, particularly given the fact that in the 1984 race, it seems to have instilled more "new ideas" than even the Hart campaign, for a variety of reasons.... The Jackson candidacy is not monolithic around the black issue, and blacks are not particularly monolithic at the leadership level around the Jackson candidacy. Blacks are reluctant to address that issue solely from the standpoint of having a contribution to make to the political discussion. From the standpoint of Jesse Jackson's campaign, I believe it is important when he says that he represents those who are locked out—that he has not come up here yet feeds into that kind of sentiment, that blacks are left out of the political discussion. On the other hand, I believe it's important that Jackson has chosen to run a race that is primarily addressed to the black community, although the issues he raises are not specifically and totally addressed to the black community. In that sense, I agree with Mr. Yankelovich's point that people are not interested in the issues of the 1960s in the ways in which they were addressed at the time, particularly with respect to government expenditures. Jackson, in that sense, is running countercyclical to the prevailing trend in American politics. To that extent, were he able to broaden his rainbow coalition, as he suggests, I believe he would have had a much broader sense of attractiveness, because he is bold and daring. More than Hart, he is the outsider the population is looking for. More than Hart, he is arguing fundamental, substantive issues—his willingness to say outright that he would put a woman on his ticket, that he would significantly change our relations with South Africa, that he would significantly change the way in which we interact economically around the world. These are issues of substance that are getting lost and have been particularly lost, given his "hymie and hymie town" remarks, which knocked, in my judgement, the wind out of his sails. I think that it is important that he be seen as representing something more than a black phenomenon, although the thrust of his campaign represents an element of black protest, of black concern about the absence of interest in matters to blacks that Jesse has touched, that have not been touched since the '60s....

A prominent politician from the South: Jackson's is essentially a protest politics campaign; I frankly liken it very much to a black astronaut and a black Miss America—it is nice, it makes one feel proud, but it is not politically very productive. The problem with it, from the perspective of the Democratic Party, is that if the race is still undecided by the time we get to San Francisco, any of the candidates who bargain with Jesse is probably going to get the elected officials, who are another large bloc of uncommitted delegates, going the other way. The party is structured to neutralize free-wheeling campaigns that are not part of the mainstream; those of us who were Hubert Humphrey fans know that you can't have a fractious convention and pull the country back together in just two or three months. If Jackson remains the kind of statesman he has been up to now, and if he is willing to forego any ego fulfillment in the bargaining process and simply rally to keep his supporters within the political process, he could certainly be the difference between a 60 percent and a 65 percent turn-out, which would, in my judgement, assure a Democratic victory. But he cannot be given anything for that—in a multi-cultural society such as ours, specific deals always end up being counterproductive; I think that is one of the rules of American political multi-ethnic politics.

THE ECONOMY AND PROTECTIONISM

A leading economist: One issue which I think is paramount in trying to project the short-term characteristics of the American economy is that, at the moment, it is exhibiting an extraordinary momentum and yet does not have any of the signs of what I might call "economic aging." There are no imbalances of very great moment which threaten the outlook in the short run. In fact, the basic balance of goods and services and the fundamentals of demand are such that if we went through our normal projection processes, it is the type of thrust that could project itself through not only 1984, but well through 1985 and beyond. The major factor, of course, which could abort that very benevolent expansionary set of forces, is interest rates. That is the basic problem for the economy and, of course, for the President's reelection....

The basic problem that business has with these very high interest rates is that any endeavor to authorize a long-term investment runs into very severe negative analytical and financial characteristics.... What we find is that computer-related, high-technology-related equipment, because they are at the forefront of obsolescence all
the time, tend to be authorized because nobody buys a computer facility that they perceive is going to last more than, say, three to five years. This heavy concentration on short-lived equipment is also impacting inventory expansion in the United States. The longer the economic life of the type of project—in other words, the more it is a durable type of good—the greater the amount of inventory required per dollar of final sales or consumption needed to sustain it. The American economy now has a level of inventory which, by historic standards, is exceptionally low; it has shifted toward those short-lived investments and short-lived goods—those goods which also require very little in the way of inventories to support them.

The major problem that we have insofar as the short-term outlook is concerned is a rapid run-up in short-term interest rates, which could choke off this very strong momentum of economic activity. Here, the major threat at the moment appears not from the domestic side, but from the international side.... One of the characteristics of producing short-lived assets also turns out to be that you use less credit. Another characteristic of this compression of time is that the ratio of funds required to finance a specific level of the GNP falls as the average economic age of what we produce falls. As we produce less in the way of industrial plants which will last for forty years and more in the way of consumer service, short-lived computers, etc., the amount of domestic credit required, and hence the pressures on interest rates, tend to fall. The problem, however, is that while there has been grave concern about the extraordinary strength of the dollar and the problems that would create, for the United States a rapid reversal of that will be a far greater problem in the long run.... You cannot have the rate of capital investment fall faster than the current account deficit can fall. As a consequence, interest rates have to move higher to hold the current flow into the United States....

It certainly appears at this stage that the dollar is on the way down. This is not to say that the international financial community does not continue to hold the dollar as the major, premier investment in the world; real interest rates are higher, the obvious improvement in "safe-haveness" has been a major factor drawing dollars to the United States.... The Euro-currency market, the international bond markets, and those aspects of domestic economies in which currencies are freely traded, indicate that the ratio of dollar holdings to non-dollar holdings, as part of a total portfolio, have probably risen to the point of saturation. Even though everyone may still perceive the dollar as the best thing to invest in, the major holders of dollars say they've got enough, and they cannot buy more.... On a globalized basis, as the demand for dollars falls—and it may be falling at a fairly pronounced pace, i.e., faster than the American current account deficit can adjust—a good part of the pressure in the short end of the money market in the United States is coming from this basic adjustment process....

In the United States, the extent to which unemployment works its way into our politics is more a factor of whether people who are employed are fearful of their job security; as a consequence, when the lay-off rate is very low, as it's been for the last year, people who are working believe they will continue to work—they are not concerned about losing their jobs. If, however, the lay-off rate begins to rise, you begin to get a very significant sense of disaffection with the system, even though the vast majority of people are employed and have jobs.

A Washington, D.C., politician: What remains to be decided at the moment is not the size, the magnitude of the deficit reduction package—I think, in the end, it's going to turn out to be close to $100 billion, perhaps $120 billion—but the procedure by which the Congress works its way to it.... There were three basic elements in the deficit reduction program—one involved taxes, one involved domestic spending, and the third involved defense spending.... The defense element is a given; the Congress is not going to provide more defense spending than the President wants or than what was outlined as part of the agreement among Republican leaders.... It's reasonable to think that the Congress will cut something in the order of $40 billion or more in outlays from defense.... On taxes, the Senate Finance Committee has already produced a bill that would increase revenues by closing loopholes and produce about $43-$48 billion over three years. The House Ways and Means Committee has taken similar action and here, I think, what remains to be determined is the procedure by which that bill is ultimately translated into law. The procedure will have to involve tying domestic spending cuts, in one way or another, to the revenue increase in order to keep the political coalition that is in support of the revenue increase together.... For the long term, beyond the election, there will be an enormous residual deficit.
problem facing whoever is President. The problem is so large, over the long run, that it will have to be addressed.... It seems to me that those in the financial community, who seem highly skeptical at best at the likelihood of the deficit problem being addressed, show remarkably little faith in our political system and political community.... What remains to be determined is the substantive character of the solutions to the deficit problem, not whether or not the society will, after the election, take further measures to reduce it.

A U.S. Labor leader: How is it that we had a discussion on the American economy this morning without talking about the 15 or 20 percent of our people who are living in and around the poverty level? How is it that any discussion of the recovery and of what might be taking place in the future fails to take into account that some Americans are poorer today than they were two, three or four years ago? How is it that, while we talk about the extension of the "me generation"... we do not address what needs to be done in this country in a cooperative attitude and spirit, in a spirit of compassion? How do we expect to be able to rally support to help those less fortunate than ourselves, the dispossessed, the exploited, if indeed this is happening? And finally, how did we not mention the tremendous imbalance in the trade deficit from which the United States suffers? I am all in favor of importing from countries which have a reasonable standard of living, enjoy a free trade union movement, and have, over the years of their development, shown a concern for a humane society. But that has little or nothing to do with the competition that comes from societies where autocratic governments prevail, where there are no union movements, where people live in utter degradation. If indeed we do not have to worry about trade among nations, aren't we essentially saying that we are not concerned about the kind of America in which our children and grandchildren are living? How can we have a discussion of the American economy without some mention of its impact and some indication of the direction in which we ought to go?

A former American official: Protectionism is an element in the electoral campaign that our large trade deficit is likely to provoke. It has already crept into the Democratic campaign and I would suggest that the current Administration proceed with protectionist actions to such a degree that President Reagan presides over the most protectionist government since Herbert Hoover, in spite of his, and his Administration's, commitment to a free-market philosophy. Is there likely to be a further outbreak of electorally-motivated protectionist actions during the course of 1984? And if so, might that not abort the recovery because of the response in the rest of the world, especially in the debt-ridden developing countries which are already against the wall and, seeing the market barriers go up might just throw in the towel; and in Europe, which is also feeling competitive pressures?

A leading economist: I am surprised that the protectionist actions of this Administration have not gone much further. If one looks at the extraordinarily long period of high unemployment in Europe and the very great pressures here to move in that direction, I think that the support for moving away from a general free-market philosophy has not been very large.... I would question whether what we are looking at are indeed shifts towards protectionism which would involve major changes in the developing world.

A new isolationism?

A foreign policy analyst: We are seeing the rise of a new isolationism. Of course, isolationism itself is not new in American history, or in the sociology of American ideas. It seems to me interesting to try to imagine how this isolationist strain now so clearly marked is going to develop over the course of the campaign.

I think one can distinguish different types of isolationism. There is a kind that is rather "morally" based, as much of the anti-Vietnam argument went. It argues somehow that a given war is morally wrong, that the U.S. ought not to be involved, and that if I, the candidate, were elected, we would not be. There's a strong element of that in the current Hart campaign. Then there is a kind of isolationism that is more pacifistically based—a basic notion that intervention anywhere is wrong. We see traces of that in the current debate. And there's another kind of isolationism which I suspect may begin to show. It is one that is more "pridefully" based, somewhat "nativistic." It is the attitude that America is a unique and wonderful place, that somehow the rest of the world is inferior, corrupt, or in some other way not worth bothering about because we are safely in our castle on this island, separated by the oceans, etc. That has had, over decades, a substantial appeal at times among some populist constituencies in the South and West.

There's yet another kind of isolationism, it seems to me, that is "practically" based. It says, in effect, that the mistake of Vietnam was that the logistical chain was much too long, or that the circumstances were such in the nature of a civil war that no distant foreign power was going to be able to intervene successfully, even with the greatest wisdom—that it was bound to be self-defeating for a variety of practical reasons. The interesting thing to consider, as one imagines how one builds a foreign policy consensus that goes beyond the Northeast/McGovernite/anti-Vietnam dimension and attempts to be more broadly appealing as a philosophy, is how one can do that and reconcile the appeal of isolationism with such seemingly basic national interests as the protection of our allies'
access to oil, or even the rise of adversarial powers on our own continent, with a 3,000 mile open southern border....

If you look at some of the central difficulties we have had in managing foreign policy lately, they are related to the rise of power of the Congress in the management of foreign policy, itself a post-Vietnam development. The executive branch is now constrained by the War Powers Resolution which, as we've seen in Lebanon, puts some serious limits on the possible sustainability of U.S. involvement. There is great legislative uncertainty within the Congress, within the minds of individual Congressmen, about the desirability of this arrangement, but to a much greater degree on whether or not, and to what extent, the U.S. ought to be interventionist. What are the key areas of strategic interest to the United States? What is the legitimate basis of the use of military aid, and direct military force in the post-Vietnam world? As a society, we have not explicitly, formally, addressed this question in anything other than a negative—no more Vietnamese. You cannot build a policy around a negative....

A prominent political scientist: Compare the 1984 debate concerning isolationism with the one that took place in the 1976 campaign. One finds a tremendous difference here. In 76, the Democrats wanted to cut the defense budget and turn away from international interests. If you look at the current campaign, you find the two leading Democrats supporting 3 to 5 percent increases in the defense budget; in their attitudes toward overseas commitments, they also reflect the things that have been shown in public opinion polls. While in 74, the majority of the people did not want to be involved overseas, by 78, that had already changed, and in 84, the majority supports intervention on behalf of our major allies.

The real issue, then, is not isolationism, but a question of selectivity of commitments. The question there is a basic one of foreign policy—how do you get some proportion between your commitments and your resources? When you fail to keep such a balance, you are likely to run into those big cycles and shifts of opinion which can drive you off course. The definition of this as isolationism runs the risk of diverting us away from what should be debated—a much more carefully structured argument about where, when and how we should intervene.

The 1984 Campaign

A leading Democrat: I think there was an underestimation of Gary Hart as an organizer. He had, after all, organized New Hampshire for McGovern, and had been involved in Iowa; he really is a nuts-and-bolts political organizer, in addition to being a media phenomenon. And there is something else: He's young enough to have a sense of the mass-movement quality about him—what we call charisma. The factor there is that, in a rapidly moving and fairly alienated society, there is a hunger for involvement. There is a need to belong. There is a need to feel a part of something that is going somewhere, I think Gary Hart's campaign has helped to meet that need....

It is hard for some of us who make politics a business to stay in tune with the American people, because we want to be rational. I am convinced that the American electoral process is much more spiritual and emotional than it is rational. Looking at Jimmy Carter's election, the things that got him into trouble once he got into office were the things that appealed to people when he was a candidate—he would restore decency and self-respect, he wanted a foreign policy that was as good and noble as the American people. It was an ambiguous appeal to idealism and virtue, but in the wake of Watergate, that was what the American people needed and wanted. In 1980, however, we came up with another kind of certainty—that we were going to increase military spending to make us more secure, balance the budget and reduce inflation. The American people wanted certainty; they wanted something they could rely on in face of all the anxiety that had been produced, mainly by the hostages and the sense of American weakness and insecurity that incident provoked. Jimmy Carter, while he addressed the spiritual needs of the nation very well as a candidate, was not able to perceive them at all once he was in the White House and literally shackled with the day-to-day realism of running the country....

I think Gary Hart is in that position now. He's captured something of the spiritual, though very complicated, mood of the country. It is a willingness, as I see it, to take on new ideas and to look at problems globally.... In the midst of an American people who are very much aware of the global nature of the problems we face, Gary Hart's campaign for something new doesn't really have to be well-defined, any more than John Kennedy's or Franklin Roosevelt's was defined in the course of each of their campaigns. In fact, it is best that it not be defined. It really is a quest for faith and a call for hope, rather than a certainty. What I see in this election period is indeed an America that is trying to move ahead and develop an essentially post-Vietnam view of the world, and that includes the developing world. We involve ourselves, not only in trade and competition between our allies in Europe and Japan, but also in the problems of the emerging needs of the world. And we see this also in a kind of self-interested way—not just wanting to feed the hungry of Africa, but realizing that feeding the hungry of Africa may be one way to generate more productive capacity in American business and create more jobs.

What we find is people groping for answers. The issue,
the referendum, is whether they are going to try to play it safe and deal with certain things with caution, which in a nuclear world commends itself, or whether they are going to really almost "go for broke" and see if they can’t, once again, make sense of this world in which we live.

A leading Republican: It seems to me that the Hart phenomenon is really marking Walter Mondale as the last vestige of Great Society-style domestic governmental interventionism—direct governmental expenditure programs intended to solve social problems.... I think it is the dominant view among neo-liberals and a wide range of thoughtful Democrats concerned about social problem-solving, but no longer committed to the Great Society approach as the best means. On the Democratic side there is a rising appreciation of the importance of markets, the need to restore economic productivity across the board, a rising emphasis on the importance of economic growth, at least as a pre-condition to social problem-solving and, among many of the Democratic thinkers, as preferable to the reallocation of a fixed or relatively slowly growing economic pie.... There is a new domestic consensus being built, as Gary Hart himself frequently suggests. The interesting thing is that it is a struggle among a new group in the Democratic Party (and to some extent, in the Republican party) for the leadership, leaving some of the old-style interventions behind....
An important session of the Washington conference, moderated by columnist Joseph Kraft, was devoted to the theme of “Living with the United States.” Following are excerpts from the three opening presentations by Henri Simonet, former Belgian Foreign Minister; Mitchell Sharp, former Canadian Secretary of State for External Affairs and North American Deputy Chairman of the Trilateral Commission; and Naohiro Amaya, Special Advisor to Japan’s Minister of International Trade and Industry.
Henri Simonet

When addressing the subject of "living with America," we ought to avoid two snags. The first one is an oversimplification: It is much easier for a Canadian, or a Japanese for that matter, to present the Japanese or Canadian positions as far as living with America is concerned; it is much more difficult for Europeans because there is no such thing as one European position. We are all more or less prisoners of our own traditions, interests and history. Therefore, it is always difficult to convey a general view of what Europe thinks. The second snag I would like to avoid is to fall again into that sad, almost boring, repertoire of mutual grievances, accusations and misunderstandings which we have been, and will probably go on, leveling at each other for years and years....

What surprises me is that while the Japanese, Canadians and Europeans have been asked to say what it means to live with the United States, nobody has asked the Americans to say what it means or feels like to live with Europe, or with Japan. There are several explanations for that.... Should we conclude that the Americans now feel that they never have to adjust to others—that it is for others to adjust to them? This is not meant as a criticism; it is in fact one of major questions of substance among us because it raises the issue of knowing whether or not the Americans have a special responsibility as a reserve-currency country to care about the dollar, or whether the problem of adjusting to the vagaries of American policy is a European or a Japanese or a Canadian problem, and not an American problem.

Another point I would like to make is that I do not think it is possible to remain in the traditional framework of bilateral Euro-American relations. Japan has become a part, and will, I hope, become a growing part, of a system in which Europe and the United States have been living for about half a century. Even in dealing with our bilateral programs or difficulties, I do not think we can ignore Japan anymore. Consider, for instance, the fact that one of the positive features of the last Williamsburg Sum-
That has undoubtedly changed. On the surface, culturally, Americans and Europeans are much closer now than they were twenty or thirty years ago.

But once one looks deeper, one must be aware that there are still differences—and I would say, at this particular time, growing ones, though I know that by saying this so briefly and concisely, I run the risk of falling into the trap of oversimplification.

There is still an American dream; I do not think there is still a European dream. There are European memories, there is a lot of European nostalgia, but there is nothing that is equivalent to what Americans call the American dream. There is still, in America, a new frontier, something to be got at, to go over—new conquests, new territories, space.... For Europe, the idea of a frontier conveys the sense of an isolation, of a limitation one cannot go beyond. In other words, we have indeed, in that respect, more wariness on our side, less flexibility. Not that we will not try to overcome this, yet the current contrast with an America confident again of itself, of its potential (a potential which, for the time being at least, and for the foreseeable future, does not exist in Europe) is an element in our relationship which accounts sometimes for misunderstandings between us.

In terms of our economic relationship, I must say that things have been, and continue to be, changing in Europe. André Malraux said thirty-five years ago that “everybody in France is, has been, or will be Gaullist.” For the time being in Europe, everyone has been and is, as far as economic policy is concerned, Reaganite (Mrs. Thatcher, for instance, has been one for years); and I might even say will be Reaganite, since the President of the French Republic has been changing his policy for a year and a half now and, in a way, has become a Reaganite, too. On the other hand, there is one fundamental issue that remains at the core of Europe’s disagreement with the United States: It is the feeling that America is enjoying all the advantages of being the center of the economic and monetary system while trying to shift the inconveniences and burdens of it on to other countries; the feeling Europeans have that the Americans are enjoying the advantages of being the center of an imperial system without carrying the burden of it....

I would like to say, on this score, that some of the economic problems between us may be taken care of if economic growth resumes. It is already improving in the United States and Japan, and we Europeans have hope that the situation will improve in Europe too. This will not solve all the problems—many of them will remain as permanent elements in our relationship—but, on this score, I am optimistic....

As far as our political relationship is concerned, there is indeed a potentially disruptive combination of what has been called American volatility and European ambivalence. The United States is volatile; observing the American scene at present has left me quite disquieted about what is going to be said and done and what commitments are going to be made between now and the two conventions, and then between the two conventions and the election. This element of volatility is quite worrying.

It expresses itself also through the use of language. The Americans do not seem to be aware of this fact—and that also applies to their relationship to the Soviet Union. The use of words is sometimes as dangerous as manipulating dynamite.... For the Soviets, words are a tool of power; one must be very careful with them. One cannot switch vocabulary off and on as if it were a light. You are going to have to live with what you say. And that is, I think, probably the most worrying aspect of this American volatility.

There is another aspect, and there some of us speak from experience! You cannot ask people to come out of the trenches, congratulate them for having fought, and then say it was useless for “we changed our minds.” That kind of behavior accounts for part of the deep bitterness of many European politicians towards American Administrations—I’m not speaking of one, but many Administrations. For us, with the sense of tradition we have, the state is not reborn every four years as if it were a new regime, as if it were something completely novel. The state is a permanent element of our political process and we must have a minimum of stability to understand you and follow you, which we are, most of us, ready to do.

As for the European ambivalence, I can understand how annoying and sometimes highly irritating it must be to American ears. When the Americans decrease their defense expenditures or
downgrade their defense posture, they are “weak.” When they increase their military expenditures and up-grade their defense posture, they become “ad-venturers.” When the dollar goes down, that “undermines our exports.” When the dollar goes up, that “jeopardizes our economic recovery.” It must be extremely difficult to be American at times!

The combination of those two elements—on the one hand American volatility and, on the other, this European tendency to blame America for everything—is very dangerous, as both feed upon each other. Europe’s ambivalence increases America’s vol-atility and America’s volatility, of course, will increase Europe’s ambivalence....
Mitchell Sharp devoted a good portion of his presentation to bilateral matters between Canada and the United States. He then turned to "the wider implications for Canada of living with the United States as an ally and as a center of economic, cultural and political power and influence." Mr. Sharp continued as follows:

These implications are not, of course, peculiar to Canada among the trilateral countries. We are in a special position because we are closer, more involved and part of the defense of North America, in addition to being a member of NATO. I would also point out that, unlike trilateral countries in Europe and Japan, we are not part of any other geographical area. We share North America with the United States from a trilateral point of view.

You will understand then why Canada is so sensitive to developments and policies south of the border and why relations with the United States figure so prominently in our domestic politics. Every Canadian political leader and every Canadian political party is required from time to time to respond to American policies on trade, foreign investment, United States cultural influences, American defense policies and even United States foreign policy.

When I was Secretary of State for External Affairs for Canada I attempted, in 1970, to give direction to Canadian policy in relation to the United States. I rejected a purely ad hoc approach and I rejected the option of moving deliberately towards integration with the United States. Instead, I favored what came to be known as the third option, which I defined as follows: Canada can pursue a comprehensive long-term strategy to develop and strengthen the Canadian economy and other aspects of its national life and in the process to reduce the present Canadian vulnerability (to events in the United States). Whatever the merits of that approach, the fact is that there has been very little change in the past decade or so in the fundamentals of United States-Canada relations. For example, we still do 70 percent of our trade with the United States; a very high but somewhat smaller proportion of our industry is still owned in the United States; United States movies, television and magazines continue to dominate our cultural landscape.

It is not surprising, therefore, that Canadian spokesmen tend to emphasize the differences between Canadian and American attitudes and policies, rather than the similarities. This is not an anti-American point of view. It is simply a means of drawing attention to the fact that although we are part of North America, we are an independent country that does not always follow the United States' lead and, indeed, that feels compelled from time to time to resist Americanization and to promote Canadianization. Well-meaning Americans are apt to say that Canadians are just like Americans. That is not so. Our history is different—no revolution, no civil war. We include a cohesive French-speaking society determined to retain its language and its culture. We have a different form of government and a different attitude to government, to mention only some of the major differences. Americans are also apt to interpret pro-Canadian policies as being anti-American. Neither is this so.

Perhaps a good way of expressing the Canadian point of view is to say that we want to live in harmony with, but distinct from, the United States. Sometimes, I have observed, the emphasis has been upon harmony. At others, on our separate identity, particularly when relations get tense because Canadians feel their interests are being overlooked. But the two basic elements are also there. Be assured of this: There is no place we would rather be than living next to the United States.

As a member of the NATO alliance, there is no doubt about the basic alignment of Canadian foreign policy. We do not, however, always share the views of the United States Administrations on the conduct of foreign policy. We established diplomatic relations with the People's Republic of China in 1970, notwithstanding the objections of the United States Administration, and we were gratified when a few months later, President Nixon made his famous call on Mao Tse-Tung. Canada never broke trade or diplomatic relations with Cuba, but we took measures to avoid becoming a means of bypass-
ing U.S. restrictions on trade with that country. At the request primarily of the United States, we participated in the International Control Commission in Vietnam to assist American forces in withdrawing from that bitter war. Notwithstanding some objections from the U.S. Administration, we left the Commission before it became meaningless as we expected it would become and as it did become. The peace initiative of our Prime Minister, which has been strongly supported in Canada, illustrates our uneasiness about the confrontational aspects of U.S., as well as Soviet, foreign policies. We are, nevertheless, permitting the testing of the cruise missile in northern Canada. The rescue mission in Grenada was embarrassing to the Canadian government, which although a major contributor to development aid in the Commonwealth Caribbean was not consulted; on the necessity of the operation, Canadian public opinion is divided.

Europeans and Japanese often have a different perspective from the United States with respect to foreign policy. That is to be expected. They live at a distance from the United States on different continents, in different environments. We Canadians live next to the United States, view American television programs, listen to many of the same political commentators, watch American political leaders in action, pay attention to the leadership race in the Democratic party of the United States, as well as to the race for the leadership of the Liberal party in Canada. Canadian views on foreign policy are not any more or less important than the views of other middle or smaller powers in the trilateral group. What distinguishes them is that they are North American views, although not those of the United States.

For Canada, the most basic aspect of living with the United States is, of course, the economic one. The whole world is affected to some degree by developments in the American economy and American economic policies. Canada is affected directly, immediately and massively. Although there may be differences in degree, when the United States is prosperous, so is Canada; when the United States is in recession, so is Canada. Since we are each other’s best trading partners, every change in trade policy by the United States or by Canada, if directed against imports from third countries, is almost bound to have repercussions on the other, hence Canada’s concern about growing protectionism in the United States. We could not escape being one of the principle victims, although we may be an innocent third party. The old special relationship which accorded special treatment to Canada may have to be revived in some form or other.

A change in United States interest rates is reflected almost immediately in Canadian interest rates, or in the exchange rate between the Canadian and American dollars, or in both. Capital, short and long term, moves freely in both directions across the border. Although we cannot claim to set an example since our budget deficit is proportionately higher (of course, much smaller in absolute terms), Canadians are worried about large budgetary deficits in the United States because of their present and potential effects on interest rates, which as I have already pointed out are reflected immediately and directly in Canada.

There is widespread support in Canada for the principle of deterrence as a means of preserving peace. Nevertheless, many Canadians have doubts about the projected increase in defense expenditures in the United States, both from a fiscal and foreign policy point of view. But our criticism tends to be muted, bearing in mind the relatively limited contribution in military terms that Canada has made to the common defense of North America and in NATO.

Regarding policies on international trade, you may know that from time to time consideration has been given to integrating the Canadian and United States economies in a free trade area. But nothing has come of it. More recently, there have been preliminary negotiations about sectoral free trade in specific commodities or groups of commodities inspired by the example of the automobile agreement which has now been in effect for almost 20 years. I
express the hope that these negotiations will not be inconsistent with the multilateral approach that has accomplished so much in post-war years. Already, through the post-war multilateral negotiations under the GATT, there has been a very large reduction in tariff barriers between our two countries. A very high percentage of cross-border trade now moves tariff-free.

I do not regard this session on living with the United States as an occasion to express complaints about the conduct of our great friend and ally. I do regard it as an opportunity to make each other aware, and particularly the Americans present here today, of how the relationship looks from the point of view of other Trilateral members.

A related purpose, I assume, is, if possible, to suggest ways in which living with each other may be made more fruitful. In that connection, as a Canadian, I have only one point to make. The trilateral countries do not, in my view, need more machinery for consultation. On the other hand, the machinery we have—whether bilateral or multilateral—does need to be used more effectively as a means of promoting coordination of national policies. I do not think the necessity for informed and concerted approaches to either political or economic questions is fully accepted even today, notwithstanding the existence of the IMF, the GATT, the OECD, NATO and recently of the summit conferences of heads of trilateral governments. Our horizons are still limited. We are still grappling with yesterday’s problems and have not yet faced up to the challenges posed by modern technology and its implications for both peace and war....

The United States is the predominant force affecting Canada on the bilateral and worldwide levels, but tends to regard relations with Canada as essentially manageable and local while concentrating most of its energies on broader international concerns. But for Canada, these apparently mundane local issues can often have major importance, because of the direct impact which acid rain, U.S. interest rates and so on can have on us, and because of our need to maintain our distinctness in the face of American bilateral and global policies. We are North American, but we are an independent country which has its own special interests to pursue in many areas.

We do not conceive our policies in terms of being pro-American or anti-American; what we need above all, I think, from the United States, is more understanding of the fact that we have our own character, our own history and a rich and complex society with its own requirements and dynamics. We submit, too, that since we are each other’s principal trading partner, there are reciprocal benefits for both countries when the issues between us are handled with sensitivity.
Naohiro Amaya

In the 1950s and '60s, the age of Pax Americana, the United States was unquestionably the "number one" country in the world, the conductor of the free world, and Japan just one of the players. At the time, communication between our two countries went only one way: The American government told the Japanese government what to do. Generally speaking, I think the United States was a good teacher and succeeded in democratizing Japan.

Economically, the U.S. government gave administrative guidance to the Japanese government for liberalizing the Japanese economy—trade and capital transactions most especially. In this process, taking into consideration the present performance and future possible developments of the industries concerned, and carefully choosing the timing of liberalization and appropriate amount of incentives to be given, this process of liberalization was the main cause of the success of the Japanese manufacturing industries. They made a real effort to rationalize their industries, facing the competition with other countries after the liberalization of trade and capital transaction. Because of this pressure for free trade and competition, unless we had the request for liberalization from the United States in the 1960s, I think it would have been impossible for Japanese industries to be as competitive as they are now.

In the first stage, the Japanese stayed mainly inside Japan and traded through a variety of channels; at the next stage, Japanese trading companies, banks, and manufacturing companies tried to have their branch offices or subsidiaries in the United States. Before the war, it was not so easy for us to develop bases in the U.S. because the Japanese were ethnically discriminated against; the export of Japanese products to the U.S. was boycotted from time to time. After the war, however, the situation changed. Japan is now a member of the General Agreement on Tariffs and Trade and our exports to the U.S. are treated much more fairly. The U.S. market was open to Japanese products; we could develop our economic activities very quickly there. Compared to the United States, the Japanese market is more closed, mainly because of cultural tradition. It's not as easy for Western activities to expand inside Japan, but since the world is getting more and more interdependent, the Japanese must make a greater effort to open their market to foreigners.

The Japanese economy has grown very quickly and is currently "number two" in the world in terms of GNP. Communication between the U.S. and Japan is now quite differentiated—it is two-way, and through a variety of channels. Now, not only the State Department but the Departments of Treasury, Commerce, Agriculture, and others, are involved. They have very deep concerns and interests in Japanese affairs. Many state governments, industries, labor unions, consumers, media and Congressmen are also deeply interested in how to live with Japan. On the Japanese side, not only the Foreign Ministry but MITI, the Ministries of Finance, Agriculture, Transportation, etc., are now heavily involved in communication and negotiations with the United States. Our industries and companies, through trade and investments, have very close ties with the U.S.

At the moment, however, despite these open channels, the understanding between our two countries is rather superficial. Japan was isolated from the outside world for 2,000 years; we are not, therefore, accustomed to contact with foreign countries and people. The United States itself was not internationally-minded until the 1930s. Neither country, then, can say that they are well-experienced in communicating with foreign cultures. Sometimes, therefore, our communication channels are often clogged; misperceptions arise—misperceptions based on superficial observations. With regard to the quick rise of Japanese manufacturing industries, for example, there are perceptions on the American side that Japanese companies are unfair and that American companies are suffering from competition with the Japanese. The American
government, taking these sentiments into consideration, sometimes puts pressure on the Japanese government to liberalize trade or business practices in Japan or to modify the behavior of the Japanese exporters, and sometimes the approach is made in a rather high-handed manner.

Generally speaking, however, I think the American policy toward Japan is correct. For example, the U.S. government is urging the Japanese government to liberalize the import of agricultural products and financial markets. While this policy is not wrong if it is viewed in the long term, when it comes to specifics, many Japanese feel that the American approach is not elegant or sophisticated enough. Some Japanese, therefore, feel that we are now sleeping on a sort of Procrustean bed made in the United States, causing a psychological repulse among the Japanese people that is counterproductive to a fruitful Japan-U.S. relationship.

What is most important now is the wide-based relationship on a variety of levels—not only on a governmental, but on a business and cultural basis as well. Even at the governmental level, personal contacts between our Ministers and American Secretaries are not enough. For instance, a Japanese Minister's average assignment lasts less than one year, limiting sustained personal contacts between top Japanese government officials and their American counterparts.

In conclusion, there is no doubt that a prosperous Japan needs a strong America. For the United States, a strong and prosperous Japan is better than if the national economy of Japan collapsed and Japan (and other western Pacific countries) became a hot bed of communism or terrorism. The United States would then have yet another problem area with which to contend. Japan needs a strong America and America needs a strong Japan—and, based upon the recognition of this truth, both countries should behave with care and wisdom. We must enhance our efforts to better know and live with each other through fair competition and cooperation, coordination of macroeconomic policies, cooperation on research and development activities, GATT, the debt problems and, needless to say, security issues. Not only Japan, but also Korea, Hong Kong, Singapore, Australia and New Zealand are all wishing to see a stable, sound relationship between the United States and Japan. I think this is the basis for the kind of prosperity to be expected in the Pacific region.
Over twenty years ago, President John Kennedy pledged that the United States would "pay any price, bear any burden, meet any hardship, support any friend, oppose any foe, in order to assure the survival and the success of liberty." We know now that the scope of that commitment is too broad—though the self-confidence and courage in those words were typically American and most admirable. More recently, another Administration took the view that our fear of communism was "inordinate" and that there were very complicated social, economic, religious and other factors at work in the world that we had little ability to affect. This, in my view, is a counsel of helplessness that substantially underestimates the United States and its ability to influence events.

Somewhere between these two poles lies the natural and sensible scope of American foreign policy. We know that we are not omnipotent and that we must set priorities. We cannot "pay any price" or "bear any burden." We must discriminate; we must be prudent and careful; we must respond in ways appropriate to the challenge and engage our power only when very important strategic stakes are involved. Not every situation can be salvaged by American exertion even when important values or interests are at stake.

At the same time, we know from history that courage and vision and determination can change reality. We can affect events, and we all know it. The American people expect this of their leaders. And the future of the free world depends on it.

Americans, being a moral people, want their foreign policy to reflect the values we espouse as a nation. But Americans, being a practical people, also want their foreign policy to be effective. If we truly care about our values, we must be prepared to defend them, and advance them. Thus we as a nation are perpetually asking ourselves how to reconcile our morality and our practical sense, how to pursue noble goals in a complex and imperfect world, how to relate our strength to our purposes—in sum, how to relate power and diplomacy.

We meet this evening amid the excitement of America’s quadrennial exercise of self-renewal, in which we as a country reexamine ourselves and our international objectives. It is an unending process—almost as unending as the Presidential campaign season. But there are some constants in our policy, such as our alliance with the industrial democracies, as embodied in this distinguished gathering. This partnership—the cornerstone of our foreign policy for 35 years—itself reflects our ability to combine our moral commitment to democracy and our practical awareness of the crucial importance of maintaining the global balance of power. So I consider this an appropriate forum at which to share some thoughts on the relationship between power and diplomacy in the last two decades of the 20th century.

The World We Face

By the accident of history, the role of world leadership fell to the United States just at the moment when the old international order had been destroyed by the two world wars but no new stable system had developed to replace it. A century ago, the international system was centered on Europe and consisted of only a few major players. Today, in terms of military strength, the dominant countries are two major powers that had been, in one sense or another, on the edge or outside of European diplomacy. But economic power is now widely dispersed. Asia is taking on increasing significance. The former colonial empires have been dismantled, and there are now more than 160 independent nations on the world scene. Much of the developing world itself is torn by a continuing struggle between the forces of moderation and the forces of radicalism. Most of the major international conflicts since 1945 have taken place there—often from Korea to Vietnam to the Middle East to Central America. Moreover, the Soviet Union continues to exploit nuclear fear as a political weapon to exploit instabilities wherever they have the opportunity to do so.

On a planet grown smaller because of global
communications, grown more turbulent because of the diffusion of power—all the while overshadowed by nuclear weapons—the task of achieving stability, security, and progress is a profound challenge for mankind. In an age menaced by nuclear proliferation and state-sponsored terrorism, tendencies toward anarchy are bound to be a source of real dangers.

It is absurd to think that America can walk away from these problems. This is a world of great potential instability and great potential danger. There is no safety in isolationism. We have a major, direct stake in the health of the world economy; our prosperity, our security, and our alliances can be affected by threats to security in many parts of the world; and the fate of our fellow human beings will always impinge on our moral consciousness. Certainly the United States is not the world’s policeman. But we are the world’s strongest free nation, and therefore the preservation of our values, our principles, and our hopes for a better world rests in great measure, inevitably, on our shoulders.

POWER AND DIPLOMACY

In this environment, our principal goal is what President Reagan has called “the most basic duty that any President and any people share—the duty to protect and strengthen the peace.” History teaches, however, that peace is not achieved merely by wishing for it. Noble aspirations are not self-fulfilling. Our aim must always be to shape events, and not be the victim of events. In this fast moving and turbulent world, to sit in a reactive posture is to risk being overwhelmed—or to allow others, who may not wish us well, to decide the world’s future.

The Great Seal of the United States, as you know, shows the American eagle clutching arrows in one claw and olive branches in the other. Some of you may have seen the Great Seal on some of the china and other antique objects in the White House or in the ceremonial rooms on the eighth floor of the State Department. On some of the older items, the eagle looks toward the arrows; on the other, toward the olive branches. It was President Truman who set it straight: He saw to it that the eagle always looked toward the olive branches—showing that America sought peace. But the eagle still holds onto those arrows.

This is a way of saying that our forefathers understood quite well that power and diplomacy always go together. It is even clearer today that a world of peace and security will not come about without exertion, or without facing up to some tough choices. Certainly power must always be guided by purpose, but the hard reality is that diplomacy not backed by strength is ineffectual. That is why, for example, the United States has succeeded many times in its mediation when many other well-intentioned mediators have failed. Leverage, as well as good will, is required.

Americans have sometimes tended to think that power and diplomacy are two distinct alternatives. To take a very recent example, the Long Commission report on the bombing of our Marine barracks in Beirut urged that we work harder to pursue what it spoke of as “diplomatic alternatives,” as opposed to “military options.” This reflects a fundamental misunderstanding—not only of our intensive diplomatic efforts throughout the period, but of the relationship between power and diplomacy. Sometimes, regrettable as it may be, political conflict degenerates into a test of strength. It was precisely our military role in Lebanon that was problematic, not our diplomatic exertion. Our military role was hamstrung by legislative and other inhibitions; the Syrians were not interested in diplomatic compromise so long as the prospect of hegemony was not foreclosed. They could judge from our domestic debate that our staying power was limited.

In arms control, also, successful negotiation depends on the perception of a military balance. Only if the Soviet leaders see the West as determined to modernize its own forces will they see an incentive to negotiate agreements establishing equal, verifiable, and lower levels of armaments.

The lesson is that power and diplomacy are not alternatives. They must go together, or we will
accomplish very little in this world. The relationship between them is a complex one, and it presents us with both practical and moral issues. Let me address a few of those issues. One is the variety of the challenges we face. A second is the moral complexity of our response. A third is the problem of managing the process in a democracy.

THE RANGE OF CHALLENGES

Perhaps because of our long isolation from the turmoil of world politics, Americans have tended to believe that war and peace, too, were totally distinct phenomena: We were either in a blissful state of peace, or else (as in World Wars I and II) we embarked on an all-out quest for total victory, after which we wanted to retreat back into inward-looking innocence, avoiding “power politics” and all it represented. During World War II, while single-mindedly seeking the unconditional surrender of our enemies, we paid too little heed to the emerging postwar balance of power.

Similarly, since 1945 we have experienced what we saw as a period of clear-cut cold war, relieved by a period of seeming détente which raised exaggerated expectations in some quarters. Today we must see the East-West relationship as more complex, with the two sides engaging in trade and pursuing arms control even as they pursue incompatible aims. It is not as crisis-prone or starkly confrontational as the old cold war; but neither is it a normal relationship of peace or comfortable coexistence. Thus, in the 1980’s and beyond, most likely we will never see a state of total war or a state of total peace. We face instead a spectrum of often ambiguous challenges to our interests.

We are relatively well prepared to deter an all-out war or a Soviet attack on our West European allies; that’s why these are the least likely contingencies. But day in and day out, we will continue to see a wide range of conflicts that fall in a grey area between major war and millennial peace. The coming years can be counted upon to generate their share of crises and local outbreaks of violence. Some of them—not all of them—will affect our interests. Terrorism—particularly state-sponsored terrorism—is already a contemporary weapon directed at America’s interests, America’s values, and America’s allies. We must be sure we are as well prepared and organized for this intermediate range of challenges.

If we are to protect our interests, values and allies, we must be engaged. And our power must be engaged.

It is often said that the lesson of Vietnam is that the United States should not engage in military conflict without a clear and precise military mission, solid public backing, and enough resources to finish the job. This is undeniably true. But does it mean there are no situations where a discrete assertion of power is needed or appropriate, for limited purposes? Unlikely. Whether it is crisis management or power projection or a show of force or peacekeeping or a localized military action, there will always be instances that fall short of an all-out national commitment on the scale of World War II. The need to avoid no-win situations cannot mean that we turn automatically away from hard-to-win situations that call for prudent involvement. These will always involve risks; we will not always have the luxury of being able to choose the most advantageous circumstances. And our adversaries can be expected to play rough.

The Soviets are students of Clausewitz, who taught that war is a continuation of politics by other means. It is highly unlikely that we can respond to grey-area challenges without adapting power to political circumstances, or on a psychologically-satisfying all-or-nothing basis. This is just not the kind of reality we are likely to be facing in the 1980’s or 1990’s or beyond. Few cases will be as clear or as quick as Grenada. On the contrary, most other cases will be a lot tougher.

We have no choice, moreover, but to address ourselves boldly to the challenge of terrorism. State-sponsored terrorism is really a form of warfare. Motivated by ideology and political hostility, it is a weapon of unconventional war against democratic societies, taking advantage of the openness of these societies. How do we combat this challenge? Certainly we must take security precautions to protect our people and our facilities; certainly we must strengthen our intelligence capabilities to alert ourselves to the threats. But it is increasingly doubtful that a purely passive strategy can even begin to cope with the problem. This raises a host of questions for a free society: In what circumstances—and how—should we respond? When—and how—should we
take preventive or preemptive action against known terrorist groups? What evidence do we insist upon before taking such steps?

As the threat mounts, and as the involvement of such countries as Iran, Syria, Libya and North Korea has become more and more evident, then it is more and more appropriate that the nations of the West face up to the need for active defense against terrorism. Once it becomes established that terrorism works—that it achieves its political objectives—its practitioners will be bolder, and the threat to us will be all the greater.

**The Moral Issues**

Of course, any use of force involves moral issues. American military power should be resorted to only if the stakes justify it, if other means are not available, and then only in a manner appropriate to the objective. But we cannot opt out of every contest. If we do, the world's future will be determined by others—most likely by those who are the most brutal, the most unscrupulous, and the most hostile to our deeply-held principles. *The New Republic* stated it well a few weeks ago: *The American people know that the forces and the threat of force are central to the foreign policy of our adversaries, and they expect their President to be able to deter and defeat such tactics.*

As we hear now in the debate over military aid to Central America, those who shrink from engagement can always find an alibi for inaction. Often it takes the form of close scrutiny of any moral defects in the friend or ally whom we are proposing to assist. Or it is argued that the conflict has deep social and economic origins which we really have to address first before we have a right to do anything else. But rather than remain engaged in order to tackle these problems—as we are trying to do—some people turn these concerns into formula for abdication, formulas that would allow the enemies of freedom to decide the outcome. To me, it is highly immoral to let friends who depend on us be subjugated by brute force if we have the capacity to prevent it.

There is, in addition, another ugly residue of our Vietnam debate: the notion, in some quarters, that America is the guilty party, that the use of our power is a source of evil and therefore the main task in foreign policy is to restrain America's freedom to act. It is inconceivable to me that the American people believe any of this. It is certainly not President Reagan's philosophy.

Without being boastful or arrogant, the American people know that their country has been a powerful force for good in the world. We helped Europe and Asia—including defeated enemies—rebuid after the war and we helped provide a security shield behind which they could build democracy and freedom as well as prosperity. Americans have often died and sacrificed for the freedom of others. We have provided around $165 billion in economic assistance for the developing world. We have played a vital facilitating role in the Middle East peace process, in the unfolding diplomacy of Southern Africa, as well as in many other diplomatic efforts around the globe.

We have used our power for good and worthy ends. In Grenada, we helped restore self-determination to the people of Grenada, so that they could choose their own future. Some have tried to compare what we did in Grenada to the Soviet invasion of Afghanistan. We welcome such comparison! Contrast, for example, the prospects for free elections in the two countries. In Grenada, they will be held this year; in Afghanistan, when? Contrast the number of American combat troops now in Grenada five months after the operation with the number of Soviet troops in Afghanistan fifty-five months after their invasion. The number in Grenada is zero; the number in Afghanistan is over 100,000.

More often, the issue is not the direct use of American military assistance to friends to help them defend themselves. Around the world, security support for friends is a way to prevent crises; it bolsters our friends so they can deter challenges. And it is a way of avoiding the involvement of American forces, because it is only when our friends' efforts in their own defense are being overwhelmed that we are faced with the agonizing decision whether to involve ourselves more directly. Security assistance is thus an essential tool of foreign policy. It is an instrument for deterring those who would impose their will by force, and for making political solutions possible. It gets far less support in this country than it deserves.

Central America is a good example. The real
moral question in Central America is not: Do we believe in military solutions, but: Do we believe in ourselves? Do we believe that our security and the security of our neighbors has moral validity? Do we have faith in our own democratic values? Do we believe that Marxist-Leninist solutions are antidemocratic and that we have a moral right to try to stop those who are trying to impose them by force? Sure, economic and social problems underlie many of these conflicts—but in El Salvador, the Communist guerrillas are waging war directly against the economy, blowing up bridges and power stations, deliberately trying to wreck the country's economy.

The conflict in Central America is not a debate between social theorists; it is one of those situations I mentioned where the outcome of political competition will depend in large measure on the balance of military strength. In El Salvador, the United States is supporting moderates who believe in democracy and who are resisting the enemies of democracy on both the extreme right and the extreme left. If we withdrew our support, the moderates, caught in the crossfire, would be the first victims—as would be the cause of human rights and the prospects for economic development. Anyone who believes that military support for our friends isn't crucial to a just outcome is living in a dream world. And anyone who believes that military support can be effective when it's given on an uncertain installment plan is not facing reality.

ACCOUNTABILITY WITHOUT PARALYSIS

The third issue I want to mention is the question of how this country, as a democracy, conducts itself in the face of such challenges. Over the last 35 years, the evolution of the international system was bound to erode the predominant position the United States enjoyed immediately after World War II. But it seems to me that in this disorderly and dangerous new world, the loss of American predominance puts an even greater premium on consistency, determination, and coherence in the conduct of our foreign policy. We have less margin for error than we used to have.

This change in our external circumstances, however, coincided historically with a kind of cultural revolution at home that has made it harder for us to achieve the consistency, determination, and coherence that we need. The last 15 years left a legacy of contention between the executive and legislative branches and a web of restrictions on executive action embedded permanently in our laws. At the same time, the diffusion of power within the Congress means that a President has a hard time when he wants to negotiate with the Congress, because Congressional leaders have lost their dominance of the process and often cannot produce a consensus, or sometimes even a decision. The net result, as you well know, is an enormous problem for American foreign policy: a loss of coherence, and recurring uncertainty in the minds of friend and foe about the aims and constancy of the United States.

Particularly in the War Powers field, where direct use of our power is at issue, the stakes are high. Yet the War Powers Resolution sets arbitrary 60-day deadlines that practically invite an adversary to wait us out. Our Commander-in-Chief is locked in battle at home at the same time he is trying to act effectively abroad. Under the Resolution, even inaction by the Congress can force the President to remove American forces from an area of challenge—which, as former President Ford has put it, undermines the President even when the Congress can't get up the courage to take a position. Such constraints on timely action may only invite greater challenges down the road. In Lebanon, our adversaries' perception that we lacked staying power undercut the prospects for successful negotiation. As the distinguished Majority Leader, Howard Baker, said on the floor of the Senate four weeks ago: We cannot continue to begin each military involvement abroad with a prolonged tedious and divisive negotiation between the executive and the legislative branches of Government. The world and its many challenges to our interests simply do not allow us that luxury.

I do not propose changes in our constitutional system. But some legislative changes may be called for. And I propose, at a minimum, that all of us, in both Congress and the Executive Branch, exercise our prerogatives with a due regard to the national need for an effective foreign policy. Congress has the right, indeed the duty, to debate and criticize, to authorize and appropriate funds and share in setting the broad lines of policy. But micro-management by a committee of 535 independent-minded individuals is a grossly inefficient and ineffective way to run an
important enterprise. The fact is that depriving the President of flexibility weakens our country. Yet a host of restrictions on the President's ability to act are now built into our laws and procedures. Surely there is a better way for the President and Congress to exercise their prerogatives without hobbling this country in the face of assaults on free world interests abroad. Surely there can be accountability without paralysis. The sad truth is that many of our difficulties over the last fifteen years have been self-imposed.

The issue is fundamental. If the purpose of our power is to prevent war, or injustice, then ideally we want to discourage such occurrences rather than have to use our power in a physical sense. But this can happen only if there is assurance that our power would be used if necessary. A reputation for reliability becomes, then, a major asset—giving friends a sense of security and adversaries a sense of caution. A reputation for living up to our commitments can, in fact, make it less likely that pledges of support will have to be carried out. Crisis management is most successful when a favorable outcome is attained without firing a shot. Credibility is an intangible, but it is no less real. The same is true of a loss of credibility. A failure to support a friend always involves a price. Credibility, once lost, has to be re-earned.

FACING THE FUTURE

These dilemmas and hard choices will not go away, no matter who is President. They are not partisan problems. Anyone who claims to have simple answers is talking nonsense.

The United States faces a time of challenge ahead as great as any in recent memory. We have a diplomacy that has moved toward peace through negotiation. We have rebuilt our strength so that we can defend our interests and dissuade others from violence. We have allies whom we value and respect. Our need is to recognize both our challenge and our potential.

Americans are not a timid people. A foreign policy worthy of America must not be a policy of isolationism or guilt, but a commitment to active engagement. We can be proud of this country, of what it stands for, and what it has accomplished. Our morality should be a source of courage when we make hard decisions, not a set of excuses for self-paralysis.

President Reagan declared to the British Parliament nearly two years ago: We must be staunch in our conviction that freedom is not the sole prerogative of a lucky few but the inalienable and universal right of all human beings. As long as Americans hold to this belief, we will be actively engaged in the world. We will use our power and our diplomatic skill in the service of peace, and our ideals. We have our work cut out for us. But we will not shrink from our responsibility.
The past year has been marked on the international economic plane by at least three major developments. The first is recovery; the second is balance of payments adjustment; and the third is the response of the international financial community to the debt crisis.

**Recovery**

Recovery has taken off in the United States and Canada in particular, and it is spreading into other industrial and developing countries, albeit at a relatively slow pace. The United States is moving towards 5 percent real growth, '84 on '83. We are projecting an expansion of real output for the industrial countries as a whole for 1984 of something like 3 1/2 percent, year on year, which is certainly a favorable development if you look at the 2 1/4 percent in 1983 and the stagnation that marked the period before. Recovery in the United States—the most important industrial country of the world—is a strong vehicle for expansion in the rest of the world and for resumption of international trade. We foresee in 1984 an expansion in volume terms of international trade of some 5 percent, which is—after four years of stagnation—one of the bright spots on the horizon, and which has enormous relevance for the problems of the international financial system.

**Balance of Payments Adjustment**

The second piece of good news is that there has been a considerable balance of payments adjustment in the world. We have to remember where we started from. The non-oil developing countries in 1981 accumulated a current account deficit globally on the order of $110 billion. That's the peak of the imbalances that we have known in the postwar period, and that was not sustainable. Eventually the debt crisis, which appeared in 1982, made it clear that it would not be sustained. In 1983, we came down to a current account deficit of $56 billion—a very remarkable reduction in these excessive imbalances. The important thing, and that's why I put it in my good news, is that the process has taken place in relatively good order. I mean that the large countries which were responsible for these enormous deficits have been, most of them, reacting to the external constraint with responsible adjustment policies. Most of these countries have been developing a working relationship with the International Monetary Fund that is embodied in the fact that we have now, in action, close to forty programs of adjustment in the world. Now this is a very large number of countries accounting for a very large part of the international scene, and these programs as you know are characterized by the sort of realistic prescriptions that all countries in such positions have to resort to—fiscal restraint, monetary restraint, and exchange rate and interest rate realism and flexibility. The road towards adjustment is not always a smooth one. Actually I should say it's never a smooth one. It's a bumpy one by definition. But the important thing is to keep these programs on track and to repair the slippages when they occur, to adapt policies when they need to be adapted, and to continue on the route of adjustment in a medium-term framework that makes sense. Some countries have had better performance than others; and that's in the nature of things, in the nature of the complexities of real political and social life. A country like Mexico has performed in a remarkable way in the course of 1983. It has turned around its external position in an outstanding fashion, and reset its major price relationships in a remarkably rapid and efficient way. And now that country is moving towards more domestic expansion, because it has the external resources and the credit standing that can permit such a resumption of growth.

**International Financial Community and the Debt Crisis**

The third thing I want to say is that the international financial system has coped in a very remarkable way, has addressed the problems in a
concerted and cooperative fashion. I spoke of the role of the International Monetary Fund. As I said, we have been organizing these adjustment programs which are the necessary anchor for any financial solution. You cannot put together a financial package addressing debt problems and balance of payments financing in a cooperative way if you do not convey to the system that all this is not good money thrown away. You have to convey the notion that something is happening in those countries that is worthwhile supporting. Thus, I think the secret of the success of these financial actions has been that all of them, or nearly all of them, are centered around an adjustment program backed by the International Monetary Fund.

The role of the Fund is more that of an agent of adjustment, a catalyst for other financial resources, than a role of direct financing. Now this does not mean that direct financing by the Fund is a negligible element. Actually, we have increased our lending in a very rapid and striking way—in 1983, by some 12 billion SDRs (Special Drawing Rights). But this is only a modest part, it must be only a modest part, of the total financing needs of these countries. The essence of Fund intervention is, in my view, as an agent of adjustment.

You know that bank lending has been a very important component in these financing actions. It was clear that, after over-extending their positions in a number of cases, the banks could not pull out. That would have meant extremely serious difficulties for their borrowing countries, and would have impaired the quality of the assets of the creditors. It is heartening to note that, in spite of the circumstances, bank lending in terms of new commitments and new exposures has been increasing by something approaching 7 percent a year. Now this is exactly the sort of quantitative response that I think had to be given to the problem. Before 1982 we had years of increased bank lending of something like 20 percent a year. Obviously, these increases in lending exposures were not sustainable. The deceleration of the increase in exposures by the banks to something like 7 percent in 1983, and maybe a similar order of magnitude in 1984, is something that shows that what I call the “landing process” is taking place in an orderly fashion.

Industrial country governments have also been active in the financial process in many ways. They have been rescheduling or restructuring officially guaranteed loans to those countries. The Paris Club has been a very efficient and pragmatic response to that part of the problem. And international development institutions, although they have limited resources to attack these types of problems rapidly with quick disbursing money, have been extremely useful in the process. The Fund itself, as you know, has been financially re-equipped. An increase in our quotas has brought our capital base from a level of 60 billion SDRs to a level of 90 billion. And we have also considerably increased the credit lines which are put at the disposal of the Fund by the industrial countries—the General Agreements to Borrow—from 6 billion to 18 1/2 billion dollars.

Now this process, which I have just characterized very quickly, must be consolidated, must be strengthened. There are a number of clouds on the horizon, as you all well know. The recovery is not something that is guaranteed. Recovery has to be nurtured, and economic policies in the large industrial countries must be geared to the pursuit of a sound and continued recovery. Adjustment is always clouded by risks and uncertainties in developing countries. It's already very painful in large industrial countries, as we know, and it's more painful in countries where the standards of living are low and in some cases close to extreme poverty levels. Thus, if we cannot organize a medium-term adjustment process that offers some hope of growth to these countries, the adjustment process is at risk. One has to understand that there are social, political limits to economic adjustment. The advantages perceived in the country from servicing external debt and conducting adjustment policies must balance the costs, the human pain, of these adjustments.
Industrial countries have three major challenges. The first one is to consolidate the recovery; the second is to restore a more open trade environment; and the third one is to achieve what I would call a sound international financial setting for these adjustment programs.

**Consolidating the Recovery**

To consolidate the recovery, the first thing is not to fall into the temptation of rekindling inflation. I do not believe in locomotive theories. I think that countries that have mastered their inflation should be commended for having mastered it, and we should not push them into more fiscal irresponsibility. Monetary policy and fiscal policy must remain cautious and geared to the pursuit of anti-inflationary purposes. Now this does not mean that all policies should be the same. There are, of course, many reasons for flexibility and differences from country to country, because individual circumstances are different. But, I think combatting inflation should remain the name of the game.

The second thing is to rein in excessive budget deficits where these deficits are threatening economic conditions. I would like to draw your attention to the fact that budget deficits absorbed some fifty percent of private net savings in the seven largest industrial countries in 1982. Of course, part of the problem was due to the recession, which has a direct bearing on receipts and expenditures. We all know that. But we also all know that, behind this tolerable and actually normal part of fiscal deficits, there is a structural deficit component which is mounting, and which has to be addressed if we do not want to see the medium and long-term future of our countries swallowed up by public debt and public expenditure of questionable economic efficiency. It is clear that the U.S. fiscal deficit is, in this regard, a major problem. It is contributing to keeping interest rates high. Long-term interest rates in the seven largest countries are probably more than five percentage points above the rate of inflation; and in the United States, the positive spread is of the order of seven points. Now this is not only important for the future conditions for economic growth in industrial countries and in the United States in particular, but it is also of enormous relevance for the international setting. We all know that one percentage point higher interest rates in the international markets means 3.5 to 4 billion more dollars a year in servicing the debt of the non-oil developing countries. We should remember that historically, interest rates have permitted economic expansion in the world at some three percentage points beyond inflation.

My third prescription, which is perhaps more directed to European countries, is attacking structural rigidities. In many countries, in particular in Europe, economies have been hampered not so much by the consequences of fiscal deficits as by a number of developments in social transfers, wage indexation, over-regulation of the economy, reduction in the profit margins of enterprises, which eventually have hampered (and in some cases stifled) growth and are the root causes of the terrible unemployment figures that these countries are still facing. It is striking to see the flexibility of the United States economy, which in a period of expansion moves very rapidly in terms of employment, creating four to five million jobs in little more than a year. For European countries—although they are starting recovery—to make any dent on the unemployment problem, I am persuaded that these rigidities in the structural responses of these economies are at the root of the problem.

**Restoring an Open Trade Environment**

The second challenge, as I said, is to restore an open trade environment. Protectionist tendencies proliferating over the past years have complicated and in a way threatened the sound working of the international financial system. You know that there is a very clear link between the solution to debt problems and the opening up of the trade system. You can't ask countries that are plunged in external debt problems to service their debts, and even less to repay them, if they cannot export, and if they cannot expand their exports in international markets. This is a fundamental relationship that is probably not sufficiently underscored. I think we are now at a very crucial point. Recovery is taking off. We don't have the excuse of protectionism being a sort of quick fix for recession and stagnation. We don't have that excuse. We have to roll it back. And I think the initiatives that are being taken by Japan, by the United States, in trying to foster a new round of multilateral negotiations to open up trade are extremely important. Both groups, developing
countries and industrial countries, have their part to play. I often hear that protectionism is only a problem for the industrial countries. Not at all. Developing countries are also overly protected. We know that. There are all sorts of practices—licensing, quantitative restrictions, very protected pricing systems, subsidies and whatnot—which of course impair the efficiency of their economies. And they have to open up. But one has to understand that given the external constraints they are in, and given the protectionist attitudes that they are suffering from on markets, it's extremely difficult for them to be the leaders in the opening up of the trade system. This is really a two-way road, and we have to think in terms of mutuality of interest. The LDCs, if their economies are managed well in the years to come and if the financial problems which beset them are solved in a skillful way, can be a considerable ferment for growth and for expansion of exports in the industrial countries. There is a growth potential in those countries. They represent already some thirty percent of world exports of industrial countries.

Providing a Sound International Financial Setting for Adjustment

The last challenge is that financial arrangements must enhance the adjustment process and make it more socially tolerable. I think here I can say that Fund actions must continue. The Fund is not just an organization that intervenes when the fire is set. We have to continue helping out these countries for some time. Adjustment takes place on a medium-term horizon.

The commercial banks, with other financiers, must continue to help, and to finance. As I said, there is an orderly treatment of the amortization problems and of the new money problems of these countries to be continuously organized. We have had an example over the past weekend of what an inventive mechanism for bridging some immediate debt problems can achieve. I'm of course referring to the case of Argentina. Here we have a country that has just had elections, that is facing considerable economic and other challenges, and that has to put together an economic policy. It is heartening to see that the international community and, perhaps even more importantly, the regional community has put together a concerted action to help that country put its affairs in order, shape up its policies, without being daily beset by intractable immediate problems. This shows that there is more than a relationship between the debtors and the creditors. There is a relationship between the sister countries of the region, and an interest shown by these countries in the success of the policies of their neighbors. The notion of financial stability is at the heart of political stability; and it is heartening to see that countries as diverse as the ones participating in that package also have that same notion.

Official development assistance must be more forceful. It is absolutely clear that adjustment problems are pushing some countries to the limit of what I call “social tolerance”. I don't think it's right to ask the banking community to repeat the vast and huge balance of payments financing of the past. That was a cause of the problems we're just trying to get out of. But we do need to have more private direct investment, non-debt generating funds. Now that will not be prescribed by legal instruments. It may be helped by legal attitudes, but it will not be prescribed. You won't get the direct investment if you don't have confidence in the quality of policies and the durability of policies by the host countries. We also need to foster economic development through intelligent official development assistance. I am not a man for throwing out public money. But I believe very strongly that many of these countries have very large structural economic problems to cope with. And if they are not coped with—and they cannot be coped with by Fund programs because that's not the tool to look after development problems of a structural nature (we have short term money that has to revolve quickly)—if we do not address these structural problems by more forceful economic aid, we may well miss fundamental opportunities. These adjustment programs, to develop in a peaceful and successful ambience, must be helped by growth and hope for growth. I believe that governmental aid and, perhaps more importantly, the multilateral development organizations have an enormous role to play in conjunction with the adjustment process. They should be a growing part of the solution of the structural balance of payments problems of these countries, and I am disquieted to see that the IDA negotiation has not led to a more adapted-to-the-situation, if I may say
so, level for its new replenishment.

My conclusion is very clear. I often hear phrases like "we've only bought time," "we haven't really solved the problems"—I would caution you against that attitude. We have bought much more than time. We have bought a lot of things. We have introduced and helped to introduce in the system much more economic rationality—much more. Adjustment is now an element of the system which is understood. You must not push it too far, but it is understood. The flexibility and the resilience of the financial system is not just time bought. It's things we have learned. This system is functioning. I would say that it's probably in better shape than it was in 1981-82, because the quality of the assets is now underpinned by policies, which was not the case in all countries.

But, big problems are there: interest rates, structural adjustment. We often have a tendency to say it's the LDCs that have to do the job. Of course they have to do part of the job. But the economic setting in which they are moving is very clearly determined by some of the actions or the non-actions that the industrial countries are about to take or not to take. One of the most important functions of international leadership is to put together these interrelations—between protectionism, the U.S. fiscal deficit interest rate policy, official development assistance—to put these together and try to develop something that bears more hope.
Basic Elements of the Mexican Economic Adjustment Program

At the end of 1982, Mexico was facing very serious and profound economic and social problems. We ended that year with a fiscal deficit of around 18 percent of the Gross Domestic Product—a figure that has no precedent in Mexican history. It is very difficult to find any other country in the world, including those that have been at war, with such a high coefficient of fiscal deficit. Many of your countries experience intense controversy when the government deficit reaches 5 percent or 6 percent or, in some other cases, even a lower figure. We ended up with 18 percent in 1982. That year, inflation was 100 percent. If someone had told us three years ago that we were going to run into 100 percent inflation, we probably would have thought that he was talking about the wrong country and referring perhaps to some country more to the south, but that it could not happen in Mexico, which has had a very notable record of price and monetary stability for a good number of decades. I think our case proves how easy it is for a country to move from a more or less moderate level of inflation to one of three digits; as it did in our country in 1982.

We had a very serious external disequilibrium—a current account deficit of close to $15 billion in 1981. Our reserves at the end of 1982 were nearly exhausted. We had practically broken financial relations with the outside world. These problems are the consequence of a number of developments—some of them closely linked to the external debt problem, many of them not. I mention this because I think we may now be inclined to judge many of the domestic problems of a good number of developing countries by putting the blame on the external debt. I think it is important for us to be very clear that, while some of these problems are closely related to the external debt, many others are not, and their basic origin should and can be traced to other developments and factors.

We had to act. A new government took office on December 1, 1982, and the President announced that same day a very severe and profound economic adjustment program. We have said, and we want to emphasize it every time it is appropriate, that it was not a program that was imposed upon us by anybody from the outside. It was a program that was designed by the Mexican authorities, who were facing a very special and difficult circumstance. We have been criticized in many quarters: How is it possible to end up with such a severe economic adjustment program? My answer is that there was no other way out. When you run into a fiscal deficit of this magnitude, you have to bring it down, whether you like it or not, and tailor it to the available financial resources. Of course, you can maintain the same level of deficit, but that will have clear repercussions on the inflation rate and the welfare of a good part of the population. Therefore, we had to announce a number of measures to correct our basic disequilibrium. Curiously enough, in order to bring down a deficit, one must increase income and reduce expenditure! So we increased taxes and we increased the prices of goods and services offered by the government, by the public sector of Mexico. Our goal was to bring down the deficit from 18 percent to 8.5 percent—a figure for which we thought we would have enough domestic and external resources to provide adequate financing. We feel very happy that the target was completely fulfilled and that, in 1983, the fiscal deficit of the public sector of Mexico went down to 8.5 percent.

We had aimed to bring down inflation to half of what it was, i.e., to 50 percent—still a very high, unsustainable rate when you live, like Mexico, so far from God and so close to the United States; when you have a border of 3,000 kilometers and about 1 million people crossing that border every day. I don't know how other countries cope with an inflation of 100 percent or 200 percent, but I do know that, being a neighbor to the United States, you cannot have an inflation rate as high as the one we had in 1982 and 1983 if you want to maintain a social and economic equilibrium. We were not as successful on the inflation front as we had expected.
In 1983, we brought it down from 100 percent to 80 percent. But on a monthly basis, we made much more progress. We began the Administration with close to 12 percent a month, which on an accumulated basis would have put us much above 100 percent per year, and we brought it down to a little more than 3 percent in December on a monthly basis.

In the external sector, the change was dramatic. We are now running a surplus in our trade balance of close to $14 billion and a current account surplus of a little more than $5 billion for the first time in four decades. This can be explained basically by a drop in imports, not by an expansion of exports. To be sure, it would have been much better to correct the problem by expanding exports. But instead of resorting to protectionist devices or import quotas or very high tariffs, we used the best and most efficient mechanism to adjust imports—which was to make dollars unavailable for the first four months of the year. Without cash, one cannot buy imports, and imports went down to less than half of what they were in 1981.

This drop, of course, also had serious repercussions in a good number of companies and regions in the United States. Without this kind of impact, there would be much less attention given in the U.S. to the Mexican problem. (In terms of unemployment, some compared the effect of the Mexican drop in imports to what has happened in your automobile industry. There are a number of estimates and different “guess-timates” that our drop in imports accounted for a drop in employment of 200,000 to 250,000 people.)

We have recovered our international reserves level from a nearly exhausted level to a little less than $5 billion at the end of last year, and we were able to restructure our external debt with a more comfortable maturity and a better grace period. We were also able to get some additional fresh money from the international banking community in the amount of about $5 billion in 1983.

However, all this has had a cost—a very profound and serious economic and social cost. There is, unfortunately, no other way but to incur a deterioration in the welfare of the majority of the population. The drop in real economic growth is estimated at minus 4.7 percent for the first time in 40 years. Mexico has had a remarkable long-term growth experience and there is probably no other country that can show an economic record comparable to ours over four decades. Thus this negative growth was a “first.” In addition, we have been able to reduce our population growth from one of the highest in the world some ten years ago—we were the only country of more than 50 million people in the world that was still growing at more than 3 percent—to about 2.5 percent in the last few years. With a minus 4.7 percent growth rate and with population growth still high, you can imagine how much the welfare of the people was affected during last year’s adjustment process.

How were we able to do all this with social, economic and political stability? There are a number of possible interpretations. In my opinion, the basic factor was precisely our record of forty years of expansion, which provided an important cushion for the population. It allowed our people to accept this drop in the standard of living and to interpret this adjustment as a transitory phenomenon that would not last very long. A second element was the fact that we have resorted to one of our most important weapons—the truth—to express to all sectors of society the real magnitude of our problems. We did not try to paint a pretty picture, and this is an important change in the traditional way we have handled things. At the same time, we maintained, and were able to stimulate, a very intense and permanent dialogue between all sectors of society.

PROSPECTS FOR 1984

What are the basic challenges for this year? We are on target and our top priority now is to bring inflation down. We established as a goal to bring it down from 80 percent to 40 percent. Most likely, the drop will be in the 45-50 percent range—still a very high rate, but inflation is a monster of a hundred heads that is very difficult to fight in a decisive manner when, at the same time, you are trying to put your fiscal situation in order. A good part of today’s inflation was stimulated by revisions in the prices of goods and services of the government—gasoline, electricity, etc.—that have a very important impact on the country’s overall price situation.

At the same time, we need to show some recov-
ery. We are aiming at a very modest rate of growth; we are looking for 1 percent real growth in the economy. Some may wonder why we are not looking for a higher rate of growth, but 1 percent is what we think we can achieve. I feel confident, on this front, that we will achieve an even higher recovery than this 1 percent figure.

A crucial element in our efforts was that we actually did what we said we were going to do at the beginning of the Administration. This is essential when you are facing a crisis that is not only economic, but also has social and political ramifications. Mexico was the first country to run into serious problems with its foreign debt. (I will never forget that month of August, 1982, during which we were the first not to be able to maintain punctual payments of our obligations. Believe me, I made every effort to let another country have that privilege!) Thus, we were the first ones to bring attention to this serious problem. We were also the first to make some progress in restructuring our debt and obtaining new money to finance the development of the country for last year. And we were the first to begin to show some progress in our economic adjustment programs.

GENERAL OBSERVATIONS ON THE EXTERNAL DEBT PROBLEM

The debt problem is a matter of concern to all of you. In our opinion, the foreign debt constitutes the single most important international economic problem today. In spite of the fact that there is no international gathering in the world right now that doesn't touch upon this situation, I think we are just beginning to realize its significance and importance. No other problem has shown how much more interdependent we are than we ever thought. The expression "we are all in the same boat" is a very familiar one, but I think it has never before been so clearly demonstrated.

The problem did not appear suddenly. It took time to develop, and was not perceived by the majority of society, either in the industrial world or the developing world. And it will take time to solve. In our opinion, we are still in the first round of a long battle, and the responsibility for the problem itself cannot attributed only to one side. It has to be distributed in a more even manner between debtors and creditors. The restructuring exercises that were meant to give some additional time to different countries, though not intended to be basic solutions, have been very useful and positive. They have helped avert a major liquidity crisis, giving us time and a better atmosphere in which to think about more fundamental solutions. These restructuring exercises, for the first time in history, have brought together governments, central banks, international institutions, the world-wide commercial banking system and the debtor countries to try to find a solution to the problem. This had never happened to such an extent before, and I feel it is a very positive element. A good number of debtor countries are reacting to the problem in a very responsible and mature manner. They have introduced domestic economic adjustment programs that, I have no doubt, are absolutely necessary because a number of these countries, including my own, grew beyond their means. We developed our economies at a rate of growth that was higher than what the available and adequate resources could permit.

There is no question but that we must introduce belt-tightening policies. Such policies are not, however, lasting instruments: Because of social, economic and political considerations, they cannot be extended over a number of years. The reality is that, in many of the debtor countries, a belt-tightening policy has inherent limitations—a good number of their people do not even have belts! If we are to solve our problem, all the parties concerned will have to be involved. It cannot be solved by the commercial banks alone. It cannot be solved by the governments or central banks alone, nor the international institutions alone. We will have to work together to find the adequate and proper solutions. And we will not be able to solve the problem in conditions of stagnation. We need growth not only in the industrial world, but also in the developing economies.

I also think, and this is probably not perceived in most parts of the industrial world, that the issue of external debt is politically and emotionally charged in many of the debtor countries. I was impressed to see recently in South America how it is front-page news every day in all the newspapers, and how, all over the cities, the polemic and the questions relating to the external debt problems are posted on
the walls. What this means in terms of finding a proper solution to the problem is not always sufficiently realized.

There is no question that, in order to repay our obligations—and there is a clear political decision to comply—we need foreign exchange. In order to get foreign exchange, we need to export more.... In a good number of countries, the burden of interest payments is already too high. For Latin America as a whole, 38 percent of foreign exchange receipts in 1983 were devoted to interest payments. In Argentina, two thirds of the exports were channeled to pay the interest. This is simply, arithmetically, not sustainable, and could have very serious political consequences.

There are some lessons in the history of this century to which we should pay attention. Speaking mainly of Latin American countries, because the debt problem is in great part a Latin American one, there is already a negative net transfer of resources from those countries to creditor countries. This is also an unsustainable situation. The rate of interest is, again, too high. What is important, however, is that an increase in the interest rate forces debtor countries to request additional funds to pay the additional service of their debt. Therefore, we are in a kind of vicious circle: When interest rates increase, you need to ask for more money, thereby increasing the size of your foreign debt, and you run into new problems.

I will conclude by saying to you, without dramatizing, but with deep conviction, that the solution to the problem of external debt in the developing countries will depend, at least in the near future, on very close international economic cooperation between the industrial world and the less developed countries.
Following are excerpts from the April 3, 1984 discussion on Central America among the participants at the Washington conference.

NICARAGUA: THE MAJOR PROBLEM?

A former U.S. policy maker: One cannot help but be struck by the enormous fear that countries like Panama, Costa Rica and Honduras, leaving aside Salvador, have of the present regime and military and intelligence that is being built in Nicaragua. Nicaragua receives 15,000 tons of military supplies from the Soviet Union and Cuba (that is as much as Cuba received from 1962 to 1980 from the Soviet Union; it is only in 1980 that the Cuban component rose to 85,000 tons a year). There are 8,000 Cuban advisors in Nicaragua and 1,000 East Germans, Soviets, Bulgarians, Libyans and other intelligence personnel. In other words, there are as many foreign advisors in Nicaragua as the Somoza army had manpower. The combination of all these factors will now either turn Nicaragua into such an overwhelming weight in the area that assertions of non-aggression are totally meaningless, or it will force the United States into a so-called containment policy that cannot possibly work. We will then have to pour military equipment into all surrounding areas.... As far as negotiations with Nicaragua go, I know that without pressure, there will be no negotiation—they have no incentive whatsoever.... People say that we cannot permit Soviet bases in Nicaragua, but I'm not worried about Soviet bases. I'm worried about the impact of Nicaragua on all surrounding countries, with or without Soviet bases....

Should we give the Nicaraguans the benefit of the doubt concerning the elections? Yes, if we can define what we mean by "free elections." Here is a country in which the army and the police are not organs of the state, but organs of the Sandinista political party, which is one of the parties running in the election. The military have the right to vote and they are, by definition, members of the Sandinista party. Secondly, there has been no change in Sandinista government regulations concerning public meetings—that they must take place indoors, in a country which has no indoor facilities for meetings. Thirdly, the restrictions on the press are essentially unchanged. Considering the present circumstances, therefore, one would have to evaluate these elections as designed to anticipate the American election, and to make it more difficult to pursue an active policy after their election.

Certainly, in principle, if they were to state rational objectives for free elections that are compatible with even a wide definition of what we consider pluralism, we should give them the benefit of the doubt. That has not happened; on the contrary, Ortega has publicly stated that nothing they do should be interpreted as meaning that they accept bourgeois conceptions of democracy, because they have a different definition of democracy....

A German Parliamentarian: In Nicaragua, you not only have the Sandinistas, you also have the Church, the opposition, the trade unions. Even among the Sandinistas, there are very different groups.... I'm afraid that by putting too much pressure on Nicaragua, especially since elections have been called for, you are giving strength to the wrong sort of people; you are helping the tough ones, and many people in the opposition in Nicaragua have the same opinion. It's very difficult to find the right mixture between pressure and giving them the chance to develop the principles of the revolution: pluralism, a mixed economy and non-alignment. My feeling, which I'm sure many other Europeans share, is that especially now that the first elections have been called, America should take some pressure off. Otherwise, it will give the hardline Sandinistas reason to tighten control....

A U.S. Congressman: There is a real concern in Congress that our handling of the Nicaraguan issue is less facile than our handling of the El Salvador problem has been. One of the fundamental values of all countries represented in this room is respect for the rule of law, and for the United States in this context to pay mercenaries to attempt to overthrow a government that we both recognize and have not declared war against does raise certain questions of international law that cannot be easily dismissed, either by analyses of realpolitik or by quid pro quo arguments that we are simply doing what the other side is doing. And the problem is more than legal; there is also a practical implication because clearly our policy is not working. I find very little evidence that Nicaraguans will only respond to military pressure. In fact, it looks as if our surrogates may end up having the effect of a long and delayed Bay of Pigs operation. Unless there is an agreement in the not too distant future, the American Administration might face, without really intending to, the prospect of direct intervention without any American public support.
U.S. ROLE: OBJECTIVES AND INTERNAL DEBATE

A leading U.S. foreign policy analyst: If, in fact, all of Central America should end up like Nicaragua—organized more or less on that model and linked to the Cuban and Soviet military and intelligence system, as Nicaragua without any question is—the impact on surrounding countries would be profound.... This is all the more true because the worst of the debt crisis is ahead of us, not behind us. The danger resides in the emergence of a populist, anti-capitalist, anti-American government. If there is, on top of this, a demonstration of American incompetence, impotence, or even irrelevance, this will affect the political evolution of both Mexico and other Latin American countries....

I’m of the view that our military establishment is unsuited for an advisory role in guerrilla warfare. The headquarters we build and the equipment in which we specialize usually have a negative impact on the people we are trying to help.... We send officers trained at Fort Benning with fancy communication equipment and helicopters into a country that has no fancy communications and no helicopters and we tell them: “Go out and patrol and stop guarding the bridges.” So they go out and patrol—when they come back, the bridge has been blown up. In any event, I think we are better at procuring weapons than at figuring out what to do with them. We need to rethink what role we can play in a guerrilla war, and how we can give our aid most helpfully. (Somebody suggested that we withdraw our advisors and give the Salvadoreans cash and let them buy advisors on the open market).... I’m not in favor of direct American military intervention, but I believe that if present trends continue in Central America, and if there is a collapse, some direct military intervention will result. I do not believe that after Vietnam, Iran and Lebanon we can afford another collapse without widespread consequences....

When one talks about a political outcome in Central America, there are two questions to be asked: One, how should it be achieved, by what negotiating methods? Two, what should be its outcome? That second issue is very rarely discussed. It is my conviction that the outcome should be a reduction of all forces in the area on all sides, the removal of all foreign military advisors, a strict limitation on the importation of foreign arms and prohibition of heavy military equipment in all five Central American countries, and the beginning of pluralistic processes. Those are the objectives that should be achieved.

A U.S. Congressman: As for the recommendations of the Bipartisan Commission report, there is very little said there concerning the covert aid issue, and what is said is somewhat garbled and inarticulate, partly, I think, because the Commission was badly divided on that issue. On the military aid issue in Congress, there is an increasing concern that perhaps the recommendations reflect the Greek word oxymoron—the premises not matching the conclusions. The premise was that the problems were economic, but the conclusions tripled military aid. Finally, from Congress' perspective, it is my sense that there is an increasing view that our policy is awkward, if not failed, and it is amazing how little, not how much, criticism has been advanced. The Administration has gotten largely what it has wanted so far, and will probably continue to do so.

An American analyst of international affairs: One sometimes has the impression that what some of the organized critics want is a "Titoist" Central America rather than a sloppy authoritarianism that is being gradually and inefficiently reformed. And I would simply raise two issues here: One, where did Titoism ever arise except where there was a frontier with the Soviet Union and therefore a military threat by the Soviet Union? And secondly, sacrilegiously, was Titoism such a joy to us in any other area of the world except where it was independent of the Soviet Union? I did not have the impression that Tito's actions in Central Europe and elsewhere were ones with which we were all that enthusiastic. But at any rate, even Egypt, which was not Titoist since it was never communist, separated from the Soviet Union only after years of frustration in achieving their goals with Soviet support. My guess would be that to gamble on a Titoist Central America is something one should reflect upon very carefully. Communism in Central America is likely to be anti-U.S., must be anti-capitalist, and will give a momentum to the autonomous temptations that the debt problem is also enhancing.

THE CONTADORA PROCESS

A Japanese diplomat: Despite its slow start and some differences among the members of the Contadora group, its initiative was very instrumental in producing the so-
called “Ten Commitments” and then the “Twenty-one Point Objectives for Peace.” All of these objectives were made solely among the Contadora group countries and the five Central American countries themselves, working on three cardinal principles: self-determination, non-interference, and a peaceful solution to conflicts. These three principles can be compared to the three that are made in the Bipartisan report: democratic self-determination, encouragement of economic and social development that benefits all, and cooperation in meeting threats to the security of the region. When we compare these two sets of principles we notice that the first principle is identical, while the other two are not. In particular, the principles of the Contadora group do not envisage any collective security arrangement, and therein lies the crux of the matter. The Contadora initiative does not conceive of any military cooperation involving an outside power, with or without the national government's approval, vis-à-vis internal insurgency or cross-border guerrilla activities. At the same time, the initiative implies hope for economic and social assistance from the outside without any political or military strings attached and without any discrimination among the beneficiary countries. Moreover, it suggests that this economic assistance be channeled through a multilateral form, as opposed to a bilateral form, and be balanced with economic and technical assistance from European countries and Japan.

Despite this different outlook, I believe that the Contadora initiative recommendations and those of the Bipartisan Commission report should be brought together. If a peace treaty and related conventions envisaged in the initiative are finally concluded, and if the parties concerned faithfully carry out the provisions of reducing military bases and weapons, then it will certainly guarantee the security, not only of the Central American countries and Mexico, but also of the United States. The U.S. government role will probably be, in this context, to monitor the situation; to help, if asked; and in this manner to assure that the agreements concluded will be effective, foolproof and have adequate provisions for a verification of mutual compliance and control.

Unfortunately, I know that the Bipartisan Commission report was rather coolly received in the Central American region. The report itself, while appreciating the initiative of the Contadora group, nonetheless stated that “the United States cannot use the Contadora initiative as a substitute for its own policies.” This apparently matter-of-fact statement on the part of the United States gave the Sandinistas a good excuse to say that the U.S. does not support the Contadora group. This propaganda attack on the report, together with the announcement of joint maneuvers between the United States and Honduras was easy prey for the generally anti-American journalists of Central America, who portrayed a U.S. military invasion as imminent.

Therefore, I believe that the United States should quietly encourage the Contadora group, for just as the United States needs the regional initiative of the Contadora, so does the Contadora group need the cooperation of the U.S., if only to make their proposals acceptable to the Central American countries. Thus, the Contadora process remains the best and only hope for a peace initiative in this region.

A former American official: The Contadora process is composed of four countries: Mexico, Colombia, Venezuela and Panama. Panama, at least privately, would agree with 99 percent of the Bipartisan report, maybe 10 percent, because I don't think they can understand how it could be impossible for the United States to handle 2.8 million Nicaraguans (and, for that misperception, we will pay a heavy price if things go badly). Venezuela agrees with 98 percent of what was said. Colombia is a bit more complicated, as it has an indigenous guerrilla movement with which it must, somehow, attempt to coexist, and it uses the Contadora process, at least in part, to lower Cuban incentive to throw the guerrilla movement into high gear. Mexico is a problem of extraordinary complexity. A society in transition as it industrializes so rapidly, and with an oligarchy that balances off the divisions within the society, figures the Central American situation like this: “If the Americans win in Central America, we are not needed. And if they lose, we'd be suckers to be involved with them.” So, either way, they have every incentive to dissociate themselves from us. In addition, there is the fact that the austerity program that they have to manage is a heavy enough burden on them without getting involved in Central America. Now all this doesn't mean that the Contadora group cannot do a useful job, but it does mean that the framework within which it can operate depends to some extent on the parameters that are set by American policy and by the options they represent.

THE EUROPEAN AND JAPANESE ROLES

A Canadian Parliamentarian: It is very difficult for Europeans, and for that matter Canadians, to understand the difference between rhetoric and the real objectives of American policy; American policy is extremely difficult to follow. I find interesting the proposal that many other countries become involved in the process here. It may help to de-politicize the question in the United States, but it seems to me that we should not have any illusions: Unless, first of all, whatever policy chosen is wanted in Latin America itself and is seen there as supporting the
Contadora process, it would lead nowhere; secondly, it should have wide international support; and thirdly, we should remind ourselves that if other people are going to become involved with the United States in a solution to a regional problem like Latin America, not only will American signals have to be correct, but they will have to lead to some binding agreements. Before any partners become involved, they would have to be assured that some changes in diplomacy would be made in the United States. I'm not sure that people would want to become involved only to find, in the end, that somewhere in the very complicated American system a change in American foreign policy was blocked by some internal force.

A former high official in the European Community: At other sessions of the conference, we were exhorted very strongly to look for mutually supportive attitudes and policies between the United States, Japan and Europe. Yet the discussion this morning pointed out that the main problem, for the moment, is a U.S. internal debate! By instinct, I would be driven to look for mutually supportive actions and policies between the two sides of the Atlantic, but after having listened to this discussion, I wonder if a bigger, more direct involvement from the European side in the present debate would not, instead of making things easier, exacerbate the internal debate in the U.S. and between the allies, and make the solution to the problem even more difficult. I come to this conclusion with great reluctance because it goes against all my instincts, but I have a feeling that, as long as there is not a solid bipartisan policy in the United States, supported by a large majority, involvement of the Europeans would be seen as constant interference with a negative impact....

An American foreign affairs expert: All questions that deal with the European role eventually come back to the internal debate in the United States. I think there is nothing significant we can do about the internal debate from now until the November election, but I do believe that whoever gets elected in November has, as his principle duty, to try to restore a bipartisan foreign policy—which doesn't mean there has to be agreement on every tactical issue, but it cannot go on that every four years there is a total reassessment of American policy, that every premise of policy is challenged every four years, that every Administration comes into office not only determined to change the world, but pretending that it has created the world. This attitude makes the U.S. a factor of total instability and unreliability. I have great sympathy for those Europeans who wonder how they can be cooperative when they don't even know what it is they are supposed to be cooperating with. The relationship between power and diplomacy is certainly an inconclusive one, but to separate them totally, as so much of our domestic debate does (some insist on a "diplomatic" solution; others on a "military" solution) is futile.

It can never be one or the other....

A Spanish Parliamentarian: The American military advisors in El Salvador, and even the American intervention in Grenada, were unavoidable proofs of certain geopolitical imperatives, and we Europeans benefit from them. We suffer, as much as the U.S., the threat of the Soviet-Cuban shadow in the Caribbean and Central American region because, in case of conflict, we have a common strategic interest. For this reason, the area should be a top priority for NATO. Though this is not the time or place to discuss the borders of the Western alliance, if there is a security channel to NATO which requires collective coordination and action, it is the Central American crisis and its Soviet connection....

A Japanese foreign policy analyst: I believe that our trilateral countries will be more than willing to extend a helping hand for Central American reconciliation and peace.... I am sure that those countries recognize that, in this world of interdependence, their region cannot be self-contained: All past endeavors on the part of the Central American countries for economic integration of the sub-region have proved to be a mixed success. However, we are now beginning to see positive movement in this direction. All of the Central American countries, except Nicaragua, have accepted economic stabilization programs sanctioned by the International Monetary Fund. The trilateral countries, I am sure, will assist Central America in the form of social, economic and humanitarian aid....

Japan's relationship with Central America has been, in the past, dominated by our relations with Brazil. In its post-war relations with the outside world, as a peaceful trading nation, Japan developed Latin American countries as trading partners. We have had very few problems with any of them. Therefore, our diplomatic history with this area stressed and maintained the principles of consistency, constancy, and continuity. This policy was pursued in dealing with the crises in Chile, the Falklands and in today's Central America. In other words, we believe in the same principles as the Contadora group, which are inherent in Japan's approach to both El Salvador and Nicaragua. On the economic and trade front, being a market economy country and a supporter of free trade, Japan endorses GATT (General Agreement on Tariffs and Trade). I believe that all Central American countries not yet members of GATT should, in their own interests, join it, because the new GATT has special preferential treatment for LDC members.

An Italian Parliamentarian: A good many Europeans feel that one Bipartisan report would not really be able to erase what we perceive as having been decades of very erratic American interventions against reformist governments in some parts of Latin and Central America, and the subsequent support which past and present Adminis-
trations have given to the most odious dictatorships in the name of a security policy. Also, we think that what happened in the Falklands will have long-standing effects and has created an enormous amount of ill-will toward American partisanship towards the British case. We cannot help but feel that past legacies will not be able to be wiped away with one sponge, even if the sponge is of such an impressive nature as the report of the Bipartisan Commission....

What can anyone expect European governments to do in support of American policy in Central America, after having seen the reluctance of the European public opinion surrounding what they perceive to be a repetition of American policy which resembles, too often, the obnoxious Brezhnev Doctrine as it was applied, and is still applied, in the majority of Eastern European countries?