THE REFORM OF

INTERNATIONAL INSTITUTIONS

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The Trilateral Commission
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THE REFORM OF
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A Report of the
Trilateral Task Force on
International Institutions
to the
Trilateral Commission

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The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on International Institutions, with C. Fred Bergsten serving as principal drafter. The rapporteurs have been aided in their work by extensive consultations. John Pinder, Director of Political and Economic Planning (PEP) in London, served as a special consultant. In each case, consultants spoke for themselves as individuals and not as representatives of any institutions with which they are associated. Those consulted included the following:

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SCHEDULE OF TASK FORCE ACTIVITIES:

December 7, 1974 — Preliminary discussion of task force concerns in trilateral “brainstorming” session in Washington, D.C., including the three rapporteurs, Brzezinski, and twenty-two others.

February 22-23, 1975 — Bergsten, Yamamoto and few others meet in New York City to develop task force concerns.

April 17 — Mushakoji meets with Japanese consultants in Tokyo.

April 24-25 — Bergsten meets with North American consultants in Racine, Wisconsin.

May 2 — Mushakoji meets with Japanese consultants in Tokyo.

May 28 — Berthoin and Mushakoji meet with trilateral group of consultants in Tokyo.

June 21 — Berthoin and Bergsten meet with European consultants in Paris.

Late July — Bergsten completes tentative outline of task force report.

July 30-31 — The rapporteurs meet in Aspen, Colorado, to discuss tentative outline of report.

October 17 — Bergsten leads discussion of work of task force at meeting of North American Commissioners in New York City.

December 1 — Mushakoji speaks on reform of international institutions at meeting of the Executive Committee of the Commission in Paris.

Mid-December — Bergsten completes first draft of report.

March 8, 1976 — Rapporteurs and Makins meet in Tokyo.

Early April — Bergsten completes full draft of report.

May 10 — Draft report discussed at meeting in Ottawa of members of Trilateral Commission.

Mid-June — Final draft completed.
SUMMARY OF THE REPORT OF THE TRILATERAL TASK FORCE ON INTERNATIONAL INSTITUTIONS

The Reform of International Institutions

The report proposes an extensive program of international institutional reform (Chapter IV), with a focus on international economic institutions. The reform proposals are grounded in an analysis of lessons from the past (Chapter II) and of key problems in the current wave of institution-building, the third wave of the postwar era (Chapter III).

A major lesson from the past is that international institutions can make the world safe for interdependence and indeed are necessary to avoid efforts by individual nations to export their internal problems to each other. Hence all issues of international interdependence should be brought under the governance of effective international rules and institutional arrangements. Several new institutions need to be created to deal with topics newly critical to international interdependence. A new institution is particularly needed to govern foreign direct investment and multinational enterprises. One set of problems here derives from the global scope of operations of multinational firms, exceeding the jurisdiction of any individual government. The second concerns the need for rules to check the efforts of national governments to seize for their own countries a disproportionate share of the benefits generated by foreign direct investment. New arrangements are required on several fronts in the area of commodity trade. Commodity agreements, with buffer stocks to defend floor and ceiling prices alike, will be the best answer for some products. The proposed International Resources Bank could help smooth the flow of investment capital into producing countries and help assure adequate output over the longer run.

Several existing international institutions need reform. New arrangements are needed in the General Agreement on Tariffs and Trade (GATT) to govern export controls, like the rules which have for a generation governed import controls. The GATT needs reform in a number of other areas as well. The International Monetary Fund (IMF) needs new arrangements to effect multilateral surveillance over the system of flexible exchange rates and control over the growth of international liquidity. For the first of these two purposes, a permanent committee should be created within the Fund to monitor exchange markets constantly and develop norms against which to assess national interventions. For more control over liquidity, a Reserve Substitution Account should be created through which national monetary authorities could convert their current reserve assets into Special Drawing Rights.
SDRs were developed in the late 1960s to permit effective control in this area, but have fallen into disuse.

The OECD should strengthen its process of consultation on the policy plans of the major industrialized countries and the likely interactions among them. The economic officials of at least the largest countries must begin to think in terms of managing a single world economy in addition to managing international economic relations among countries. In the area of development assistance, a consolidated “world development budget” should be constructed each year and discussed actively by donor and recipient countries, perhaps in the World Bank, as they formulate their plans. This budget might then be coordinated with other developmental policies in the United Nations.

History has shown that the greatest dangers to international stability often arise from those nations whose real power is inadequately reflected in the relevant sets of international arrangements and symbols of status therein. Such nations can challenge the legitimacy of the system with actions as well as rhetoric. Much of the current call for a new international economic order flows directly from such concerns, and a major need in the current phase of institution-building is to bring developing countries into effective participation in the international system. First, serious and sustained attention must be paid to their substantive concerns. In terms of broad objectives, this requires the international economic system to attach priority to issues of income and wealth distribution as well as the more traditional goals of efficiency and growth. A second essential step is to provide major developing countries with a role in the international decision-making process which corresponds to their sharply increased importance to the system. A third step is to go still further and bring selected “newcomers” into the inner circles of international decision-making.

The report envisages a series of concentric circles of international decision-making to provide the collective management which has become necessary for an effective international system: a small informal core group (which might differ in its precise composition from issue to issue), a broader group of all major countries, and formal implementation of agreed initiatives through existing or new universal institutions. Such a system can be both effective and legitimate, if implemented through continuous consultations among countries in the different circles and if individual countries are willing to be represented by others at some levels of discussion. A system of representation is in fact evolving through the medium of the new Conference on International Economic Cooperation (CIEC), which could provide policy direction for a wide-ranging set of agreements to be carried out in other forums.
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I. INTRODUCTION

Mankind has turned increasingly to international institutions as interdependence among nations has grown. Communications and health were among the first concerns where national borders became obsolete, and successful international organizations were created. The horrors of the First World War produced the League of Nations, the planet’s first effort to organize for its collective security. The Second World War triggered the creation of the United Nations, to pursue the same objective. The lessons of the Great Depression, which caused massive human tragedy and accelerated the slide toward renewed armed conflict, stimulated the creation of a wholly new set of international institutions aimed at providing the world with collective economic security.

The minimum goal of international organization is to help avoid national actions which hurt mankind as a whole — in the extreme cases, war or economic disruption. Its fundamental operative principle is that countries should not seek to solve their internal problems by exporting those problems to others. The maximum goal is to promote national steps which enhance global welfare, such as the reduction of barriers to international trade.

In some cases, international institutions can help countries avoid actions which are mistaken even in terms of their own interests. Indeed, an important goal of all international arrangements is to provide support for constructive policies within individual countries. But the more difficult cases arise when an individual country (or group of countries) feels that it can benefit from a particular course of action even though others will lose more, posing a clear conflict between the common interest and the specific interests of some countries. Problems also arise when individual countries fear that they will suffer national harm even though the measures contemplated will promote global welfare. Hence international institutions must help distribute the costs and benefits of international actions among the nations involved in an acceptable manner, as well as promote generally desirable policies, to achieve their fundamental objectives.

Today, achievement of the goals of international institutions has become more complex than ever because of the intensity of both the breadth and depth of interdependence among the nations of the world. Problems such as pollution, which have historically been regarded as national issues — if indeed issues at all — are now widely accepted as global in nature. Countries such as Abu Dhabi and Angola, which have
never before played a role on the global stage — indeed, have not until recently become countries — affect lives a world away.

At the same time, there is renewed emphasis throughout the world on national sovereignty. Governments are accepting increasing responsibility for an ever-expanding set of policy objectives. There is great pressure to repel outside forces which threaten to upset the achievement of those objectives. There is also pressure to manipulate outside forces to promote internal policy goals, whatever the impact on other countries. Hence the distinction between foreign and domestic policy is increasingly blurred. As a result, economic issues are rising steadily toward the top of the foreign policy agendas of virtually all countries. The centripetal forces of interdependence trigger their own centrifugal reactions.

One result is increasing doubt over the utility of new international arrangements. Indeed, even the continued operation of some existing institutions has been placed in jeopardy. This tension, between the imperatives of international interdependence and the quest to retain adequate degrees of national autonomy, appears likely to remain the basic issue of international relationships for some time to come.

There is some optimum level of international rules and institutions for reconciling this tension in a politically feasible manner, to provide collective political and economic security for nations whose real sovereignty has already declined much faster than their nominal sovereignty may ever fall. The search for that optimum will pervade the evolution of international arrangements. The overriding goal is to make the world safe for interdependence, by protecting the benefits which it provides for each country against the external and internal threats which will constantly emerge from those willing to pay a price for more national autonomy. This may sometimes require slowing the pace at which interdependence proceeds, and checking some aspects of it. More frequently, however, it will call for checking the intrusion of national governments into the international exchange of both economic and noneconomic goods.

International rules and institutions already aim at these objectives in a number of issue-areas, particularly in economics. Some of the existing institutions are working well, but even they can be mobilized more effectively. Others need major reform if they are to achieve their objectives. And there are several important areas of international relationships where new institutional arrangements are needed, because of the emergence to prominence of relatively new issues and because no such arrangements now exist.
Our specific proposals will address each of these topics. They cover a wide range of issue-areas, but will focus primarily on international economic institutions. As already indicated, economic issues are rapidly moving to occupy a central place in the totality of international relationships. The imperatives of interdependence are advancing most relentlessly in this area, as are nationalistic reactions to international collaboration. In addition, lessons learned from international economic arrangements can often be applied in other contexts. We thus turn first to a quick review of past efforts to institutionalize economic relations among nations.
Past efforts to build international institutions have sought to provide new or improved international frameworks within which to manage issues where national management had become inadequate. The need for new international arrangements spawned institutions to cover international money and trade in the early postwar years, the beginnings of macroeconomic policy coordination and decentralized development financing around 1960, and a series of newly globalized issues (such as environment, food and energy) most recently. To do an old job better, the United Nations was created to supplant the League of Nations, and the World Food Council and International Fund for Agricultural Development have recently sought to augment the Food and Agriculture Organization.

Each phase of institution building has had two political objectives: the ratification and legitimization of the power structure underlying international relationships at the time, and the integration of newcomers into those relationships. In 1945, this largely meant codifying U.S. hegemony and involving the other independent nation-states of the day (except the Communists, who dropped out). Around 1960, it meant an increased role for Western Europe and Japan, and incorporation of the newly independent developing countries of Asia and Africa. In both periods, the primary focus was on ordering relationships among the industrialized countries and maximizing efficiency and economic growth. Now the focus must be broadened to include the relationship between industrial and developing countries as well, with an emphasis on income distribution in addition to the more traditional goals. This will in turn require new modes of collective leadership and sharing of rights and responsibilities across the entire spectrum of nations, including those in the Third World on many important issues.

The past record of international institutions is mixed. Neither the League of Nations nor the United Nations has decisively affected the prospect for world peace, but both have been instrumental in settling a large number of important disputes. The "Bretton Woods" institutions — the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD, or World Bank) and the General Agreement on Tariffs and Trade (GATT) — helped maintain a generation of economic peace, promoted impressive economic growth throughout the world, including in the developing countries, and showed remarkable capacity to respond even when confronted by an unprecedented series of shocks in the early 1970s.
But these institutions have made inadequate contributions to solving some of the most pressing of contemporary global economic problems such as inflation and more equitable income distribution. The growing number of technical and scientific institutions have effectively, if quietly, promoted progress on many issues.

A number of guidelines for future institutional steps derive from past experience. First, international institutions help restrain member countries from resorting to unilateral beggar-thy-neighbor policies, through which they might otherwise seek to export their internal problems to other countries. This is partly due to legal prohibitions and sanctions against such measures. For example, a country may pause before erecting a particular import barrier because it would then have to reduce its other import barriers to compensate the rest of the world or face retaliation against its exports.

Less tangible effects of international institutional arrangements are probably even more important, however. The very existence of such cooperative structures, more than the specific rules themselves, inspires confidence in both private sectors and government circles around the world that progress will not be disrupted by conflict among nations. International agreements strengthen the hand of outward-looking forces within each government. They promote transnational coalitions among those forces, whose meshing of like interests often proves importantly reinforcing in pursuing internationalist initiatives.

Second, functionally specific international organizations succeed far better than multipurpose organizations in accomplishing concrete tasks such as organizing technical cooperation among nations and negotiating specific arrangements such as trade liberalization and international monetary rules. This is clearest for essentially nonpolitical issues, such as those handled by the Universal Postal Union and World Health Organization. But it is also true for the functionally specific economic institutions, such as the IMF and GATT (and the Organization of Petroleum-Exporting Countries [OPEC]) when compared with the broader UN agencies.

Functional specificity works better for a variety of reasons. The issues are smaller and better defined, and hence more manageable. Like-minded officials are thrown together. There can be less blackmail over setting agendas, because the agendas are more rigidly defined at the outset.

Perhaps most important, issue-area linkage and politicization — both of which can deter functional progress — are better avoided. Linkage occurs when individual countries tie progress on one issue
to progress on other issues as a price for their cooperation. In some cases, where there is a consensus on underlying objectives, such an approach may help produce results. For example, the United States in late 1971 felt that it could move the world toward a new round of trade negotiations only by tying that issue to the exchange rate of the dollar. Linkage among issues has been a common feature of negotiations within the European Community, and within all of the major postwar trade negotiations.

However, linkage can delay action on all fronts when it seeks to bridge issues on which there is fundamental disagreement among the relevant parties. In many cases, it blocks progress altogether — by making the whole negotiating package much more complex, and by forcing domestic political tradeoffs which may be impossible in some countries even with the best of will. But the pressure to link is omnipresent in multipurpose organizations, and even leads to their creation, as when OPEC in 1975 felt that it could prompt a comprehensive international discussion of commodity and other development problems only by tying those issues to energy.

Politicianization of issues is better avoided in functionally specific institutions simply because of the consensus that such institutions are the best, perhaps only, places where serious business can be done. The same countries which will often indulge in fanciful rhetoric in a broad, multipurpose organization (such as various UN agencies) will often be negotiating seriously and cooperatively in another organization (such as GATT) on the same issue at the very same time. The more technical focus, and lesser public awareness, of such organizations promotes such a result.

The third lesson of the past is a corollary: that broader, multipurpose groups (such as the United Nations) also have an important — though quite different — role to play. They are better than functionally specific groupings for legitimizing broad new concepts. They may be able to coordinate the activities of the many functionally specific organizations, as will be discussed below. They enable governments to transmit their political concerns, and convey their domestic political pressures, without fear of jeopardizing progress toward concrete goals. Their wide-ranging debates can help set future agendas for functionally specific organizations, by flagging new issues and surfacing fresh approaches to old issues. These broad organizations can play a useful and even necessary role, but one which is quite different from achieving clearly defined tasks which are largely operational.

A fourth lesson, also corollary to the second, is that regional
institutions can often help foster the evolution of constructive global arrangements. In many instances, regional — or other limited — groups, among both industrialized and developing countries, can move more quickly than would be possible for the same countries on a broader scale. The creation of the European Payments Union, for example, was an important step toward the widespread restoration of currency convertibility.

However, regional groupings must maintain an outward-looking orientation if their role is to be positive and to avoid delay in the evolution of desirable global arrangements. Elements of both outward and inward orientation can often be found in the same regional arrangement. The recent Lomé Convention between the European Communities (EC) and the forty-six African, Caribbean, and Pacific States (ACP), for example, provides global leadership in supporting income stabilization for producers of primary products. Simultaneously, however, it creates new forms of discrimination — mainly against Latin America, in this case — by limiting those benefits to a selected group. The dilemma can only be resolved by regarding regional (and other limited-group) steps as precursors of wider arrangements rather than as ends in themselves.

A fifth lesson is that all important actors must be involved if an institution is to succeed. The classic case is the League of Nations, which the United States never joined and where several key powers were absent at key times. At present, there can be no satisfactory solution to the energy problem as long as OPEC and the International Energy Agency (IEA) stand apart; indeed, the Conference on International Economic Cooperation (CIEC) arose from an effort to bring them together. The complaints from the Third World about international trading arrangements stem at least partly from the absence of many developing countries from the GATT, and the UN Conference on Trade and Development (UNCTAD) was created largely to provide them with an alternative forum for attempting to structure international trade.

A sixth lesson is that strong Secretaries-General and international staffs can help greatly in formulating and implementing international agreements. The histories of the United Nations, GATT and IMF all reveal the importance of strong, impartial leadership from the institutions themselves. Such leaders can propose solutions when no country is able or willing to do so, help galvanize support in individual countries, and implement decisions when everyone else goes on to the next issue. They do not need formal powers or large bureaucracies to
play such a role. The key ingredients are impartiality, integrity and good tactical sense along with intellectual creativity. The willingness of governments to entrust responsibility to an international institution often depends, quite rightly, on whether those who staff it possess such attributes.

These lessons from the past suggest several steps which should not be taken in any reform of international institutional arrangements. There should be no "dusting off" of the International Trade Organization (ITO) in an effort to manage all international economic issues under a single roof. Those issues should not be moved into the United Nations. Nor would amalgamation across functional lines, such as merger of the IMF and GATT, meet the precepts for effective institutions. The creation of new institutions limited to the industrialized countries would generally be a mistake, since at least some developing countries must be integrated in virtually every issue-area.

At the same time, this past record of international institutions indicates a number of guidelines for positive reform. But how do they relate to the contemporary problems which governments will be facing in the late 1970s?
III. CURRENT PROBLEMS

History has shown that the greatest dangers to international stability often arise from those nations whose real power is inadequately reflected in both real involvement in the relevant sets of international arrangements and symbols of status therein. Such nations can challenge the legitimacy of the system with actions as well as rhetoric. Much of the current call for a new international economic order flows directly from such concerns. Indeed, only through integration into the management of international arrangements are such countries likely to acquire the systemic interests necessary for the constructive formulation of their own foreign economic policies.

Integration of the newcomers and dropouts is thus one of the major needs of international institutional arrangements today. As Japan was integrated in the early 1960s, by joining the OECD and adopting Article VIII status in the IMF, the new "international middle class" — most notably the members of OPEC, but also many other countries with rapidly growing economic or military strength — must be integrated today.

The absence of these countries both reflects, and is a reflection of, the principal shortcoming of the postwar international order. Its ultimate objective was stability, both to reduce the risk of conflict among nations and to provide a framework within which economic growth could progress unimpeded. Its proximate targets were those of neoclassical economics: maximum efficiency, growth, full employment and, to a lesser extent, minimization of inflation.

Missing from this list was a conscious effort to promote a more equitable distribution of income among countries. To be sure, the system which evolved provided strong support for impressive — indeed, historically unprecedented — growth in the developing countries. Foreign aid programs, also unprecedented in human history, did generate a significant transfer of resources.

Nevertheless, the system encompassed impediments to even better performance by the developing countries. Unemployment remained high, even in some countries where GNP growth was rapid. Redistribution was not an international goal. This was due partly to the minor role played by developing countries in the system. Along with their lack of representation, it also explains why they have become so hostile to it — and call for the creation of a "New International Economic Order." Whether "new" or "old," the evolving order must focus
explicitly on income distribution and an adequate role for the developing countries if it is to attract them to constructive participation.

Similar considerations argue for restoring participation by the dropouts. Most notable are the Communist countries, several of which (including the Soviet Union) were involved at the outset of the postwar international economic system but left before it began to function. They are now re-entering the world economy, particularly in such key individual markets as food (especially the Soviet Union) and energy (especially China).

It will be difficult to reintegrate the Communist countries, because of the fundamental differences between their economic systems and those of the market economies. And care must be taken not to distort arrangements which are working effectively solely to broaden membership. Nevertheless, major efforts should be made on issues where these countries are playing important roles.

A second current problem of international institutional arrangements is the absence of consistent, decisive leadership. History shows that an effective international system requires a custodian. This must be a sizable country (or group of countries) because only such an entity is both aware of the systemic effects of its own actions, and hence willing to play the custodial role, and able to accept the domestic political effects of actions taken (or not taken) to defend the system. In the economic area, such a role was played by Britain in the second half of the nineteenth century and America in the first generation after the Second World War. During the interwar years, there was no leader and the system collapsed.

“Leadership” and “management” can of course be exercised through market forces as well as through overt governmental action. But governmental action is necessary to establish a market-oriented system in the first place and hold at bay those forces which perennially seek to reduce the scope for market forces. An example is the recent U.S. lead in maintaining maximum scope for market forces to determine international exchange rates, which stands in sharp contrast to its opposition to such a system — and hence failure of leadership — when it became obvious in the early 1970s that fixed rates were no longer sustainable. And even in a market-based system, whether internal or international, government action is frequently needed to make the market work better by countervailing distortions of it (such as the monopoly power of some individual firms), taking account of externalities (such as pollution and security considerations), and promoting objectives which are not addressed by the market (such as income redistribution).
America must still play a major role in managing the international system. It continues to provide the ultimate security of most of the other industrialized countries and remains the world’s largest single economy, the home country of one-half the world’s foreign direct investment, the major food supplier to international markets, and the least dependent of the large industrialized countries on imported energy and raw materials. However, both U.S. domestic politics — which increasingly inhibit it fromshouldering a disproportionate economic burden — and the unwillingness of other countries to follow its lead rule out the same degree of American dominance which existed in the recent past. A pluralistic, multipolar world with alliances of different countries on different issues has replaced the rigidly bipolar world of the earlier postwar period.

There are two alternatives for providing the needed leadership for the international economic system. One is leadership by another individual country, or group of countries — the European Community, Germany alone, Japan, or OPEC:

- The European Community as a group dominates world trade, and its monetary reserves dwarf those of anyone else. It would provide an ideal component in the world management structure, blending together a variety of interests in reaching its own policy positions. But it has shown insufficient ability to act together on issues outside trade. It has great trouble finding a common stand when the economic going is rough, and hence world leadership is needed most intensely. It plays no security role as a Community, and the security role of its individual members outside Europe is minimal. The EC may well evolve to a point where it could share world leadership, at least on economic issues, but that point still appears to be well in the future.

- The Federal Republic of Germany has become the second economic superpower, with monetary reserves double the American, the world’s second key currency (center of a major currency area), the world’s largest exports of manufactured goods and highest wages in manufacturing industries, the strongest trade balance and the lowest rate of inflation. But German economic weight is insufficient for it to exercise unilateral leadership, even on economic issues, and any attempt to do so might jeopardize both European unity and detente.

- Japan has a larger economy than West Germany. But it stands culturally outside the rest of the industrialized world, has a limited tradition of world involvement let alone leadership, and is con-
strained both by its internal decision-making process and its extreme vulnerability (and hence sensitivity) to OPEC and other suppliers of raw materials. Indeed, its economic structure and history suggest that it may always seek to mediate rather than exercise unilateral leadership — between East and West, between rich and poor, between producers and consumers — and thus find difficult any leadership position.

- OPEC is of course a critical factor in energy markets, and important financially as well. It comprises the most important set of newcomers which must be integrated into the system and hopefully imbued with systemic concerns, but it is too much to ask it to leap into leadership so quickly.

Hence no country, or group of countries, now seems equipped to play a major leadership role alone. The only alternative is collective leadership, such as exists at the highest levels of the security system between the United States and the Soviet Union as they seek jointly to prevent nuclear war while competing actively at lower levels of international relations. The United States, Japan, the EC as a group (or Germany and perhaps one or two other countries of Western Europe individually), and perhaps one or two OPEC or other Third World countries on some issues, would seem the likely partners in any collective arrangement. Strong management and staff in the international institutions themselves can help, but individual countries will continue for some time to bear the primary responsibilities — especially in structuring the system within which the process of international economic cooperation can proceed.

Indeed, there have already been steps toward such collective leadership through the informal meetings of the “Group of Five” to discuss international monetary matters, the “economic summits” at Rambouillet in 1975 and Puerto Rico in 1976 to discuss the whole range of international economic issues, and the meetings of ten industrial, OPEC, and non-oil developing countries to organize the Conference on International Economic Cooperation in 1975 (and CIEC itself). These beginning steps confirm that the collective leadership which is needed can be exercised only through international institutions, be they formal (a la CIEC) or informal (like Rambouillet).

To be sure, such meetings of limited groups of countries raise problems for those who are omitted. And there is a clear difference between leadership and systemic concern. Smaller countries (such as Switzerland and the Netherlands) frequently adopt policies geared to systemic as well as purely national objectives — not because they are
leaders, but because they rely so heavily on the functioning of the international order that their national interest is to actively promote its success. Larger countries (such as France) often ignore systemic effects, due to an inadequate appreciation of their own impact and a confidence that other countries will keep the system functioning anyway.

The record indicates that systemic concerns are most likely to be evidenced by the very largest countries, because their impact on the world economy is so clear, and by the countries most open to international exchange, because they depend on it so heavily. Indeed, the strongest proclivities for leadership are found in large countries which are quite open; the prototype is Britain before World War I. Large countries which are not as open, such as America after World War II, are not as reliable because their domestic politics may not always support systematically oriented policies; in such circumstances, their very size makes them a threat to world order. Great dangers may also arise from countries which — due either to honest miscalculation or conscious efforts to “free ride” — deem themselves of insufficient size to affect the system decisively, and insufficiently reliant on the world economy to place high priority on the global effects of their policies. Such behavior has characterized France during several periods of the twentieth century, Japan in the late 1960s, and perhaps some of the more advanced countries of the Third World today and in the years just ahead.

It is essential for all countries to exercise systemic concern. The scope for “free riders” has been sharply reduced with the dispersion of economic wealth and power throughout the world. More and more countries affect the functioning of the entire world economy. Fewer and fewer countries can be counted on automatically to take actions needed to keep the system afloat. Sanctions against recalcitrants should thus be incorporated in international institutional arrangements wherever possible, mainly for their deterrent value. And it is imperative at this point in history for the more important countries to join together to exercise systemic leadership.

It must be noted that there is potential conflict between the exercise of international leadership and adequate participation of all countries, including the newcomers and dropouts. The issue is how to reconcile the often conflicting requirements for (a) legitimacy and hence breadth of membership and (b) efficiency in carrying out specific tasks. Universal membership makes progress difficult, but the expeditiousness of limited groups may be bought at a high price in terms of acceptability of the resulting decisions. This tension pervades all contemporary efforts to reform international institutions.
A final problem which challenges today's international institutional arrangements is the increased interdependence among the whole array of functional issues. The "energy crisis" has epitomized the tight relationship among trade, monetary, resources, development and security issues — and led to the creation of the CIEC, with its four functional commissions. The disequilibrium in the international monetary system which developed in the late 1960s was a major cause of the outbreak of intense pressures for protectionist trade policies in the early 1970s. The world inflation of 1973-74 and world recession of 1974-75 further confirmed the pervasiveness of these linkages.

So it is impossible to keep separate the major international economic, and even security, issues. A return to the earlier postwar situation, in which each was handled largely within its functionally narrow framework, appears most unlikely. New means must be found to achieve better coordination across the individual issues.
IV. SPECIFIC PROPOSALS

International institutional reform must therefore focus on six issues: the creation of new institutions where they have become necessary on particular topics newly critical to international interdependence, the reform of some existing institutions to deal better with the problems they are already addressing, more effective mobilization of both sets of institutions, the legitimation of all institutions through integration of the newcomers and dropouts, progress toward resolving the leadership issue and better coordination across issue-areas. Several proposed approaches have already been rejected. What positive steps should be taken?

A. NEW INSTITUTIONS

Our emphasis in this report is the reform of existing international institutions, rather than the creation of new ones. Indeed, we looked for institutions which could be eliminated, but found none where the benefits of such action would seem likely to outweigh the political battles which would inevitably be required to end them. Nevertheless, new institutions are needed where an issue-area is of profound importance to relationships among nations and none now exists. These two criteria are met for specific issue-areas within two broad aspects of international interdependence: the "commons" of mankind, and international economic relations.

Among the "commons," the most urgent requirement is the creation of an international regime for the oceans to cover a host of related issues including fishing, shipping, mining from the deep seabeds, and ocean pollution. Other "commons" which may need new regimes include Antarctica, outer space, and the weather and climate of our planet. A new agency to centralize and improve world population programs is often proposed. Global environmental problems are already covered in the new United Nations Environmental Program.

There is one economic issue where new institutional arrangements are clearly needed: foreign direct investment and multinational enterprises. The value of international production by multinationals now

\[\text{\footnotesize{1See Michael Hardy, Ann L. Hollick, Johan Jorgen Holst, Douglas M. Johnston and Shigeru Oda, A New Regime for the Oceans, A Report of the Trilateral Task Force on the Oceans, The Triangle Papers: 9 (1976). It proposes new international institutions to manage the exploitation of deep seabed mineral resources, fisheries management bodies for each distinguishable fishing ground, and new organs for settlement of disputes arising out of ocean uscs and delimitation of coastal economic zones.}}\]
approximates the value of world trade, and exceeds half a trillion dollars. Transactions within such firms account for a sizable share of world trade itself. A highly articulated set of international rules and institutions has governed world trade, with outstanding success, for a generation. Yet there are no rules or institutions whatsoever to govern international investment. This anomaly, along with that concerning the oceans, is the major institutional gap in international relations today.

Two sets of problems underlay the need for creation of a “GATT for investment.” One derives from the fact that the global scope of operations of multinational firms exceeds the national jurisdiction of any individual government. International action thus becomes a virtual necessity to provide the same kind of effective countervailing power against possible corporate abuses which national governments provide within most countries. Issues to be covered by such rules would include the allocation of taxable income among different countries in which a particular multinational operates, the related question of transfer pricing of transactions among the components of individual firms, antitrust policy and improper corporate payments. State enterprises as well as privately owned enterprises would be covered. In the absence of new international approaches to these issues, conflicts between national efforts to regulate the firms are bound to proliferate, with adverse effects on the world economy, on relations among nations and on the multinational enterprises themselves.

The second need is for new international rules to check the efforts of national governments to seize for their own countries a disproportionate share of the benefits generated by foreign direct investment. The home countries where multinational enterprises are based have traditionally sought to use “their” firms to pursue the national economic and political advantage, and some such efforts continue today.

A major new development, however, is the increasing capability of host countries where the subsidiaries or branches are located, in both the industrialized and developing worlds, to harness the firms to their national goals. The firms are simply required to generate a predetermined level of jobs, exports and other economic benefits. They must agree in order to gain permission to operate locally, which often is sufficient inducement for them to acquiesce. In addition, however, the corporations often receive tax and other attractive concessions; hence they increasingly ally with the host countries in mutually profitable arrangements. The trend is clearest in the extractive industries, but extends to all areas of manufacturing and services investments as well. It encompasses all countries, even the least developed in many industries.
Thus an increasing share of world production is being negotiated between the governments of host countries and the management of multinational enterprises, who properly represent their own corporate interests rather than the interests of their home countries. The result is a second anomaly: an empty chair for the governments of home countries in an increasingly central arena of international economic negotiations. Reactions against foreign direct investment within the home countries themselves have already begun to emerge, partly in reaction to these new developments.

To some extent, action by host countries to harness multinational enterprises represents a justified exercise of national countervailing power. Indeed, such efforts are often necessary in the poorer countries to expand the contribution of foreign direct investment to development. But, with increasing frequency, these measures — in both industrialized and developing host countries — are shifting production out of home countries. Jobs, exports, capital and technology are being moved from one set of countries to another by virtue of the overt policy actions of national governments. Emulation of such moves, and retaliation by countries which are hurt, are inevitable.

The result could well be the emergence of "investment wars" akin to the trade wars of past years. In an earlier period, when trade was the dominant vehicle for international economic exchange and there were no international rules of the game, governments sought through overt policy actions (such as higher tariffs, import quotas, and export subsidies) to increase their national shares of the international benefits which were generated. Other governments would simply not accept such steps, and the resultant international economic conflict broadened and deepened the Great Depression. Today, direct investment has moved up alongside trade as a major engine of economic intercourse among nations, and similar developments are likely if the present vacuum of international rules and institutional arrangements is not filled.

The new rules should encompass limitations on the degree to which national governments can distort the international investment process — including host-country levying of performance requirements on the firms and offering of incentives to attract them in the first place, and home-country use of fiscal and other devices to pursue national goals of the firms’ countries of origin. A first step should be the declaration of a "cease fire" on the institution of all such measures. Thereafter, certain practices, such as minimum export quotas and long-term tax holidays, should probably be banned altogether. As with
trade, exceptions could be made for the poorer countries — with procedures for countries to "graduate" from that category when their needs no longer require distortion of international economic processes.

The two types of rules which would comprise the new "GATT for investment" — one to regulate the behavior of firms, one to regulate the behavior of governments — are closely related. Governments will be willing to limit their scope for national exercises of countervailing power against multinational enterprises only if they are convinced that such power will be levied effectively at the international level. Hence the institution of rules to govern the firms will be a necessary concomitant to the institution of rules to govern the action of governments toward the firms.

A new international organization is needed to implement this regime because such a wide array of individual issues — taxes, anti-trust regulations, industrial policies, regional policies, development considerations — are involved. No existing institution could handle the whole subject, yet its various components are too closely inter-related to permit treatment in separate forums. The historical lesson that functionally specific institutions are best equipped to deal effectively with such problems should be applied in this area.

The creation of a new international regime for investment will take many years, in view of the continuing uncertainties concerning its effects and the sharply differing views of the subject between (and within) different countries. However, the agreements reached in mid-1976 by the OECD countries on guidelines for multinational enterprises, national treatment of the firms by member governments, and governmental incentives and disincentives to foreign direct investment mark an important first step toward setting up such a regime. They are inadequate for the longer run, both because they are limited to the OECD countries and because their provisions, especially regarding governmental commitments, are tentative and weak. But they do indicate a promising degree of consensus on which more comprehensive steps can be based.

The long-term horizon for developing the needed rules and institutional arrangements should be no deterrent, in any event. The evolution of effective international monetary and trade regimes was a major preoccupation of the nations of the world for the past generation, and the evolution of a similar regime for investment may be a similar preoccupation for the next generation. Trade issues are at least as difficult politically as investment issues, yet have been subjected to far-ranging international rules. The current efforts, in the OECD and
elsewhere, represent the first steps in the process of developing the
needed regime. Its completion is necessary if multinational enterprises
are to be made safe for the world, and the world made safe for
multinational enterprises:

The second economic issue which requires new institutional
arrangements, as well as modifications of existing arrangements, is
access to supplies. The traditional GATT arrangements have protected
access to markets for producers. However, its rules governing access
to supplies for consumers were weak from the outset and have been
totally useless in practice. New arrangements are needed to govern
export controls, like the rules which have for a generation governed
import controls.

The issue of access to supplies for consumers is intimately linked
to the issue of economic returns to producers. As with international
investment, individual countries will accept limitations on their exercise
of national power only if they are satisfied that reigning international
arrangements meet their own needs. This is indeed the central task of
international institutions: achievement of sufficient legitimacy in the
eyes of all participants for them to be willing to rely on the institutions
rather than their own unilateral efforts.

In the area of commodity trade, achievement of such legitimacy
will probably require new arrangements on several fronts.\(^2\) Commodity
agreements, with buffer stocks to defend floor and ceiling prices alike,
will be the best answer for some products. Income stabilization agree-
ments, which protect exporters against losses of earnings from price
declines for their exports, should be part of the package. Reductions in
tariff and nontariff barriers are needed in the countries which import
primary products, barriers which discourage processing in the producing
countries. The proposed International Resources Bank, attached to
the World Bank, could smooth the flow of investment capital into
producing countries, to assure adequate output over the longer run,
and might become the institutional base for other components of a
new international approach to commodity trade.

B. REFORM OF EXISTING INSTITUTIONS

Many existing international institutions need reform if they are
to deal effectively with new aspects of their traditional domains. Beyond

\(^2\) For one set of specific proposals see Carl E. Beigie, Wolfgang Hager and Sueo
Sekiguchi, *Seeking A New Accommodation in World Commodity Markets*, A
Report of the Trilateral Task Force on Commodities Issues, The Triangle Papers:
10 (1976).
the development of new rules governing access to supplies, the GATT needs reform in several key areas. Its rules enabling member countries to safeguard themselves against disruptive imports need amendment, both to permit timely (though temporary) use of import controls and to bring within their scope all types of such controls (including "voluntary" export restraints). Its permission for countries to apply import controls in response to balance-of-payments problems has become obsolete in a world which relies on flexible exchange rates to correct imbalances. And it needs new types of consultative and decision-making procedures to cope with the array of nontariff distortions and other new issues which have become central to international trade relationships.

The international monetary rules need revision in two major areas. The Bretton Woods system was based on fixed exchange rates and relied on domestic policy actions to achieve balance-of-payments adjustment, and came to rely on the dollar to expand world liquidity. It is widely recognized that neither is suitable for the future. Much de facto reform has already occurred, primarily through the advent of flexible exchange rates and the creation of Special Drawing Rights in the IMF. The need now is for effective multilateral surveillance over the operation of the system of flexible exchange rates, and resolution of the ongoing problems attendant to the multiplicity of monetary assets.

The present monetary system is based on unilaterally managed floating rates. Under such a regime, different countries may intervene in the exchange markets at cross-purposes, disturbing both international financial markets and relations between them. Individual countries may seek to manipulate the exchange rates of their currency to export their problems to others — either strengthening their currencies to export inflation, or weakening their currencies to export unemployment.

Agreements have been reached in principle to move to a system of multilaterally managed floats, to prevent such problems, but little actual progress in that direction has been recorded to date. Exchange rate relationships have a pervasive impact on overall economic relations among nations, and the maintenance of equilibrium conditions are essential in avoiding pressures for protectionist policies on trade and international capital flows. Hence the evolution of institutionalized arrangements to assure stable, joint management of international monetary affairs is of highest priority. A high-level, permanent committee should be created within the IMF to monitor the exchange markets constantly and develop a body of norms against which the legitimacy of individual national interventions (direct or indirect, through other policy steps) could be judged.
There also remains the perennial problem of achieving effective international control over the growth of international monetary reserves. Excessive liquidity expansion promotes world inflation, as in the early 1970s, while inadequate growth dampens world economic activity. Yet reserve growth — whether in the form of gold, dollars or other national currencies — continues to result from the wholly unplanned, uncoordinated interplay of national economic activity and policies.

Special Drawing Rights were developed in the late 1960s in order to permit effective international control in this area, but have fallen into disuse. Here, as in the case of multilateral surveillance over the exchange-rate regime, concrete actions are needed to implement an agreed principle — in this case, relying increasingly on the Special Drawing Rights. The most promising step would be the creation of a Reserve Substitution Account, through which national monetary authorities could convert their current reserve assets into Special Drawing Rights. Through such a device, these international assets could quickly become a major, if not the central, monetary component of the world economy.

A fourth area where reform is needed is coordination of domestic economic policies among the major industrialized nations. The advent of more flexible exchange rates by no means obviates this problem, and may even intensify it in some respects. As with the issue of access to supplies, it might be desirable to create a wholly new international institution for this purpose. But reform of the OECD seems a more cost-effective means to proceed, at least at this early stage in the process.

To this end, the OECD should initiate an annual consultation on the outlook for economic developments and economic policy plans in each of its major member countries. Present discussions do review future prospects, but countries seldom consult meaningfully on the policy options which they face and the factors which will influence their policy choices. There is little, if any, effort to assess the interactions of proposed national policies and hence their likely effectiveness in the face of intensified international interdependence. An interchange on such subjects, at strategic times in the decision-making process by highly responsible officials, could have an important effect both in improving the effectiveness of policy within each country and in avoiding conflicts between the efforts of different countries.

Economic forecasting is not yet sufficiently accurate to assure major benefits from such a process. But its existence might well have improved the performance of the world economy in 1975. In late 1974, Europe and Japan both looked to a buoyant recovery in the United
States as the key to their own emergence from recession. But the American authorities knew that U.S. performance would be sluggish for much of the year. And an effective interchange could have revealed more clearly that even an American boom would have only marginal effects on Europe and Japan in 1975, so that they would have to rely on internal measures for the bulk of the needed expansion.

As the world’s economies become increasingly interdependent, increased coordination of this type becomes increasingly necessary. Indeed, the economic officials of at least the largest countries must begin to think in terms of managing a single world economy, in addition to managing international economic relations among countries. Since it is the largest countries which bear the responsibility, it seems a role best suited for the OECD — with expanded membership as additional countries become important for these and other of its purposes.

Finally, an issue which has triggered much of the demand of the developing countries for a “new international economic order” is the distribution of income and wealth among countries. A number of changes are needed in the international trading, investment, monetary and other rules to promote a more equitable distribution, and all of the proposals made in this report for new or modified arrangements in economic institutions should incorporate such changes. For example, cuts in import barriers against processed primary products would spur exports of developing countries, as would limitations on the opportunities for multinational enterprises to restrict the markets available to their foreign subsidiaries.

In addition, there is a need for institutional improvements in the channeling of concessional assistance to the poorer countries. In recent years, there has been an explosive proliferation of funds through which such help is extended. Many additional mechanisms have been proposed. One result is increasing confusion among donor and recipient countries alike, and severe risk that sight will be lost of developmental priorities both in terms of countries (the poorest) and functional goals (such as increased food production).

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Hence a consolidated "world development budget" should be constructed each year and discussed actively by donor and recipient countries as they formulate both their short-run and long-run plans. The World Bank, which includes both groups, might be the natural locus for the discussion. However, these direct resource transfers should also be discussed in connection with developmental efforts in the trade, commodity and other areas; a broader forum, such as the United Nations, might thus be appropriate as a second stage. The improved coordination of assistance programs which should result would increase the confidence of all parties in the process by which resources were being transferred from richer to poorer countries, thus enhancing the legitimacy of the entire program as well as speeding the transfer itself.

C. MOBILIZATION OF INTERNATIONAL INSTITUTIONS

Both the existing and proposed new international institutions need to be mobilized much more effectively than has been the case in recent years. This of course requires a greater willingness by national governments to use them. But there are many things which the institutions can do largely on their own, both to foster progress on specific issues and to enhance the legitimacy of the institutions in the eyes of their members.

In order to be effective in shaping national policies, international institutions, through their top management and staffs, should seek to actively engage national officials concerned with the relevant functional issue, at both the political and senior bureaucratic levels, at early stages of the decision-making process. The institutions should in fact provide a forum for consultations prior to national decisions which importantly affect other countries, as is required by the Articles of Agreement of the IMF regarding exchange-rate changes. But even without such formality, which is extremely difficult in terms of domestic politics in most countries, a major function of international institutions should be substantive discussion among countries early in the decision-making process — and throughout that process, as it evolves continuously until decisions are finally made.

The management and staffs of international organizations can help develop such a process of early and continuous consultation by prompting the deepening of transnational networks of like-minded officials. Expansion of the consultative process would in turn help create such transnational networks. So the relationship between international consultation and institutional evolution could become a self-reinforcing
process in which the personnel of the organizations themselves could play an instrumental role.\textsuperscript{5}

In addition, the institutions should seek to involve the private sector in countries where it can be influential. Indeed, private groups can often be mobilized formally to help catalyze international action: the Rey Committee of the OECD helped lay the basis for the current Multilateral Trade Negotiations, and the UN Group of Eminent Persons paved the way for its new Commission on Transnational Enterprises.

Such steps require strong, active and effective management of the international institutions themselves, at both the director-general and staff levels. Again there is a self-reinforcing process: if the institutions take a more active and initiatory approach to problems, they will attract better management and staff. To achieve such a position, officials of the institutions must find a proper balance between independence of action and proximity to the member governments; too much independence reduces effectiveness in selling ideas to governments, while excessive ties to governments limit the likelihood of independent thought which challenges those same governments to alter their own policies. Such leadership has emerged at times from the Commission of the European Communities, and creation of similar “extranational” bodies might be considered for other international arenas (such as North-South relations) where political factors make it difficult for individual nations to provide strong leadership.

Finally, effective mobilization of international institutions requires stronger support for them within national governments. Few governments are in fact organized effectively to backstop the international organizations of which they are members. There is usually a wide gap between the people responsible for relations with the institutions and those responsible for the substance of the issues. The same government officials who are responsible for national decisions must participate directly in the international institutional process if that process is to succeed. In turn, the position of outward-looking forces within national governments would in most cases be greatly strengthened.

D. INTEGRATION OF NEWCOMERS AND DROPOUTS

Three sets of measures are needed in order to bring additional, primarily developing, countries into effective participation in the international system. First, serious and sustained attention must be paid to

their substantive concerns. In terms of broad objectives, this requires the international economic system to attach priority to issues of income and wealth distribution as well as the more traditional goals of efficiency and growth. Numerous examples have already been given of specific measures which should be adopted to help deal both with the problems caused for these countries by the existing international economic order, and the problems which they cause for it.

Concrete action to meet some of the substantive demands of the developing countries is a necessary condition for integrating them into the international economic order, but it is clearly not sufficient. A second essential step is to provide key developing countries with a role in the international decision-making process which corresponds to their sharply increased importance to the system. Some steps in this direction have already been taken, with the creation of the CIEC and increases in Third World voting power at the IMF and World Bank. Effective participation, as well as cooperative substantive agreements, must round out the effort to involve all key countries in the operation of the system.

A third step is to go still further, and bring selected newcomers into the inner circles of international decision-making. The objective would be two-fold: to improve the performance of the system by integrating such countries into its management, and to enable those countries to improve the effectiveness of their own policies by making them more aware of the feedback from other countries in response to their actions. Countries would be chosen on the basis of their weight in particular international issue-areas, with different criteria applying to membership in different institutions.

The most apt historical precedent is the inclusion of Japan in the OECD in 1962. It would now seem desirable to invite such major new powers as Iran, Brazil and Mexico to join that same organization. Saudi Arabia, which now has the second largest monetary reserves in the world, might be invited to meetings of the Group of Ten, which will doubtless continue to act as an informal steering group on some international monetary issues. The established powers should, in general, be alert to the opportunity to broaden their groupings to engage additional countries whose importance in a particular issue-area suggests that international progress will be more readily achieved if they are active participants at all levels of the decision-making process.

The problem of re-integrating the "dropouts" is somewhat different. In most cases, they dropped out because they were unwilling to continue along a path of international cooperation to which they
had previously been committed. Such decisions usually flowed from
major political changes, such as the onset of the Cold War (regarding
Soviet and Eastern European participation in the Bretton Woods
institutions). Reversal, or at least moderation, of the underlying political
shift is usually necessary for these countries to rejoin the existing
institutional arrangements. Indeed, this is already happening to some
extent in East-West relations, as individual Eastern European countries
join the GATT and IMF with the declining intensity of the Cold War.
Nevertheless, in some cases it may be possible to speed such re-integra-
tion through alterations in the institutional arrangements themselves
which meet legitimate concerns of the countries in question. At the
same time, however, it would seldom make sense to alter substantially
the basic focus of existing organizations simply for that purpose.

E. LEADERSHIP

The issues of participation in the decision-making process raise
directly the question of leadership. Who stands in the innermost circles?
Who, within that group, takes the initiative? Who tries to assure
follow-up? In short, who is the custodian, both for individual pieces
of the international system and its overall integrity?

As already noted, history raises doubts about the feasibility of
collective management of the international economic system. And
there is a risk that no one will lead if several are expected to do so.
Nevertheless, there is no alternative. Collective leadership is indispen-
sable at this point in history.

Within that framework, there are numerous tactical approaches
depending on the issue involved and the nature of the problem. As
already noted, the executives and staff of international institutions
themselves can play a critical role in such a milieu by taking initiatives
— after consultation with the key countries — when no individual
country feels able to do so. American initiatives are often undesirable,
because they trigger negative reactions by virtue of being American.
European initiatives appear to be particularly well received by the
developing countries, and may thus be the most effective route on
issues concerning North-South relationships. The question of who takes
the lead on specific problems, and how it should be done, would indeed
be one of the key issues for discussions among the collective
management.

One can envisage a series of concentric circles of decision-making
through which progress toward achieving the needed leadership can be
made. A small number of key countries, perhaps as few as two or
three on some issues, could decide to pursue a common course of action through completely informal discussions and after consultations with other countries outside this “core group.” (The European Communities as a unit could be one of these “countries,” as is in fact the case in the CIEC). Next, each could seek to broaden the agreement through further discussions with its own closest associates. Finally, implementation would come through the existing (and newly created) institutions where all relevant countries would become involved. The whole process would of course encompass prior consultations between members of each circle with members of the more outlying circles, as an input to their own thinking and sense of subsequent saleability. The inner group might differ from issue to issue, depending on the importance of different countries on each.

Such an approach would seek to move more effectively toward reaching agreements in the proper institutional forums. It would rest on informal collaboration at the early stages of discussion, as a prelude to eventual formal agreements. This would avoid both domestic political costs to countries which were excluded (a la Rambouillet) and any appearance of imposition by the inner group.

Such a process would require some countries to accept the legitimacy of being represented by others at some stages of consultation and even negotiation. This is nothing new in international affairs — since the creation of the IMF, most of its Executive Directors have represented multi-country constituencies — but now needs to be practiced more widely. It would require early, frequent and intensive consultations between those who are represented and those who are doing the representing. Such an approach has been recommended by the Group of Experts on the Structure of the United Nations to improve the performance of that organization, particularly on international economic issues.

A system of representation is in fact now evolving through the medium of the CIEC. Its four commissions each comprise fifteen countries, and the Conference itself comprises twenty-seven. Within each constituent forum, there is careful balancing among three groups of countries: industrialized, oil-producing and developing non-oil-producing. The countries which are involved, in essence, represent each of these three broader groups. The groups, in turn, caucus — in the OECD (or the IEA), OPEC and UNCTAD (or the Group of 77) — to determine the positions which their representatives will take. In terms of output, the CIEC will not itself seek to implement new agreements. If it works, however, it could provide policy direction for a
wide-ranging set of agreements which would be carried out in other forums, perhaps including some new forums (such as for new commodity pacts) generated by its activities.

It is much too early to assess the success of the CIEC. It suffers from some institutional liabilities, such as the absence of its own secretariat and other institutional necessities. (Such a secretariat should be small and non-operational, in view of the functions of CIEC, but is needed *inter alia* to prepare common documents for the meetings, record the decisions that are taken, and promote follow-through.) But it meets some of the objectives outlined in this report as most essential for strengthening the role of international organizations: integrating the newcomers by dealing seriously with their substantive concerns and providing them with an effective participatory role, and reconciling the tension between (a) widespread participation and hence legitimacy and (b) effective decision making. It thus provides a promising avenue for enhancing the role of international organization.

F. COORDINATION ACROSS AND WITHIN ISSUE-AREAS

The CIEC also offers a promising approach toward improving international coordination across different issues. History has demonstrated that it is unwise to pursue coordination by locating functionally separate issues under a single institutional roof. But this leaves unanswered the question of how to achieve the coordination required by the increased interrelationships among issues, or even adequate coordination among the several institutions which exist within a given issue-area.

*Intra-issue* coordination is a problem in several areas. Regarding international monetary affairs, for example, there are at least six important institutions whose functions are largely overlapping: the Executive Board of the IMF, its Interim Committee (which supplanted the Group of Twenty), the Group of Ten, the informal Group of Five (or sometimes six or seven), the Bank for International Settlements, and Working Party Three of the OECD. In this particular case, the dominance of the same countries in the different forums — and the frequent participation in them by the same individuals — minimizes the risk of uncoordinated approaches.

In trade, however, the problem is more complex. The OECD, which occasionally is the locus for important trade activities, is comprised mainly of industrialized countries. UNCTAD is dominated by the developing countries. Predictably, both the objectives and specific measures promoted by these two institutions, nominally in the same field of activity, are quite different. Indeed, the OECD and UNCTAD
have to some degree become caucuses for the richer and poorer countries, respectively, on such issues as generalized tariff preferences and aid levels, before they meet in common forums such as the GATT. Some such universal grouping, which supersedes the institutions dominated by a subuniversal group, may be needed in all such cases.

As already noted, foreign assistance is the component of international economics where the greatest proliferation of institutions has occurred. Even experts have difficulty keeping track of all the new funds which are emerging or being proposed to channel help for specific purposes (food production, energy research, technology transfer, etc.) or to specific countries (those "most seriously affected" by the higher price of oil, Moslem countries, producers of raw materials, etc.). In this case, the new "world development budget" is needed to assure better coordination of the entire process.

Informal collaboration among the leading countries is probably the best route to effective coordination among international economic issue-areas. Indeed, such coordination as has occurred in the past came through such devices. In the 1971 monetary crisis triggered by the U.S. suspension of dollar convertibility and imposition of an import surcharge, for example, the Group of Ten was forced to relate trade to monetary measures. The institution of the CIEC is a step toward such an approach. So were the economic summits of late 1975 and mid-1976, though their legitimacy was less certain because of the exclusion of all developing and many smaller industrialized countries.

The only issue is the means through which coordinating efforts will take place. One possibility is to use large, multi-purpose organizations such as the United Nations and, in the field of international economics, the UN Conference on Trade and Development. These groups have traditionally proved too large and politicized to achieve much effective coordination. To be effective they would need to reform their own procedures, particularly to set up small issue-oriented bargaining groups as recommended by the Group of Experts on the Structure of the United Nations System.

Another possibility is meetings of smaller groups, either formally or informally, on either an ad hoc or regular basis. This approach raises questions of legitimacy and could cause internal political difficulties for those left outside — especially if the sessions were publicized and held regularly. But it provides flexibility to alter the composition of the steering group as the importance of different issues waxes and wanes; for example, Switzerland is important on many international monetary matters and Iran is an essential participant in energy discussions.
Hence the three-fold set of concentric circles of decision making outlined above also seems best attuned to the needs of coordination across issue-areas. The members of the innermost circle — always on the basis of constant consultation with their own closest partners, and indeed with all countries which they “represent” — would bear the bulk of the responsibility for relating the various issues to each other in a cohesive manner. For these coordination purposes, the membership of the inner group would have to remain largely constant, and some members of it would have to participate in each of the core groups on specific issues.

The core countries could get together either through purely ad hoc sessions, or within the broader framework of the United Nations or other institutions attended by officials with sufficient authority to address the wide range of issues involved. Either approach would force individual governments to develop better means of internal coordination across issue-areas, which are now often quite inadequate. Hence the process would become mutually reinforcing as between the national and international levels.
V. EPILOGUE

The objective of these proposals is to bring all issues of international interdependence under the governance of effective international rules and institutional arrangements. This requires the creation of a few new institutions and the reform of many existing institutions, each to pursue functionally specific tasks. It requires engaging all relevant actors in the decision-making process, while at the same time developing collective leadership of the system and better coordination within and across issue-areas through joint management by small groups of key countries. It requires national willingness to submit important issues to international institutional determination and to accept representation by other countries at some stages of the decision-making process, and more effective management in the institutions themselves to win confidence in national capitals and hence spur the process.

History has shown that effective international institutions can defuse conflicts among nations and deter globally harmful outcomes, which are not only possible but probable in the absence of such institutions. Indeed, such institutions can often promote outcomes in which all countries benefit from higher degrees of international cooperation. International interdependence is expanding rapidly in a whole range of issue-areas. So is its antithesis, nationalist opposition to international approaches. Hence a high priority must be attached to the further evolution of international institutional arrangements.

The world has already entered its third postwar wave of institution-building. The first wave came immediately after 1945, with the creation of the United Nations system and its economic components — particularly the Bretton Woods institutions. The second came around 1960 and included the Common Market, the Organization for Economic Cooperation and Development, the regional development banks and — though it was barely noticed at the time — OPEC. The third wave began around 1973, and continues to this day. It has witnessed creation of a United Nations Environment Program, a World Food Council, an International Energy Agency, a series of "producers associations" of exporters of primary products, and most recently the CIEC with its four standing commissions.

The first and second postwar waves of international institution-building made the world safe for the explosion of interdependence of the last generation, which has been a central element in the explosion of prosperity and the maintenance of peace. Imaginative conclusion of the third wave is necessary to ensure such results for the next generation. It must rank high on the foreign policy agendas of all countries.
The Industrialized Democratic Regions in a Changing International System

Inaugurated in July 1973, the Trilateral Commission is a policy-oriented organization. Based on analysis of major issues facing the trilateral regions, the Commission has sought to develop practicable proposals for joint action. The Commission’s members are about two hundred distinguished citizens from the three regions, drawn from a variety of backgrounds.

The historical roots of the Commission can be traced to serious strains early in the 1970s in relations among Japan, North America and Western Europe. As the decade has proceeded, however, it has become increasingly clear that the strains and shifts in the international system are global as well as trilateral in scope. The renovation of the international system is a task of global as well as trilateral dimensions, and the work of the Commission has moved accordingly.

In this global effort, the industrialized democratic regions remain an identifiable community and a vital core. Their focus, however, must not be on the preservation of the status quo, but on arrangements which increasingly embrace the Third and Fourth Worlds in a cooperative endeavor to secure a more equitable world order.

The renovation of the international system will be a very prolonged process. The system created after World War II was created through an act of will and human initiative in a relatively restricted period of time. One power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation — much longer and more complex — a process in which prolonged negotiations will have to be engaged and developed. In nurturing habits and practices of working together among the trilateral regions, the Commission should help set the context for these necessary efforts.
THE TRIANGLE PAPERS

Reports of Task Forces to The Trilateral Commission

1. *Towards a Renovated World Monetary System* (1973)
   Trilateral Monetary Task Force
   Rapporteurs: Richard N. Cooper, Motoo Kaji, Claudio Segré

   Trilateral Political Task Force
   Rapporteurs: François Duchêne, Kinhide Mushakoji, Henry D. Owen

   Trilateral Task Force on Relations with Developing Countries
   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink

   Trilateral Task Force on Trade
   Rapporteurs: Guido Colonna di Paliano, Philip H. Trezise, Nobuhiko Ushiba

   Trilateral Task Force on the Political and International Implications of the Energy Crisis
   Rapporteurs: John C. Campbell, Guy de Carmoy, Shinichi Kondo

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   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink

   Trilateral Task Force on the Governability of Democracies
   Rapporteurs: Michel Crozier, Samuel P. Huntington, Joji Watanuki

   Trilateral Task Force on the Oceans
   Rapporteurs: Michael Hardy, Ann L. Hollick, Johan Jørgen Holst, Douglas M. Johnston, Shigeru Oda

    Trilateral Task Force on Commodities Issues
    Rapporteurs: Carl E. Beigie, Wolfgang Hager, Sueo Sekiguchi

    Trilateral Task Force on International Institutions
    Rapporteurs: C. Fred Bergsten, Georges Berthoin, Kinhide Mushakoji

    Trilateral Task Force on Consultative Procedures
    Rapporteurs: Egidio Ortona, J. Robert Schaeztel, Nobuhiko Ushiba