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

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The 1993 Annual Meeting of the Trilateral Commission took place on March 27, 28 and 29 in Washington, D.C. Developments in the United States received particular attention. Several leaders of the new Clinton Administration spoke to the meeting. President Clinton and a number of those he has brought into his Administration had been Trilateral Commission members. Speaker of the House of Representatives Tom Foley led three Members of Congress who spoke to the meeting. Another American session—one of the most powerful in the whole meeting—was entitled “U.S. Society: Basic Challenges.”

Other Washington sessions more briefly considered recent developments in other Trilateral countries—Canada, Japan and European Community countries.

The end of the Cold War is reshaping our agenda. Giving more attention to each other’s critical domestic challenges, as in the last American session noted above, is probably part of this. The topics of the two draft task force reports which came before the Washington meeting—migration/refugee issues and strengthening multilateral peacekeeping—would not have been at the center of our agenda five or ten years ago. The discussion of Russia at the Washington meeting was, of course, fundamentally different from a Cold War era discussion. One of the underlying and ongoing functions of the Trilateral Commission is to try to articulate an agenda for the three principal democratic industrialized areas in the wider world, and the Chairmen’s Report distributed to members in Washington—and printed at the end of this publication—is part of that broad effort.

The two draft task force reports discussed in Washington are being published separately from this record of the meeting. One is entitled International Migration Challenges in a New Era. The team which prepared the report includes Doris Meissner and Robert D. Hormats from North America, Antonio Garrigues Walker from Europe, and Shijuro Ogata from Japan. Ms. Meissner drafted the report.

The second report is entitled Keeping the Peace in the Post-Cold War Era: Strengthening Multilateral Peacekeeping. Each of the team of four authors—John Roper, Enid C.B. Schoettle, Masashi Nishihara, and Olara Otunnu—prepared a separate chapter. The peacekeeping discussion in the Washington meeting was opened by Marrack Goulding, United Nations Under-Secretary-General for Political Affairs. We are pleased to present his remarks in this publication.
Domestic and G-7 Priorities

Today I want to touch on the G-7 and some world events, but I want to talk first about events in Washington. We can't talk about strengthening the G-7 or improving coordination of policies amongst our countries if America doesn't have its own economic house in order. I hope you are finding things a little different now in this country and in this town, because I can assure you that they are.

Domestic Priorities

I often speak to Americans about the President's economic program, and what impresses me is that they are ready to pay higher taxes. They are ready to make some sacrifices. They are even willing to cut entitlements. They are willing to invest more. But there are two big ifs—they want to be assured that we are really getting that deficit down and that we are really increasing employment in this country. Americans are tired of paying 14 percent of our budget on interest. If we did not change the economic policies of this country, we'd see that 14 percent going to 20 percent. The more that increases, the less flexibility you have, the fewer options you have. Americans are also tired of 9 million people unemployed, and want to see that one turned around. The economic plan that we are proposing addresses both of those concerns.

Cutting the Deficit:
Tax Increases and Spending Cuts

We will get that deficit down by raising taxes and by cutting spending, a combination of the two. The increase that we are asking for in the corporate tax rate is 2 percent. The corporate tax rate in Japan is something on the order of 40 percent. The corporate tax rate in Germany is something on the order of 50 percent, your top rate. So I don't think it's too tough when we say we are going to raise ours from 34 percent to 36 percent.

For the wealthiest of American taxpayers, for the top 1.2 percent, we are talking about raising the rate from 31 percent to 36 percent, plus a 10 percent surtax that will get those making over $250,000 a year in taxable income (over $300,000 in adjusted gross income). A lot of people around here have forgotten that Ronald Reagan came in offering a 35 percent tax rate. Then we got into a bidding contest between the House and the Senate, and the Democrats and Republicans, and that's when it went to 28 percent. Then we saw the substantial increases in the defense budget, and we saw the national debt of this country more than triple.

We have also added an energy tax. You've been talking to us about that for a long time. And yet when we get through, gas at the pump won't cost anything like what it costs in Europe or Japan. But American families will be paying more for all types of energy. Our energy tax, the BTU tax, is cutting back on pollution, cutting back on dependence on foreign oil (from sometimes unstable political areas), and helping pay on that deficit.

One other thing on taxes: We welcome foreign investment in this country and the jobs that it creates, but we also want to see that those companies pay the taxes they owe.

On the spending side, the President has proposed 150 specific cuts, and that's different. In Administrations in the past, Mr. Darman would send us a black box and say, you in the Congress choose the cuts. That isn't the way it is this time. This President has proposed 150 specific cuts, touching every segment of the budget—defense, non-defense, and even entitlements. Congress has challenged us to find even more of them. Tell me when you last heard a President of the United States say he was going to cut his own...
staff at the White House over four years by 25 percent? When was the last time you heard departments in the Executive Branch charged with cutting their own expenses by 14 percent over those four years? In business you hear about downsizing all the time, but you haven’t heard words like that coming out of Washington. I personally feel the effects in Treasury as we cut back.

**Increasing Employment:**
**Investment, Worker Retraining**
We are going to get employment up in this country by investing more in our economy. Private investment as a part of the GDP is not on a par with our global competitors. In this country it is 15 1/2 percent. It’s more than that in France and in England; it’s certainly more than that in Germany; and it’s over twice that much in Japan.

So we have plans to encourage investment. We plan to extend the research and development tax credit, permanently. Business people in this country have been asking for that forever, so they can have some continuity in the way they do their research and development. We plan to increase the investment incentives for small business. As big business down-sizes, small business is where most of our new jobs are coming from—over 60 percent of them. We intend to modify the alternative minimum tax. Today in this country when you work up your depreciation schedule, you have to make up three of them. We are going to cut it to one. And then we are going to shorten the depreciation period.

We plan to invest in worker re-training and defense conversion. We’ll invest in those things that add to productivity and growth, such as transportation and technology. In the short term, we’ll also have a stimulus, to speed up this recovery. The bottom line is that we’ll create a half million new jobs in the short run, and we believe millions of jobs in the long run.

So that’s what we’re doing. Fortunately, the bond market likes it. We have seen the lowest long-term interest rates in 30 years in this country. The cost of capital is going to be more competitive with you than it’s been in the past.

**G-7 Priorities**
The countries represented in this room share our economic problems. The American people elected a new President in November because they thought our economy was in trouble. They elected 124 new Senators and Representatives because they thought our economy was in trouble. They wanted change. I think the citizens of Europe and Japan and Canada are no different; they too want to see growing economies again.

Last year, other than the United States, not one of the G-7 had a growth rate over 2 percent. So I would like to end today by proposing four priorities that I think we need to work on together to seek greater growth.

**Strengthen Macro-Economic Coordination**
First, we need to strengthen macro-economic coordination among all the G-7 countries. With the U.S. economic plan now going into place, our economy is likely to grow more rapidly than the economies of Europe and Japan over the next year or two. We see that lack of growth abroad as bad news. We want your economies to grow, because if there is slower growth in Europe and Japan, we are going to sell a lot less U.S.-made products abroad. That trade imbalance is bad news for all of us. So we hope that our major partners take complementary actions to strengthen growth in their own countries. For years they have been telling us to get our own house in order, and we are doing that. At the G-7 meeting in London my counterparts were delighted. We discussed what actions they might take. We know that every country wants to pursue its own interests. Germany must do what is good for Germany; Japan must do what is good for Japan. Each of you is in that position. But it is in everyone’s mutual interest to do what we can in a complementary way to grow. President Clinton and I hope to see serious efforts made by this summer’s economic summit in that regard.

**Promote Market Access**
Second, we need to promote market access amongst countries so that everyone shares in that wealth. This Administration is going to promote exports,
because exports are the path to economic growth and the creation of good jobs in our country. That is what nine million Americans want—jobs. We have closed too many plants in our country, watched too many high-paying jobs disappear, and lost too much of our tax base. On trade issues it is important we look for patterns. Our worst performing year in America was 1987. We had a $160 billion trade deficit with the world—$57 billion with Japan, $27 billion with Western Europe, and $6 billion with Mexico. Last year our trade deficit was $96 billion, which is still too big, but parts of the pattern had changed. We no longer had a trade deficit with Mexico; instead we had a surplus of over $5 billion. We no longer had a deficit with Western Europe; we had a surplus. But one aspect did not change: We still had a $50 billion deficit with Japan. In 1987, a third of America's trade deficit was with Japan; in 1992, half of America's trade deficit was still with Japan. So America needs to look at opening foreign markets. A good Uruguay Round and a NAFTA agreement will make a major contribution to the health of the world economy. But where serious barriers remain, we must do our utmost to remove them.

Cold War. Now that Communism has failed, we also know that we must invest to support democracy. We are fully engaged in devising and implementing, in cooperation with our allies, an effective economic assistance package for Russia and the other states of the former Soviet Union. This is the greatest economic challenge since the Marshall Plan. We need all the world's help in doing it. But most of all, we need Russia's help. Loans will be of little assistance unless the ruble is stabilized, unless the central bank is under control and not printing excessive amounts of money. Right now this is pushing the economy to the verge of hyper-inflation, and every economist knows that democracy cannot survive hyper-inflation. Also, contracts and investment commitments to Russia will be of little help without Russia implementing laws defining property rights and compliance with contracts.

Promote Growth in the Developing World

Finally, we need to promote growth in the developing world. It's hard to believe, but there are a billion people in this world of ours surviving on less than a dollar a day. There are a number of reasons to help a billion people. There are security reasons—prosperous nations are more likely to be peaceful nations—and there are economic reasons. Right now the developing world represents the fastest growing market for U.S. products. Three million American jobs are created by exporting to the developing world. We
need those jobs, and they need jobs too, so that they can prosper.

So these four things—strengthening G-7 cooperation, promoting market access, helping Russia, and helping the developing world—are areas we'd like to work on in the coming years. If we can help European countries to strengthen their economies, if we can help the Japanese to open their markets further, if we can convince our partners to aid Russia, then I think we'll all be better off.

* * *

For a lot of years countries have tried to convince America to get its own house in order. We are working to do that. We had to change from our deficit-financing ways. For all these years nobody thought we were listening. We were, but we're just a little slow. We thank you for your message, and with the Congress' help, I think you are going to see major results in this country.

Lloyd Bentsen is U.S. Secretary of the Treasury. First elected in 1970 to the U.S. Senate from Texas, he was Chairman of the Senate Finance Committee for a number of years before President Clinton asked him to become Treasury Secretary.

LEON PANETTA

The Clinton Economic Plan

O B V I O U S L Y, Y O U C A N T R A C E the formation of the economic plan that the President has presented to the election of 1992. The American people were frustrated with the stagnation in the economy, with some 16 million either unemployed or under-employed, with annual deficits approaching $300 billion or more and a national debt of $4 trillion.

In addition, and perhaps more importantly, there was uncertainty about the future. In the United States of America, we have always enjoyed the hope that we can give our children a better life. That dream was obviously fading as our standard of living was stagnating.

And that was combined with gridlock between the President and the Congress in the effort to deal with these issues, and a tremendous amount of partisanship between the Democrats and the Republicans.

All of those factors were at play as we reached the November election. It was clear at that point that one thing citizens of this country decided they did not want was the status quo, which generally works against the Administration in power. The American people decided that they wanted change, and they wanted change in the form of action dealing with the economic situation they were confronting. That was the message that was heard by the newly elected President. As soon as he was elected, he began to form an economic plan for the country.

That began soon after the election. Our first meetings were in Little Rock, and then they continued obviously when we were all sworn into office here in Washington in mid-January. There was a very concentrated effort of about four weeks. The President of the United States sat down in what is known as the Roosevelt Room in the White House, and we walked through every major area of the budget—defense, non-defense spending, entitlements, and revenues. This is not that usual. I have done that with members of the Budget Committee in the Congress (as Chairman of the House Budget Committee), but did not expect that I would ever have the opportunity to walk through that same process with the President of the United States. He wanted to become familiar with each area of the budget; and he wanted to become familiar with the major choices that are part of each area of the budget. So there was a very concentrated effort looking at all of the choices.
I approached these issues on the basis that everything had to be on the table, and that the President of the United States had to be exposed to every possible option.

The development of the plan was aimed at what were viewed as three problems within our economy, problems to some extent interrelated. First was the short-term concern about whether our recovery would become strong or remain anemic. Second was the concern about an investment deficit in this country. Third, obviously, was the focus on the fiscal deficit and the importance of reversing the trends leading to ever-increasing deficits and a huge national debt. The economic plan that was developed has three key elements addressed at each of these areas.

**Targeted Stimulus**

The first element involves a targeted stimulus program aimed at trying to provide impetus to the economic recovery. Why did the President feel that was necessary? Although we are seeing some encouraging signs within the American economy, there was concern that some serious problems continue to exist. We are not seeing job creation as strong as in the past as we pulled out of recessions. Our job level is approximately at the level of early 1990. The concern was that we need to develop additional jobs if we are to have a strong recovery. Major corporations and industries are continuing to reduce their levels of employment. We are continuing to see defense cutbacks—witness the release of the base closures a few days ago indicating further contractions in communities throughout this country. In addition, there remains a credit crunch for investment capital.

Those are the concerns about the current situation. We are beginning to pull out of the recession, but there remains this fundamental concern about whether or not the recovery can be sustained. After all, since 1990 we have dipped back twice.

For those reasons, the feeling was we had to provide an additional impetus. That’s the purpose of the stimulus program that was introduced as a portion of the economic plan. It is a very targeted program. It is $16 billion, roughly, in targeted spending for the kind of programs that immediately translate into jobs at the community level—infrastructure, transportation, highways, community development block grants. $16 billion would keep us below the overall cap established in the 1990 budget agreement, so that we would not in fact be adding to the deficit, but basically operating within the targets established by that agreement.

The remaining portion of the stimulus program is an investment tax credit back-dated to December but enacted later as part of the comprehensive tax package.

Those are the key elements of the stimulus program that is proceeding through the Congress at the present time. The key question here from both a political and economic point of view is whether or not this recovery will proceed on a continuing basis. That is the fundamental question the President faced. He felt it important to provide added impetus to the economy to insure that the recovery will proceed.

**Targeted Investment**

The second area, in part related to the stimulus, is the investment deficit in this country. While I served as Chairman of the Budget Committee, CEOs from major corporations and businesses of this country testified that they needed targeted investment in several key areas. One is infrastructure—highways, better rail systems, better mass transit—to develop the support structure for a strong economy for the future. Second are targeted investments in improving the skills of the American people—in education, in job training, in areas like Head Start. Third is investment in the technology area, in research and development, so that the United States can remain on the cutting edge of the future. Fourth, we need to provide incentives for working families so that when family members do work, they are encouraged to remain in that job. Finally, we need to provide again a set of tax incentives aimed at the private sector, so that we can again inspire investment.
within key areas of the economy. That is the investment portion of the package. It constitutes roughly $160 billion over the next four to five years.

Deficit Reduction Package

The last part of the plan addresses the deficit issue, to begin to reverse the trend that constantly led us to higher deficits and to the huge debt that faces the country. To do this requires, as all of you know, some very tough decisions with regards to both spending and revenues. There is no way you can address the size of the problem this country faces without considering both spending reductions and revenue increases. To begin to reverse the trend requires some $500 billion in deficit-reduction over the next five years. To do that, we addressed every area of the budget.

The first was defense. The view was that, because of the continuing changes in the world, the United States could continue to find additional savings. We are looking at defense savings over the next four to five years somewhere in the vicinity of $100 billion—additional savings. Obviously that involves additional contractions, but the view of the Secretary of Defense is that we can do this and protect and enhance our national security at the same time.

What we have done on non-defense spending (particularly as a result of the action of the Congress in conjunction with the plan) is to produce virtually a hard freeze. We are virtually going to hold spending at current levels.

Entitlements is an area that has always been avoided in the past. Entitlements now constitute 50 percent of the federal budget (almost $750 billion), located in a number of targeted programs that assist human beings and constituencies across this country. We addressed each area of the entitlements. In agriculture we achieved additional savings through targeting subsidies largely at smaller farmers. Veterans programs also were targeted for savings. Health care, an area that has multiplied significantly, was targeted (particularly the Medicare program) for savings that approach almost $40 billion.

In addition, we looked at the retirement programs. Retirement programs constitute almost 50 percent of the entitlements. The main target was to ask Social Security recipients to allow not just 50 percent of their benefits to be subject to taxation, but to move that up to 85 percent. I would remind you that other retirees—military and civilian retirees—have their benefits subject to similar taxation.

And lastly, we had to achieve additional deficit reduction through targeting revenue increases, largely from the wealthiest individuals in our society. We felt that if we were going to ask farmers, veterans, doctors and hospitals, and working families to sacrifice, there was no reason why the wealthiest could not also contribute. And so 70 percent of the revenues are targeted at those earning $100,000 or more. In addition, we provided a broad-based energy tax, to try to reduce consumption of energy, and improve fuel efficiency.

Those are the principal pieces of the deficit reduction package that was presented to this country by the President. In addition we provided strong tools to enforce this budget, providing caps on spending that will be enforced. No program can be increased, no benefit can be provided, unless it is paid for. Those were the same tools that were part of the 1990 budget agreement that President Bush and the Congress worked out, that have remained effective tools in enforcing deficit reduction.

The Country and Congress Respond

The country has responded to the presentation of this economic plan, and that is reflected in the votes in the Congress. For the first time, a President and a Congress are working together to pass an economic plan. Never in the history of the budget process in the United States of America have we been able to adopt a budget resolution as quickly as we have in 1993. The Congress has acted. The House passed the budget resolution within six weeks; the Senate just passed the budget resolution this week; we expect that we will pass a conference report next week. We hope that the stim-
Trade Perspectives and Priorities

Your Trilateral Chairmen's Report relates to what I am going to talk about. If there is anything that is going to run through my remarks this morning, it is consensus and cooperation and building confidence in a world trading system that works.

Right now in Europe we have almost no growth. In Japan there have been at least two quarters of negative growth—the last two quarters. The United States is recovering slowly, but I think surely, from the recession we were in for all too long. But we all have a world trading system in which we're not only going to have to seize the opportunities, we're going to have to accept the responsibility. And while the United States tries to lead—the President has made it clear he will—our trading partners must come along with us. It's no longer true that the United States can take the full burden of responsibility for opening its markets and expanding trade without equal and comparable action on the part of our trading partners.

The American Setting: Trade Key to Growth, Public Disbelief

As President Clinton has stated so eloquently before Congress and on many other occasions, we intend to be fully engaged internationally. It would be a disaster for the United States of America to turn inward, and we don't intend to do so; we intend to do the opposite. Our prosperity is bound up inextricably with the prosperity and growth and success of our trading partners. This includes not just our traditional trading partners—the European

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1See pages 75-80 of this publication.
Community, Canada, Japan—but also a successful North American Free Trade Agreement and expansion of a regional relationship with South America.

Our dependence on foreign trade as a source of economic growth has increased exponentially. We have to pay stricter attention to it, and we have to bring the American people, frankly, along with us. Recent polls indicate quite clearly that the American people believe that every trade agreement we’ve entered into—this is stunning—has cost us jobs, not grown the U.S. economy.

Of course the facts are quite different. The facts are that trade agreements, open trade, expanding trade, opening new markets have aided the U.S. economy substantially. Fully half of our growth in the last few years has been due to trade. Export-related jobs in our economy pay an average of 17 percent more than other jobs (20 percent more in the services area, 10 percent more in manufacturing). Trade is truly a key to our growth in the future, whether it be as a result of the North American Free Trade Agreement, the Uruguay Round, growing bilateral and regional relationships with the fastest growing region in the world (which is Asia) or accession of South American countries into a trade and investment agreement. All of these relationships, all of this growth is good for the United States.

But the stunning reality is that the American people don’t understand it. They have not been schooled in the area of trade. For too long we were a self-contained economy and trade was not a major part of the political dialogue in this country—and we have a terribly difficult task in convincing the American people that trade agreements and open trade are good for us, not bad for us. That political emphasis has been lost in politics in this country, and we need to bring it to the fore.

Mutuality of Obligations and Comparability of Action
I have read with interest that this Administration has no trade policy. Well, let me try to enunciate at least some principles that I think put a framework around a policy.

No trade policy can work unless it’s an integral part of an economic strategy here at home. Our national security has become our economic security at home, and international economic relationships are critical to our success here at home.

This country will continue to champion, as we have through every Administration, open markets and expanded trade. The President said it best at American University: We’ll compete, not retreat. I leave for Brussels, my first trip to Europe in this job, tomorrow. We will make it clear to our European partners that we are ready to engage in a successful Uruguay Round. It’s critical to the success of global growth that we have a successful Round. But that means a number of things. One is that we’ve got to have a big market access package. There is a tendency, when countries have economic problems, to protect, to fear opening up. I would submit that it’s in the interest of the European Community, certainly in the interest of the United States, in the interest of Japan, in the interest of the world, that we have a big market access package in agriculture, industrial products, and services—to open up trade in order to begin to grow these economies.

We’ll work to strengthen the open multilateral trading system. Historically it’s been this country that has insisted upon open markets and expanding trade, and we’ve opened our market, from 1945 through today, much more than any large nation in the world. From 1945 to 1973, it was easy for this country to do so; it was part of a larger strategy in the East-West conflict. We wanted to grow the strength of our allies and trading partners in order to face the challenge of the Cold War.

It worked well, and we developed trading partners who now are as strong as we are. Now it’s time for our trading partners to work with us to break down these barriers.

I had a meeting yesterday with MITI Minister Mori of Japan. We had an interesting and frank
exchange of views on mini-vans, auto parts, autos, semi-conductors, computers, super-computers, government procurement, and other issues that we have been talking about for quite a while. We have a number of bilateral problems with the Japanese government. They need to be addressed frankly; they need to be resolved. Both countries need to compromise in order to make this happen. But we will not shrink from insisting that Japanese markets be open—not just because it's good for us. It's good for the Japanese economy, and it's good for confidence in the world trading system. If we can't begin to break down these tariff and non-tariff barriers that hamper our ability to build confidence in the world trading system, we're not going to make progress in these regional and multilateral relationships that are so critical for the future.

As we proceed, we have expectations on the part of this government from our trading partners: mutuality and comparability, mutuality of obligations and comparability of action. We're going to insist upon that. It's important, now that we're all going up or down together. President Clinton has said many times that it's time for mutuality and comparability. We will not be bound by theology or labels. I am not religiously committed to being whatever a "free-trader" is, a "protectionist" is, or a "results-oriented" or "managed" or "fair" trader is. Frankly, labels are meaningless. We are in a new world. We have to be practical and pragmatic. We have to seek results. We have to make sure that what we do opens markets and expands trade.

**NAFTA, Pacific Basin**

One of our specific trade objectives is to conclude the NAFTA, with the supplemental agreements. Those supplemental agreements were called for by President Clinton in his speech in North Carolina on October 4, 1992. They involve worker standards and safety, the environment, and safeguards against import surges. There is already surge language in Sections 801 and 802 of the NAFTA itself, but we believe we need to go further.

There will be some job losses as a result of the NAFTA. We will have a net increase of jobs—it's good for this country, it's good for Canada, it's good for Mexico—but for those workers who lose their jobs, we must have a worker adjustment assistance program. We also have to have a border clean-up program. Any of you who have traveled to the border between this country and Mexico will attest to the fact that a border clean-up program is not only a good idea in theory; it's necessary. On worker standards (which are different in Mexico and the United States) and the environment (the Mexican laws in this area are as strong as U.S. laws, but their enforcement needs improvement), we have got to have commissions that have teeth in them, if they're going to be meaningful.

We have other tasks to address as well. I've mentioned completion of the Uruguay Round, which remains our top trade priority. I'll also mention new items on the trade agenda. One is worker standards (which is already used in our General System of Preferences program). Second is the environment. Third is competition policy. Fourth is the whole area of accession. Enabling other countries to be involved in regional trading arrangements, without creating preferential zones, is a critical policy aspect of trade that needs to be addressed.

Last but not least, we have to pay attention to the Pacific Basin. Except for a bilateral relationship with Japan, this country has not paid enough attention to the Pacific Basin in the area of trade.

There are problems that we face. Our fastest-growing trade deficit is with China. It was $18.3 billion in 1992; and the January figures show it growing even more rapidly this year. We have trouble with China in terms of failure to provide market access in accordance with agreements, failure to enforce intellectual property rights, trans-shipment of goods, and mislabeling. We have got to address those, and address other areas of concern in Southeast Asia and elsewhere in the Pacific Basin.
But we also have to address the tremendous opportunity we all have. I was at a conference yesterday discussing the Asia Pacific Economic Cooperation (APEC) forum, which we chair this year. I think it would be a major step forward, not only for this country but for global growth, if, in our chairmanship this year, we began to put a framework around APEC that would address issues like intellectual property protection, the free flow of capital, protection of investments, and other issues which would lead to more open and expanded trade in that region—the fastest-growing region in the world today.

Substance Over Form
Let me end by saying that there are a number of things that drive me in my job in serving this President, working with this Congress, and as a representative of the United States. I don't have as much experience as many of you in this room in international diplomacy, but I've found something very interesting: Form takes on more importance sometimes than substance. One incident in particular comes to mind. I was meeting with my very fine staff at USTR, and we were discussing the now famous European Community utilities directive. A meeting was scheduled in Brussels and I asked, "What's on the agenda?" They gave me the run-down of what was on the agenda, and what offers had been made. I asked, "What are the prospects for getting something done?" They said, "Oh they told us that they're not going to move on two or three issues that we think are critical." And I said, "Well, why are you having the meeting?" And they said, "Well, you always have these meetings." I may be too simplistic (and I may be too wedded to a budget that is shrinking) but I don't understand why we have meetings that put form over substance. If we're going to have meetings, if we're going to have agendas, let's get something done.

We're going to look at process, but not process as delay—that's all too common in this area. We're going to look to the future and not the past, and we're going to be practical and pragmatic rather than ideological. I hope we can do that in a spirit of cooperation and coordination and commitment. Starting with the Uruguay Round, NAFTA and APEC, and addressing the new issues, I fully expect that we can work with our trading partners to build a world trading system that we can all have confidence in, that builds jobs in all of our countries.

Mickey Kantor is U.S. Trade Representative. A partner in the law firm of Manatt, Phelps & Phillips from 1975 until his appointment by President Clinton, Ambassador Kantor served as Chairman of the Clinton/Gore '92 Campaign.
New Defense Priorities

Third Post-War Transition

This Administration is intent on capitalizing on the cooperation between the industrialized democracies which are represented here, which contributed to the end of the Cold War, to maintain peace and security and to promote freedom and prosperity throughout the world. We are, however, at a time of the third post-war transition in this century. This transition is quite different from the transitions after the First and Second World Wars, but is no less significant in its scope and implications. My former academic colleagues in Cambridge, Massachusetts refer to a "new world order." It seems to me there is much more "new" than "order." It is a very different world than we were accustomed to in the past.

Defense expenditures illustrate new priorities. In 1985-86 the U.S. spent seven percent of its Gross National Product on defense. The 1993-94 budget represents 3.8 percent of our GDP, and over the next five years, that number is likely to fall to three percent or even a bit lower. Research and development plus procurement are 25 percent lower than their high in 1986. Procurement of weapon systems is 40 percent lower in the 1994 budget compared to 1986.

In these times, we must ask, what are the new national security objectives for the United States? What are the new defense policy objectives, and how should we think about equipping and modernizing our forces? The fiscal '94 defense budget will contain about $260 billion for each of the next five years. These resources properly used in shaping and modernizing our forces are ample to meet any of the anticipated threats, and also to retain the technological superiority which U.S. forces have demonstrated in recent years. The level of resources devoted to defense does indeed provide the military capability required to underpin our efforts to maintain world peace.

Changing Dangers, Changing Approaches

Secretary of Defense Les Aspin cites five dangers that will determine the objectives of U.S. defense policy. The first is the danger of regional conflict, such as in Iraq and Bosnia. The second is the danger from further disintegration of the former Soviet Union, including the risk to the process of peaceful de-nuclearization of Russia and other republics. The third is the danger from the spread of weapons of mass destruction—as in Iraq, and in North Korea. Fourth are risks from crises involving human rights and democracy, as in Haiti and Somalia. And fifth is the danger of a failure of economic security among the nations of the world. All of these dangers are quite different from the national security challenges of the Cold War period.

We have today an emphasis on conventional forces, not on nuclear forces. We have an emphasis on potential conflicts in littoral regions of the world, as opposed to land based theatres of central Europe. We seek to deal with our security issues on a multilateral basis, not on a bilateral or unilateral basis. We have to deal with a different kind of threat, which some have called undetectable as opposed to the more conventional calculus that existed between NATO and the Warsaw Pact in prior years. We have to rely on mobility rather than on forces in place.

Two examples illustrate our changing concerns: One is from the area of proliferation; the other is the question of economic security and what that means for the Department of Defense.

North Korean Proliferation Threat

In my judgment North Korea's threat to withdraw from the Non-Proliferation Treaty (NPT) threatens the non-proliferation regime the countries represented by the Trilateral Commission

1993 Washington Meeting
have tried to put into place over the last fifteen years. If North Korea acquires even a few nuclear weapons, it could de-stabilize East Asia in a completely unpredictable and serious manner. De-stabilization is an urgent matter for the Trilateral countries, especially for Japan. The North Koreans are now publicly known to have separated quantities of plutonium at their nuclear facility in Yongbyon; and it is also known that they are seeking a nuclear weapons capability. North Korea, always a reluctant signatory of the Non-Proliferation Treaty, would argue that it is perfectly acceptable to have separated plutonium if placed under International Atomic Energy Standards (IAEA) safeguards.

Our objective has got to be preventing North Korea from leaving the Non-Proliferation Treaty and escaping IAEA safeguards. We need to convince North Korea to give up its effort to acquire nuclear weapons capability (and chemical and biological capability as well) and to hold to the standard that there should be no reprocessing on the Korean peninsula. The world will be a very unhappy place if nations are led back to reprocessing and maintaining plutonium, even under IAEA safeguards.

Proliferation is one of the most serious diplomatic and security problems that we are going to be forced to deal with in the "new world order." Any solution will require an approach involving many nations, especially Japan and China, in the case of North Korea. Consideration of diplomatic initiatives must precede consideration of economic sanctions; both have implications for how we think about the quality and quantity of military forces.

**Integrating the Defense and Civilian Economies**

The second example of U.S. changing concerns has to do with how the Department of Defense sees its role in the area of economic security. President Clinton, who is extremely interested in this subject, reminds us that, "We must be strong at home in order to responsibly carry out America's leadership role in the world." And indeed, the Department of Defense faces a very important problem, a political problem and a problem of substance: How to make the Department of Defense a constructive positive economic force, at a time when defense expenditures are declining, jobs are being lost, and communities are being adversely affected by base closings. I believe there is an important role for the Department of Defense.

Actions over the past twenty years have led to the creation of a U.S. defense economy separate from its civilian economy. The separation has been created progressively, largely as a result of more rigid rules for how the government pursues both research and development and procurement. The separate defense economy will have to diminish significantly in the future, as integration of defense and civilian industries is a key to economic security.

First, as the defense enterprise shrinks, it is simply uneconomical to rely on an industrial base dedicated exclusively to defense production. To the degree possible—there is no civilian demand for nuclear submarines—it is going to be necessary for the Department to equip itself and form its forces and design its systems to rely much more greatly on civilian products and services. This amalgamation will have a beneficial effect, if done properly, on the U.S. economy. It will create a larger market at home for U.S. commercial industry and thus encourage the creation of jobs and higher productivity.

Secondly, if the Department of Defense, in pursuing its national security objectives, is to rely more on the commercial sector, then it has a direct interest in promoting relevant civilian technologies—so-called dual-use technology. It is certainly the intention of the Secretary, Deputy Secretary Bill Perry, and myself to place substantially increased emphasis on dual-use technology. I want to emphasize an important technical point: If one looks at what the key technologies are for defense applications, and at what the key technologies are in the civilian sector, not surprisingly one finds that they are very similar indeed—information tech-
nologies, microelectronics, advanced materials and manufacturing technology, to name just a few. The catalog of dual-use technologies—technologies important both to economic growth in the civilian sector and strength in the national security sector—is substantial indeed. Our emphasis will, I hope and trust, have a major, beneficial, long-term impact on the U.S. economy.

In short, what we want to do, in economic terms, is to exploit the externalities of the defense economy for the civilian economy and vice versa. In the short run, we must look at every opportunity to import commercial technology, where appropriate, into the military sector. In the long run we must blur the military and commercial sectors for much, but not all, of defense activities. Obviously, a radical reform in how we plan, develop and acquire systems for the Department of Defense must accompany this new emphasis. Such reform will incorporate a version of defense re-investment that I believe will be a hallmark of the activities of this Administration. I want to stress that I regard this change as a win-win situation. If done intelligently, dual-use criteria benefit both the commercial sector and the military sector, without giving up necessary military capability. This approach will be of major interest to Trilateral countries, and the U.S. will work with these countries as we go forward in the production and acquisition of weapons systems.

* * *

In my brief remarks, I have tried to convey a sense of major change in how this Administration looks at national security and of the steps the U.S. will take to try to maintain peace in the world and prosperity at home.

John Deutch is U.S. Undersecretary of Defense for Acquisition. At MIT, where he joined the faculty in 1970, he was Provost in 1985-90 and Institute Professor at the time of his appointment to the Administration.

SECTION 2
U.S. SOCIETY:
BASIC CHALLENGES

MARIAN WRIGHT EDELMAN

Children and Families

On the eve of a new century and millennium, a new civil war is raging in the United States as the dangerous triplets of racial intolerance, economic insecurity, and violence spread across America. Unless confronted forthrightly, they will stain our social fabric indelibly, fray our national bonds, and undermine our ideals, domestic safety and future. Ironically, as Communism has been collapsing all around the world, the American Dream has been collapsing all around America—for millions of families, youths and children, of all races and classes.

We're in danger of becoming two nations—one of First World privilege and another of Third World deprivation—struggling against increasing odds to peacefully co-exist, as a beleaguered middle class barely holds on. The poor are getting poorer and the rich are getting richer—putting American against American as economic uncertainty and downturn increase our fears, our business failures and our poverty rates. “For the first time in this century,” Philadelphia Inquirer reporters Barlett and Steele write, “members of a generation entering adulthood will find it impossible to achieve a better lifestyle than their parents. Most will be unable even to match their parents’ middle-class status.” While the middle class lost ground in the last decade or so, the already poor have become poorer, more desperate, hungry, homeless and hopeless.

Extraordinarily High Child Poverty Rates

Today, every sixth American family with a child
under eighteen is poor. Every fifth child is poor, as is every fourth pre-school child. Every third black and brown child is poor and every second black pre-schooler is poor. Two out of every three pre-schoolers of any background are poor if they live in a female-headed family, in the richest nation on earth. There are more poor children in America today—14.3 million—than in any year since 1965, despite the 88 percent growth in our GNP during this period.

Contrary to popular myth, the majority of these children are not black and are not on welfare. They live in working families and outside inner cities, in small town, rural and suburban America. Between 1989 and 1992, nearly a quarter of the 1.7 million children who became poor lived in two-parent white families—many of whom thought they’d never be out of work, need food stamps or face homelessness or hunger. New Hampshire reported the largest rate of growth in food-stamp participation in the nation over the past three years.

It is a great human and moral tragedy that thousands of children and adults have been starving to death in poor, famine-stricken Somalia, with a per capita income of less than $200 a year and an estimated GNP of $1.6 billion. But I believe that it is a moral and human travesty that over 14 million children in our own rich nation are poor; that an estimated 5 million go hungry; that 8 million lack health care—in a nation with a per capita income of $19,700 and a GDP of nearly $6 trillion.

We need to ask ourselves: Why are there more poor children in rich America than there are citizens in famine-stricken Somalia; more poor children in Los Angeles and New York City than there are in the so-called developing nation of Botswana? What are the values of a wealthy, democratic nation that lets infants and toddlers be the poorest group of citizens? We know that poverty makes children more likely to be born too small, to die, to be sick, hungry, and malnourished, to fall behind in school and drop out—and to cost their families immeasurable suffering and taxpayers billions in later remedial costs and lost produc-

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**The Escalation of Violence**

The slow grinding violence of poverty takes an American child’s life every 53 minutes. But the deadly quick violence of guns takes an American child’s life every 3 hours, and the lives of 25 children (a classroom-full) every 3 days. Nothing more graphically reflects what Lee Atwater on his deathbed called the moral “tumor” growing on the American soul than our acquiescence in the senseless killing of innocent children. I don’t for a moment believe that the top military power in the world—with 800,000 federal, state and local law enforcement officials and 1.2 million national guard and reserve personnel—is helpless to keep young children safe to, from, and in school.

I wonder whether our social and moral development is so arrested that we cannot see, hear, feel, and respond to the killing and injuries of our children—or curb the gun- and drug-driven violence that is blanketing America. According to the Center to Prevent Handgun
Violence, in 1990 handguns were used to murder 13 people in Sweden, 91 in Switzerland, 87 in Japan, 68 in Canada, 22 in Great Britain, 10 in Australia, and 10,567 human beings in the United States. A new handgun is produced in America every 20 seconds, but even handguns can’t kill or injure fast enough for the nearly one million private owners of semi-automatic weapons. The deadly combination of guns, gangs, drugs, poverty and frightened, hopeless youths is turning many of our inner cities into Vietnams of destruction and despair, and our neighborhoods and schools into corridors of fear.

Prison walls are bulging with the 1.1 million inmates that make up the world’s leading jailor. Yet violence escalates. For thousands of inner-city youths, the American dream has become a choice between prison and death. In fact, prison has become a more positive option than home and neighborhood for many youths who see no hope, no safety, no jobs and no future outside prison walls. I was astonished, watching CNN a few months before the Los Angeles riots last year, to hear a Latino youth say to the commentator, “I just hope I can grow up and go to prison and not be dead.” I wondered to myself, what had we let happen in our country? Those of us who talk with young black boys living in inner cities today are disturbed when we hear so many of them talk about “if I grow up” rather than “when I grow up.”

Many of our hospital trauma units on Saturday nights resemble MASH units, as black and Latino youths seek solace in death from their living hells of hopelessness and, I think, uselessness in our nation. More young black men die each year from gunshot wounds than from all the lynchings throughout American history. The sound of gunfire is so common that in too many neighborhoods young children can discriminate between the sounds of semi-automatic weapons before they can discriminate between colors.

Our inner-city war zones are just a microcosm of the larger American worship of violence that has become a leading national pastime and primetime obsession. Guns exceed television sets as American playthings. The Wild West has turned into the wild streets in an American culture that hawks violence over the airwaves as adults kill children and children kill each other in movies and in real life. Violent acts are shown on our television sets every 6 minutes, on average—and our children watch television for an average of 21 hours a week. In real life, a child is reported abused or neglected every 13 seconds—mostly at home.

Struggle to Stop the Killing and Neglect
What do we do about this? First, I think that we must create a new spirit of struggle across our land to stop the killing and neglect of children. I think that every American corporate leader, parent, and citizen, led by our new President and Congress, must personally and collectively struggle to reclaim our nation’s soul and give our children back their hope, their sense of security, their belief in America’s fairness, and their ability to dream about and envisage and work toward a future that is attainable and real.

We must struggle again together to be more caring and tolerant, to replace “I” with “we” and “them” with “us.” It is not just poor or black children who are at risk in America today. Countless rich and middle-income white children, like their poor and minority counterparts, are so drifty that they have turned to drugs (including alcohol) and to the violence we market to them incessantly. They’re seeking self-worth denied them by unstable family lives, by unchallenging schools, and by communities that give them no sense of belonging and too little positive purpose.

Too few adults exemplify and communicate clear, consistent standards of acceptable moral and civic conduct. Our children need a nation that provides more positive role models, who believe in service and sharing (rather than power and money) as the true measures of success. They need, too, opportunities to serve their country by serving others—I am
very pleased about the emphasis on national service in the new Administration.

Live Our Values
The second thing each of us needs to do for our children is set up a new ethos that what's important in America is to struggle to live our national and family values in our private and public lives—and to insist that our leaders do so as well. Thomas Jefferson correctly stated that religion is not what we say, it's how we live. And so are values—our children tend to do what we do and not what we tell them to do. Talk is very cheap, and it won't cure the pervasive breakdown of moral and family and community values in America. Nor will judgmental finger-pointing at any group or family type.

I believe that the breakdown of family values in America is pervasive: it's public and personal; it's individual, cultural and corporate; it's rich and poor; it's black, brown and white; it's urban, rural and suburban; and it cuts across all parties and ideologies. If we're going to repair our rent family, community and national fabric—and rebuild, as we must and can, a common sense of responsibility for our nation's future—every one of us has got to enlist for battle. We have got to look at our private sector policies and practices; and we have got to look in our city and county councils, our state legislatures, and our White House.

I think we must all seek to avoid simplistic either-or choices and fragmented, quick-fix solutions to the needs of our diverse families and our diverse children. And I do hope that America can make of its diversity not a weakness but the great strength that I believe it is.

We must also avoid the either-or debate on private versus public values, because they are a whole cloth. For each private, familial value, there is a mirror-image public one. If we expect families, as we ought, to teach children not to solve their problems with guns and violence, then we need cultural and media signals and public policies that demonize rather than glamorize and support violence. If we expect families, as we should, to teach children the value of hard work, then we need private and public policies that provide work and make work pay, that allow parents who work hard to support their family above the poverty line and get the health care and child care they need. If we expect families, as they ought, to teach children the centrality of educational achievement, then we need to stop what author Jonathon Kozol calls the "savage inequalities" in school financing and provide first-rate, safe and exciting schools, and support for the transition from high school to college and to the world of work for all children. We must get every child ready for school and every school ready to teach, respect and support every child.

If we expect children not to have children—we produce a half million such children each year (the equivalent of the city of Seattle)—we must provide them with hope, with positive life options in, after, and out of school. We must fill children with the joy and promise of life, not the dead-end jobs and ceilings of opportunity against which so many butt their heads today.

But most urgently and importantly, if we want our children to grow up respecting and valuing human life and our democratic ideals, we must begin by respecting and valuing theirs by making their neighborhoods and schools zones of safety and nurturance and support—rather than zones of fear. We must stop the proliferation of guns in the hands of children and adults alike. We must encourage every school to adopt anti-violence and conflict-resolution curricula. We must begin study groups in our religious congregations and workplaces to find the ways to staunch the violence rampant in our homes. And we must address the underlying causes as well as the destructive symptoms of violence—the lack of hope and opportunity, the lack of strong families and communities, and the lack of a sense of purpose and a sense of future.

A Crusade to Leave No Child Behind
I hope that we can make a downpayment that is concrete—to give our children (and all of
us) a sense that we can as a country respond to their needs. We have launched a crusade to leave no child behind and the downpayments for 1993 are two very specific, achievable beginnings to say to our kids that we care. These are issues around which I think we will be able to build a degree of consensus.

1993 Downpayment: Immunize Every Child

The first goal in 1993 is to immunize every American child. Our non-white pre-school children are less likely to be immunized than children in 69 other nations. I don't know what it says about us that in our nation's capital only 43 percent of our pre-school children are fully immunized against preventable diseases. We know that every dollar we invest in immunizations saves $10 on the other end. Our first goal is that America, where many of these vaccines were invented, get those vaccines to our children—so that we don't have American children dying of measles and polio and other things that we know how to prevent. I am pleased that the President is planning to present a comprehensive immunization plan to the Congress in the next few weeks. I hope you will support it.

1993 Downpayment: Improve and Expand Head Start

Secondly, we need to get our children off to a healthy beginning, and so we have focussed on how we can improve the quality of and expand the Head Start program (a program to get pre-school children ready for school). We have had a lot of discussion about national education goals over the last years, but if we don't achieve the school-readiness goal, we cannot achieve the other goals. One cornerstone is the Head Start program, which does have a record of success. It's not perfect—it hasn't had an overhaul in 28 years and it reaches only a third of the eligible children. The Congress made a number of quality improvements last year and we need to make more. I am pleased, however, that the President's budget package calls for full funding of Head Start. We now need to go out there to make sure that it is a first-rate early childhood program, that is well-managed. I am very pleased that companies like Johnson & Johnson have begun to provide management assistance to improve the local capacity of these programs, so that these new public investments really do result in concrete positive changes for children. If we don't do it right, it's not going to make a difference for children. If we don't make a difference for children, our country's future is at risk. So I do hope that you will join us in seeing that every child is ready for school, that we get the quality early childhood foundation that will be required. It's going to require the mobilization of parents and religious congregations and community institutions. We must begin to make some very concrete investments to see that our children get a healthy start, a head start, and a fair start.

* * *

Finally, I hope we will again be honest with ourselves and struggle personally and collectively to help our children regain their moral tractions in a world that is plagued by ethnic, religious, racial and national strife. I hope we will reflect anew on why we are here on this earth, on what it means to be an American and a citizen of the world, on all we have been given, and on all we have to give. I hope that each of us is going to speak up for and invest in our own children and other people's children, and in all the children in the world with whom our children must live. I am convinced that we will build a future peace at home and abroad by affirming—through our lives and our leadership and our time and our money and caring—the promise and sanctity of each child. You have extraordinary capacity and power in this group to begin to have a different vision of the future and to begin to see children as integrally important to that future.

Marian Wright Edelman is President of the Children's Defense Fund.
Primary and Secondary Education

The Brilliant Description that Marian Wright Edelman just gave you is the backdrop for what happens in our educational system in so many places. I'm going to divide my remarks into three parts: first, the problem; second, proposals for reform; and third, the prospects that some of these remedies will take hold.

The Problem:
Very Poor Educational Achievement
You could have had a speaker today who would have given a rosy picture of what's happening in American education. It's possible to do that. There are many more youngsters remaining in school; there are many more going to colleges and universities. Handicapped youngsters are now in school and integrated with other youngsters, which was not true not so long ago. We have a relatively high drop-out rate, but if one considers students who return to take various high-school equivalency examinations after that, the picture improves. All those things are true. However, that's another speaker. I think that the state of our educational system is very poor.

Most Americans hold that our schools are pretty good. Most of our youngsters, they note, are achieving academically; they are going on to colleges and universities. The problem, they argue, is in our big cities; the problem is minorities; the problem is poor people. Certainly the problems of those groups and areas are much greater. But, as I hope to show in the next few minutes, poor educational achievement is a problem that takes in all of our youngsters and not just selected groups.

Before I turn to the evidence for this view, I should note that we have a highly decentralized education system in this country. There are 15,500 separate school districts. Each school district sets its own salary schedule and makes curriculum decisions. They all operate on local property tax bases, and therefore some youngsters have very small amounts of money spent on their education, and other youngsters (if they live in wealthier districts) a lot more. We also have separate testing systems, so it's almost impossible to get a fix on student achievement nationally. However, for the last twenty years, our national government has been testing a large, nationally representative sample of students in reading, writing, mathematics, science and other fields—the National Assessment of Educational Progress (NAEP).

What you see in Chart 1 are the results of a recent NAEP in mathematics taken by youngsters who are about to graduate from high school (grade 12). One hundred percent of them can function at a basic level. So those who say we are graduating large numbers of students who can't even add, subtract, multiply and divide are wrong. Remember, however, that NAEP only tests those youngsters who are in school; 25 percent of students have dropped out, and some of that 25 percent may very well not be at that basic level.

Next we see that 91 percent of the students have reached what you could roughly call the 5th-grade level of achievement. However, only half have reached about the 7th-grade level. The disastrous number is the last one: Only 5 percent of the 75 percent who are about to graduate from high school have what, in most countries, would be considered enough mathematics proficiency to go on to college. Here we are talking about algebra, geometry, trigonometry, the ability to interpret a chart—5 percent of those who are in high school have reached that level. And yet about half of our high-school graduates are admitted to post-secondary schools.

For reading, that top level is reached by only 6 percent of the students. In writing—what percentage of our youngsters who are
graduating are able to write a really good letter or essay? Three percent.

Achievement is even lower among poor youngsters or minority youngsters, but what these national results essentially show is that youngsters who don’t have the problems that Marian Wright Edelman was talking about, youngsters who have every advantage, youngsters who are among the most affluent who ever walked the face of the earth, are also not achieving in school.

These figures also imply that, since only 3-6 percent (depending on the subject) are graduating with what, in other countries, would be the required knowledge and skills to enter colleges and universities, about 90 percent of our youngsters who are admitted to colleges and universities here would not be admitted to colleges or universities in any other industrialized country. The fact that our students can get into college so easily is one of the reasons parents are not angry or mobilized about what’s going on in education. They say, “The schools must be succeeding because my kids are going on to college.” They don’t entertain the notion that the reason their kids are going on to college is that, except for our elite colleges and universities, we basically have a totally open enrollment higher-education system.

One of the many problems this creates is difficulty getting an adequate supply of quality teachers. If only 3-6 percent of our high-school seniors are in this internationally competitive college-entry category and very few of them go on to college to prepare to become teachers, the result is a massive problem in terms of ensuring a high-quality teaching force.

One of the proposals that is floating around to solve our crisis in education is very controversial and will be voted on in a referendum in the state of California soon. In a sense it has to do with “privatizing” education: giving vouchers to public-school youngsters to be able to go to private schools. The belief behind this proposal is that private schools outperform public schools. But as the 1990 NAEP in math shows, private schools do a little worse than public schools in the top category—4 percent of their students are at that level compared to 5 percent for public schools. You could argue that this is because the dropout rate is greater in the public schools than in the private schools, but if you take that rate into account, private school achievement in the top category is the same as public.

The private schools do somewhat better in the middle two categories. However, the differences are not great: 96 percent of private-school students reached about the 5th-grade level, compared to 90 percent of public-school students; 52 percent of private-school students reached about the 7th-grade level, compared to 45 percent of public-school students. What is even more striking is that the differences

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<td>Percentage of Students at or Above Four Anchor Points on the NAEP Mathematics Scale (Grade 12)</td>
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Sources: U.S. Department of Education, National Assessment of Educational Progress; and American Federation of Teachers.

...between private- and public-school achievement disappear when you compare students in the two sectors who are taking the same academic courses. (Unfortunately, many public-school students are in non-academic tracks and don’t take algebra, trigonometry, and so forth.) So if we were to get all of our students into private schools, we would still have a major national problem. Vouchers or privatization of education is not the solution to our education crisis.

This conclusion gets underscored when you take into account the very different families that public- and private-school youngsters come
from. About 14 percent of the public-school 12th graders tested by NAEP have parents who are high-school drop-outs (and therefore likely to be poor) compared to about 7-8 percent of 12th graders in private schools. Likewise, about 50 percent more private-school youngsters than public-school youngsters have parents who are college graduates. In short, and despite what private-school choice advocates say, the students in public and private schools are not at all similar. The interesting thing is that, if you compare the achievement of public- and private-school youngsters whose parents have the same level of education, there is almost no difference. The private-school “advantage” in achievement is explained by private schools’ far more advantaged student body. The sad fact is that, on average, student achievement is poor in both public and private schools.

Chart 2 gives us some good news. We hear a lot about how “throwing money” at problems doesn’t make a difference. It does. We have had some modest efforts since the ’60s to target money to poor youngsters and minority youngsters, and this chart gives us the results of those efforts from 1971 to 1988. In 1971, about 20 percent of black students were graduating without being able to count really—add, subtract, multiply and divide simple numbers. That’s been reduced from about 20 percent down to 3 percent. The increase in skills is even greater in the next category (about 5th-grade level ability to solve simple problems and use more complex math): from 40 percent in 1971 up to 76 percent in 1988. At every one of these levels, you notice that there is a story of remarkable progress.

But this is the only group of students who have shown major progress over the last 20 years. If you look at Chart 3, you’ll find that from ’71 to ’88—now we’re back to the entire population—we have improved the percentages of youngsters attaining basic, intermediate and adept skills in reading. (“Basic” skill is the ability to comprehend specific information, like simple instructions on a box; “intermediate” is being able to search for specific information, interrelate ideas and make generalizations; and “adept” is being able to find, understand, summarize and explain relatively complex information.) Now, notice what happened at the top level (“advanced”). We’ve actually reduced the percentage of youngsters who are able to comprehend sophisticated and complicated material, over this period of time. We concentrated on the basics—remember the “back to basics” movement—and succeeded, but failed to keep two balls in the air at the same time. While we were improving basic skills, we stopped emphasizing the more difficult and more sophisticated.

How does all this compare to other countries? Of course, they don’t give the same tests in other countries, but we can in general say that anyone who graduates from an academic secondary school and qualifies for college in western European countries and in Japan achieves at very high levels. Depending on the country, 16-30 percent of the youngsters in these other countries meet standards that are much higher than the highest NAEP standards met by only 3-7 percent of our high-school seniors. Now that is a huge, huge gap in terms of achievement. There are other indicators that show that gap is also present for middle groups.
of students and for groups at the lower achievement end, as well. So that is a problem, and it's a very big one.

Proposals for Reform:
Curriculum, Assessment, Rewards for Achievement

What do we do about the problem? In the ten years since the publication of the famous education reform report, *A Nation at Risk*, there have been all sorts of efforts, most of which were good. We've reduced the number of soft elective courses that students can take; we require them to take more academic courses. In many states, there is some testing of teachers before they are hired. There are minimum competency standards for students to meet before they graduate, which is part of what has caused some of the upward curves in the charts. But now there is a new strategy, and the new strategy essentially says, "Look, there are a lot of other countries around the world that are more successful; what are some of the things that all of them are doing that we don't do, and how can we move toward doing that?"

The first thing to notice is that in the United States there is no national curriculum. Each state has something that is often called a curriculum, but it is usually a big, fat book that says, "Here are our vague, abstract ideas about what students ought to learn, but essentially it's up to you teachers to figure out what this means and what you want to do." In other words, in the most mobile society that ever existed on the face of the earth, when a youngster moves from one teacher to another teacher, or from one school to another school, or from one district to another district, no teacher can ever know what that youngster has been exposed to before. There is no continuity whatsoever.

Also, because there is no required curriculum, the teacher might look out on the kids and say, "Well, these poor youngsters, they probably can't do very much," and not give them very much. Individual, subjective expectations play a large role when you have an education system without set standards, where the teacher can't say, "Well, look, you must do this and I know you can do this, because all the other kids in the 5th grade in this country must do it, and they did it last year and the year before, and I know you can do it." Instead, the individual teacher has to negotiate standards with the students and with their parents and, of course, deal with his or her own expectations.

Moreover, if you don't know what the curriculum is, how do you train teachers? What are they going to be teaching? If there's a different curriculum in California and Texas and Wisconsin and Illinois and in each of the districts within the states, how does a teacher education program know what to do?

So the curriculum issue is central, but it's very delicate: How do you establish national curriculum when education is not a federal responsibility under our Constitution? The Federal Government is not going to mandate a curriculum—it can't; it's not going to create one—it can't; but it is going to establish, most likely, something like a national bureau of educational standards. It will encourage states and consortia of states to develop curricula frameworks. The job of this bureau would be to say, "The frameworks that you have set up
are or are not rich enough, difficult enough, and do or do not correspond to standards in other countries.” It will be a kind of good housekeeping seal of approval; but it will be, under our system, a voluntary system in which states and localities buy in.

The second issue is assessment. The national government will probably now put up some money to create assessments that are more similar to those used in other countries—related to the curriculum to see how well students are achieving. In the United States, we have our Scholastic Aptitude Test (SAT). But that’s not an achievement test; it’s an aptitude test. Imagine: We make youngsters go to school for 12 years but say to them that getting into college is not going to depend on what you’ve learned but on what your native aptitude is.

The third thing that distinguishes the United States from other countries is that our students do not work hard. One of the big reasons students learn more in other countries is that they work harder. If the student doesn’t work—that is, lots of homework, writing, rewriting—a student isn’t going to learn. They work in other countries because they can see that there are certain things they want that are connected to succeeding in school. You don’t get into a college or university in another country unless you meet a certain standard. In the United States, youngsters say, “Well, everybody can go to college no matter how lousy his or her grades are. I don’t have to work.” In other countries, if youngsters achieve a certain standard, they can begin a career with a good company. In the United States, our bigger and better companies do not even hire 18-year-olds. They wait until they’re 24, 25, 26. The net result is that youngsters who achieve well in high school see no reward for what they have done when they get out of school. They’ve got to run around and get the same generally poor jobs as kids who did nothing in school. We simply must develop connections between effort and payoffs, direct connections which are visible to students and parents and teachers; hard work and achievement must result in something.

**Chances for Reform**

There are big difficulties in getting these things through. We are trying to move towards some sort of national curriculum frameworks at a time when radical forms of “multiculturalism” and other efforts to balkanize American education are breaking out. These two things play off against each other. It’s going to be difficult to do.

As for some sort of national assessment system, we face all sorts of legal challenges that are unheard of in other countries. In Germany, if you fail the Abitur, you fail it; or in France, the Baccalaureat. In the United States, if you were to fail an exam and couldn’t get into college because of this, then you would hire a lawyer. “How can you prove that getting this mark on the examination means that I won’t be successful in college? You are depriving me of my right to get an education.” The right to enter college has become an entitlement in the United States. If you are breathing when you are age 18 and you have a parent who can write the check, you have a right to enter most of our colleges and universities. There’s general agreement that if everyone can enter college, then there is no motivation for hard work in K-12 education; it acts as a disincentive. But to turn around and say that we are going to change this is extremely difficult. Once things are opened up like this, everyone says, “Look, this is like trying to take Social Security away from people.”

Of course, the net effect of virtual open enrollment in college is that the dropout rate in our colleges and universities is higher than it is in our high schools—it’s about 50 percent. The increases in costs in higher education are greater than in health care. We have had a larger and larger number of students enter colleges and universities to learn what they should have learned in junior high school or high school, then drop out of colleges and universities with a large debt and with no marketable skills. That is neither effi-
efficient nor equitable.

Finally, almost all these issues are complicated by the vast differences in terms of race and class within the United States. Whether it be the definition of a curriculum, the results of an assessment system or the results of a system that links either jobs or college entrance to achievement, the question is always, “What will be the different impact on different classes and races and nationalities within the country?” Therefore, there is a good deal of paralysis around these issues. Even when there is substantial agreement that we should move in one direction, there is also the fear that there would be disastrous racial or ethnic side effects if we moved that way. In the name of equity, we are preserving both inequity and mediocrity.

Albert Shanker is President of the American Federation of Teachers.

James E. Burke

Drugs

The Problem is Demand

I have been working on the illegal drug problem for the last four and a half years. It's a very complex problem, and depending upon how you look at it, you come out with a different set of answers. I admit having a bias: I have believed from the beginning and believe now more than ever that this is basically a marketing problem. It is driven by demand not by supply. That's an overstatement to be sure, but I believe the most important thing we can do is to move toward changing attitudes and in turn changing behavior, so that we can dry up the demand.¹

I am going to give you a fairly hopeful presentation. I think I can demonstrate to you that we do know what works; we know why it works; and we know what to do to accelerate the process of turning off illegal drugs that has, blessedly, already begun.

The worst metaphor we ever created was "The War Against Drugs." The reason it's a bad metaphor is it gets everybody's head turned in the wrong direction. It turns drugs into a law and order and an interdiction problem, and while those are very important aspects of the problem, the really important part of this problem is demand.

Good News and Bad News

What do I mean when I say America is turning off drugs? The NIDA (National Institute on Drug Abuse) 1991 household survey (see Figure 1) shows that 75 million Americans have used illicit drugs—which is an undercount, probably by 5 million. That means 80

¹ Europe and Asia don't share the same kind of problem that we have here, but the U.S. Drug Enforcement Agency believes the supply lines are changing—and changing quite dramatically—to the Far East as well as to Europe. I don't know enough to be sure, but I think it is possible that those of you from Europe and East Asia may be at the same place this country was in the late '70s.
As a comparison, most of you know this country has done a remarkable job in giving up smoking. We have been able to go from 41-42 percent down to 26 percent—but that took us an entire generation. The drop in cocaine usage has occurred since 1987.

Catalysts for the Change:
Media, Workplace Programs, Community Action
There are three major catalysts for that change—and they all have worked together: the media, the workplace programs, and, most importantly, action at the local level in the community.

Media Campaigns
We live in a country that is literally driven by the media. Every study we look at (and every time we bring children in and talk to them) gives us the same answer: the media in all its forms (news, features, editorials, entertainment and advertising) is the primary source of information for the public. This is particularly true for at-risk groups.

What we in the Partnership for a Drug-Free America do is attempt to reduce demand for drugs by changing attitudes through the media. There are 105 advertising agencies that create all of our material—and they do it all pro bono. I set a goal in 1988 to get $1 million a day in pro bono advertising, because that would mean that virtually everybody in the country would get one anti-drug advertisement every day. We’ve been doing that for three years, and we believe we can continue to do it as long as it’s necessary—and it hasn’t cost us anything. The money that finances the Partnership is given to us by foundations and by business, and by the people who are in the media and advertising business.

Another example: we have worked with the Department of Education in creating a parents’ guide to prevention. We helped market it; we advertise it extensively; we have now delivered 22 million of those booklets. I think there are 40 million families in the country, so more than half of those families now have this booklet—and everyone ought to have it. We need to do even more than we’ve done to market it.

Workplace Programs
Two-thirds of the people who use drugs in this country go to work every day. We know that what works in the workplace is a clearly articulated policy with an employee-assistance program (meaning that if the employee gets in trouble, the employer is going to help them get well—that’s absolutely essential to make it work). We need education, training and drug-testing—at least on a pre-employment basis. It may surprise you, but probably over 90 percent of our large companies now have such programs in place. Most big companies have recognized that they can’t afford not to have a drug program in place—or they can’t meet the quality requirements of a highly competitive marketplace.

But 73 percent of Americans work for small and medium-sized companies, not big companies. So, a year ago this July, at the White House, we launched a program under the aegis of the Partnership for a Drug-Free America. We’re now in 18 states. It’s a bottoms-up program, in which we work with

2 Editor’s note: At the conclusion of his remarks, Mr. Burke screened several new Partnership commercials created for the inner-cities. “We’ve taken on the city of New York as a test,” he noted, “to see if we can have any major incremental effect on inner-city kids. We did a study of 6,000 kids, and we know a lot about what’s going on in their heads and their hearts. We know these kids understand the drug problem better than anybody. 95 percent of the kids know that drugs are bad, but they’re all scared. They’re scared that they’re going to use drugs even though they know they shouldn’t—which says something about the environment in which they live. What we’re trying to do with these commercials is talk to those kids as well as to talk to people like yourselves. The media in New York has agreed to double its effort; that means we’re going to go from $30 million to almost $80 million worth of media over the next year in the Greater New York area. We don’t know whether this is going to work the way we’d like it to. We’re going to do a great deal of research to track what we do.”
the governors and all of the local mayors. We have nationally available material. It's working very well, and we hope we'll be in all the states as well as Puerto Rico within a year. What we did is take everything we've learned in big business and put it together so that the local business person can quickly and easily put a program together that's cost-effective.

Community Action
Most important is what's going on in the community. There are over 2,000 community anti-drug coalitions, 1,000 of which we think are in place in a way that makes them very effective. This is an extraordinary grass-roots movement in this country that is not very well-known except at the local level. If you get involved locally in the drug problem, you are hooked on every other social issue in the country, because you can't avoid them. That's what is happening, and it is the most important thing I have witnessed in my lifetime.

The Robert Wood Johnson Foundation helped to start this with a program called Fighting Back, and that program is now being financed by the Foundation in 15 model cities for a period of 3-5 years. We're going to monitor that very carefully. We hope in two years to be on-line with computers in every one of these communities throughout the country, so they can talk to each other about what works and what doesn't work.

* * *

In summary: the country's youth are increasingly intolerant of drugs; the number of regular users has dropped dramatically since 1985; and we have solid evidence that prevention does work. The public is solving the problem at the community level, but drugs are still among the most serious social issues in this country and we need a great deal more leadership at the national, state and local levels—and from all of you who are in business and in positions that can influence this. This issue has got to get back on the national agen-

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James E. Burke, Chairman of the Board and Chief Executive Officer Emeritus of Johnson & Johnson, is Chairman of the Partnership for a Drug-Free America.

**This...**

**EXTRAORDINARY GRASS-ROOTS MOVEMENT...IS THE MOST IMPORTANT THING I HAVE WITNESSSED IN MY LIFETIME.**
Cities

After hearing about all of the problems you've heard about this morning, you may wonder why anybody in his right mind would want to be the mayor of an American city. There's beauty, and there's intellectual ferment in the cities; there's hope; but we also face some very difficult challenges. The problems of at-risk children, impoverished schools, and drugs and violence are magnified many times in America's inner cities.

The question before us is whether we can overcome these obstacles and truly rebuild our urban communities, so that they once again become centers of intellectual, cultural and economic activity. Although there has been extensive damage to the urban centers, due primarily to policies of neglect and isolation, there are new community development strategies and models of leadership now emerging in Baltimore and other cities that make me deeply optimistic about our future as a country.

National Neglect and Its Consequences

I'd like to begin by telling you what is at stake. First of all, the vitality and health of our cities is inextricably linked to our national security. The Cold War is over, and the chances of armed conflict and nuclear war are greatly reduced. Yet we have been weakened from decades of diverting billions of dollars from domestic priorities to military hardware.

Now is the time to reinvest in our nation's cities, not only because cities like Baltimore need the money to thrive, but because national security in the 21st Century—whether in the United States, Europe, or Japan—will in large measure be based on economic power. And the engines for this economic power are our cities.

Europe and Japan have done a much better job than the United States in supporting and valuing their cities. I read with un relieved envy a few weeks ago a New York Times Magazine article describing Paris as a city where garbage is picked up seven days a week; where each one of her streets is swept at least once a day; where there were 80 murders last year (compared to almost 500 in Washington, D.C.); where the public schools are the envy of all, and remain a major reason for people to continue to live in town, and not flee to the suburbs.

I mention Paris as an indication of the kind of investment—and appreciation—that European leaders place in their cities. In France, the national government picks up 40 percent of Paris' operating budget; pays for half the major projects like schools and day-care centers; and takes care of the salaries of its teachers, police officers, and fire fighters. But perhaps more importantly, Paris remains a vibrant city because it has strong and stable neighborhoods, which are racially and economically diverse. Cities like Paris work because they have a commitment to community, and it is that spirit of community and common purpose that I fear is being lost in America's urban centers.

In an article entitled "Secession of the Successful," Professor Robert Reich (now U.S. Labor Secretary) quotes two very different American leaders on the special meaning that community holds for the American people. For Governor Mario Cuomo, community "is the reality on which our national life has been founded." President Ronald Reagan called communities our "bedrock...where neighbors help one another, where families bring up kids together, where American values are born."

The problem, says Secretary Reich, is that in today's America, communities are being torn apart, with the "elite" moving out to private utopias, leaving behind the anguish of inner-city life. It should not surprise us that 25 years after the Kerner Commission warned of a racially separate and unequal society, a new report written by former Kerner Commission member Fred Harris and former Assistant Attorney General Roger Wilkins warns that many of...
those same cities are "resegregating." The report also confirms that infant mortality, unemployment, and poverty have increased in the African-American community since 1968.

The reasons for this disintegration are clear. America's urban communities are staggering under the weight of decades of neglect and a stubborn recession, with millions of people mired in poverty, illiteracy, and drug abuse. Urban schools are dangerously underfunded. Thousands of homeless people live beside thousands of vacant uninhabitable houses. And the tax base of many cities is shrinking as the middle class flees to what are now called "edge cities."

The cost of the physical and spiritual deterioration of cities is enormous. Baltimore, for example, has lost thousands of manufacturing jobs since 1980. Bethlehem Steel's Sparrows Point plant at that time was the city's largest employer. (Now it's Johns Hopkins University.) Fifteen percent of our population lives below the poverty line. We have 40,000 citizens living in public housing and another 30,000 with pending applications. Twenty-five percent of our population reads at or below the 8th grade level. Over 50 percent of our public school children are eligible for Chapter 1 funds, which essentially means they're living at or below the national poverty line. And because of the existing formula for state funding, Baltimore spends about $60,000 less per classroom per year than many of the wealthier counties that surround us.

In sharp contrast to the national government support of a city like Paris, Baltimore in the 1980s epitomized the U.S. Federal Government's abandonment of cities. Since 1982, direct federal grants for elementary and secondary education in Baltimore have fallen from $40.2 million to $27.4 million. Community block grants dropped from $31.1 million to $13.9 million. And federal revenue sharing went from $25.3 million to zero. Twelve years ago about 34 percent of our operating budget was covered by direct federal funding—today that is down to 12 percent.

Baltimore Initiatives:
Private/Public Partnerships and Empowered Citizens

The question that state and local government leaders have been asking themselves for years is this: If the national government is not going to take care of these centers of national and economic security, who is? In Baltimore, the answer has been a partnership of community groups, businesses and local governments, working together to build better schools and neighborhoods, to speed the physical development of downtown, to bring minorities into the economic mainstream, and to carry on a spirit of self-help in the face of national neglect.

I want to talk about a couple of the initiatives in Baltimore that I think reflect this shift toward public/private partnerships and grass-roots leadership. A number of these initiatives are aimed at stabilizing and rejuvenating low-income communities. Others are aimed at creating and maintaining racially and economically diverse communities—in which the middle and entrepreneurial class has a stake in the success and growth of the community, and the city.

Sandtown Winchester

The jewel in the crown of Baltimore's neighborhood revitalization is a community called Sandtown Winchester, with about 10,000 people and desperately poor (the unemployment rate is 42 percent). In this community over the past five years, 300 new homes for low- and moderate-income families have been built, at the cost of $24 million. This project, I should mention, got its intellectual start in Israel, where I visited Kiryat Gat, a city that has been both physically and spiritually renewed.

I wanted to see a similar renewal in West Baltimore, and so did a lot of other people and organizations. Among them are BUILD, a multiracial, community-based church and labor organization, and the Enterprise Foundation, a non-profit development company led by Jim Rouse, one of America's foremost urban developers. Mr. Rouse developed
Housing is just the skeleton. Freedom from despair and poverty is what makes a community an organic, functioning, life-sustaining place. Second, the people who live in the community must lead the march to revitalization.

In Sandtown-Winchester, there is a strong partnership of federal, state, and local money, as well as technical expertise from the Enterprise Foundation. But it is the persistence, thinking, and leadership of the people who live in that community that is making it such an American success story. That combination of local leadership and public/private partnership has resulted in a number of unique community-based projects, including a pre-natal outreach and follow-up program; a $2.7 million job training program for young people that is tied into local businesses and provides a pathway into the world of work; and a $500,000 grant from the Baltimore Partnership for Drug-Free Neighborhoods, a grassroots organization similar to the those that Mr. Burke described. But most important there has been in Sandtown a renewed sense of common purpose so that this partnership affects the quality of living for everyone in that community.

Education and Schools Initiatives
I would like to take a few moments to focus on another area which has already been a major topic this morning: education. In Baltimore we describe our city as “the city that reads,” because we are trying our best to achieve improved levels of literacy for all of our citizens. Good schools are not only the key to an educated, motivated workforce, and our ability as a nation to compete in the international marketplace. Education is also indispensable to the whole notion of democracy and civic participation. And good public schools—particularly in cities—help maintain strong neighborhoods, and retain middle-class families who might otherwise flee to the suburbs.

In Baltimore, we are changing the way schools are being used and managed. Control is being shifted to parents, teachers, and principals, and we’re allowing schools to experiment and specialize.

We’re among the leading cities in the nation for comprehensive school-based services, which simply means that the schoolhouse becomes the pivotal neighborhood institution—a place not only for learning, but for recreation, child care, health care, and other community services.

Our boldest educational initiative is the privatization of management of nine of our public schools. This fall, we signed a five-year contract with a Minnesota-based firm (a for-profit firm), which promises to run the schools more efficiently, increase the teacher/student ratio, upgrade the technology, and increase student attendance and achievement. Educators around the country will be watching our progress.

Strengthening Women and Minority Businesses
One other area of which I am particularly proud is our commitment to strengthening women and minority businesses. In Baltimore, we are committed to an inclusive economic strategy, which means we have made the city’s minority business and women business laws the cornerstone of the city’s downtown development plan. In addition to aggressively enforcing those laws in city contracts, we have also pulled the private sector into the process, with some surprising success.

This past year, for example, we negotiated a commitment from the developers of a $350 million downtown development project to use at least 20 percent minority firms and 3 percent women firms in the project. By supporting minority businesses and giving them access to capital, Baltimore is supporting a vital seg-
ment of urban life—the small business, entrepreneurial class.

Emerging Clinton Administration
Urban Policy

I believe Baltimore, because of our efforts in education, community development, and minority businesses, is at the forefront of what the Clinton Administration is calling on all cities to do: create partnerships that work, and empower citizens to be leaders in their own journey toward renewal. Speaking recently to the National League of Cities in Washington, Housing and Urban Development Secretary Henry Cisneros stressed that we can no longer run cities like corporate structures, simply delivering traditional services. Instead, the focus must be on the human resources agenda. “Citizens’ participation is not a distraction or a delay,” he said. “It’s the way we engage people in a sense of decision-making over public resources, their destinies, and their lives.”

Projects like Sandtown/Winchester illustrate the basic elements of a national human services agenda that goes beyond the delivery of services to the underlying foundations of community. Of course, specific jewels of urban revitalization are not enough. There has to be a crown too—a larger overall policy that individual projects fit into. Many of the elements of that policy are now being supported by the Clinton Administration, and leaders such as HUD Secretary Cisneros.

Among the elements of an emerging federal urban policy are giving cities more flexibility to target resources; keeping the focus on neighborhoods and the people who live in them; building on the histories of those neighborhoods and the dreams of those who live there; making urban regeneration less bureaucratic and more the product of consensus, partnership, and team-building; and integrating services (combining physical development with educational and social services).

Failed National “War on Drugs”

I have been focusing on the need for a new federal role in rejuvenating America’s cities, and on my conviction that with the Clinton Administration’s economic package—which enjoys broad bipartisan support from the country’s mayors—we have an historic opportunity for major progress. But I want to shift the focus of our discussion for a moment to talk about another federal policy that in my view has done far more damage than the lack of investment in education and other human services over the past few decades. It’s a policy that, if continued, will obstruct much of the progress that is now possible in our cities. I am referring to our failed and flawed national drug policy.

This is a subject that I’ve talked about a great deal since 1988 when I first called—at the U.S. Conference of Mayors—for a national debate on drug decriminalization. Since that time, some progress has been made in at least discussing this issue. The 4th International Conference on the Reduction of Drug-Related Harm just concluded in Rotterdam. And in November, I will be hosting a conference in Baltimore that will be attended by municipal officials from Europe, the United States, possibly South America, Canada and Asia. We will be reviewing the international implications of the war on drugs as well as the effect of the war on drugs in our cities. During the conference I will sign the Frankfurt Resolution, which has already been signed by several European mayors, and calls for the implementation of harm-reduction strategies.

My principal concern is the effect the “war on drugs” is having on Baltimore and other urban communities. I first started having doubts about our national drug policy when I was Baltimore’s State’s Attorney. We were putting thousands of drug dealers in prison, but it had no impact on the level of trafficking or drug use. That trend has continued. Last year was the most violent in our nation’s history, and that includes Baltimore. In the five years between 1986 and 1991, the Baltimore City Police Department arrested over 82,000 people for narcotics violations. And in 1991, 46 percent...
of the city's 305 homicides were deemed to be drug-related.

The other important issue that drew my attention to the need for a public health approach to drug policy is AIDS. I served on a committee of the U.S. Conference of Mayors that was looking into how AIDS is transmitted in urban communities. Intravenous drug use is the primary cause of that transmission. In Baltimore, over 200 children are in treatment for HIV infection, and of those, 185 can trace their infection to drug use. The National Commission on AIDS stated that "any program which does not deal with the duality of the HIV/drug epidemic is destined to fail."

Unfortunately, that is exactly what is happening in the United States. The public health implications of drug abuse are being largely ignored, and our current national drug strategy is failing. Just this week, a committee of the Maryland General Assembly voted down a bill that would have allowed an experimental needle exchange program in Baltimore. A couple of cities already have such programs, including New Haven, where new HIV infections have been reduced by one-third.

I hope to find a way to have a needle exchange program in Baltimore, even without an exemption from state drug paraphernalia laws. I am setting up a new working group on drug policy reform, and how to have needle exchange in Baltimore is one of the questions the group will look into.

In the meantime, I will continue to argue in favor of treating addiction as a problem for the public health system, not the criminal justice system. I have said many times that the war on drugs should be a public health war, not a criminal justice war. That does not mean I favor legalization, the sale of drugs in the open marketplace. I favor medicalization—that is, regulated distribution in a manner similar to Liverpool, England and the Netherlands.

Tougher penalties, including state and federal mandatory minimum sentences, are not reducing crime. Instead they're increasing the pressure to release other violent offenders early.

They are also demoralizing, and making invisible, a large percentage of African-American men. A recent study showed that in Baltimore, 55 percent of African-American males between 18 and 35 are under the supervision of the criminal justice system. This means that on any given day one half of these young men were either under arrest, incarcerated, on parole or on probation. This sacrifice of talent, potential and leadership—in large measure due to the war on drugs—is simply a national disgrace.

These young men, if addicted, are not getting treated. If selling, they are frequently doing so because they don't have access to jobs or job training. If incarcerated, they have been all but forgotten. That is why I feel strongly that changing the national drug strategy is a question of justice and humanity, as well as sensible public health strategy. We have to ask ourselves if it is just that those with the least money, the least education and the least chance of achieving economic opportunity are bearing most of the burden of drug addiction, incarceration, drug-related crime and AIDS. I don't think it is.

In his book Defining National Security, published by the Council on Foreign Relations, Professor Joseph Romm claims that, "Domestic drug consumption is a societal ill that is not usefully defined as a national security problem." I would argue that an ineffectual strategy that is draining precious resources away from the very foundation of our economy—our cities, our schools, and our communities—is very much a national security concern, and should be given the serious scrutiny that it deserves. Therefore, I hope that even if you harbor doubts about the merits of my views, you will use your extraordinary influence as international leaders to help draw attention to the need for a new drug policy in America.

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I would like to end my remarks where I began: Cities are the cradle of our civilization, and the engine of our economic power. Yet in
America, we have allowed our cities to be badly weakened, and watched our spirit of community and common purpose disintegrate. Today, however, is a new day. We have a federal government that recognizes its own self-interest in helping cities, and its moral obligation to the millions of its citizens who live there. Urban regeneration in Baltimore and other cities is already moving forward on the strength of those who live in, work in, and love cities.

So while we eagerly look forward to renewed federal support, we must continue to refocus our energies on community-based partnership, and an empowered citizenry. And that, I believe, demands a new model of leadership. Doug Ross, one of President Clinton's advisors, stresses that today the President of the United States is no longer like an aristocratic symphony conductor, directing from afar. Instead, he is more like a jazz musician, setting the tempo for each player to "do his own thing." HUD Secretary Cisneros chose that theme when he suggests that his agency should be the "facilitator, expediter, and catalyst" in thousands of cities across the nation, but not the leader.

I'm optimistic that this new model of leadership, combined with flexible federal support and community-based urban strategies, gives us the tools we need to restore and rebuild our cities. And more importantly, we now have the potential to regain the spirit of community and common purpose which is the bedrock of America and all that we stand for.

Kurt L. Schmoke has been Mayor of Baltimore since 1987. He was State's Attorney in 1982-87.
Economic Program, Health Care Reform
We are very often asked, "What does Congress think?" It's a little bit like, "What does the market feel?" It's a personification of an institution that often doesn't have a collective attitude on any particular day. But if I were to say how the Congress is reacting to the election of last year, it is with, on the Democratic side at least, a good deal of hope that we may finally move forward on some of the pressing problems that have faced the nation for a long time. I must say that I retain a friendship and an admiration for President Bush. My criticism of him in recent days was not that he engaged in the budget agreement in 1990—that was his finest hour from my point of view—but that he later recanted. One way or the other, it is necessary for the Federal Government to take serious action to reduce the deficit. This is one of the principal objectives of this Administration, and one of the principal goals on which it will be judged. At the same time, the Administration is cautious that we not fall back into a third dip in the recession; and the more controversial part of the President's program has been the stimulus-investment package of $16 billion. Both the overall budget and the stimulus-investment package have passed the House. They will, I hope, this week pass the Senate; and I hope that before we begin our Easter recess, at the end of this week, both of those first steps in the economic package will be accomplished—not without controversy and criticism obviously.

Hillary Clinton and her task force are expected to reveal a health care reform program in May. To give you a glimpse into the scope of the problem of designing health care reform in the United States, one of the principal White House assistants came to the Hill recently and said that between that time and May it would be necessary to make 720 key decisions on health care. In addition, there will be the fairly long process of debate in the Congress over the health care plan. I personally believe it is an enormously more difficult problem than many in the country believe, than many in the Congress believe. It cannot be accomplished, in my judgment, without substantial new revenues, and without very tough decisions that are going to spark enormous controversy.

If the President can get through his economic program and then grapple with the issue of health care—probably the largest and most sensitive political issue in the last two decades—he will end this year with a very positive reaction, I think, from the country. But I caution again that health care is a much more difficult and politically disabling problem than many people realize.

Russia, Trade Issues
Obviously it is not possible for the United States to deal with its domestic problems, as we would wish to, in isolation and with intense focus. The reality is that world affairs intrude—in Russia, in Bosnia—and the President from time to time will be drawn away from his focus on domestic policy by those issues. He is now engaged in preparing the country for participation in a G-7 effort to provide resources to Russia. This is extremely difficult right now in the United States. Important as the issues are, critical as they are, it is extremely difficult, while we are asking communities to tolerate the closing of bases and the reduction of federal programs that have been long in existence, to devote many hundreds of millions (perhaps billions) of dollars to Russia. Nonetheless, it has to be done.

Another very difficult area will be trade issues. I believe we will ratify a NAFTA agreement. But it will not be easy; there will be a good deal of difficulty about it when it reaches the Congress, whenever that time is. Those of us who have supported the U.S.-Canada Free Trade Agreement find that, as in Canada, there are many negative reactions to that agreement. Both sides seem to think that the other got the better of the agreement—that's inevitable. Expanding it to Mexico creates more controversy. Nevertheless, I am hopeful that will be accomplished. We'll have to extend the fast-track legislation for the Uruguay Round. On
this perhaps more than anything else, the future of our trade relations will depend. I think that will be done again, but I think it should be done in a fairly short time-frame. If we have too long a time to conclude the Uruguay Round, the negotiation might expand to take up whatever time is available.

**Mood of Dissatisfaction, Anger**

It should be said that part of the reality today is a very unhappy electorate. Member after Member will come back and tell you that, in his or her home constituency, public meetings are rougher, are more accusatory, are more bitter and unhappy than they have been in the memory of these Members. Last year we elected 110 new Members of the House of Representatives—64 Democrats and 46 Republicans—the largest number since 1948. Many of them ran against the institution, ran against what they considered the irrelevance or the insensitivity or the failures of the Congress, in both parties. And the country retains a kind of a watchful waiting about what the Congress will do, about whether the country’s welfare and general circumstance will be improved or not. Many Members feel the next election, in November 1994, will be an extremely bitter and difficult one unless we have perceptibly improved the attitude of the public, which means, in their judgment, improved the condition of the country.

The economy is fundamental. After that are pressing social issues. We still have terrible problems with drugs and family disorganization and crime and violence, which are not alone the circumstance of this country, but are serious problems, for which policy seems to be impotent and ineffective. We have problems in our education—at elementary and secondary levels in particular, but the universities are not exempt. And so, across the spectrum of our national life there is a sense of dissatisfaction and concern, and even anger. On top of the normal burdens of government are added the dissatisfactions of a political community that is not happy.

Voltaire wrote a letter, I’m told, to Catherine the Great giving her his advice on how to govern the then Russian Empire. She wrote back to him a letter of thanks which had a tone of complaint. She always addressed him, “My dear friend.” But, she said, he had the luxury of writing on parchment or paper. She, as I remember the phrase, “had to write on the human skin, which was prickly and irritable.” Today that is the attitude of the American electorate—its skin is prickly and irritable. Those of us who are charged with the responsibility of government face the constant challenge of dissatisfaction and unhappiness, even at our best and most earnest efforts.

Nevertheless, I am optimistic that we’re going to be able to make some real progress in the United States.

*Thomas S. Foley, Democrat from the state of Washington, is Speaker of the U.S. House of Representatives.*
Americans and the World

The Public's Mood

I agree with what the Speaker said on the tone of the country. I come from the central part of America. It is a populist area of the country, and a former Populist once said that we need to raise less corn and more hell. But I do think the Speaker is right. There is a public feeling that government is somewhat dysfunctional, that we don't relate to the problems and the needs of average Americans. I'm not sure this is much different in the rest of the world, but I think it is a problem we're seeing more acutely here, over the last eight or ten years. Quite frankly, I think it's been fostered by the attitudes of the previous Presidents, who publicly stated that government is bad; government is evil; it can't do anything right. They made jokes about it. On American talk shows and television shows, this view was reinforced day-by-day.

The American public and my constituents are generally isolationists. It is hard to convince them that what happens to them and what happens in the world relate to each other, even though in Kansas we ship a lot of wheat and corn and soybeans around the world. That is something that ties my constituents to the world, but the isolationist feeling is still there. A strong feeling has been there for years that dollars should be spent at home, not abroad. That feeling is intensified now as we see our defense budget begin to be reduced, at least for a while. That feeling will make it hard, but not impossible, for us to provide some sort of major relief package to Russia and the other republics.

There is a feeling in America, I think, that the rest of the world is shooting at us all the time when it comes to trade policy; that the rest of the world is guilty of unfair trade practices (whether it be the Europeans when it comes to manufacturing airplanes, the Japanese, or the Mexicans), that we are being besieged by a history of open markets. This is the impression of the average American. To some extent it's legitimate, and to some extent it represents a victimized view of history.

Whatever the background, it is real. People see trade issues in that context. I would agree with the Speaker that the GATT Agreement is in some difficulty because of that feeling. The NAFTA Agreement, I think, can be passed, but there is a strong feeling that America will see its standard of living reduced, particularly at a time when people are losing a lot of jobs in big companies.

American Leadership

My own personal belief is that, with these public attitudes, it's all the more important for us in government to show leadership—not to backtrack, not to withdraw from the world politically, not to withdraw from the world militarily, if necessary, and not to withdraw from the world economically. Recently I went with Majority Leader Gephardt on a trip to Greece, Turkey and Israel. In one of those countries, one of the leaders said to me, "You know, America is in a unique role of providing moral leadership—not just political, not just economic, but moral leadership. Please don't shy away from your historic role of exercising moral leadership." Even with our economic problems, it is not the time for us to withdraw from the world.

At the risk of sounding chauvinistic, and I don't mean to be that way, I do believe that America has a special role—not a superior role, but a special role—in helping to maintain peace, freedom and order in the world. Notwithstanding the changing nature of the world and the strengthening of other nations' economies—which is healthy—I do believe that it is important for us to recognize that we do have a unique obligation in the world. Settled almost entirely by other people coming in here, this country created a culture which made us per-
haps more tolerant and perhaps more accepting of each other. My grandfather was one of those immigrants and he always said to me, "Don't ever shirk your responsibility of letting people know that we are an example to the world." We're not a superior nation, but we are an example to the world of the way things should be.

In saying so, however, we must recognize that America no longer can unilaterally run the world, or protect the world. Whether it's in the Balkans or the Far East or the Middle East, we no longer will have the ability, given our fiscal problems and the changing nature of world, to be called upon to be the world's policeman anymore. That task will require a multilateral effort with the Europeans, with the Japanese, with many other countries in the world.

Intelligence Priorities
The Speaker, as he said, appointed me Chairman of the Intelligence Committee. I thought I would say a couple of things about that, because it relates, again, to America's role in the world in the future. America's intelligence operations came about not because of the Cold War, but because of the attack in 1941 by the Japanese at Pearl Harbor. Intelligence efforts came about because America's interests were threatened. Obviously, intelligence operations grew dramatically and focused on Moscow in the last fifty years, but times are changing and intelligence efforts are going to focus on a lot of other things in the future.

First and foremost is nuclear proliferation. We, and the entire civilized world, have a role in trying to prevent the spread of nuclear weapons—an assertive role, a continuous role, an aggressive role. Whether it's in North Korea or Iraq or wherever else, that is obviously something that our intelligence community has to be very much in front of. Second, of course, is terrorism and counter-terrorism—trying to prevent the world, where we can get the information, from being victimized by people who play by uncivilized rules. Third, of course, is regional conflicts, whether in the Balkans, Middle East, or Central America. We need to be aware of what is happening, and policymakers then can make the appropriate decisions. Fourth is counter-narcotics.

The fifth—that's been somewhat more controversial—has to do with economics. What is the role of intelligence when it comes to the economic conflicts of the future? What should the United States be doing? This is tricky, but I do believe that there is a role for us at least to have information about threats to America in the economic sphere. This is an area that's going to take some time developing—it has to be done very sensitively. I do not happen to believe that America should be engaged in spy operations on the rest of the world to find out economic information. But I do believe that we have to protect ourselves from interventions by other countries who have the idea that, through our openness and our free market system, they can come in and take things from us that they shouldn't take. This is one of the areas that I intend to pursue in the Intelligence Committee.

Congressional Mood
I would close by saying that the mood in Congress, irrespective of what I just said about the country, is more upbeat than it's been for some time. The feeling is that Congress and the President are finally dealing with substantive issues, issues that are important to our future and our well-being. It is my hope and my belief that we will be able not only to begin to deal constructively with domestic issues—crime, the economy, education—but also to maintain a leadership role, working cooperatively with the other nations in the world, in securing peace and freedom and human rights.

Dan Glickman, Democrat from Kansas, is a Member of the U.S. House of Representatives, where he is Chairman of the Permanent Select Committee on Intelligence.
AMO HOUGHTON

Jobs, Debt

Jobs

I'm a newcomer to this business. I came to the House in January of 1987. I come from the 31st District of New York State. It's big and it's rural; and you could put several states into it. When he was running, President Clinton's campaign manager put a slogan in the office. It said, "The economy, stupid." If there is one slogan I would have in my office, it would be, "Jobs, stupid." New York State over the last ten years has lost more people than any other state in the Union; and my district has lost more people than any other in New York State. So you can imagine that jobs and opportunity and growth are very, very important. They focus the mind. People worry that their children are not going to have as good a life as they've had in the past. They fear not having the American Dream. So basically, we concentrate on jobs.

Partisanship

I am a Republican, but I support President Clinton. I always felt when I was a businessman that I was a citizen first and a businessman second—and President Clinton is our President. I didn't work for him; I didn't vote for him; I didn't contribute to his campaign; but he is President. I think it's important that everyone recognize that. There is a bit of a division on the Republican side about this, because Republicans are trying to reidentify themselves.

For example, when the budget resolution came to the House recently, a strong group of Republicans—ideologues—argued that absolutely no taxes were in order. Now, I frankly think that is unrealistic. You cannot say, to somebody who is going to have some of their Social Security or welfare payments adjusted, that high net worth individuals cannot be involved in the process. Taxes have got to be a part of the process. I do not feel, either as a Republican or as a citizen, that I should be laying in the weeds, waiting to criticize, and stick my fingers in the eye of the President—or just be a rubber stamp. I'm going to fight like mad as a member of the Republican Party and as a citizen to do the things which I think are important. But in the end whatever is decided by Congress and by the President, I will accept.

Annual Deficits, Accumulating Debt

If you're in business, you know how fast a business can grow by looking at three things. first, earnings; second, net worth; and third, borrowing capacity. When you apply those measures to this country, you don't know what the net worth is, but you know we don't have any earnings and you know we're running out of borrowing capacity. I don't want us to end up the way New York City and Mexico did. New York City for two hundred years was able to sell its short-term bonds, and then—bang!—the window closed. Mexico in 1980 and 1981 borrowed a great deal of money, and then—bang!—the window closed. We cannot let that happen to us.

I think President Clinton has done the unbelievable. Democracy tends to work from crisis to crisis. But here, absent a crisis, he somehow has captured the imagination of the American people to do things which will cause sacrifice and some hurt.

The idea of change, of getting back into control, of putting a harness on the political hacks who have increased our expenses over the years, is very, very appealing. I was a member of the Grace Commission in 1982. Our Federal Government's income in 1982 was $600 billion, and our expenses were $800 billion. Imagine if I had said to any Member of Congress then, "I'll make a deal with you. In the next ten years, if I double your income, could you hold your expense increase to 50 percent over what it is now?" It would have been a pretty good deal. But of course, they couldn't hold up the expenses side of the bar-
gain. So now our income is $1.2 trillion, and our expenses are $1.5 trillion.

If you separate our new budget into the four basic pieces—interest, the military, entitlements, and all other expenses—the only cuts are in the military. Our publicly held debt as a percent of our GDP—debt is really the critical issue—is now about 53 percent. The frightening thing to me is that with the Clinton budget, and even the Republican budget, it ends up in 1998 at 57 percent, and soaring after that. Our annual deficit goes from about $300 billion down to $200 billion in 1998, and then really begins to take off again.

There were four budgets submitted in the recent round: the Black Caucus budget, the Democratic budget, the Republican budget, and one with which I was associated. That one got a total of twenty votes (nineteen Republicans and one Democrat). It was the only budget which kept that debt-to-GDP ratio at least even. If we were to notch that down from 53 to 52 percent over the next five years, we could only spend $750 billion. Of course that’s impossible.

So how do we get this job done? The people that I represent want to know, want to be educated, want to be part of the solution, want even to sacrifice. Our job as politicians is to put the national financial imbalances into human terms so that citizens can understand and participate. A professor at Oxford said one time that the responsibility of a democrat—small “d”—is to inhibit the inhibitors (or hinder the hinderers) of a democracy. That’s what we’ve got to do. These issues are complicated; they’re hard to boil down into something which is applicable to a person or to a family. But that’s the job I feel that we should be doing in Congress.

*Amo Houghton, Republican from the State of New York, is a Member of the U.S. House of Representatives, where he sits on the Ways and Means Committee.*

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**CANADA**

**MICHAEL WILSON**

**Canada’s Policy Priorities**

*Canada’s* governing Progressive Conservative Party—my party—is about to choose a new leader and therefore a new Prime Minister, in June. Before the year is out, that new Prime Minister will have to call a general election. Of these two major milestones in our national life, at least one—I hope and expect only one—will entail an important change. Either way there will also be an important measure of continuity.

So, as we approach these milestones, let me first try to give you some sense of what Canada has accomplished in the past few years, and where we are going, so that you—our allies, our investment and trading partners, and our friends—will know what you can expect.

**The Mulroney Economic Policy Legacy**

When Prime Minister Mulroney steps down in June, he will bring to an end a remarkable tenure. I think *The Washington Post* summed it up well, in its editorial of February 26:

With notable courage, Brian Mulroney did most of the things that a Prime Minister of Canada ought to do. He raised taxes to reduce a menacingly large budget deficit. He struggled to resolve Quebec’s long quarrel with the rest of the country. He negotiated a sweeping trade agreement with the United States, resulting in a rapid rise of trade across the border.

At home, the legacy of the Mulroney years is a country better positioned to meet its goal of continuing its remarkable prosperity in a world of global trade and knowledge-based,
value-added industries and constant change.

At the heart of the Mulroney legacy will be the effects of the Agenda for Economic Renewal introduced in 1984—at the beginning of our first mandate—which has guided the policies of the government ever since. Through policies like expenditure control, deficit reduction, tax reform, deregulation, privatization and trade liberalization, the Agenda has established the macro-economic bedrock upon which a progressive, forward-looking economy could be built. In 1984, of course, this all constituted a significant change of direction, and it will not be lightly or soon abandoned.

Central to our policy have been efforts to cut the government’s program spending—all expenditures except those intended to service the debt. This has required tough, sometimes unpopular decisions, which often caused great controversy. But we persevered and have made substantial progress. In fact, between 1984 and 1990, Canadian federal program spending grew in real terms significantly less than these expenditures in any other G-7 nation—just 0.1 percent annually compared with 0.9 percent in France and 4 percent in Germany. This restraint has helped to bring our deficit down as a share of Canada’s economy. On an accounting basis comparable to that used in the United States, the Canadian federal deficit declined from 6.7 percent of GDP in fiscal 1984-85 to just 4.4 percent this year (despite pressures on revenues and spending brought about by the recession)—a decline of over 2 percent. By comparison the U.S. federal deficit now stands at 5.4 percent of GDP.

When we came to office in 1984, Canada’s debt was hardly seen as a consideration in public policy debate. One result of the Mulroney government’s continuing effort to control spending is that today the debt and deficit are constant considerations in any such debate. When I left the Finance portfolio, just two years ago, provincial governments—which now account for over half of total government spending—showed no inclination to work towards a coordinated national solution to this problem. Today Canadians are challenging each level of government to live within its means. And there are clear indications that, no matter what their political persuasion, governments in Canada are listening to Canadians in this regard. This will not change. All political parties, all Progressive Conservative leadership contenders, and all provinces are showing strong commitments to dealing with this matter. It’s clear that dealing with the deficit issue will be a continuing priority. With strong measures to restrain expenditures and a recovery in revenues—now that Canada is emerging from the recession—we should be well-positioned to make real progress on the deficit in the near future.

And we are out of the recession. Canada’s composite leading indicator showed its strongest growth in nearly two years in February. We have had a positive growth trend since the second quarter of 1991. There are strong indications that the OECD’s forecast that our GDP growth would lead the G-7 in 1993 will be proven correct. Canada’s prime rate is at its lowest in twenty-one years; mortgage rates are down; Canada’s inflation rate of 2.3 percent in February is very good by both G-7 and historic standards. Our unemployment rate, which is still too high, has fallen to a twelve-month low of 10.8 percent in February. We have had a steady growth in jobs since mid-1992.

While growth has returned to the Canadian economy, the real success story of the last year has been our export performance. In fact, Canada’s export sector has been consistently leading the economy out of the recession over the last fourteen months.

**Uruguay Round**

Few countries in the world are as dependent on trade as Canada—nearly thirty percent of our GDP stems from international trade, double or more the comparable numbers for Japan and the United States. Without trade,
Canadians could never have built the world's eighth largest economy with just the 31st largest population. But that's exactly what we've done.

As a founding member of the GATT, we have, since Punta del Este, made a successful conclusion of the Uruguay Round our number one trade policy priority. There is a widespread national consensus on that issue which unites all regions of the country, cuts across party lines, and will survive both leadership changes and general elections.

We are disappointed that it proved impossible to wrap up the GATT Round before the expiry of fast-track authority in the U.S. Congress on March 1. However, I am encouraged that President Clinton is seeking a renewal of the fast track authority. The tone of the meeting held ten days ago between Jacques Delors and Mickey Kantor was equally encouraging. We all hope that his upcoming meetings in Brussels will translate the positive words we've heard into concrete results that we can build upon.

You in this room understand what is at stake in this Round. You know that the global economy is still recovering from a significant downturn, which still affects many countries. And you know that the economy needs a boost—a new direction—which will help to lift it out of its current doldrums. According to the OECD, implementation of Director General Arthur Dunkel's proposals would add $200-$300 billion to the world's economy by the end of this decade. A successful conclusion of the GATT Round would send a message of confidence, communicating our strength of purpose to bring the benefits of freer trade to all the world's peoples.

Let me be blunt—the world cannot afford a failure of the Uruguay Round. If we are to overcome the obstacles to an historic agreement, leadership on the part of the G-7 is absolutely critical. The United States, the EC and Japan all have crucial roles to play in striking a deal, and that means some retreat from existing positions on all sides.

A big market-access deal is a key to a successful negotiation, but backsliding from where we are on the Dunkel Text will make a successful outcome more difficult to achieve. We all must exert whatever influence we can to gain a quick conclusion to these talks.

FTA and NAFTA
In 1986, not instead of, but rather complementary to our long-standing commitment to multilateral trade liberalization, Canada opened a second avenue to the same end, this time through regional arrangements, first with the United States, and more recently with Mexico.

Five and a half years ago next week, Jim Baker and I stood together, just nine blocks east of here, and told a press conference that the Canada-U.S. free trade agreement, that we'd concluded the night before, was a win/win situation for both countries. The last four years have dramatically proven the truth of that statement.

During a difficult economic period, total two-way trade in goods and services between the two countries increased by 16 percent under the FTA, and in 1992 really took off—for example, Canada's exports of goods to the United States were up 13.6 percent and are a key factor in Canada's recovery.

In 1988, Canadian critics of the FTA said that eliminating tariff barriers would choke off investment. In the eight years prior to the FTA, the net inflow to Canada of foreign direct investment was $4 billion. Over the past four years, net foreign inflow was up nearly fivefold to $19.8 billion. In 1992 alone, we saw a net foreign direct investment inflow of over $4.7 billion.

Despite obvious benefits to people in both countries, the fact is that, in certain quarters, the concept of free trade is still very controversial. Lord Macaulay was on to something, back in 1824, when he wrote: "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." And he'd never
even seen the United States Congress or the Canadian Parliament, or read the polls Mickey Kantor referred to this morning.

Our negotiation of the NAFTA sought to build upon the strengths of the FTA. Now all three countries have succeeded in building the world's largest trading zone of some 360 million people and a gross domestic product of seven trillion U.S. dollars.

We have to pass the legislation in time for implementation on January 1, 1994. I expect the Canadian Parliament will adopt the NAFTA implementing legislation by this summer, with legislation in Mexico and the United States to be completed somewhat later. I associate myself with those who urge early action. This will remove uncertainty in financial markets, and also help our business-people who want to complete plans on how to respond to the new opportunities presented by NAFTA.

New departures that they were, the FTA and the NAFTA have not initially enjoyed the same consensual support in Canada as the traditional GATT arrangements, the most vocal opposition coming from elements of organized labor and the parties of the Left. However, while the current debate on NAFTA is hardly serene, much of the hysteria of the 1988 FTA debate has subsided, as the benefits of the FTA become more apparent and the fearmongering of 1988 is debunked. I believe I can safely predict that whoever the winner is at my party's June leadership convention, he or she will maintain our government's strong commitment to the NAFTA and its implementation on schedule.

In the meantime, negotiators from all three NAFTA countries met in Washington last week to discuss the much-publicized supplemental agreements involving labor and environment issues. (Nobody talks about reopening the NAFTA. That is one element of continuity that President Clinton, President Salinas and Prime Minister Mulroney have all made clear. The agreement signed on December 17 will not be reopened.) The side agreements, in fact, follow a series of proposals that were initially introduced by Canada in April of 1992. These proposals were not accepted at that time. But now, we in Canada are very pleased with the Clinton administration's decision to revisit them as a key element of acceptance of the NAFTA by Congress.

But let me express some concerns here about the supplemental agreements. As I said, we favor them, but express caution about what can be achieved. Expectations are high. My concern lies in the area of enforcement. Ambassador Kantor talked about "teeth," but teeth can bite in many ways. Let us collaborate and let us consult. Let us try to raise enforcement standards. Let us agree on minimum standards. Let us raise public awareness of sustainable development, and other environmental and labor issues. But does the United States want Mexico enforcing, through Mexican trade remedy laws, environmental standards in California? Or Canada doing the same thing, through Canadian laws, in the state of Washington? Let us learn from each other's experience, but for NAFTA to be a success, we must also respect each other's sovereignty. This will be the biggest challenge we face in completing the NAFTA approval process.

I can't leave the topic of the North American Free Trade Agreement without addressing the concerns expressed by some in Europe and the Pacific Rim. As I said at the APEC meeting in Bangkok last September:

The central feature of the NAFTA is the reduction of trade barriers within North America...some media reports in [the Asia Pacific Region]...interpreted this to mean a move towards a "Fortress North America." Building a trading bloc was not our intent going into the negotiations, nor has it been the result.

NAFTA erects no new trade barriers between its members and the rest of the world. Let me be clear: NAFTA is about removing old barriers, not about erecting new ones. In fact,
the Commission members here from Japan may already be aware that the NAFTA negotiations enabled Canada and the United States to resolve a dispute over the rules of origin requirements for Honda automobiles made in Canada and moving into the United States. The agreement continues to allow the three members to maintain and develop existing trade relations with their other trade partners, and Canada intends to do just that.

Three months ago, Ambassador Yoshi Okawara and the Honorable Peter Lougheed presented the joint report of Canada-Japan Forum 2000 to Prime Ministers Miyazawa and Mulroney. It contains a comprehensive set of recommendations for improving the already excellent trade, investment and other relations between our two countries. We expect to respond positively to this report shortly.

**United Nations Efforts and Regional Hot Spots**

Before I conclude, let me leave you with a few thoughts from a Canadian perspective about the changing nature of what some call the New World Order. As Secretary Deutch said this morning, there often seems to be more “New” than “Order”. In particular, I want to say a few words about the regional hot spots which are demanding so much of the world’s attention these days. Bosnia, Somalia, and Iraq are all high on this list but there are others which could be added any day.

In the past two years, the United Nations has emerged from the torpor imposed on it by Cold War confrontation and is showing its real potential for action. But situations like these demand more leadership than the United Nations alone is equipped to offer.

In a world with only one remaining superpower, it’s clear that the United States will have a continuing leadership role to play in dealing with difficult situations like these. Canada fully supports the United States’ leadership in such circumstances. However, we continue to believe that the most effective vehicle for exercising this leadership is the United Nations—a pattern which has proven effective in the Gulf and in Somalia. For although the world has changed, there is no substitute for American leadership, American personnel and American investment harnessed under one organization in the cause of world peace. In this new world environment, partners must learn to work together more effectively than at any time in the past.

The changing world situation demands that the United Nations, too, must evolve. The Security Council must be the focal point for the mobilization of international political will. In order to do that, it has to reflect contemporary realities in the world. For this reason, Canada fully supports the aspirations of Japan and Germany to permanent membership on the Council.

In the past few years, the role of the United Nations, as a peace-maker and a peace-keeper, has become more complex. The UN was asked to use its resources as a peacekeeper some 13 times in the 42 years between its creation and 1987. In the six years since, it has established 13 additional peacekeeping operations. In the last two years alone, the UN budget for peacekeeping operations quadrupled to $2.8 billion—a financial burden which it cannot sustain without a new influx of resources.

This situation cries out for more nations to make contributions, and to participate in the peacekeeping and enforcement efforts of the United Nations. In this regard, I am encouraged by the public debates that have emerged in Japan and Germany about their constitutional constraints.

**Russia and the G-7**

If continuing ethnic and regional tensions pose one threat to a peaceful world order, the recent developments in Russia pose an even more worrisome problem for the world.

The events of the last fortnight in Moscow cause me—and I am sure all of us in this room—to recall the last time we were faced...
with a crisis in this region. The time was 1991 and the G-7 summit was in session. At that time, the industrialized nations failed to seize the opportunity for coordinated action. Two months later, the abortive coup began the sudden and unceremonious end of the Soviet Union. Current events pose a similar challenge. We must answer that challenge with more than Paris Club arrangements. We need a coordinated and comprehensive response by the G-7—in short, a vision, not a patch-work quilt of modest responses. And Canada is prepared to play its part in this response. We're consulting closely with our G-7 partners. Prime Minister Mulroney is looking forward to discussing with President Yeltsin, next week in Vancouver, how we can best be helpful.

But any assistance we can give to Russia—no matter what the conditionality—will not, in itself, be sufficient. I feel strongly that if Russia is to achieve her vast economic potential, her political institutions must focus on transforming her from a nation ruled by decree to a nation of laws. The economic success of our countries has been founded on this principle and long-term success for Russia and the other successor states will not be possible until they adopt and abide by it, too. Equally, they will find no solutions to the economic and political crisis that is playing out today by permitting runaway inflation, fuelled by a lack of monetary discipline and huge budget deficits. It is critically important that the leadership and legislators in Russia move beyond their current differences and focus on these extremely serious problems.

**Responsibilities of G-7 Partners**

Despite the recent global recession, the G-7 still accounts for over 70 percent of the world's output. With this wealth comes the responsibility to provide leadership through institutions like the United Nations and the GATT. The United States has a major role to play as a leader of the industrialized nations. But each of us in the G-7 must make a major contribution to resolving the daunting challenges we now face. We must rise to the challenge that events in Russia pose to us all. We cannot afford to miss the opportunities a successful end of the GATT Round would bring.

We must renew our commitment to bringing an end to the tragic conflict in Bosnia. We must find resolutions for disputes and move the world's economy forward so that more nations can enjoy the benefits of trade, peace and progress.

In a changing world, we look for stability so that we can more easily absorb the change. The changing world poses very complex problems, so the world needs flexible and responsive leadership; only the United States and its G-7 partners can provide this leadership as well as this stability. This imposes a great responsibility on us all. As far as Canada is concerned, we have shown in the past, and continue to demonstrate today, that we are ready to shoulder our part of that burden.

Michael H. Wilson is Canada's Minister of Industry, Science and Technology and Minister for International Trade. He was Minister of Finance in 1984-91.
Japan’s Policy Priorities

Like to think that the Miyazawa faction of the Liberal Democratic Party, of which I am a member, has a special role in the Trilateral Commission. Mr. Miyazawa (like another former Trilateralist, Mr. Clinton) has a position of some responsibility in government, and so is not currently a member. But he was a founder and long-time member of our organization. I met with Mr. Miyazawa right before I left for Washington, D.C., and he wishes me to convey his very best regards to fellow Trilateralists.

Mr. Miyazawa spoke at the Trilateral plenary in 1980. This was a time for profound re-examination of Japan’s international role following the Iran hostage crisis, the Soviet invasion of Afghanistan, and Vietnam’s intervention in Cambodia. Mr. Miyazawa made what was, in the context of the time, a bold call for Japan to assume increased international burden-sharing. In the subsequent 13 years, Japan’s assumption of international burdens has proceeded at a pace that some foreigners and Japanese internationalists regard as frustratingly slow. However, there have been major, almost unimaginable changes. In 1980, Japan did not call itself an ally of the West. It was inconceivable that Japanese soldiers and police would be stationed abroad as part of UN peacekeeping missions—or that Japan would be initiating a budding political-security dialogue with the countries of the Asia-Pacific. In 1980, Japan did have a relatively large aid program, but who would have thought that, just a decade later, it would rival the U.S. program in size, that 37 percent of Japan’s aid would go to countries outside Asia, or that 70 percent would be untied?

Japan’s Economy

Japan values its international role and yet, like our Western allies, we know that fulfilling our international responsibilities starts at home. Let me turn first to the economy.

In the third quarter of last year, the Japanese economy fell into negative growth. This was a startling indication of the recession which has been worsening for nearly two years. The “bubble economy” of the 1980s was built on borrowing and excessive real estate and stock speculation, and it was bound to collapse. The burst of the bubble brought a halt to the growth of all sectors of Japanese economic life and the collapse of confidence in Japan’s financial institutions. Prime Minister Miyazawa drew up his first Cabinet with the express intention of fighting the after-effects of the end of the bubble economy. In August of last year he put forward a fiscal package worth $9 billion, although regrettable the enactment of this package was delayed by political difficulties. Earlier this year the official discount rate was reduced to 2.5%. I can assure you that we are meeting the challenges head-on.

Our short-term problems come at a time when we are facing the need for long-term, structural changes in the Japanese economy. Changes in the economic structure of Japan and in patterns of investment and consumption will be the key to solving the problem of persistent and long-term trade surpluses.

Japan’s producer-oriented economy has been a consequence of historical circumstances and economic forces. Now, new economic forces as well as changes in popular aspirations are forcing a change in Japan’s patterns of investment and consumption. There is the realization that we must make our economy less rigid, more transparent, and more balanced in its weighing of consumer and producer interests. No longer is Japan a society simply obsessed by economic growth. We are...
now asking, "What are the benefits of this economic growth?"

It is the task of leadership to promote these changes. Those of you who heard his speech last year in Lisbon and have read his articles know that my Trilateral chairman, Mr. Morita, is the leading voice in the private sector urging change. My Prime Minister, Mr. Miyazawa, is well-known for his commitment to investing in assets that improve the quality of life. Last June, the Miyazawa government set in motion a “Five-Year Plan for Living”—a policy aimed at enhancing protection of the environment, shortening working hours, and improving housing, roads, and sewage systems.

These domestic changes are clearly relevant to our balance of payments problem. This past year saw the Japanese trade surplus top $130 billion. Yet with the world in recession, Japan's exports are basically flat. Last year exports increased in value, but only as a consequence of higher average yen exchange rates. The enormous growth in the trade surplus was the result of a collapse in consumer spending and import demand as the recession deepened in Japan. In addressing the trade imbalance, therefore, it would be a mistake to curtail exports. Instead, Japan is acting vigorously to stimulate its economy and the level of imports. The policies of the Miyazawa government, in answering the calls for a higher standard of living, are aimed at boosting domestic demand. I hope that these structural changes in the Japanese domestic economy will coincide with resolution of negotiations in the GATT Uruguay Round. It will be fitting that the Miyazawa government's determination to make Japan an even bigger and more receptive market comes at a time when the world community further strengthens its commitment to world trade.

Japan, North America and Europe—we represent nearly two-thirds of the world economy. Our growth will have a great effect on those around us. I believe that we can secure that growth. President Clinton has made bold moves in Congress. Europe can still achieve the profitable goal of integration. And Japan is confronting her post-bubble problems and rebuilding her economy for world growth.

Japanese Politics
Because political leadership is so important to Japan's economic agenda, let me touch on Japanese politics.

Since 1955 the LDP has been in power uninterrupted. For a long time it was regarded as the party of the free world. We advocated a free market economy and close relations with the democratic countries of the West. Japan enjoyed peace and prosperity. Before the collapse of the Soviet Union, the Japanese people were too fearful of communism to consider electing a Socialist government and, so, even though from time to time there were scandals, the people considered a little bit of money politics the price they would have to pay for a free-market society. Since the fall of communism they are less forgiving.

Last year's Sagawa scandal was a further disgrace to Japanese politics and, in recent weeks, Japan has been stunned by the revelations of Shin Kanemaru's tax evasion and the extraordinary amount of money he accumulated for personal use. The outrage of the Japanese people at "money politics" has come to a head. The LDP is now working to answer the demand for change. We are pushing through a reform which comprises both an institutional change (by introducing a single-seat constituency electoral system) and changes in the practice of politics (by introducing a total ban on the transfer of any money between politicians). The existing laws and new reforms will be strictly enforced. These reforms will constitute a fundamental structural change in Japanese politics and, I believe, help meet the demand for the greater maturation of Japanese democracy.

Non-Proliferation and Arms Sales
Let me now turn to our international agenda and begin by discussing Japan's defense and
arms sales policies. For nearly 30 years we have had the technology to build nuclear weapons and the option to develop an arms industry. Nevertheless, we stand firm in our opposition to nuclear proliferation. Japan signed the Non-Proliferation Treaty twenty years ago, and hopes to see more countries sign and implement the NPT. Despite business pressures to build an arms export industry, the Japanese people adamantly refused to contribute to the global arms race. We believe our policies—including a policy of “Exclusive Self-Defense” and the three Anti-Nuclear Principles of not producing, possessing, or allowing nuclear weapons on Japanese territory—to be contributions to world peace and to the peace and security of our region. Any other approach by Japan would have contributed to heightened tensions and insecurity in Asia.

We are deeply concerned about the growth in arms sales and production which continues despite the end of the Cold War. In some countries arms are being exported to gain foreign exchange with no thought for the consequences for peace. In other countries, domestic politics have been the paramount considerations. For example, during the election campaign, the United States promised to provide Taiwan with new fighter aircraft. China has taken advantage of bargain-basement prices to purchase jet fighters from Russia, and it is seeking additional equipment in international markets. Clearly the new types of instability in the post-Cold War era suggest the urgency of controlling arms supplies and of developing new, cooperative security arrangements. The United Nations arms transfer register is a hopeful beginning. I hope that our governments will collectively move to meaningfully implement this agreement, and further strengthen international cooperation in controlling the proliferation of nuclear weapons and arms transfers.

Russia
At the forefront of all of our minds today are the problems facing Russia. Like the country itself, both our concerns and our hopes for its future are huge. However, attitudes to Russia in Japan are not as positive as they seem to be in Europe, Canada, or America. There are three reasons for our hesitancy over Russia.

First, we have ingrained, even emotional, problems in our relationship with Russia. These relate to historical animosities and the unsolved territorial dispute over the Kurile Islands. Then, last year, Yeltsin’s abrupt cancellation of his visit to Japan did further damage to Russia’s reputation in Japan.

Second, just as Germany has heavy commitments to neighboring Russia, Japan’s attention is drawn to the development and problems of neighboring China. Japan is by far the largest economic contributor to the development of China, and this commitment, to a certain extent, diverts our attention from Russia.

Third, there are doubts in Japan over the Western approach to the economic development of Russia. We fear that too sharp a leap to a free-market economy may be impossible and that, just as in post-war Japan, transition will be best effected through government-led planning compatible with the growth of private institutions.

Nevertheless, having said this, Japan recognizes the urgency of strong Trilateral support for the democratization and development of Russia. We are watching the current situation with great concern. Mr. Yeltsin is making bold moves to bring to his country the benefits of democracy, a free-market economy, and close relations with the countries of the West and Asia.

Russian stability is critical to the peaceful development of the post-Cold War order. It is also critical to the eventual solution of our special problem of the Northern Territories. Clearly in the present, unstable circumstances, Russia cannot negotiate effectively on this issue. Therefore, the first priority for Japan, as well as for its Group of Seven partners, must be to assist in helping Russia move forward effectively on the road to stable, democratic government and a prosperous market-oriented economy.
Asia-Pacific Regional Order

As a Japanese member, I want to address an issue which we are not otherwise scheduled to discuss at this plenary—the future of regional order in Asia and the Pacific.

The Asia-Pacific region is changing. Rapid growth and development is occurring in Southeast Asia. There are remarkable changes in China. And the end of the Cold War means that old patterns of diplomacy determined by the stand-off between the United States and the Soviet Union have come to an end. In this volatile world, with new sources of allegiance emerging, there have been calls for an All-Asia Conference to secure peace and prosperity through multilateral cooperation.

This is a worthy ultimate goal, but not one that we can achieve without the construction of strong and supportive relations between the three great powers of the Asia-Pacific—Japan, China, and the United States. The United States is reducing its military presence, but we will continue to rely on America's critical contribution to the region's security and economy. Japan, recognizing the significance of its economic growth, is ready to play a more positive role in the politics of Asia and the Pacific. And China is growing at a remarkable rate and has clearly become more influential on the international stage, particularly in the Asia-Pacific region. Therefore, it is my view that, while many other countries, including European countries, are involved in Asia-Pacific diplomacy, the critical triangle consists of the relationships between China, Japan and the United States.

Each of these bilateral relationships contains elements of both cooperation and caution. Each of the three countries has fought the other two within living memory. Intensified economic interaction among them increases their interdependence, but also adds trade friction. Within this general picture of partial cooperation and partial competition, China stands out. Relations between Japan and the United States—because of our alliance, democratic political systems, and growing web of industrial connections—have a more intense and different quality than either of our bilateral relationships with China.

For Japan, and indeed all the countries of the region, China is the crucial but unstable element in the Asian equation. Here is one-fifth of humanity, a society now with the world's fastest growing economy, growing technological sophistication, and substantial military might. We all share some very serious concerns regarding China—concerns over its defense build-up and arms sales, concerns over territorial claims in the East and South China Seas, and concerns over human rights abuses and inadequate environmental standards. Therefore, the future of this society—and I say “society” to include Hong Kong and Taiwan—has tremendous implications for the world order.

The key question for us in the Trilateral world is how we can best encourage China to be an active and constructive partner in building a strong post-Cold War order. The dominant view in Japan is that China is, in fact, increasingly playing such a role in the Persian Gulf, Cambodia and North Korea. China is assuming new trade obligations and applying new environmental standards. Through participation in such international and Asia-Pacific organizations as the United Nations, the IMF and World Bank, APEC, and I hope soon, the GATT and the ASEAN post-ministerial meetings, China is becoming a more responsible member of the international community.

This is a process which I believe we must encourage. China's involvement in the world community will help determine the nature and the pace of the transformation of China's economy, politics, and social and cultural life. The development of intimate, cooperative relations between Japan, America and China will hasten the integration of China into the international community. This process, in turn, will play a crucial part in securing the stability and prosperity of the entire region. For all the Asia-Pacific countries, where there is still great con-
cern about relations among the three big pow-
ers, a China-Japan-U.S. triangle would act as a mechanism of restraint. If one country over-
steps, the other two will be there to restrain it. Therefore, the first step to our greater goal of full-scale multilateral cooperation in Asia is the development of cordial and constructive relations among the big three.

I talk about a “new trilateralism” in the Asia-Pacific region with such hope because I am keenly aware of the benefits that our Trilateral relationship has given Japan, Europe and North America. As we move further into the post-Cold War era, I am aware that we need an even more sensitive Trilateral cooperation. As Europe, North America and Japan all work for bold structural economic change at home, we will have to be patient and respectful of each other’s domestic agendas. In the present volatile and fragmented world, we must be outward-looking and creative in our commitment to peace and prosperity. If we can meet these challenges, and I believe we can, then we will come closer to achieving our shared goals than ever before.

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SECTION 6
EUROPE

MARIO MONTI

European Integration after the Crisis of 1992:
Is Maastricht Dead?

When we left Lisbon last April after the 1992 Trilateral Plenary, you may remember it was a sunny morning. The landscape of the European Community was looking unusually bright, set for a triumphant march towards Economic and Monetary Union (EMU) and Political Union, on the path stipulated by the Treaty of Maastricht a few months earlier.

No one would have imagined that Europe was about to be hit by the most severe crisis in the history of its integration. On June 2, Danish voters rejected the Maastricht Treaty, casting doubts on the whole ratification process. Financial markets were shaken by turbulence, magnified by the uncertainty about the French referendum of September 20. By the time a narrow “yes” was turned out in France, the hurricane had left on the ground the Italian lira, the British pound, the Spanish peseta. Actually, the pound and the lira were not even found on the ground, as they were forced to leave the exchange rate mechanism altogether. Since September, tensions have been concentrated on the most strategic of all European exchange rates, between the Deutsche mark and the French franc.

Against this highly disappointing background, three issues are of interest, especially to our North American and Japanese fellow Commissioners: (1) How serious is this setback for European integration? (2) What lessons can be learned? (3) Will the Maastricht process go ahead?
1. A setback for European integration?
Indeed there has been a setback if we look at monetary integration at face value. The path to fixed exchange rates, then to a single currency and a European central bank, is more uncertain today—as to if and when it may be completed—then it was one year ago.

But if we place the events of the last twelve months in a broader context, I submit the trend towards real integration comes out stronger, not weaker. There has been progress both (a) in the actual integration of markets and (b) in achieving the prerequisites for further integration.

Progress in actual integration of markets
The actual integration of markets made progress because on January 1, 1993, the Single Market did take effect (mostly on schedule) and because a strong temptation was resisted: in spite of the disrupting currency crisis, there was virtually no reintroduction of controls on international capital movements. Only a few years ago, that would have been the immediate response in several countries.

German re-unification, the recession, the currency crisis have submitted the integration of European markets to an almost prohibitive test. It could well have resulted in disintegration. It did not.

Turmoil encouraged real convergence, required for further integration
In addition, the turmoil of the last twelve months is proving to be a factor for acceleration of real economic convergence, the prerequisite for further integration.

I feel free to use as an example the case of the largest among the more divergent European countries, Italy. When the Treaty of Maastricht was signed, it should have been clear that Italy had a very steep road to convergence by 1996, particularly in terms of public finance. Yet, this message could not be conveyed domestically, in politically compelling terms, because there were no immediately visible costs from the underlying divergences. After all, a budget deficit above 10% of GDP was proving easy to finance, partly due to purchases of government securities from abroad, in turn due to the Maastricht-generated expectation that exchange rates—including that of the lira—would stay stable. There was no political incentive to adopt severe measures to drastically reduce the deficit. 1996, the moment of truth, was felt to be distant.

The currency crisis of last summer, in a sense, brought 1996 forward by four years. The moment of truth, as to compliance with EMU requirements, has become immediate and market-based, rather than being four years away and based on EC political decisions. In only a few months, the new Italian government formed last July has done much more than all its predecessors towards achieving domestic economic adjustment.

Similar trends have been observed in other countries as well, including Germany, though in a quite different context.

Once we take all this into account, I am inclined to say that the EC of today—however bad it appears on its monetary surface—is closer to Maastricht, in its underlying fundamentals, than the serene EC we met in Lisbon one year ago.

2. What lesson can be learned?
The main lesson is that monetary integration is indeed a demanding goal. It does require certain fundamental equilibria (especially in the fields of public finance and inflation) to be there. More precisely, and even more demanding, it requires those fundamental equilibria to have been there for a relatively long time, and to be rooted in institutions.

The currency crisis of 1992 dispelled the illusion that future expected convergence was enough to insure stability of exchange rates. There had been this illusion for some countries, including Spain and Italy.

One could argue that the Franco-German case does not confirm this view. After all, France is presently more disciplined than Germany in terms of budget deficits and infla-
tion. Yet it has had—and now has—a weaker currency, in spite of higher interest rates. But here we can see the second part of the lesson: Fundamental equilibrium must not simply occur at a point in time. It must be credibly sustainable in the eyes of the markets. In order to be credible, it has to have been there for a while, and has to be institutionally rooted.

For this reason, the market still demands a risk-premium on the franc relative to the mark, as the record of financial discipline for France is much shorter than for Germany. Also for this reason, it has been proposed that part of the risk be removed by making the Banque de France independent from the government, as is the case with the Deutsche Bundesbank, so as to increase the market expectation of monetary policies aiming at price stability.

Let us pause for a moment here. One hears the statement “Maastricht is dead.” But Maastricht states that monetary union must rest basically on three prerequisites: (a) existence of certain fundamental equilibria (which it specifies in parameters, however objectionable); (b) these must have been observed for some time; and (c) central banks must be independent.

These are precisely the contents of the lesson of the crisis of 1992. It is now clear that Maastricht did capture exactly the prerequisites for monetary integration. Failure to meet them has now been shown to generate problems. Can we then say that “Maastricht is dead”? No, in my view. What may be dead is the illusion that there might be a “free Maastricht,” or monetary union without the necessary prerequisites.

3. Will the Maastricht process go ahead?

Precisely because European integration proved so resilient in the last twelve months, my answer is yes. I believe the Maastricht process will go ahead—under two conditions, however: it must acquire a more convincing political basis; and it must be prepared to proceed at two speeds, if necessary.

In order to make the Maastricht framework more friendly to public opinion, political lead-

ers must make a greater marketing—or educational—effort. Against the criticism of excessive Brussels bureaucracy, they must proceed along the line of subsidiarity (no unnecessary centralization of decision-making). Against the criticism that Maastricht creates a “Europe of merchants and bankers,” not a “social Europe,” they must go to the offensive and show that, quite to the contrary, only compliance with the Maastricht rules allows for genuine social solidarity.

Solidarity means supporting the living standard of those in need. A government can provide solidarity in three ways: social expenditures covered by taxation, social expenditures in deficit, imposition of political prices. The Maastricht “Constitution” does limit budget deficits and monetary financing of the deficits; it does stress competition policies, thus limiting the scope for political prices. It is true, therefore, that it reduces the ability of governments to provide solidarity, but only in the form of “false” solidarity, supplied in ways which, through current-account budget deficits and interference with the price system, generate lower investment, higher inflation, less growth, costs on future generations.

No limit on the other hand, is set by Maastricht on tax-financed government spending. There is no limit, therefore, on the ability to provide “genuine” solidarity: giving to some in the society today by taking from others in the society today, not by taking from future generations. A government may of course find limits on its ability to increase tax-financed social solidarity. These limits will reside in the acceptability of a given tax burden by the electorate, or in reasons of international competitiveness; certainly, they do not reside in the Treaty of Maastricht. The Treaty, therefore, does not repress solidarity. Rather, it filters it; it demystifies solidarity.

I am not sure our governments have fully explained all this to public opinion. If they increase their efforts—to seek subsidiarity from within the Treaty and to show that the Treaty is fully compatible with social solidar-
It is crucially important that the mark-franc rate remains stable, as an embryo for a monetary union not limited to the DM area.

- This development should not be regarded as outrageous by countries not belonging to this inner group. To the contrary, this would provide them with a desirable anchor for achieving further convergence. This anchor would prove important technically and politically, in providing a visible and timed goal to domestic political and economic agents.

* * *

These were a few reflections on the process of European integration, as it has been evolving from that sunny day in Lisbon to this very rainy day. I have argued that, in reality, integration does not come out as weakened as it may appear. Indeed, it may have acquired greater underlying robustness, as it has overcome the most severe test since its inception.

Our North American and Japanese friends were worried about “Fortress Europe” a few years ago. They later realized that their concerns were excessive. Symmetrically, I submit it would be wrong for them—after twelve months of apparent crisis in European integration—to shift from a perception of a “Fortress Europe” to one of a “Weakness Europe.”

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Europe’s New Challenges Need Strategic and Long-Term Answers

When the Wall came down in ’89, we all were ready to endorse the revolutionary changes in Eastern Europe. But we were not sufficiently able to pursue necessary reforms in Western Europe. It was much easier for European politicians to support shock therapy abroad than to mobilize support for limited sacrifices at home. In many West European countries—such as Germany, France, Great Britain and Italy—we have weak governments. Weak governments tend to tactical, not strategic approaches. Their outlook is short-term-oriented while the new challenges after ’89 need strategic and long-term answers. If the only identifiable vision of governments seems to be staying in power, this attitude of governments reinforces the general tendency of interest groups to concentrate on the protection of their traditional interests, instead of participating, with their specific views, in a general debate about how to live up to the new challenges of the future.

A More Democratic Integration Process
Trade protectionism and xenophobia are two expressions of the same anti-modernist and anti-internationalist trends in European—not only European—societies. Euro-optimism dominated in ’89. In ’93 our greatest problem and challenge is to develop a vision and a strategy for Europe after ’89. Mario Monti spoke about the Maastricht Treaty. Even if the Maastricht Treaty is implemented and ratified by all the countries, I am deeply convinced that we cannot repeat the Maastricht process. We already have in Europe an anti-Brussels mood comparable to the anti-Washington mood in the United States, before Brussels gains powers which Washington has. So, the next step for integration cannot be a repetition of the old one. It must be done in a way which is acceptable to the democratic desires of all people in Western Europe.

There are different proposals concerning how these democratic desires might be implemented. Some would strengthen the European Council; others are more in favor of strengthening the European Parliament, like I am. But if the European governments and public opinions can’t unite on the concept of democratization, the integration process not only will stop, but should stop. I think we have come to a point where the transfer of powers from the national level to the European level can only be justified if its combined, not with less democracy, but with more democracy on a European level.

That specifically includes defense and security. In my country after the Second World War we implemented a certain method of democratic control by our national parliament. I am willing to transfer defense and security to European authorities (this means not only cooperation but integration in the defense field). But I am not willing to give up the parliamentary rights for which we have been fighting in Germany for more than a century.

This is true in a different way for other areas of national responsibility too. Altogether this means that in the European public debate we not only need to convince people that the governments were right about Maastricht. We need to convince the political leadership that the opposition has to be taken seriously in our democratic societies, and that we have to develop a new vision of a democratic integration process.

An “Open Europe” to East European and Trans-Atlantic Neighbors
Another component of our new vision must be the “open Europe” concept. We have time and again discussed whether the European Community should be a fortress or should be open. Everybody

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agrees that the EFTA countries should join. The challenge now is whether or not we have an open Europe concept vis-à-vis our East European neighbors and our trans-Atlantic neighbors. I think we should. We should not define European identity with barriers against the outside world, but by a process linked to integration and democratization. This has consequences for the relationships with our East European neighbors and our trans-Atlantic neighbors.

The East European neighbors, the Visegrad countries, do not have the prospect of being immediate members of the European Community. But this is no excuse for not opening our markets to them—even in difficult areas like steel, agriculture, and textiles. It is not convincing to discuss economic aid to the East but close our markets to the East. This is difficult, including in my own constituency. But the real test of our orientation to Eastern Europe is not the amount of our assistance but the degree of our openness in the trade area.

We need to be more open to Eastern Europe in the foreign policy area also. I see no reason why these countries should not participate already now in European Political Cooperation, especially in the foreign policy and security field. This is not an offense against the Russian people, against the Russian government; it is an element of hope for those countries. After they have joined the European Community, the practical conclusion will be that these countries join not only the Western European Union but also NATO.

The same openness is needed to a new type of trans-Atlantic relationship. I cannot imagine that the security relationship across the Atlantic can be maintained and developed if we have a trade war between the two trading blocs. Whether it is the Uruguay Round or something else there is a simple truth: if the trade relationship worsens or deteriorates in a situation where we have no direct outside threat, the trans-Atlantic security relationship cannot be sustained. Some people in France may be against GATT for this reason. In any case, the objective effect of their opposition to GATT might be that. Some people want a distinct European defense identity (which I support as an element in the trans-Atlantic relationship) not dependent on the trans-Atlantic trade relationship. I am in favor of a trans-Atlantic security relationship, and therefore strongly endorse a trans-Atlantic economic relationship.

Support for Russian Reform Process

The Russians cannot become a member of all Western institutions. They might be a member of some Western institutions, but I have some doubts whether it is wise to adopt them into the G-7. It is not in view for them to be integrated into the European Community and NATO.

We can help them in the democratization process, but we cannot substitute for the domestic reforms which have to be implemented on their soil alone. It is a mistake not to support the Russian reform process, but it is also a mistake to limit our support for the democratization process only to personalities. Having been in Russia quite often, including just last week, I think that not only anti-democrats, but also people who have a Russian consciousness and are democrats, are very skeptical about the outside world being so partisan in the inside power and constitutional conflict. This support for one person might be popular among people immediately around Yeltsin, but counter-productive in the long run for the Western orientation of the Russian people beyond Yeltsin and his immediate supporters.

Collective Security Roles for NATO

What is our vision concerning NATO? NATO's importance as an instrument of collective defense is still there, but it is diminishing. NATO's importance as a component of collective security might increase. In coordinating our efforts concerning Yugoslavia, it was not only that we couldn't agree on how to deal with the problem; it was also the case that NATO and other Western institutions still had problems in changing the emphasis in their role from collective defense toward collective security. When we discuss the structure and size of forces and the institutions in Western Europe, we should not de-couple this from a dis-
A New Trans-Atlantic Treaty?
Finally, we need to think about a new type of trade relationship and security relationship between the Trilateral—or at least the trans-Atlantic—partners. This means that the European Community, if it establishes a defense identity, should work out a broad bilateral agreement between the United States and Western Europe. We should not go on as now—with the French on one side skeptical about integration into NATO (this might change) and others in the European Community skeptical about participation in the Western European Union (like the Danes). We should try to overcome this by starting a discussion about a two-pillar trans-Atlantic system, not only in terms of a vision but also in terms of a treaty—a new type of trans-Atlantic partnership. This should also cover the economic field. I’m in favor, beyond GATT, of a new trans-Atlantic treaty system, between the European Community and the United States (or the NAFTA area). This can include Japan, and become an OECD trading agreement. But at least we in the trans-Atlantic area should discuss a new relationship based on agreements, or even treaties, between North America and Western Europe.

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therapy has been having some success, and may ultimately succeed.

The Russian people are profoundly divided, as they have been for over three centuries, on their attitudes to the West—to Western political institutions, to Western economic institutions, to Western law, to Western ways in general—and that division has by no means disappeared. When Boris Yeltsin took power as the elected President of Russia in June 1991, the balance had shifted considerably in the West's favor. The pro-Western elements of the population within Russia were at that time on the upswing, and if Yeltsin had had the sense to dismiss the Parliament and have fresh elections, I think there would have been some sort of a base for trying a fairly radical sort of economic reform—although even then, I don't believe that economic shock therapy would have worked. Unfortunately, Yeltsin discarded the idea of parliamentary elections, though he continued to consider it for some time. He considered forming his own political party, and discarded that idea. What has happened over the year-and-a-quarter that economic shock therapy has been in operation is that the camp that is opposed to moving rapidly towards the market has grown stronger. Those people in the vanguard of trying to move toward the market have become increasingly unpopular, and are increasingly branded as—this is the word the Russians use—Malfoi.

Going further, I believe that the attempt to impose economic shock therapy on Russia, well before Russia was culturally and politically ready for it, has been having the effect of accelerating a profound trend (already underway from the Soviet period) of Russia coming apart at the seams, progressively. Yeltsin himself was one of the great encouragers of that trend when he said, "Just as we in Russia have asserted our sovereignty vis-a-vis the Union (the U.S.S.R.) and the other republics did the same, so you in the regions and ethnic republics of Russia, please take as much sovereignty as you want. We will build up from there; we will construct our state from the bottom upwards." This, one might say, almost anarchist view has certain precedents in Russian history—this was the view of Alexander Herzen in the 19th Century. The trends toward regional and republican autonomy and even independence have become stronger and stronger in the last two years. The country is literally threatening to come apart.

I hate to be so pessimistic because I don't want to distract attention from all the admirable initiatives taken by Russians in the political field, economic field, cultural field, religious field, and many others in the last few years. They have gone out on a limb in many cases. They have had support from the outside world—from the United States, Japan, Europe—and they have struggled hard in very, very difficult circumstances. Now the people who oppose them are increasingly muttering that they are "agents of the West," in the old Soviet style. It's one of the more ominous developments of recent months.

The situation in Russia, I believe, is deteriorating steadily. All the attention to each particular crisis in Moscow is in some ways unfortunate. In some ways it doesn't actually matter a huge amount whether Boris Yeltsin is made into a figurehead, whether he remains (as he is at the moment) largely lacking in real power, or is replaced by somebody like his Vice President Rutskoi (a figure one would put, in Russian terms, on the center right). The underlying problems of Russia—economic, regional, nuclear, and all other problems—would remain essentially unchanged.

The underlying problem is, as I have already indicated, that there is no consensus among the Russian people about the direction they want to go in their institutions. The pendulum mentioned earlier has been swinging back, in some respects. One recent measure was an elaborate poll of public opinion in Russia, conducted by the Times Mirror Center, using more sophisticated methods than most of the Russian polling organizations. They compared their results in December '92 with what they had found in May '91. The question was, "How
should Russia get out of its crisis? Should it get out by using democratic means or should it get out by having a strong hand (in other words a very authoritarian leader or a dictator) at the head of the nation? In May 1991, 51 percent favored democracy; 39 percent favored a strong hand. December 1992, 31 percent favored democracy; 51 percent favored a strong hand.

**Government Paralyzed**

One of the most striking features of Russian life in the last nine months or so has been that government in Moscow is completely deadlocked. We talk about “gridlock” in Washington. It is nothing compared to the gridlock in the Russian government. Superficially it is a clash between the Executive and the Legislature, but it goes much deeper than that.

Yeltsin has been steadily weakened throughout the last nine to twelve months. He has, I think, been not strong enough as a leader. He’s kowtowed too much to the unpopular Parliament. He has tended to abandon allies. Above all, his lack of a political base has been cruelly exposed. It’s quite possible, within the next year or so, that he could be forced to resign. In that case, as I mentioned, Vice President Rutskoi would probably take over.

The referendum on April 25 faces numerous difficulties and uncertainties. It is quite possible that it will simply not be conducted in certain parts of Russia, where the local leaders will be strong enough to prevent it being conducted. It is quite possible that the turnout will be very low, possibly lower than 50 percent. It is quite possible that the support for Yeltsin’s positions will be lower than he would like, perhaps not even a majority.

The central government has lost a lot (I would say about 90 percent) of its control over Russia. Yeltsin issues dozens of decrees ordering institutions and individuals to do this or do that, to reform this or reform that. Nothing happens. It is the same as it was in the last year under Mr. Gorbachev. Mr. Gorbachev used to muse aloud as to why nobody obeyed his decrees. Yeltsin is just about getting to that point.

Another factor, apart from the gridlock, is the ever-spreading corruption. Corruption has become one of the central facts of Russian life, both in the central government and in local governments. It is a paralyzing phenomenon. It was there before, but it has never been as dramatic and powerful as it is now.

In foreign policy we see the Yeltsin government moving from a strong anti-imperial position—a very enlightened position towards Ukraine, for example (Yeltsin went there and concluded a treaty at the end of 1990)—to a policy which I can only call incipiently neo-imperial. The Russians are now officially telling the Poles and the Hungarians that they should not develop close political or military relations with Ukraine. The independence of Ukraine is a temporary phenomenon, they whisper, but not quite so quietly as they were whispering a month or two ago. This is only one of the more dramatic cases, dramatic because Ukraine is a state with over 50 million inhabitants and a powerful economy. Vice President Rutskoi talks openly about how Russia will one day take back the Crimea from Ukraine. The Parliament has also passed resolutions in the same spirit. It’s not that, in my opinion, Yeltsin necessarily thinks this new, incipiently imperial foreign policy is a good one. It’s that he is under such powerful pressure from his opponents that he feels he has to move in that direction in order to have any chance of surviving.

The bottom line of all this is that Yeltsin is far weaker politically than we care to realize. He has lost a lot of his support from the Russian people, which was his one source of support. He never formed a political party to be a vehicle for that support, and the people have become more and more demoralized by the economic collapse.

It’s true that in a referendum which simply pits Yeltsin against the Parliament, Yeltsin has a good chance of winning. The Parliament is even more unpopular than Yeltsin. But if it is simply a poll as to how many people support

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**THE BOTTOM LINE OF ALL THIS IS THAT YELTSIN IS FAR WEAKER POLITICALLY THAN WE CARE TO REALIZE.**
and have trust in Yeltsin, the percentages in recent months have been down in the twenties and thirties, with his Vice President inching slightly ahead of him.

Russia is Fragmenting
The incipient fragmentation of Russia is a profound problem, which is making the task of central government almost impossible. The fault lies partly with the baneful legacy of Communism, and partly with the central government. The regions have found that the central government is impossible to deal with: It is impossible to get decisions out of the government; the government demands bribes; it demands taxes from the regions and gives little in return. Two of the republics of Russia have declared independence: Chechnya a year and a half ago, and Tatarstan about six months ago. That trend is gradually spreading to other republics.

It is also spreading to the regions. The regions of Russia are very varied. The ones we hear the most about are the few that are dynamic and successful. Nizhny-Novgorod, for instance is an attractive province, run by attractive people; but it and Volgograd and St. Petersburg (and one or two others) are the exceptions to the rule.

In most of Russia the regions are run by corrupt (in varying degrees) local oligarchies consisting of members of the former nomenklatura (communist elite) who are determined to consolidate their power and, in addition, to privatize the assets of the state as far as possible into the hands of themselves and their “Mafia” friends. The leading Russian authority on the Mafia, Arkady Vaksberg, was here in Washington recently. He believes that the politicians and the Mafia have essentially become indistinguishable in Russia.

The rule of law has been largely destroyed as it was being born—by the actions of the Russian provinces. The Russian provinces pass laws and regulations exactly as they want for their convenience, for the convenience of their ruling oligarchies. The Procurator-General in Moscow can complain until he is blue in the face, and count up the number of actions that he has filed against the regions. In December of last year he counted 16,000 illegal actions by local authorities in the course of 1992 (about ten months) that he’d actually filed protests against, but none of this has any effect. Nobody can impose any authority over the regions. They are out of control, essentially.

The few reformers in the majority of the Russian regions are often an embattled species nowadays. You may have read the account in the Washington Post of the situation in the Kaluga region, just south of Moscow, which is a region I happen to know. The reformers are a small minority who get minimal support from public opinion. The local administrative boss (a man of 31) finds himself besieged, with the hard-liners, this oligarchy, increasingly getting the upper hand over him.

Worsening Economy, Broken Military
The economic situation is getting steadily worse, and I cannot see what is going to turn it around anytime soon. The fragmentation of the country destroys so much. It destroys the rule of law. It makes investment, especially from abroad, even harder on any significant scale. How are foreign firms going to invest in a situation where local laws change all the time; where there is no relationship to the laws of the federal government?

Unemployment is still remarkably low—officially somewhere around one percent. Yeltsin has shown himself extremely sensitive to the unemployment situation. The optimists, the people who think that economic salvation is somehow on the horizon, believe that Yeltsin, or some future Russian leader, will suddenly summon up the resolve to stop subsidizing Russian industry and throw four million people (some estimates are quite a lot higher) out of work by the end of this year. In my opinion, this is unthinkable. Yeltsin is not going to do that. He is afraid of the political consequences, and I think he’s right. He would play into the hands of his political opponents. On the other hand, the likely result of his present
course is hyperinflation.

The military in Russia is in the most profound and devastating crisis that just about any military has been in, short of outright defeat in a major war. You read in the papers that there are 2.7 million people in the Russian military. The real figure that they are supposed to be trying to achieve is 2.2 million. The actual figure at the moment is 1.7 million, and they are very much afraid they will not be able to keep the figure up to 1.2 million by the end of this year.

Beyond that, Russian bases are simply falling apart, as the military commanders sell everything that is saleable. You can—friends of mine have observed this—buy just about anything from a Russian base. The nuclear forces are the one element where apparently, so far, security is being maintained; one of the few sections of the Russian military where morale has not collapsed. The Russian military are in such disarray, such collapse, that there is no reason not to press forward with cuts in the defense budgets of North American countries, West European countries, and Japan. There is not going to be a serious military threat from Russia for the foreseeable future. The back of the Russian military has been broken, I would say for at least a decade.

A Threatened Quarter Revolution
In conclusion, I think historians will probably judge that what we’ve had in Russia in the last couple of years is not the decisive anti-communist, pro-capitalist revolution that so many people (including myself) wish we had had—but rather something that could at most be called a quarter revolution. Even that quarter revolution is not by any means secure.

On the economic side, I think there will be, despite the unaccommodating political culture, very hesitant, often contradictory progress towards some sort of a market over the next few years, whatever happens politically.

On the political side, however, I see the trend as toward fragmentation of the country. It is simply coming apart at the seams. The central government has lost control in most respects. A military coup or an extreme authoritarian regime successfully running the country from Moscow is not a likelihood, in fact I exclude it. The instruments needed to do that are not present. There is no ideology at the moment on the basis of which to do that; and more important, the military, the police, and the security police are far too disoriented, divided and demoralized to be reliable instruments for something of that sort, at least over any period of time.

So, that is the general trend. Obviously, it ultimately leads to the danger—invoked in Russia every day—of civil war. Yeltsin himself repeatedly refers to the danger of civil war. I don’t think it’s a danger right now, but if you have the sort of collapse of the central government that I see happening, and getting worse, it is a possibility for the future. Don’t forget that the periphery around the edge of Russia is extremely unstable. There are about six small wars going on around the periphery already. Naturally, that sort of instability is only going to deepen the instability within Russia itself.

What Should the G-7 Do?
What the West can do in such a situation is a challenging and difficult problem. We have to think not in terms of stabilization funds and massive privatization, and all the wishful thinking that goes into that sort of approach. We have to think much more in terms of damage limitation; in terms of humanitarian aid to particular disaster areas; in terms of technical aid for as long as we can provide it; in terms of housing for the military streaming back into Russia from all sorts of places (to reduce the likelihood that the Russian military will become a wild card in an already extremely unstable situation). Humanitarian aid should, above all, take the form of medical assistance. Most medicines are absent in large parts of Russia. There is lots of food, but we have to do everything possible to help the Russians to devise better ways for distributing it. The Mafia have a lot to do with the present inefficient distribution system.
There are already several situations in which peacekeeping efforts are needed. Some are already underway, but I think the West needs to devise a more coherent and comprehensive strategy in that regard. Nuclear safety is obviously a high priority. Assistance to the energy-producing industries—the only engines that can really get the Russian economy going again in the longer term—is obviously important, if it can be done in the middle of such political chaos.

Above all, outside countries should avoid giving aid through central or local government wherever possible. Those governments are corrupt and the money is quickly recycled into Swiss bank accounts. Even medicines sent to hospitals are sometimes sold on the black market by the administrators of hospitals.

We have to identify those honest groups and individuals at the grass-roots who can receive assistance in a very difficult and deteriorating situation. That is a monstrous task, very complex. Distances are huge. Cultural differences are immense. The challenge of giving aid under those conditions is obviously enormous.

But I do believe that the G-7 should do it. It will help to compensate for the anti-Western backlash which is already underway in Russia. We made them think, it is said in Russia, that they could make a wonderful leap, in two or three years, from communism to democracy and the market. We told them they had to do certain things in their economy—shock therapy—and everything we told them has failed. Maybe we had malign motives—that, of course, is the view on the hard-line side of Russian politics. That view is spreading into the middle of Russian politics, into the center. The anti-G-7 backlash will undoubtedly become stronger in the coming months.

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A Business Perspective on Relations with Russia

Russia has to master five different transitions at the same time:

• from dictatorship to democracy;
• from a Soviet empire to, at best, a commonwealth of independent nations;
• from a centrally controlled Russia to a federal, decentralized country, with 120 different nationalities and minorities;
• from state to market economy;
• and finally, from individual passivity—"The Real Russian Disease"—to active participation.

When you note that my own country, Belgium, has been busy with one of these transitions for over 30 years and is not yet ready to make a federal country out of a centrally governed one, then you can imagine what the Russians have before them. It is very naive to think that all this can be achieved without passing through a long period of agony. It is not only the communist system that collapsed but also the Russian empire built since the times of Peter the Great. And empires do not tend to disappear without leaving chaos and anarchy behind them.

So chaos there will be—but perhaps chaos to be understood in the sense of modern physics, where chaos is seen as a state of anarchy with built-in tendencies towards stabilization.

It will be a transition from order via a long disorder to new order. At best the progress will be similar to that of the procession of Echternach in Luxembourg, where penitents go three steps forward and two steps backward.
The Transition to a Free-Market Economy
I will limit myself to speak about one out of the five transitions: the transition to a free-market economy.

Pragmatic Approach
The ongoing discussion about the merits of shock therapy as compared to the advantages of a gradual approach does not seem very relevant to me.

Experience gathered in eastern Germany and central Europe shows that when both systems are exposed freely to each other, our free-market system destroys the communist economic system with hurricane force. The old "big industry" tissue, if not kept alive by artificial means, disintegrates immediately while the new one can only grow slowly, very slowly, from below. In between is a black hole. How can one close right away a factory in a Siberian town of 200,000 when there is only one industrial employer? Stalin's politically motivated legacy—one region, one industry—is an economically disastrous one. When one takes away suddenly all perspective from the population then one creates social havoc. The real task of industrial transformation is to find the point of convergence of what is socially acceptable and what is financially bearable. Brutal action provokes massive deindustrialization and mass unemployment. We in the West have a tendency to preach free market orthodoxy for Russia, while at the same time delaying the closure of heavily subsidized coal pits in England and in Germany...and refusing free market access to their products.

On the other hand, whether the gradual approach will work we do not know yet. The problem with gradualism is that there is a danger that conservative forces will get the upper hand and block the transition altogether. What has worked well in certain aspects in Poland may not work in Russia. So I believe in neither of these approaches.

I believe that in a chaotic situation the pragmatic approach is the only valid one. Learned people will write about the right theory afterwards. Napoleon's attitude on the battlefield, 'S'engager et puis voir'—"to commit oneself and see what happens next"—is the right attitude. The management of the different stages of transition is a very difficult science. There are no textbooks; it has to be learned in the field. Mistakes are inevitable.

General Prerequisites
Nobody knows how Russia will develop in the near future. The people there have to decide that for themselves. Experience gained in Germany and in central Europe teaches us that a successful transition from a state economy to a market economy necessitates the following general prerequisites in the following sequence: (1) stable laws, (2) an able administration, (3) appropriate management, (4) government funds, and finally, (5) private investment.

As far as industrial transformation is concerned the first two conditions—appropriate laws and a valid administration—must be fulfilled before the transition can start. The three others—management capacity, government funds and private investment—determine the speed at which this transition can take place.

In Russia there is not yet a definite legal basis, and if there were one, the bureaucracy would not be willing or not able to apply the law, either out of ignorance or by obstruction. It is indeed very difficult to change the mentality of a bureaucracy in place for about three generations.

How difficult this point is, was even admitted by Lenin, who said in 1922 before the 4th Congress of the international communist movement:

In our bureaucracy there are hundreds of thousands of Tsarist government officials, who willingly or unwillingly, are boycotting our effort, for the time being we cannot do anything against this. We will need years to improve the quality of their work, to change their mentality, and to put new people in place of the old ones.
In reality it took Lenin and Stalin ten years to get a firm grip on the administration. Why should it be different now?

This is the basic Russian problem.

It cannot proceed without the old bureaucracy, and the nomenklatura knows it. This knowledge is the power base of people like Mr. Arkady Volsky and his "Civic Union," who represent the old nomenklatura. They will in part arbitrate the future. This does not mean that communism will reenter via the back door—not ideology but rather opportunism and adaptability are their trademark. The often expressed opinion in the Western press, that things are going badly in Russia owing to the lack of financial help, is unwarranted. All financial help we would give now would disappear in a black hole and turn up in Swiss and London bank accounts shortly afterwards. Forget, for now, the idea of a stabilization fund. The conditions are not yet ripe. What we can do is to give practical and humanitarian aid such as medicine and medical equipment, technical assistance, and free market access. We should keep in mind the Icelandic saying: When a man is hungry, don't give him fish; buy him a fishing rod.

Stable Free Market and Privatization
The German and central European experience teaches us, furthermore, that there are two stages involved when a country changes from a state-run economy to a free-market one.

The first one is the establishment of a stable free market system for trade and small industries, which is essentially done by freeing prices, balancing the budget, making the currency convertible, and combatting inflation. In Russia only the first criterion—free prices—is met, but we see that, albeit under very chaotic conditions, remarkable progress has been made in agriculture, trade, distribution and logistics. Who still speaks of famine in Russia (the great buzzword of a year ago)? The social problem is acute, but technically the system has started to grow slowly, slowly from beneath.

But this part of the problem is the easiest one. The real one is the second stage: the privatization of large industries. This is a far more difficult proposition. Russia has not progressed much in this respect, and one may say that everybody still underestimates the problem.

There are various privatization schemes: auctions, coupons, management buy-outs, etc. They all have their merits and dangers. Up to now they are not widely applied in Russia. What actually happens there is industrial privatization by appropriation or, let us call it brutally, by management steal-outs. Part of the nomenklatura buys or leases at ridiculously low prices industrial property from the government, and exploits it for its own benefit.

One of the major problems in Russia is that there is a complete lack of business ethics, and this is understandable as business ethics evolve with time. Let us not forget that in ancient Greece, Hermes was the protector of merchants and thieves. In Russia the boundaries between the mafia and business are, to put it very mildly, not well defined. Investors should bear this in mind. A business friend told me jokingly that the going Russian definition of a joint venture is "You give me your watch; I tell you the time."

Owing to the missing fundamentals and the lack of funds, the transformation towards a market economy will be a rather slow and painful process. A transition period of at least 30 years, before it will work according to our standards, seems a rather reasonable one. We have to learn to think in historical dimensions when we talk about Russia's transformation.

Hope for the Future
What may give us hope for the future? I see the following points:

- The most positive legacy of the communist regime is a well-educated younger generation. This generation is open for change and eager and willing to work in a free market system. Just as in Germany and Japan after the war, tremendous creative forces are set free by a complete social and political upheaval.
Many disasters that were predicted did not happen. There is no general civil war. So far the old guard has not overthrown the government and there is no famine. We should measure progress by the number of disasters that did not happen, rather than by concentrating on the lack of achievement. Rome and Paris were not built in one day. Our system of democracy and market economy took hundreds of years to attain its present status.

Once the period of uncertainty is over, Russia with its huge population and tremendous natural resources will once again be a great power and an economic force to be reckoned with.

Although it may be risky to invest in Russia, the business world should carefully monitor the situation in order to be ready for action at the appropriate moment. The risks may indeed be great and the outcome uncertain, but the rewards of a timely, well-measured and planned action may be worthwhile. It is important to have a finger in the pie as long as one can afford, in case of bad luck, to loose the finger.

I would like to conclude on a somewhat more optimistic note. What the Russians are actually doing politically is to play "Russian Roulette"—and, mind you, in this game only one out of eight trials is fatal. So the odds may after all be in their favor.

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Japan’s Russian Policy

I would like to concentrate on Japan’s policy toward Russia. The success or failure of a policy is to be judged by its achievement with respect to its stated goals, and if the stated goals of Japan’s Russia policy are to realize the return of what we call the Northern Territories and to improve general relations with Moscow, then Japan’s Russia policy definitely falls into the category of failure.

One could argue that the current bad prospect is a short-term setback. In the long term, one could argue, the Japanese attitude toward Russia from the end of the Cold War to now could well turn out to be positive in realizing the return of the islands. No one can tell what will happen in the long term in a world as volatile as now, but at least in the short term—as Koichi Kato said the day before yesterday—there is no prospect of realizing the goal of getting back these islands. And it is hard to regard the current state of Russo-Japanese relations as good. So the policy is a failure.

The first part of my presentation asks—why the failure? Second are my observations on current Japanese policy toward Russia. Is it changing? Finally, I would like to make a few observations on Trilateral cooperation with respect to Russia.

Why Did Japan’s Policy Fail?

Why did Japan’s Russia policy fail? I think there are at least four factors that caused the failure.

First was the open and public nature of the territorial negotiations. Since the collapse of the Soviet Union, the territorial issues have

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1 The speech by Koichi Kato is on pages 47-51.
been discussed in and out of the government, both in Tokyo and in Moscow. Whenever a Japanese politician visited Moscow, a huge group of Japanese journalists followed him, paying exclusive attention to how many hints of concessions he obtained from the Russians. Well, an open covenant openly arrived at is an ideal, but public negotiations over such issues as territories can easily derail, because both sides have difficulty in making necessary concessions in public. I think a useful comparison can be made with Russo-Chinese territorial talks. Russo-Japanese negotiations are open, noisy and unproductive. Russo-Chinese territorial talks are closed, quiet and, it seems, more productive.

Second, and closely related to the open nature of the negotiations, there have been a lot of maneuvers and statements by politicians for domestic consumption. In the first six months of 1992, Prime Minister Miyazawa and other politicians made statements unnecessarily raising the expectations of the general public as to the realizability of progress on the territorial issues. The inclusion of the Northern Territories issue in the G-7 Summit declaration in Munich last July was depicted in the Japanese media as a diplomatic victory. But, as it turned out, this Japanese move to get endorsement from the G-7 created unnecessary frustration in Moscow which became, I think, the underlying cause of Yeltsin's abrupt cancellation of his visit to Tokyo in September. After Yeltsin's cancellation, some politicians in Tokyo started denouncing Russians as rude and impolite. The view of the general public in Japan as to Japan's relations with Russia, given such statements, fluctuated unnecessarily from an over-expectation to a complete disillusionment.

Third, there was a lack of sufficient understanding of the fluidity of Russian domestic politics. The current domestic condition of Russia is least favorable to a successful return of the islands. Japan set up a goal for its short-term policy which is unrealistic in the short term. If the goal is impossible to attain, the policy will naturally and logically fail.

Fourth, there is a failure to use political symbolism in Japan's relations with Russia. The territorial issue is not and should not be the whole of Japan's Russia policy. There are other aspects of relations with Russia which could be played up as good aspects, such as increasing exchange with people in the Russian Far East. In the discussion of economic assistance to Russia and the former Soviet Republics, the first question that the Japanese often raise is whether the money can be used effectively, which is the right question if it is raised by a Ministry of Finance official. But if Mr. Miyazawa, as the leader of the nation, always raises this question, he could lose a good opportunity to make a symbolic act to create a basis for friendship, in the Russian mind, with Japan.

**Japan's Changing Policy**

Is Japan's policy toward Russia now changing? There are several indications of change. The first concerns financial contributions. To be fair with the Japanese ministries in charge of financial assistance to Russia, I think we should admit that Japan has not been particularly reluctant or negative toward foreign aid to Russia. Japan committed $2.7 billion to the grant and loan package that is part of the G-7 multilateral assistance package to Russia. This number—$2.7 billion—is no less than that from Great Britain and France.

With the domestic confrontation between the conservatives and Boris Yeltsin intensified in late February through March, Japan (as the host nation of the G-7 Summit this year) organized an emergency G-7 deputies meeting in Hong Kong, with the participation of the Russian Deputy Prime Minister. On Friday last week Japan announced that it would host a G-7 meeting at the Cabinet Minister-level in Tokyo on April 14-15, and that Japan would invite a high-ranking Russian government official to participate in that G-7 meeting. Tokyo also announced on the same occasion that Mr. Yeltsin is being invit-
ed to meet with the G-7 Summit leaders at the coming Tokyo Summit, scheduled to be held in July. Chief Cabinet Secretary Kono said at the press conference that, "These announcements are made from the standpoint of supporting Mr. Yeltsin, who is playing a leading role in Russian reforms." It is also reported (not confirmed) that Japan may be ready to contribute $600 million for debt relief, and more than $1 billion for bilateral assistance, in addition to further contributions through international institutions.

About the territorial issues, the atmosphere seems to be changing. The Japanese government had long been using the rhetoric of "inseparability of politics and economics." Now the Foreign Ministry is more frequently using a concept of "balanced expansion." What in fact this change in rhetoric entails is not very clear. The former "inseparability of politics and economics"—seems to consider the territorial issue to be the pre-condition for expansion of economic assistance, while "balanced expansion" seems to suggest a simultaneous improvement. During the past two weeks some leaders have begun to go beyond this approach. One LDP leader, not identified in the media, hinted last Friday at shelving of the territorial issues with Russia. I believe Mr. Kato’s statement to us is in line with this new attitude—now the territorial issues are, virtually, shelved. In other words, Japan’s Russia policy is changing, and changing in the right direction.

In order to prevent another failure of this new attitude, what should the Japanese government do?

First, the government should make efforts to persuade the general public about the necessity of giving assistance to Russia. It should explain why it is in the interest of Japan, as well as the entire world, to support the reform efforts in Russia. Such influential politicians as Kato Koichi should make similar speeches in Tokyo too. The government of Japan (or any government in the Trilateral world) should not however give an oversimplified account of Russian domestic conditions. Yeltsin is important; but the description of the Russian situation as a simple contest of good guys versus bad guys will not do. The goal of the Russian policy of Japan (and other countries) should not be to sustain this particular person—Yeltsin—but to sustain reform efforts and efforts towards democratization.

Second, the Japanese government should pay more attention to political symbolism and less to economic efficiency. In order to encourage the Russian people’s will to reform, political symbolism is often more important than economic effectiveness. In this sense, every effort should be made to make aid from Japan (as well as from other Trilateral countries) as visible as possible to the general public in Russia.

Third, and on the other hand, Japan should be true to its own principle of economic assistance in the case of Russia. Japan’s ODA, mainly to Asia, has long emphasized the importance of self-help on the part of the recipient. Aid, in the long run, is not effective if the recipient is totally dependent on outside help. A similar principle should be applied to Russia too as far as our long-term aid policy is concerned. Outside of emergency relief and visible aid for political symbolism, we should provide aid that encourages Russian initiatives.

**Trilateral Cooperation to Support Russian Reforms**

My final words are about the way that Trilateral countries cooperate to support Russian reforms. Let me touch on one thing that has disturbed me in recent weeks—the way that some leaders in the rest of the G-7 countries criticize Japan. Some comments sounded as if Japan were the only villain that sabotaged G-7 efforts to support Russian reforms. Some others seemed to indicate that Japan is to blame if Yeltsin fails. It is true, as I said before, that Japan was not particularly active in its support for Yeltsin; but it is an exaggeration to say...
that Japan sabotaged the entire Western effort. As I noted, the aid already committed by Japan is larger than that committed by France or Great Britain. I think this sort of exaggerated denunciation of Japan could be counter-productive if the rest of the G-7 is really interested in providing effective aid to Russia. If Japanese support to Russia is made only because the rest of the G-7 countries pressure Japan to do that, Japanese support for Russia cannot be sustained long enough to make the reforms really succeed in Russia. I believe the Japanese public should be persuaded that support for Russia at this moment is in the long-term Japanese interest. It is not a time for name-calling among the Trilateral countries. It is a time for genuine cooperation among us to devise a better package of support for Russian reforms and democratization.

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SECTION 8
STRENGTHENING MULTILATERAL PEACEKEEPING

MARRACK GOULDING

Current Rapid Expansion Unsustainable Without Major Changes

I propose to do two things. The first is to offer a classification or typology of peacekeeping, as it has evolved in recent years. There has been a tendency—to some extent reflected in the draft report—to speak of peacekeeping as though it is a homogeneous or monotypic activity. That is not, in fact, the case. A brief analysis of the different types of peacekeeping will show what a varied activity it has become, and how rapidly it is evolving.

Secondly, I would like to discuss some of the less positive consequences of the very rapid expansion which has taken place in peacekeeping, and certain steps which need to be taken to make sure that those less than happy consequences don't undermine the whole activity. The Secretary-General's position today is a bit like that of a producer of consumer goods who has faced a very welcome, but massive and somewhat unexpected, increase in demand for his product—his product being peacekeeping. He has done everything possible to respond to that demand. He has increased production, established new outlets, hired extra staff. But the reality, which has become very clear during 1992, is that he does not have the managerial or financial structures to sustain for very long this highly increased rate of production. Unless this is
quickly put right, things may go wrong, the quality of the product may decline, the necessary finance will not be available, and he will run the danger of losing control to the bankers, the consultants, the rival entrepreneurs, who all seem to be wanting to help but may have agendas of their own.

* * *

There have been two broad phases in the evolution of peacekeeping. There was the Cold War phase, mainly in the years between 1956 and 1974. Then there was a hull until the late 1980s, when, with the end of the Cold War, there was a sudden revival of demand and very rapid growth.

**UN Peacekeeping Operations during the Cold War**

During the Cold War phase, peacekeeping was fairly homogeneous. It had become a fairly well-defined activity, though never formally defined in a resolution of the Security Council, let alone in the Charter. There were certain essential characteristics recognized and accepted by everybody.

First of all, these were operations by the United Nations. They were under the command and control of the Secretary-General, who was responsible to the Security Council. They were financed collectively by the Member-States as activities of the organization.

Secondly, peacekeeping operations were only set up with the consent of the parties to the conflict in question.

Thirdly, peacekeepers had to be impartial between the two sides. They were not there to promote the interests of one side against those of the other.

Fourthly, the troops involved were provided voluntarily by Member-States to the Secretary-General at his request.

Fifthly, those peacekeeping operations which were armed (only a minority were armed) were authorized to use force only in self-defense. But—and this is a very important "but"—from the early 1970s, self-defense had been deemed to include situations in which armed persons were trying, by force, to prevent the peacekeepers from carrying out their orders. There is a great deal of misunderstanding around the world today about the rules of engagement of peacekeeping. It is often said that the peacekeepers have their hands tied behind their backs by UN rules, UN procedures. That is not the case. What ties the peacekeepers' hands behind their backs, what causes them to hesitate to use force, are the decisions of their commanders on the spot—the knowledge of the commanders that, in a situation where you are supposed to be impartial, if you start using force, you are going to lose the cooperation of one of the parties, on whose cooperation your operation depends. This reluctance to use force also reflects the fact that the troops are deployed with armament and in numbers based on the assumption that the parties are going to cooperate with them. So if you are thinking about the forceful application of the will of the Security Council, you've got to deploy a quite different force—different in armament, different in command structures—from the force which you deploy for peacekeeping purposes.

Finally, these Cold War peacekeeping operations were, in almost all cases, interim arrangements—almost entirely military in composition and in mandate—intended to control or prevent a resumption of fighting to allow space and time for the diplomats, the negotiators, the peacemakers, to work out a peaceful, agreed settlement of the dispute.

**Varied Types of Post-Cold-War Operations**

Since 1988, peacekeeping has evolved very rapidly in the post-Cold War situation. Whereas before it was, as I said, a fairly homogeneous activity, one can now identify six or seven different types of operations. They vary considerably, in ways which have important consequences for the way they should be commanded, the way they should be manned, the way they should be armed.
1. Preventive Deployment (Macedonia)
The first type is what we call preventive deployment, an idea which came originally from Mikhail Gorbachev and was developed in the Secretary-General's report called An Agenda for Peace. The idea is that, in a potentially threatening situation, the United Nations, at the request of one of the parties to the potential conflict, would deploy troops, as a confidence-building measure and also as a measure which would raise the political price if the potential aggressor were to attack the other party. We have only one example, Macedonia. There is no conflict going on in Macedonia at present, but there is a great deal of concern that there might be a conflict there, and we have deployed a battalion of troops and some military observers and some civilian policemen as a preventive deployment.

2. Traditional Peacekeeping (Near East, Kashmir, Cyprus, Iraq-Kuwait, Croatia)
The second type of peacekeeping operation is traditional peacekeeping, what I have described as Cold War peacekeeping—the largely military operation, deployed as an interim arrangement to control fighting while peacemaking negotiation takes place. There are three sub-types.

One is the unarmed military observer group. The first peacekeeping operation ever, in the Near East in 1948, was (and still is) an unarmed military observer group.

Second are armed infantry-based forces, used when one needs to control territory—a buffer zone or a demilitarized zone from which the forces of the two sides have agreed to withdraw. You need an armed force, both symbolically and to control small incidents. We have those in Cyprus, in Syria, in southern Lebanon, in Croatia. Sometimes people complain that the armed force which is successfully controlling a buffer zone is becoming part of the problem. It's an argument you often hear in the case of Cyprus. The UN force has been there for 29 years. People say, "Take it away and maybe the two sides will come to their senses—maybe they can be persuaded to negotiate a settle-

3. Helping Implement Negotiated Agreements (Namibia, Cambodia, Angola, Mozambique, El Salvador)
Type three (of which there was one example in the Cold-War period, a small and forgotten operation in West Irian) are operations which are set up, for a specified period of time, to help previously hostile parties implement an agreement which has been negotiated between them. This is a new type of peacekeeping operation. To a considerable extent, the new demand for peacekeeping resulted from the success which we had in this kind of operation in Namibia, where, after a decade of negotiation, agreement was reached. The United Nations put in a large force. In less than a year it helped the two sides, South Africa and SWAPO (the Namibian national liberation movement), to implement their agreement. It was a great success, and it still is a great success. We have had less success in Angola, where the operation has gone badly wrong. We are carrying out this sort of operation in El Salvador, in Cambodia, and are just starting in Mozambique.

4. Protecting Delivery of Humanitarian Supplies (Bosnia-Herzegovina, Somalia)
Type four, again a new type, is the deployment of UN troops to protect the delivery of humanitarian supplies, in civil war or interstate war situations. It was a possibility that
had been very much discussed in academic circles, and it became real last year in Somalia and in Bosnia and Herzegovina. It has turned out to be an extremely difficult operation because you are trying to combine two things: You are trying to combine the famous impartiality of peacekeeping with the promotion of activities which may be against the war objectives of one (or perhaps both) of the warring parties. The efforts of the United Nations, in peacekeeping mode, to deliver humanitarian supplies to Muslim populations in Bosnia-Herzegovina are against the war objectives of the Bosnian Serbs—and are therefore constantly blocked by the Bosnian Serbs.

In Somalia it was a different situation. It was a situation of total lawlessness, where it became quite quickly clear that peacekeeping was not going to work. It was therefore necessary to move from peacekeeping (something done with the consent of the parties) to peace enforcement, initially via a force put together by the United States—now the United Nations is taking over that function.

Already here in type four we are moving out of peacekeeping into something which is close to peace enforcement—may indeed be peace enforcement. This blurring of the line, this creation of a gray area between peacekeeping and peace enforcement, is potentially a very hazardous thing. In Somalia, and to some extent in Bosnia-Herzegovina, we have deployed troops armed and commanded in a way in which peacekeeping troops are armed and commanded; and it has turned out that that is not sufficient for the humanitarian supplies to get through. Equally, for the military mind, fighting the humanitarian supplies through is a rather daunting concept, especially in a country where the terrain and the climate are as difficult as in the former Yugoslavia.

5. "Painting a Country Blue" (Somalia)

Type five is what Douglas Hurd recently called "painting a country blue." The United Nations moves into a country which is in a state of total disorder, where the institutions of government have collapsed, where nothing is working, where there is no political authority with which one can successfully negotiate. The United Nations did it once during the Cold War period—in the Congo in the early 1960s. Whatever we may think of President Mobutu now, it was a successful operation during four years—though at considerable cost, including the life of the then Secretary-General. The United Nations succeeded in putting the Congo together again as an effective, working state.

That is what we are going to do now in Somalia. The task in Somalia is not just the delivery of humanitarian supplies; it is—to some extent—taking charge of Somalia during a period in which we will be promoting a process of national reconciliation between the many different factions. Meanwhile, we are finding that we have to provide all sorts of governmental services—like a police force for instance, which is not normally something which United Nations peacekeepers have to do.

It may be that the same kind of task will fall to us in Bosnia, if the Vance-Owen plan is accepted by all the parties and the United Nations goes in with a very large presence to help implement that plan.

6. Cease-Fire Enforcement

The sixth type is something which the Secretary-General, in An Agenda for Peace, called "peace enforcement," though "cease-fire enforcement" is perhaps a more accurate way of describing it. We have not done this yet. We may do it in Bosnia. You have a cease-fire (signed by the two sides in a war) but then one side or the other (or both) fails to respect the cease-fire. The United Nations troops would go in with a mandate to use force against anyone who breaks the cease-fire. If there is a cease-fire in Sarajevo and the Serb artillery continues to shell the city, then United Nations troops would silence that Serb artillery. They would be impartial, unlike, say, in Desert Storm or Korea. They would not be fighting for one side...
against the other. They would be impartial between the two sides, but they would use force against anybody who violated the cease-fire. It is a very demanding concept militarily. It's not peacekeeping at all really—if you compare it with the characteristics of Cold War peacekeeping that I described, this is something very different. But it's the way in which the activity may develop.

7. Peace Enforcement (Kuwait)
I suppose, for completeness' sake, I should mention a type seven. This is peace enforcement—the use of international forces in a war to support the good guy and stop the bad guy's aggression, as in Korea and Kuwait. In both those cases, the troops were not under the command of the Secretary-General; they were under the command of national authorities who had been authorized by the Security Council to use force for a specific purpose.

Steps Needed for Rapid Expansion
Not to Undermine Whole Activity
After that attempt to describe the complexity and varied nature of "peacekeeping" at present, I would now like to address three problems which arise from this rapid expansion: finance, management, and priorities.

Adequate Finance
As far as finance is concerned, the answers are set out very clearly in Enid Schoettle's excellent chapter in the draft report (and in the report of the Independent Advisory Group on U.N. Financing chaired by Paul Volcker and Shijuro Ogata). It's not a particularly difficult problem to provide the necessary finance for peacekeeping. The sums involved—though they seem frightening by comparison with foreign ministry budgets or the regular budget of the United Nations Secretariat—are not enormous sums when compared with what nations spend on defense. It's a matter of political decision. It's a matter of governments matching their readiness to set up new peacekeeping operations with a readiness to provide the necessary finance.

There is a certain amount which the Secretariat needs to do. In some of these things we need the cooperation of the Member-States also—for instance, modernizing our very antiquated and sclerotic financial procedures. We need to clean up our own house and make sure that Member-States who contribute money for peacekeeping can be confident that their money will be used effectively and honestly.

Radically Strengthened Management Capability
Management is a bigger problem. Everyone now agrees that the United Nations Secretariat's structures for commanding, controlling, and managing peacekeeping operations are lamentably inadequate. Although everybody recognizes that, governments have not so far been ready to provide the Secretary-General with the additional resources that he needs. The watchword amongst the Member-States is "re-deployment." If more staff are needed to support peacekeeping, then they must be found from within the existing staff, from lower-priority activities of the United Nations. I had a painful afternoon a few weeks ago when I asked for eight additional military staff in my old department. After an afternoon of being cross-questioned by the representatives of some very senior members of the Security Council about why this was really necessary, I was told, well, I could have two extra officers but only for six months. So, there is a "disconnect" between the readiness of Member-States to set up peacekeeping operations, the recognition of Member-States that we haven't got the structures to do it right at present, and their reluctance—or the reluctance of their staff who work on financial questions—to make the additional resources available. As a result, we have been forced into some makeshift arrangements which have not been entirely satisfactory. We have perforce had to accept offers of staff by Member-States. The same Member-States who may be difficult about increasing our own resources offer us officers and civilian officials free of charge (the indi-
We should establish a general staff, mainly military but including civilian officials as well, which will do two things: it will do the planning for new operations, and it will provide the core elements for the headquarters in the field. This would have the advantage of strengthening our planning capability, and also ensure that, when we send a new force out, those who plan it will go out to set up the headquarters and provide the core elements in the headquarters. That gives us better command and control, and it means also that the established principles and procedures and practices of peacekeeping would be applied uniformly in all the different operations. Establishing such a general staff is a very difficult thing to achieve, because you are talking about recruiting. I would think, several hundred—maybe as many as five hundred—additional staff to work in New York on this activity. A lot of them we would have to recruit as military officers, in mid-career. Staff-trained officers of proven ability with some previous experience in UN peacekeeping service would be invited, in their late 30s or early 40s, to sign on to work with the United Nations as soldiers. In the Cold War that would have been a totally unacceptable concept, because the Russians would never agree to the Secretary-General having any kind of military capability, not even a military staff. I think now it may be possible. We would have to do all sorts of things to our staff rules and our contract system and so on, but I believe that is the way forward.

Security Council Priorities

Finally, on priorities, all of us in the Secretariat feel that the Security Council needs to be a little more careful, a little more reflective, before it decides where to deploy peacekeeping operations. This is for three reasons.

First is the financial reason. There are not unlimited resources available for peacekeeping.

Second is credibility. The current credibility of United Nations peacekeeping is
based on some successes, especially the success in Namibia. That credibility will be very rapidly undermined if we have some conspicuous failures. We have had one in Angola already. We may be going to have one in Cambodia (though personally I am fairly optimistic about Cambodia). Another Angola or two would very seriously undermine credibility. It therefore behoves the Security Council to take care to put peacekeeping operations only into situations where there is a reasonable prospect that peacekeeping is going to work.

Third is the question of management capability—what I was talking about a moment ago. It is going to take us time to get our own house in order and establish the capacity to plan and to command and control peacekeeping operations on the scale at present deployed and envisaged.

This places a great burden of responsibility on the Secretary-General. He is the guardian or the trustee of a resource—peacekeeping—which has been very carefully nurtured over the years, and whose credibility depends on it being seen to be successful.

Preserving that credibility is no easy task. It's very difficult for the Secretary-General. On the one hand, he has to try to ensure that peacekeepers are not deployed in situations where failure is likely. On the other hand, he has to avoid appearing so cautious as to create doubts about the real usefulness of the United Nations or to provide a pretext for Member-States to go back to their wicked old unilateral ways.

This is not a responsibility which the Secretary-General should be asked to share alone. The power of decision rests with the Security Council; and it's important that the members of the Council if necessary, stand up to the clamor from their electorates—stand up to the regional clamor—and take care to satisfy themselves, in advance, that conditions really exist for a proposed peacekeeping operation to succeed.

Those conditions are well-known, but I would like, in conclusion, to repeat them: (1) the mandate or task of the peacekeeping operation must be clear, practicable and accepted by the parties; (2) the parties must pledge themselves to cooperate with the peacekeepers and those pledges must be credible; (3) the Member-States of the United Nations must be ready to provide the human and material resources needed to do the job. Unfortunately, on any particular day only a minority of the actual or potential conflicts in the world fulfill those conditions. It's often very frustrating to have to wait until a conflict is ripe for the UN peacekeeping treatment before deploying the peacekeepers. But if the conditions are fulfilled, if the conditions are right, then there is almost no limit to what the peacekeepers can achieve.

Marrack Goulding is United Nations Under-Secretary-General for Political Affairs. He was Under-Secretary-General for Peacekeeping Operations until early 1993. Some of the ideas in this speech he developed in more detail in the Cyril Foster Lecture delivered at Oxford University in early March, a lecture printed in the Summer 1993 issue of International Affairs, the quarterly journal of the Royal Institute of International Affairs (Chatham House). Like that lecture, the speech printed above was a statement of his personal views and not an official statement of the United Nations Secretary General's position.
An Agenda for Trilateral Leadership

World history is at a crossroads where political leaders have an opportunity to alter course and set new directions. Such opportunities come rarely—only three times in this century at the end of the two world wars and now at the end of the Cold War. In both the earlier instances, the end of war brought forth new states, new institutions, and new hopes, but not the end of national or ideological conflict. The Cold War ended without the direct military engagement of the two superpowers and with a dramatic internal change in one, providing hope that on this occasion there is a stronger basis for building a future order based on sustained consensus and cooperation. However, the end of the Cold War has also brought forth a host of new fragile states, new conflicts, much uncertainty, and less tolerance for international commitments in many of the leading states. A future order based on sustained cooperation will not happen without the conscious planning and steering of political leadership, and without a fuller sense among our fellow citizens of the needs of this new era. There is danger that the opportunity will be passed by.

The concept that the burdens and responsibilities of leadership would have to be increasingly shared lay behind the creation of the Trilateral Commission in the early 1970s. The developments of the intervening years have made the need even more compelling. Three such developments stand out.

First, the steady diffusion of economic power within the trilateral world has reduced the former hegemonial role of the United States. The economic strength of Japan and Germany has gradually increased relative to the other industrial democracies, with the more recent German unification within the broader context of European integration further magnifying Germany’s economic weight. The United States is still by far the world’s largest national economy, accounting for between a fourth and a fifth of the global output of goods and services. But it no longer has the commanding technological and productivity leads of the past, nor the highest per capita income levels at current exchange rates.

Second, success in reducing international economic barriers and the revolution in transportation, information and communications technologies have hastened the development of a world economy. Increasingly, governments find that without international cooperation the traditional instruments for managing their national economies are less effective. At the same time, the “globalization” of corporations competing internationally has sharpened the demand for harmonization of national regulations.

Third and most recent, the international security order has fragmented as the central Cold War strategic rivalry has been replaced by a multitude of local conflicts. Since no one of these threatens a global war, they do not always engage the direct interests of the United States or another major power, but they do engage shared interests in international order—enhancing the importance of multilateral mechanisms.

While the responsibilities of leadership have to be increasingly shared, this does not mean that all Trilateral countries have equal responsibilities for all issues—the call for collective leadership cannot be allowed to become an excuse for collective abstention. On some issues Japan or the European Community need to lead the way for the broader coalition. On other issues, a special burden remains with the United...
States to maintain the kind of outward-looking leadership it has displayed in earlier years.

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This short report does not seek to spell out a comprehensive agenda for our countries in this new era. Such an agenda would include a wide range of global problems, including the continuing population explosion, global warming, depletion of the ozone layer, the proliferation of technologies of mass destruction, and the spread of AIDS. We have focussed selectively on the issues of the most critical relevance to two objectives: restarting global economic growth and promoting a durable new system for international peace and security.

**Coordinating Fiscal and Monetary Policies**

Despite the emergence of a global economy, the basic public economic decision-making units remain nation-states. These respond to national political and economic agendas. If international considerations are not taken into account, two kinds of negative consequences can result. First, the external impact of the national policies of the larger states can cause considerable international disruption. Second, the effectiveness of national policy actions is reduced. Through cooperation and coordination, the desired impact can be recaptured.

It is unrealistic to expect coordination of national economic policies on a continuing basis. Nonetheless there are occasions when a degree of coordination can be achieved and is critical for restoring growth in the world economy. Now may be one of those occasions, if we seize the opportunity before us.

The United States, now in recovery, is moving in the right direction. President Clinton’s February 17 economic package has as its principal objective to reduce the budget deficit from about 5 to 3 percent of GNP by 1998. Although bold in some aspects, this program to reduce the deficit needs to be reinforced now and in the coming years.

Germany’s high interest rates primarily reflect the Bundesbank’s reaction to the loose fiscal policy of the Federal government. Fiscal policy changes and more moderate wage settlements are a prerequisite to reducing interest rates. We welcome the recent evidence in Germany of efforts to deal with the costs of reunification in a manner conducive to future growth and stability and with less strain on its EC partners. The economic growth performance of Europe continues to be weak. The December 1992 Edinburgh EC Summit discussed a growth package, but little has been achieved so far.

We welcome indications that Japan may be prepared to take new steps to reinforce prospects for restoring economic growth.

In sum, the package needed at present should include a larger fiscal stimulus by Japan, tightened fiscal policy and reduced interest rates in Germany, and strengthening of the directions announced by the Clinton administration. Such a package will allow the Trilateral countries to move in the direction of more stable exchange rates. Moreover, all the Trilateral countries need to promote structural adjustments to increase productivity and widen the scope for growth in the national and global economies.

**Successfully Completing the Uruguay Round**

While we welcome the steps taken in recent years toward perfecting the economic unification of the European Community and creating a North American Free Trade Area, those arrangements are in no way a substitute for a stronger and more comprehensive GATT. Indeed, without a strengthening of GATT, we are concerned that domestic pressures and regional trading arrangements will undermine the liberal trading and investment order that has been a key objective of the postwar economic order and the foundation for our mutual prosperity.

Thus, the completion of the Uruguay Round must be high on the trilateral agenda. The trading system is in jeopardy. Subsidies and protectionism are rife in many sectors not adequately addressed by the GATT, including services, agriculture, and textiles. Competition
is distorted by differences in intellectual property protection, export performance standards for trade-related investments, and many other factors. GATT dispute settlement mechanisms are slow and cumbersome. For these reasons, bilateral and multilateral arrangements to restrain trade have grown up outside the GATT, and pressures for protectionism, retaliation or more narrowly defined regional trade liberalization have increased.

The Uruguay Round is an exceptionally ambitious effort to address many of the inadequacies of the GATT system. The G-7 leaders have repeatedly pledged an early and successful agreement. Although constructive agreements have been reached in some areas, the round is now more than two years past the intended concluding date. A series of national elections in the major trading countries encouraged or compelled leaders to take rigid positions, either in demanding concessions from others or in opposing them for their own countries. Agreement was finally reached between the Europeans and Americans on the key stumbling block of agriculture in November 1992. However, many remaining difficult issues make impossible the conclusion of the Round before the June 1993 expiration of the U.S. “fast-track” legislative authority.

The Clinton Administration has pledged itself to complete the Uruguay Round and will ask for another extension of the “fast-track” authority. But the negotiations cannot be excessively prolonged without a total loss of credibility. A 9 to 12 month extension would appear to be about right. The most important requirement, however, is that the extension be a clean one (allowing the President maximum bargaining flexibility), not burdened with conditions by Congress.

The key Uruguay gains agreed to, including a substantial agricultural package, should be accepted and brought to the respective national parliaments before the end of 1993. As long as a balanced package can be put forward, the application of the benefits of the Round, although partial, should not be further delayed. It is essential, however, that multilateral negotiations be sustained to deal with unresolved issues. A multilateral trade organization permitting continuous negotiations is sorely needed.

**Progress Toward Harmonization**

If successful, the Uruguay Round will continue a gradual process toward the international harmonization of regulatory regimes in such areas as government procurement codes and intellectual property protection. Increased interdependence is driving our countries toward convergence in areas once considered fully within the domestic purview. Some of these areas involve government regulatory policy, such as environmental standards, the fair treatment of workers, and taxation; others are questions of informal business practices and cultures.

Appropriate actions must be taken on a reciprocal basis in all three regions. There is now a lively debate within the Japanese corporate world on the issue of harmonization, stimulated by the articles of the Japanese author of this report. He has pointed out that in comparison to their European and North American counterparts, Japanese companies generally require more sacrifice from “stakeholders,” that is, they ask employees to work longer hours, pay lower dividends to shareholders, and provide less for the benefit of local communities. However, there are practices in other regions that also need to be reviewed, such as “short-termism” in the United States. Discussions of such issues among the private sector leaders in both national and international fora may help in identifying such differences and encourage convergence toward best practices.

There are also harmonization issues that can only be addressed by the governments. Through the G-7, the major unilateral countries should identify the policy areas where differences in national policies have the most impact on competitiveness, and where a triangular Europe, Japan, North America structural dialogue would be fruitful. These areas might include anti-monopoly policies, environmental regulations, and aspects of commercial law. In these
areas, governments would seek to assess the impacts on competitiveness and, where serious differences exist and a standard norm can only be achieved in the long-term, consider possible and appropriate means of compensation for disadvantaged companies.

Harmonization can only be thought of as a long-term and partial process, tending toward convergence. It is driven by increasing interdependence rather than by any intrinsic virtue of harmonization. Continuing respect for the principle of subsidiarity (no unnecessary centralization) is essential.

**Facilitating Stability and Growth in Former Communist Countries**

As we move to the end of the Cold War, it is difficult to overstake the transitional difficulties arising from the collapse of the communist states of Eurasia. The former Soviet Union and the six Eastern European communist countries have now become 26 independent political entities—15 in the place of the Soviet Union, 5 in the place of Yugoslavia, and 2 in the place of Czechoslovakia as well as Poland, Hungary, Romania, and Bulgaria. Many of these are weak, artificial states with virtually no preparation for independence. They are called upon to develop nation-states simultaneously with fundamentally transforming their political and economic systems. The resources—human and financial—for this transformation are extremely limited. At the same time, the continuing costs imposed by the former communist systems will weigh heavily for years to come—the costs, for example, of converting huge defense establishments to civilian purposes, of cleaning up the environment, and of closing dangerous nuclear power plants. Much of the former Eastern bloc is in profound economic crisis, eroding the basis of political support for the new political and economic systems and in some instances threatening the states themselves.

The collapse of the Soviet Union and Yugoslav federation has created thousands of miles of new international borders, most of them originally artificially constructed to facilitate central control. Since these lines frequently do not coincide closely with any ethnic or historical boundaries, many are now contested. Twelve of Russia's 16 borders and 5 of the Ukraine's 7 borders, for example, are disputed. Irridentist and internal ethnic sentiments not only challenge boundaries, but in some cases threaten the very existence of the new states. The most serious conflicts have occurred in Tadjikistan, Azerbaijan, Armenia, Georgia, and Moldova, but many other republics are subject to violence. In virtually none of these republics do minorities have confidence in the protection of their rights.

The trilateral countries lack a consensus on the seriousness of the problems in this region and their broad international implications. There is a recognition of the significance of reforms and an awareness of the need for external assistance. Despite some efforts at coordinated assistance, the trilateral countries still lack a comprehensive strategy toward the former communist world. Japan's Russia policy has been complicated by the disputed four "Northern Territories."

We believe a more constructive relationship with Russia and other countries in the midst of a difficult and unprecedented transition demands closer coordination among the Trilateral countries. We suggest a new mechanism be developed for coordinating assistance among our nations and with established international financial institutions. The simple fact is that effective assistance, even at a multiple of recent amounts, would be an enormous financial bargain if successful in reinforcing prospects for peace and prosperity. At this point, the limits on assistance should be what can be effectively used by the recipient states, recognizing the importance of laying the groundwork for functioning markets, trade, and private investment. We fully support cooperative programs to ensure the safety of ex-Soviet nuclear plants and to defuse nuclear weaponry, to facilitate the relocation and transition of the soldiers of the old Soviet army, and to curb the spread of weapons and military technology.
Sustaining Growth in the Developing Countries
The North-South relationship has been significantly transformed by the ending of East-West rivalry and the growing variation in economic performance among developing countries. The strategic reasons for trilateral concern about third world poverty and social unrest seem less compelling. The high growth rates in some developing countries (East Asian and Pacific developing countries grew at an annual average per capita rate of more than 6 percent in the 1980s) have overshadowed the plight of others (in the same period per capita incomes in sub-Saharan Africa have fallen by an annual average of more than 1 percent).

The trilateral countries have many reasons to be concerned about the third world beyond the very important humanitarian issues involved. These countries account for the vast majority of the world's people and many continue to have explosive rates of population growth. Along with some of the new Eurasian republics, they are the states with the least developed senses of national identity and are the most prone to internal disorder. With the spread of sophisticated weapons technologies, even small third world states can also be serious threats to the international order. They can jeopardize, as did Iraq, access to critical resources needed by the trilateral world. These countries remain important to the further development of the world economy, including the GATT process, and to the solution of global environmental issues.

Outside assistance is needed for economic development and to encourage other desired reforms, including reduced defense expenditures and increased respect for human rights. Developing countries require different forms of assistance depending on their levels of development. Continued economic growth in the trilateral counties and open access to trilateral markets and capital are among the most effective forms of assistance for many developing countries, especially those with already advanced industrial sectors and export industries. The least developed countries, including much of sub-Saharan Africa, will continue to require large amounts of grant assistance or loans on highly concessional terms. The development assistance efforts of the trilateral world, which were heavily distorted by the security demands of the Cold War period, now need to be better coordinated and targeted to the most pressing areas of economic need. These efforts need to be qualitatively and quantitatively improved.

Strengthening Multilateral Peacekeeping
The continued instability in the formerly communist countries and in some parts of the third world have increased the need for effective multilateral peacemaking and peacekeeping mechanisms. The United Nations is central in this effort, but the demands for peacekeeping already threaten to overwhelm the resources of the United Nations and the limited willingness of its member governments to support such efforts.

The current cooperation of the Permanent Members of the U.N. Security Council provides a window of opportunity for strengthening U.N. peacekeeping that must not be missed. The trilateral member countries will have to bear much of the responsibility for an enhanced capability, especially the financing and provisioning of any U.N. rapid deployment force as envisaged by the Secretary-General. Some countries have already agreed to make personnel available on request for U.N. peacekeeping operations, but much more is needed.

With the end of the Cold War, there is new opportunity for the United Nations system to function as originally intended as the principal vehicle for international peacekeeping. Ensuring an adequate flow of financial support is part of grasping this opportunity. But the structure of the Security Council reflects the circumstances and ethos of the mid-1940s and needs modernizing. Eventually Germany and Japan should be treated as the great powers they are.

Achieving Peace in Ex-Yugoslavia
The bloody conflict in the former Yugoslavia is a test of the will and capability of the interna-
tional community to prevent aggression and ethnic terrorism. The lack of an effective international response, in comparison to Kuwait, is a shame for the Trilateral countries. The provision of humanitarian assistance through the UNHCR without an effective military force to ensure its delivery, much less to restore and maintain the general peace, is stop-gap at best. The absence of political will can no longer be shielded behind humanitarian relief.

Peace must be brought about in Bosnia, and strong efforts made to prevent ethnic conflict from spreading. The International Conference steered by Cyrus Vance and David Owen has proposed a settlement. This plan accepts in part the brutal occupation of territory by Bosnian Serbs. But it is our strong impression that, in the absence of other promising alternatives, the plan developed by the designated UN and EC mediators deserves effective support. To discourage further spreading of the conflict, the U.N. preventive deployment in Macedonia should be urgently strengthened.

**Strengthening the G-7**

None of the above can be accomplished without political leadership, domestically and internationally. Part of the challenge for the trilateral countries in the post-Cold War era is that the needed international leadership will have to be increasingly shared. It is neither fair nor realistic to expect one country to assume a highly disproportionate responsibility for international leadership, although the United States, as the world's largest economy and only remaining superpower, must still play a catalytic role. Nor is it fair to excuse any of our countries from leadership.

It is extraordinarily hard to share leadership. Historical precedents are not encouraging. Two factors are critical.

The first is public support for the actions needed. One of the tasks of the Trilateral Commission is precisely to nurture the habits and practices of working together, to develop the capacity of the trilateral nations for internationally constructive action.

Second, there must be an appropriate vehicle for sharing leadership. We believe the G-7 arrangements, both at the head of state and finance minister level, continue to provide an appropriate mechanism for facilitating cooperation, and, when appropriate, greater coordination, of economic policy. The areas for cooperation and discussion should also encompass environmental and development policies, including, as a matter of urgency, appropriate assistance for Russia and the CIS. At the same time, we believe the value of the G-7 forum depends importantly on maintaining a certain continuity, informality, and confidentiality consistent with excessive media attention and public expectations about particular meetings.

To this end, the preparation process of the G-7 summits should be shortened, and there should be a drastic reduction in the volume of summit statements. The summits themselves should concentrate on a few carefully chosen and urgent matters where agreement among the heads of state or government is essential. Last, but not least, it should become the rule and not the exception that member governments abide by the commitments made at the G-7 summits.

Otto Graf Lambsdorff, European Chairman, is a Member of the German Bundestag and Chairman of the Free Democratic Party. He was Federal Minister of the Economy in 1977-84. Akio Morita, Japanese Chairman, is Chairman and Chief Executive Officer of the Sony Corporation. Paul A. Volcker, North American Chairman, is Chairman of James D. Wolfensohn Inc. and Frederick H. Schultz Professor of International Economic Policy, at Princeton University. He was Chairman of the Board of Governors of the U.S. Federal Reserve System in 1979-87.

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