

Dialogue

Looking Back and Forward

In this issue, the North American rapporteurs of earlier Trilateral Commission task forces look back over the reports of these task forces from a current perspective, and some members of the Commission present brief outlooks on aspects of international economic policy for the Trilateral countries in the time just ahead.

Most of the earlier task force reports represented policy-oriented efforts to come to grips with key current problems of what we might call the "global political economy." The first Commission report, completed in October 1973, dealt with the disarray of the international monetary system. Two reports from the task force on relations with developing countries, in 1974 and in 1975, focussed on major aspects of "a turning point in North-South economic relations." Two reports were likewise prepared by the task force on the political and international implications of the energy crisis. Main issues before the current GATT round of trade negotiations were the subject of another task force effort, carried on in the months after the opening of the round with the Tokyo Declaration of September 1973. The Commission's emphasis on international economic problems has continued in recent reports not covered in this issue—A New Regime for the Oceans and Seeking a New Accommodation in World Commodity Markets, both published this year.

Another area of Commission work was manifested in 1975 with the appearance of the report of the task force on the governability of democracies. Published by New York University Press last fall as *The Crisis of Democracy*, this book-length study has stirred considerable controversy. Samuel P. Huntington, North American rapporteur and author of the chapter on the United States, offers some reflections here on "the governability of democracy one year later."

All in all, the reports testify to the growth of the conviction that the advanced industrial societies of the trilateral regions face common problems and have shared responsibilities in seeking a more prosperous and equitable world economy. The Rambouillet meeting of last November and the Conference on International Economic Cooperation

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begun in December were in a sense an official endorsement of the trilateral approach.

But if trilateralism has thus come of age, the need for more effective and coordinated policies is as urgent as ever. In the "Looking Forward" parts of this issue, P. Nyboe Andersen and Peter Dobell emphasize the need for a constructive and responsive approach by Trilateral countries in current negotiations with developing countries. John H. Perkins cautions against repetition of the policies which led to the devastating worldwide inflation and subsequent recession experienced in the first half of the 1970's. Marina v.N. Whitman concentrates on U.S.-E.C. differences in outlook on trade expansion and hopes for a "rational synthesis" of the two views. Takeshi Watanabe focusses on Japan's relationship with the Association of Southeast Asian Nations (ASEAN).

International Monetary Reform After Three Years

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In 1973, when the Trilateral Commission was formed, the international monetary system was in disarray. Early that year the U.S. dollar had been devalued for a second time, and shortly thereafter, in response to strong speculative movements of capital between currencies, many countries allowed their currencies to "float" in the marketplace, dropping their commitment to fix exchange rates through official intervention. World inflation was accelerating during this time, too, although the OPEC increase in oil prices did not take place until the end of the year. A group of financial officials, the Committee of Twenty, was meeting from time to time under the auspices of the International Monetary Fund with the objective of reforming the international monetary system, but with an agenda that was fundamentally at odds with what was happening in the "marketplace" and indeed in the day-to-day actions of governments.

It was in this context that Professor Motoo Kaji of Tokyo University, Paris investment banker Dr. Claudio Segré, and I met in the summer of 1973 to prepare a report* for the first meeting of the Trilateral Commission's executive committee, in Tokyo in October.

We fortunately resisted the temptation, always present when outsiders are considering matters of public policy, to stay close to the official discussions. On the contrary, we indicated our view that those discussions lacked sufficient urgency and that they were on the wrong track, suggesting instead what we thought should be done both in the immediate future and in the longer run.

That first report to the Trilateral Commission has fared well with the passage of time. The C-20, as it came to be called, changed course radically in the spring of 1974, and since then much progress has been made in improving the international monetary system, generally along the lines recommended in our report. In particular:

1) We have seen the *de facto* establishment of flexible exchange rates, formalized at the Jamaica meeting of finance ministers in January 1976. Much remains to be worked out in the way of operating details, especially regarding the extent and nature of official intervention in currency markets to influence exchange rates, but such intervention is now occurring on a trial and error basis and gradually financial officials will develop an effective *modus operandi*. Our report urged introducing much greater flexibility into a system of par values such as that ruling before 1971, but we also observed that our objec-

tives could be just as well served by a system of managed flexibility without par values. The Jamaica Agreement institutionalizes the latter system, but also holds out a long-run prospect for re-establishment of par values among currencies. Properly run, there is no consequential difference between the two systems.

2) Gold has been dropped as a monetary vehicle within the International Monetary Fund and its role as a monetary medium has thus been diminished. Perhaps more significant is the agreement to sell one-sixth of the IMF's substantial gold holdings over the next four years and to use the capital gains from such sales — amounting in all to perhaps \$1.5 billion — to help the world's poorest countries. This agreement represents a variant of a proposal made in our report, a thought that was regarded as quixotic when we suggested it.

3) A number of technical but important modifications have been made in the IMF's Special Drawing Rights, designed to make them more effective as a future international currency for central banks. They have been defined in terms of sixteen national currencies rather than in gold, interest payments on net holdings have been increased, and provision has been made for relaxing the need for countries to "reconstitute" their SDR holdings after using them.

4) Short-term credit facilities for all countries, but especially for developing countries, have been substantially improved; tentative steps have been taken to backstop the euro-currency market; and the decision-making machinery of the International Monetary Fund has been strengthened, by bringing into its operations the top financial policy makers of governments on a more current basis.

5) The one recommendation of the Trilateral report where no action has been taken concerns provision for the consolidation of outstanding national currencies in international reserves, mainly U.S. dollars. This matter became far less urgent in face of the fourfold increase in oil prices, for international reserves that formerly seemed to be disproportionately large overnight became quite inadequate as many surplus countries moved into a condition of substantial balance-of-payments deficit. Nonetheless, the international use of national currencies remains an important issue in the longer term.

It is certainly too much to claim great influence for the Trilateral Commission's task force report on the course of subsequent policy making with respect to the international monetary system. But at least the report can claim prescience in the face of official discussions which at the time were pointing in quite different directions, out of tune

**Towards a Renovated World Monetary System*, The Triangle Papers, No. 1 (1973).

Looking Forward



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Probably one of the most difficult problems to be resolved in relations between the Trilateral countries and other nations, particularly those in the Third and Fourth Worlds, is reaching agreement on a proper set of economic policies that will provide the greatest benefits in terms of economic growth. Certainly there will be little benefit to anyone if there is a repetition of the policies which led to the devastating world-wide inflation and subsequent recession experienced during the first half of the 1970s.

In saying this, I am quite aware of the controversy which surrounds any statement that more moderate expansionary policies must be followed throughout the world in order to avoid a repetition of this experience. This is particularly true if the statement is made by someone who is a representative of one of the richer nations. Critics feel this view can be interpreted as support for the status quo among nations. Any implementation of economic policies that is to be successful, however, has to recognize the hard fact that large-scale readjustments and redistributions are likely to be disruptive and could be inefficient in providing a satisfactory economic return.

It is unrealistic to expect that major industrial countries, including the United States, will subordinate domestic policies in any major way to some international supra-agency. Not only does such a course imply domestic political risks, but there also is no guarantee that any general

agreement would be reached among nations on what a proper policy should be. The United States currently provides a prime example here. Budget policies are being set to slow substantially the rate of growth of government spending. Leaders of other countries, including other developed nations, have called for the United States to pursue more expansionary policies, to increase U.S. purchases from abroad. The primary argument against this view in the United States is fear of a renewal of double-digit inflation if excessively stimulative policies are pursued. If this were to occur, the resulting financial strains could be even more severe than those in 1973 and 1974.

Nonetheless, even taking these apparent differences into account, I am confident that initial self-interest will at some point demand cooperative policies aimed at funneling investments into productive areas to provide the basis for more rapid expansion. In many respects, these policies can be based upon an existing framework which can be altered sufficiently to provide a conduit for expanding investment opportunities. The most important obstacles are likely to revolve around the necessity to correct problems caused by persistent deficits in some countries, whether developing or developed. Certainly an integral part of developing such policies is maintenance of a viable international financial structure, including international institutions as well as the world banking system.

In this context, negotiations to reduce trade barriers will continue to be an important element in both providing for stable growth and reducing financing problems. Of particular importance is better agreement on maintaining a less erratic flow of basic commodities. Wide price fluctuations in basic commodities, in part reflecting political factors, have had a very disruptive impact upon the world economy. Removing these fluctuations would not only aid economic growth, it also would have a beneficial effect in improving the financial position of the developing countries, which are heavily dependent upon exports of basic materials. In the past two years, the private banking system has become an integral factor in financing balance-of-payments deficits of less-developed countries, but recent loan increases are putting severe strains on the ability of these countries to service total debt. As a result, it seems necessary that these countries limit their debt burden increases until the strain has been eased, even though this may be reflected in somewhat slower economic growth.

with what was actually happening in the world of international finance.

Improvements in global economic management remain high on the agenda for needed international discussion, ranging from stabilization of aggregate demand and control of inflation to management of the oceans. But a basic

framework has now been established for the international monetary system, and this represents a major step forward from where we were three years ago. The numerous vital details that remain to be worked out will most likely be done now in the light of work-a-day experience rather than through further efforts in constitution writing. ■

The North-South Negotiations – Some Progress but a Long Road Ahead

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Since the Trilateral Task Force on Relations with Developing Countries completed its work a year ago, the international community has made significant progress in the directions outlined in our two reports.* Nevertheless, there is a very long way to go before achieving what was described in our first report as “a new international economic order based on cooperation between developed and developing countries, corresponding to the new balance of economic and political power, and responsive to growing demands for welfare and justice.”

On the positive side, we can take satisfaction from the tone and content of Secretary of State Kissinger's speech to the Seventh Special Session of the United Nations General Assembly on September 1, 1975; from the unanimity reached at the Special Session on the main elements of the North-South negotiating agenda; and from the business-like atmosphere which has characterized the negotiations now underway in the Conference on International Economic Cooperation and its four commissions on Energy, Raw Materials, Development, and Finance. Other encouraging developments have been the monetary agreements reached at Kingston in January 1976 (which will be of substantial benefit to the developing countries); the unanimous report of the Group of Experts on the restructuring of the United Nations system; and the creation of the Third Window by the World Bank.

On the negative side, however, it must be noted that the most fundamental issues in North-South relations remain unresolved. The prospects for getting the additional resource transfers needed to make possible a modest 2 or 3 percent annual increase in living standards in the developing world seem more remote than ever; the bilateral aid programs of the DAC countries have leveled off in real terms; the fifth replenishment of the International Development Association is running into difficulty; the Law of the Sea Conference has so far proved unsympathetic to the idea of putting a significant portion of the revenues from seabed oil exploitation in the service of economic development; and the refusal of the United States and

other large Trilateral countries to contribute has kept Third Window funding at a level of \$500 million instead of the \$3 billion a year contemplated in our second report.

If the developed countries have not responded fully on resource transfers, it must be said with equal frankness that the developing countries have not yet faced up to their responsibilities in the field of internal reform. Our first Trilateral report emphasized the need for a new *internal* economic order, focused on the eradication of extreme poverty, a better distribution of income and wealth, the reduction of unemployment, and broad access to education and health services, including assistance in family planning. We also stressed the importance of an internal climate in the developing countries that would encourage productivity and reasonable security for long-term investment, both domestic and foreign. We cannot say in all honesty that much progress has been made along these lines.

Notwithstanding the obvious political difficulties, everyone needs to work much harder for a meaningful “world economic bargain” in which the OECD and OPEC nations provide increased resources through official and private channels, the developing countries assume increased commitments to assure the effective use of those resources, and international institutions are given more significant powers to monitor and secure compliance with the obligations of both donor and recipient countries. Moreover, new thinking is needed on ways to associate the Soviet Union, China and the East European countries in such efforts so that they can assume their fair share of obligations in the global development system.

Perhaps most disquieting of all, the political setting of North-South relations is still characterized by contradictory forces of confrontation and cooperation. Much of the good will produced by the Seventh Special Session has been dissipated by irresponsible resolutions voted by developing countries at the regular General Assembly session last fall, notably the resolution equating Zionism with racism. Moreover, there are new and ominous developments in the Middle East and Southern Africa that could poison the economic negotiations. The United States Congress, reflecting the mood of the people in an election year, is clearly ambivalent on relations with the developing countries and on participation in international institutions designed to help them.

**A Turning Point in North-South Economic Relations and OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980*, The Triangle Papers, No. 3 (1974) and No. 7 (1975). Richard N. Gardner was North American rapporteur of the task force. The European and Japanese rapporteurs were B. J. Udink, former Dutch Minister for Aid to Developing Countries, and Saburo Okita, President of the Overseas Economic Cooperation Fund.

Looking Forward



**P. NYBOE
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The Need for a Constructive Trilateral Strategy

In 1974, the General Assembly of the United Nations, in a special session, accepted the Declaration and Programme of Action for a New International Economic Order. Last year another special session agreed on a comprehensive resolution on the implementation of this New Order through action in the appropriate international agencies and organizations, such as UNCTAD, GATT, IMF, FAO, etc.

In both cases the decision was taken by consensus, though several of the Trilateral countries, in explanations of their votes, added important reservations. Confrontation between the industrialized and the developing worlds was avoided.

Or was it only postponed? This is the question before us now. After years of resolutions and declarations the time has come to deliver. One can hardly imagine another consensus being established at UNCTAD IV or in the

North-South dialogue without operational results that go at least part of the way toward fulfilling some of the promises made in the UN special assemblies.

In spite of great internal differences and tensions, the group of more than one hundred developing countries has agreed on a common approach to the negotiations. The answer to that approach cannot be given by industrial countries individually. In order that a global agreement can be reached, the Trilateral countries must agree on common positions. While no single country in this group could force the others to take a constructive attitude, it may be possible for one or a few strong countries to impose a negative or purely defensive attitude on the group as a whole.

The Trilateral countries, in my opinion, should resist the temptation to follow a purely defensive strategy during the negotiations. First, such a strategy would increase the risk of a confrontation that would force them in the end to accept less rational and coherent solutions than might have been the result of showing a more constructive attitude from the beginning. Secondly, an agreement should not consist of concessions from the industrialized countries only. It is important, for example, that the developing world should accept some rules of good conduct in relation to international investments. This, however, is only conceivable in a climate of constructive negotiations.

The need for agreement between rich and poor countries places a heavy responsibility on the Trilateral world. This is not all, however. Our responsibility for world welfare also includes the question of maintaining employment and economic growth in our own countries. A prolonged recession presents a serious threat to the possibilities of growth in the developing world. In order to shorten the recession, we need more efficient cooperation in the field of economic policy within the Trilateral world. We need it particularly badly within the EEC. We need it for our own sake, but also for the benefit of those countries whose necessary export earnings depend on our purchasing power.

Mr. Kissinger told the developing countries in September: "We have heard your voices. We embrace your hopes. We will join your efforts. We commit ourselves to our common success." Yet a few weeks later U.S. Ambassador to the United Nations Daniel P. Moynihan was saying that the developing countries were "enemies of freedom" united by the conviction "that their success ultimately depends on our failure." By the end of his tenure as UN Ambassador, he was warning that these countries "want to kill us, and they assume we want to kill them."

The next few years will determine whether the devel-

oped and developing nations will be able to fashion a new economic order based on common interest or whether the world will slip gradually into deeper economic crisis and international class conflict. The answer will depend on the quality of leadership on both sides of the great economic divide — specifically, on the ability of key elites to take a larger view of the national interest and to substitute creative statesmanship for political showmanship. The Trilateral Commission, perhaps more than any other private group, can play an influential role in determining the outcome. ■

World Trade Issues Revisited

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In mid-1974, Prince Guido Colonna, Ambassador Nobuhiko Ushiba and I termed the then pending multi-lateral trade negotiation "the most hopeful prospect on the international economic horizon."^{*}

Now almost two years later, the prospect remains, hopeful but still on the horizon. The original (and improbable) 1975 deadline for concluding the negotiation has been reset for 1977. Formal discussions are under way in the panoply of committees needed for what promises to be a negotiation of unprecedented breadth and complexity. Most of the issues have been identified. But the actual bargaining down of trade barriers has not begun and there is no great likelihood that it will until, at the earliest, after the American elections in November.

The delay is not in itself cause for dismay. It was not until January 1975 that the United States Congress gave the President the customary mandate to negotiate. Even if this had not come in the midst of the worst postwar recession, the problems of organizing a 90-nation negotiation would anyway have put out of question a conclusion in 1975. And 1976 is an election year — for Japan and West Germany as well as the United States — so that an end-of-1977 goal is no more than a recognition of the practicalities. If the goal is reached, the time used, dating it from the Tokyo Declaration of September 1973, will have been shorter by some nine months than was the case for the Kennedy Round (1962-1967).

Moreover, the commitment of the principal trading nations to a positive outcome will be very difficult to abandon. The repeated statements of firm intent and resolve — most recently by heads of government at Rambouillet — and the momentum of the talks themselves will tend to assure against any breakdown. Then too, there will be pressures from the less developed countries, whose interests are heavily emphasized, indeed probably overemphasized, in the basic charter of the negotiations, the Tokyo Declaration. The LDCs can be expected to resist bitterly any failure to meet their claims to greater trade opportunities, and the industrial country participants will not be unaffected by this.

As we foresaw in 1974, the immediate and sticky questions are basically for the industrial countries to solve.

One is the nature of the tariff cutting formula to be applied. The European Community, unsurprisingly, has proposed a method of "harmonizing" or levelling tariff

rates. It would cut most deeply into the more numerous high rates in American (and Canadian and to some extent Japanese) tariff schedules, while reducing the Community's closely grouped rates less sharply. The United States presumably will offer an across-the-board or linear percentage cut, applicable to virtually all rates. Japan has suggested an in-between approach, which seeks to combine the linear and harmonization principles. Since a compromise solution must be found, it is possible that Japan will be the one to provide it.

More discouraging has been the agricultural trade impasse. At issue, in the first instance, has been procedure. Should matters affecting agricultural trade be considered solely in the Agricultural Group (committee), as the Community says? Or, as the United States argues, should the reduction of trade barriers for agriculture proceed in conjunction with negotiations on industrial products? Underlying the procedural squabble, of course, is substance. The EC is unwilling to trade off agricultural for industrial concessions, whereas the United States sees such tradeoffs as necessary if agricultural trade is to benefit.

In our Trilateral report we came down on the Community side of the procedural argument. We felt that the record showed that a substantially self-contained agricultural negotiation offered the only hope of success. And we thought that the experience of high food prices in world markets and the demonstrated vulnerability of agricultural supplies might make forward motion possible. Our specific suggestion was to combine commitments to better market access with understandings on a system of jointly held reserve stocks, primarily of grains — in effect, giving the efficient suppliers greater export opportunities while assuring importing countries of security of supply.

Unfortunately, these ideas have not been brought together. Instead the reserve stock discussions have been held in London in the International Wheat Council, while market access has been taken up, so far in a strictly nominal sense, in the main Geneva forum, the GATT. As a venue, the Wheat Council had the virtue of including the Soviet Union, which is not a GATT member but is a major element in trade in grains. But the U.S.-Soviet grain deal of last fall likely has erased any Moscow interest in a wider security of supply arrangement and it now appears quite doubtful that the London talks will go anywhere. At the moment, all in all, the outlook for a meaningful agricultural trade settlement is no better than fair.

Virtually everything else has been put up for bargaining or action — favorable treatment for LDC exports, non-tariff barriers, export controls, special sectoral ar-

^{*}*Directions for World Trade in the Nineteen-Seventies*, The Triangle Papers, No. 4 (1974). Nobuhiko Ushiba was Ambassador of Japan to the United States. Guido Colonna di Paliano was a Member of the Commission of the European Communities.

Looking Forward



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Two important differences in outlook between the United States and the European Community must be recognized and dealt with if the trilateral nations are to establish in common a new basis for economic relations between industrialized and developing countries.

The United States' approach to the expansion of trade between the developed and the developing worlds, reflecting our views about the most effective ways of encouraging trade in general, has in the post-war period been grounded in two basic principles reflecting our British heritage of economic liberalism: trade expansion efforts should be global and nondiscriminatory in approach (as between one foreign supplier and another or, in this case, as between one developing-country supplier and another) and should be focused on the reduction of governmental barriers to free-market international transactions. The first principle is enshrined in the most-favored-nation (MFN) clause of the GATT, which provides that any trade concession accorded to one member country by another must simultaneously be extended to all other member countries as well. The second is reflected in the fact that all multilateral trade negotiations since World War II have concentrated on the gradual and reciprocal reduction of governmental barriers to exports and imports.

The EEC, on the other hand, tends to take a regional rather than a global approach to the question of trade expansion, focused on the establishment of a network of spe-

cial trade relationships with an expanding group of developing nations in Africa, the Caribbean and the Pacific (the so-called ACP countries) through such instrumentalities as the Lomé Convention of 1975. Furthermore, in contrast to the market-oriented American approach to trade expansion, the EEC has tended to stress the importance of positive intergovernmental agreements regarding the planned expansion of trade between its member countries and the developing nations.

There is no question that the growing importance of non-tariff barriers, and the new challenges arising from national policies affecting both supply and demand in agriculture, raw materials and energy, threaten to make the simple reciprocal trade-liberalization measures which lie at the heart of the American approach less and less effective in the future. And regionalism is clearly a growing force in the international trading system; indeed, efforts among developing nations to form their own preferential trade groupings have proliferated in recent years.

But if the traditional American approach to trade policy requires modification and modernization in the light of recent developments, so does the rival approach. The EEC countries have recently run into some unexpected difficulties in their progress toward further regional integration. One of their initial achievements, the Common Agricultural Policy, has clearly cost their consumers dearly in higher food prices, and restrictive agricultural policies are becoming intolerable in a world of global shortages. International commodity agreements which attempt to thwart market forces have worked badly in the past. And the initial scramble among the oil-consuming countries to work out individual special relationships with one or more OPEC countries made most participants welcome Secretary Kissinger's efforts to forge some common approach. In trade policy, as elsewhere, nondiscrimination is not a principle to be lightly yielded, and globalism remains the ultimate ideal. Some rational synthesis of the American and the EEC views is essential if these countries, along with Japan, are to establish a fruitful common framework for mutually beneficial economic relationships among developed and developing nations.

rangements, safeguards against over-large imports, dispute settlement procedures, trade-related taxation practices, even a code designed to eliminate bribes from international trade. It would be a small miracle if this entire agenda could be completed by December 1977. Most probably, a number of items will carry over into subsequent years. To extend the trading rules on the scale envisioned would be historically an extraordinarily long leap ahead in international economic cooperation, comparable to the original agreement on the GATT.

Much of the substance of the negotiation will be dry-as-

dust stuff, intelligible mainly to specialists. It is very hard to make exciting or, for non-experts, even readable an international code on industrial standards. But the trade negotiation process goes to the heart of the modern problem: how in a world of sovereign states to make interdependence a more tolerable and workable situation. The current round may end with a more restrained success than might be hoped. But the new commitments that will be undertaken will add to the slowly growing structure of rule and law that the world must have to support the hope for common progress and prosperity. ■

Energy: A Strategy Takes Shape — But Slowly

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In 1974, two reports presented to the Trilateral Commission proposed that the developed industrial countries go forward with a long-term joint strategy for the efficient use and rational development of energy (meeting its high cost as may be necessary), cooperating among themselves and seeking common and reciprocal interests with the oil-producing countries.* Those reports were written when the consuming countries were shaken — some would say reeling — from the economic and psychological effects of the “oil revolution” of the fall of 1973, the use of the oil weapon by the Arab states and the quadrupling of oil prices by OPEC. The vulnerability of the industrial economies was starkly revealed. Unfortunately, there had been insufficient impetus to reach common energy policies, even among the members of the European Community, before the crisis struck. After it, the clear danger was that the consuming countries would react, in anger or in panic, by strictly national and competitive policies or by attempts to coerce or to make discriminatory deals with oil-producing countries. In general, while each consuming country felt the need to work out policies of its own, their basic approach, following the conference held in Washington in February 1974, was to harmonize those policies and to make common efforts toward common aims. But the record is a mixed one.

Europe. The European Community still has a series of national energy policies rather than a single market or system. Yet that fact should not obscure the definite successes that have been scored over the past two years both in specific action by member states and in joint planning for the future. All the member states show reductions of energy consumption and of oil imports; economic recession and mild weather provide part of the explanation, but some of the credit goes to conservation, either by private decision or public policy. The European countries have also begun to revive their declining production of coal, which will be increasingly available as a substitute for oil. Development of nuclear power, as elsewhere, has been disappointingly slow. On the planning front, the EC Commission has proposed a 10-year plan that would reduce to 40 per cent the share of imported oil in Europe's total energy consumption (the same figure proposed in the reports to the Trilateral Commission); it envisages a major expansion of energy supply within Europe itself, mainly in nuclear power and natural gas, and of course there is North Sea oil, which could reach an output of 6 million

barrels per day by 1985. These ambitious goals are still just proposals, not governmental or international commitments, and politics still beclouds the question of North Sea oil, but the resolve to reduce dependence on imported oil is manifest and the results already significant.

Japan. The Japanese effort has the handicap of a more vulnerable position to start from (Japan cannot hope to do more in 10 years than reduce marginally its heavy dependence on Middle East oil), but also the advantage of having to find a policy for one rather than nine countries. With strong incentives for effective action, Japan has proceeded along lines that are now fairly clear: strict conservation, stockpiling, diversification of oil supplies (South America, Southeast Asia, China, and possibly the U.S.S.R.), and expansion of nuclear power. Imports of crude declined in 1974 and again in 1975, but of course this has been a period in which economic growth ground to a halt. Meanwhile, each OPEC price rise strikes a body blow to the Japanese economy, and that situation will remain beyond Japan's capacity to change.

North America. The United States and Canada have been under less pressure and also have less reason for self-congratulation than Europe and Japan. Neither country has been able to arrest the decline of its domestic oil production, and Canada has felt forced to cut down its oil and gas exports to the United States in order to meet its own needs. Alaska's oil is still unavailable, and only a hesitant and sputtering start has been made on the development of new sources of oil from offshore drilling and from oil shale and tar sands. In the United States, the goal of President Nixon's original Project Independence, self-sufficiency in energy by 1980, has been replaced by the more modest aim of reducing oil imports to 5 million barrels per day by 1985. But even that, in a growing economy, will not be easy, especially in the absence of consensus among the Administration, the Congress and the public. Some constructive measures on conservation, storage, research and development have been taken, but oil imports continue to rise (over 40 per cent of oil consumption by early 1976), with an ever greater share from the Middle East. The energy bill finally passed in December 1975 fell woefully short of a sound long-term policy.

Common Action. On the front of international action the consuming countries have moved with exemplary dispatch in setting up the International Energy Agency, establishing an emergency sharing system, agreeing on a financial “safety net” to provide insurance to countries thrown into balance-of-payments troubles by the high price of oil, and also on a floor price for oil so as to protect long-term investment in the development of other sources of energy. They are still a long way from a comprehensive

**Energy: The Imperative for a Trilateral Approach* and *Energy: A Strategy for International Action*, The Triangle Papers, No. 5 (June 1974) and No. 6 (December 1974). The European and Japanese rapporteurs were Guy de Carmoy, Professor at the European Institute of Business Administration in Fontainebleau, and Shinichi Kondo, former Ambassador of Japan to Canada.

Looking Forward



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The Seventh Special Session of the U.N. General Assembly was a remarkable step in global conference diplomacy, opening up new lines of communication and laying a base for North-South bargaining. The Conference on International Economic Cooperation (CIEC) can be seen as a kind of working group for the global community. While oil power has forced the North to take the South seriously, it is nevertheless debatable whether serious discussion has begun.

The two sides have not yet learned to understand each other's vocabulary, ideological assumptions, and perspectives. Such understanding merits more serious study in the industrialized countries, extending not only to the ideology and vocabulary of the developing world but to our own as well. If some Third World proposals have been couched in terms which are irreconcilable with the realities of the international economy, some of the nostalgic dogmatism of Western responses is similarly farfetched. A mixed international economy exists, and a recognition of this fact with a stated readiness to work within it by Trilateral

countries could allow them to regain some initiative in negotiating a new order.

The Trilateral world may fail to see its own economic interest in much of the structural change being proposed by the developing world. Stabilized and remunerative commodity prices; freer access for efficiently-produced manufactured goods from developing countries; a more uniform and predictable approach to relationships between transnational corporations and national governments; a rationalization of the flow of aid resources; and some relief for the impossible debt situation of some of the developing countries — all of these would have to be reckoned as opportunities for global benefits, if they are constructively and carefully negotiated.

Rearguard resistance along a whole front of symbolic as well as substantive issues in international economics holds no future for the developed market economies. The rising tide of economic grievance, real and fancied, against the North is already dangerously linked with the political battle lines in the Middle East situation. Past failures to move constructively on economic issues have further undercut the limited Western credibility for useful initiative in Southern Africa. Continuation of the economic standoff could result in similar Western disqualification on other political issues.

Not unrelated to these linkages between economic and political issues is the problem of finding acceptable and effective arenas for negotiation and action on broad economic problems. The need to set up a new channel for detailed negotiation, evidenced last year in the CIEC, underlines the problem. Yet the work of the CIEC must be endorsed by the United Nations if it is to have effect, and there are solid reasons for working hard to build future working group arrangements of this kind right into a reformed U.N. system.

common policy to develop new sources for the entire Trilateral world. The "constant escalation of cost and development time estimates," to use U.S. Energy Administrator Frank Zarb's phrase, makes it more and more difficult, aside from differences in political and economic interests.

The other main aspect of international action, finding a sound basis for dealing with OPEC and with the whole range of questions brought to the fore by the "oil revolution" and the demands for a new international economic order, has been even more challenging. These issues go well beyond the scope of a brief article on what has happened in the field of energy. Suffice it to note that the consuming countries got through a difficult period when they might have torn apart their own solidarity by individual action, and despite the continuance of high oil prices they have eschewed confrontation with OPEC and

gradually reached the point of constructive multilateral negotiation, now in progress in Paris.

There is a long way to go. Consumer solidarity, a determination to reduce energy dependence, and willingness to find a basis for cooperation with producers are all necessary and complementary policies. Our governments sometimes seem to forget that no one of these approaches is sufficient by itself. Stagnation in domestic policy on energy in any one country or region, especially the United States, is bound to reflect adversely on its international role and on the energy prospects of the entire Trilateral area. Moreover, the absence of an agreed and firmly based Trilateral strategy makes it very difficult to fend off the twin evils of complacency and nationalism, which tend to appear and reappear, especially as the sense of crisis fades from the public mind. ■

The Governability of Democracy One Year Later

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Deviating from the format employed in other Commission reports, the Task Force on the Governability of Democracy did not confine itself to composing a short, jointly authored set of policy recommendations which could command widespread support among Commission members and in the Trilateral countries. Instead, we were asked by Director Brzezinski to analyze in as much depth as we could the problems confronting democratic government in industrialized societies and not to hesitate to develop our own arguments and viewpoints. And we followed his injunction. Our first meeting in Palo Alto in April 1974 established the fact that the three Task Force members shared a broad common perspective as to the nature of these problems and the directions in which movement was necessary in order to alleviate them. These perspectives are reflected in the jointly authored Introduction and Conclusion to our report and in the supplementary memorandum on "Arenas for Action." In addition, however, each of us wrote a lengthy paper analyzing the problems of democracy in his particular region and advancing his interpretation of how to deal with them. As a result of these factors, *The Governability of Democracy* is the longest, the most analytical, the most political, the most widely discussed, and the most controversial Trilateral Commission report.*

The debate on the report at the Kyoto meeting** was, according to informed observers, the most lively in the Commission's history — clearly an appropriate reception for a report on the problems of democratic government. Several Commissioners criticized some theses advanced in the report, particularly with respect to the United States and Japan, while others expressed supporting views. The declining authority of central governmental institutions and the role of the press were major foci of discussion. After the Kyoto meeting the report and its message were widely disseminated in a variety of ways. Portions were re-

produced in the *Wall Street Journal* and elsewhere; the chapter on the United States appeared in abbreviated form as the lead essay in the bicentennial issue of *The Public Interest*; the New York University Press published the report and related materials in book form under the title *The Crisis of Democracy*; Crozier and Huntington discussed the issue, "Is Democracy Dying?," in *U.S. News and World Report*. In one or another of its manifestations, the report was the subject of columns, editorials, and reviews in *Time*, *Newsweek*, *New York Times* (several times), *Wall Street Journal*, *The Economist*, *The Nation* (twice), *New York Magazine*, *The New York Review of Books*, the *Boston Globe*, *New Times* (to mention only English language publications).

In my remarks introducing the report at the Kyoto meeting, I pointed out that social and political thinkers have elaborated both optimistic and pessimistic scenarios in connection with the operation of democracy. According to the optimistic scenario, the openness and pluralism of democracy allow for constant adaptation to changing circumstances and hence insure the long-term stability of the system. According to the pessimistic scenario, openness and pluralism lead to constantly increasing demands on government, the overloading of the system, and eventual polarization and breakdown. Our report pointed to potential dangers from the operation of the pessimistic scenario and suggested a variety of specific measures which could be taken to make democratic government function more effectively. Above all, the report stressed the need for balance, moderation, and restraint on the part of leaders, groups, and the public in democratic societies.

During the past year, there have been at least a few indications of intellectual and political movement in the directions recommended by the report, particularly in lowering public expectations of what governments can achieve. In 1975, as Peter Jenkins has observed, Britain began a "rapprochement with reality." In Germany, Commissioner Theo Sommer argues, "a new reasonableness" appeared, with "a marked decline of both political expectations and political promises." In the United States, the trend of opinion was well summed up in Commissioner Henry Owen's resurrection of Andrew Jackson's phrase, "elevate them guns a little lower." Under President Ford, the stature of the Presidency began to be restored. Fiscal conservatism became respectable in the ranks of the Democratic Party in the administrations of Governors Brown

*Michel Crozier, Samuel P. Huntington, Joji Watanuki, *The Crisis of Democracy, Report on the Governability of Democracies to the Trilateral Commission* (New York: New York University Press, 1975). Crozier is the founder and director of the Centre de Sociologie des Organisations in Paris. Watanuki is Professor of Sociology at Sophia University in Tokyo.

**A summary of the debate is presented in the appendices of the published report, along with the remarks by Ralf Dahrendorf which opened the discussion. The debate took place at plenary meetings of the Trilateral Commission in Kyoto in May 1975.

and Dukakis in California and Massachusetts and at the national level in the presidential candidacy of Commissioner Jimmy Carter. Some small steps were taken, largely by the judiciary, toward curtailing irresponsible behavior by the press. The Commission's report, obviously, was not responsible for any of these developments, but its dissemination and discussion may have helped to create a more favorable environment for some of them.

A year after completion of the report, it seems to me that three themes with which it deals are particularly deserving of renewed emphasis.

First, the report suggested that "democracy works best—indeed, that it may only work—when there is a gradual but relatively constant increase in the economic well-being of society." In his thoughtful discussion of the report at Kyoto, Ralf Dahrendorf pointed to the crucial significance of this proposition and suggested that much more detailed analysis was required of the relations between democracy and economic growth. He could not be more apposite in his recommendation, and it would indeed be ironic — and tragic — if the gradual recovery of the industrialized world from its recent recession should diminish concern about the economic underpinnings required for its democratic politics.

Second, the report highlighted for all three regions — but particularly for Europe and the United States — the relation between the operation of democratic political processes and the expansion of the public sector. This is, in many respects, a process which grows on itself, as public sector agencies and bureaucrats become the principal proponents of new governmental programs and activities. In a variety of cases in the past year, units of government at every level have faced financial crises, and the depressing fact is that it is precisely those governments, as in the United Kingdom, the Commonwealth of Massachusetts, and the City of New York, which follow very humane and liberal policies with respect to their citizens, which also skirt closest to financial disaster. The problem of how to balance revenue and expenditures, and/or how to deal with the economic and political consequences of a sustained imbalance of revenues and expenditures, is one which democratic governments have yet to solve.

Third, there is the need, stressed vigorously in the report, for those concerned with the effectiveness of democracy to learn more from the functioning of each other's politics. Each country's political system is, of course, unique, but the problems are common problems, and in politics, as in economics, there is much to be gained from the comparative analysis of the experience of a number of societies. The roles of legislatures; the structure and functioning of political parties; the regulation of campaign finance; collective bargaining procedures; the mutual rights and responsibilities of the media and government: all these are topics which could be usefully explored on a

trilateral basis and the study of which could produce relevant suggestions and guidelines for policy in strengthening democracy in our societies.

The relation between economic growth and democracy; the impact of democratic processes on the fiscal stability of government; the cooperative analysis of common problems in the functioning of democracy — these then are three areas which the Trilateral Commission could well single out for priority in what should be the follow-up to its initial investigation of the governability of democracy.

Most important of all is the need to maintain a commitment to constructive action to improve the functioning of democratic processes. Our report decisively rejected the undiluted pessimism that nothing can save democracy. It provided practical suggestions of what could and should be done in the eight "arenas for action" we identified. It was concerned, as its title suggests, with the "governability" of democracy and how to improve that governability and not with futile lamentations about the "ungovernability" of democracy. While it is thus important to avoid despair over democracy, it is also equally important to avoid the other extreme. Theo Sommer's comments about "the self-correcting, self-stabilizing forces" which constitute the "fantastic resilience" of democracy, for instance, not only reflect a premature announcement of the termination of the current period of crisis for democracy. They also, and much more seriously, reflect a fundamental misunderstanding and a Micawberish complacency about how democracy works. The proponents of despair say that democracy's problems cannot be solved; Mr. Sommer suggests they will solve themselves. Both end up together in a do-nothing position which contrasts dramatically with the positive recommendations of our report.

No "invisible hand" is going to insure the viability of democratic politics anymore than it insures the prosperity of market economies. The successful operation of democratic government requires study, effort, application. The optimistic scenario about democracy is clearly right in that a democratic system provides opportunities for the correction of its own defects. The pessimistic scenario is right in that there is no necessity that those opportunities will be exercised. And the sober truth is that, contrary to any assumption of automatic self-correction, major improvements in the operations of democratic government in the Trilateral societies will not happen unless their leaders and publics are determined to make them happen. The Commission's report called attention to defects and problems of democracy today; it tabled some proposals—and there are other good ones it did not mention—as to how these problems could be dealt with; the need now is for concerted action to insure that democratic government in the Trilateral societies is at least as vigorous during the next quarter-century as it has been during the last. ■

Looking Forward



**TAKESHI
WATANABE**

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Japan and ASEAN

The five member states of the Association of Southeast Asian Nations (ASEAN) — Malaysia, the Philippines, Indonesia, Singapore and Thailand — held their first collective “summit meeting” earlier this year on the island of Bali, Indonesia. These countries are geographically close; politically, they are all non-communist; economically, all developing nations. Although they differ from each other in their cultural backgrounds and in their stages of economic development, there is no denying that they are facing common problems.

The emergence of new communist states in Indochina presents the five ASEAN members with a different political environment. Concurrently, the influence of the United States is steadily declining, while the Soviet Union and China are gaining power in the region. The Sino-Soviet split is casting delicately a political threat to the region. The mandate of the ASEAN countries is to adapt to this new environment and seek economic progress without losing their political independence and autonomy.

If these five countries were to achieve economic integration and act as a single economy, ASEAN would undoubtedly gain considerable power and influence in the future. It is no wonder that some legitimately advocate creation of an ASEAN Free Trade Zone as the first step toward such integration. However, the four countries other than Singapore are predominantly agricultural. They are exporters of primary products and importers of consumer goods from the advanced parts of the world. Their efforts in industrialization have brought some success but not enough to enable them to trade manufactured products among themselves on a large scale. ASEAN seems to have a long way to go before achieving economic integration. Nonetheless, there is no reason for Japan to be opposed to such ASEAN efforts toward economic integration. It is highly desirable that the ASEAN countries establish closer ties, political and economic.

More specifically, what kinds of attitudes or postures should Japan assume in her relations with these countries?

First, it is important for the Japanese to respect the political position each of these countries is in, and to refrain absolutely from any actions that would suggest any interference in their domestic affairs. Development cooperation should be extended only when Japan is called for in the process of their self-reliant efforts. In no way should we impose our “good will” or meddle with their own efforts.

Second, Japan should make every effort to readily respond to their requests for cooperation once made, and offer technology and capital that are needed for economic development of the ASEAN nations. In addition to the existing mechanisms for supplying capital through bilateral arrangements or through international institutions, like the Asian Development Bank, Japan might consider making Japanese yen available for foreign loans in the Japanese market. Private investment should also play its part, but it is difficult to involve the private sector during the current recession, and private investment will necessarily depend on political stability in the ASEAN nations. It is reported that the Japanese government plans to approve issuance of foreign loans in yen on the Japanese market. Such facilities should be extended to ASEAN countries. The capital required by ASEAN countries is so massive that Japan alone would not be able to handle it. Japan should thus simultaneously cooperate in mobilizing capital from other advanced nations.

Third, Japan should increase contacts and cultural exchange to promote mutual understanding between Japan and the ASEAN countries. The Japanese know too little of the countries in Asia. If we have interest and concern in Asia, these countries would in turn feel closer to the Japanese, and substantive communication may be achieved.

Fourth, Japan should make efforts to insure the smoothest possible exchange of goods and funds between Japan and the ASEAN countries. A particular problem relating to Japan is that it offers generous tariff treatment to imports of primary products, whereas higher tariff rates are imposed as the level of processing of imported goods goes up. This policy has been adopted under the pretext of protecting domestic industry. So long as Japan sticks with such a policy, however, industrialization of the developing countries will be retarded. It is an inconsistent policy on the part of Japan to assist the developing countries in development and industrialization, while not accepting the results. It is logical that as the industrial structure of developing countries changes in the process of development, that of advanced countries would be altered as well.

Fifth, since the economic structures of Japan and the ASEAN countries are mutually complementary in nature, closer economic ties are in the interest of both parties. However, they should not form an exclusive economic bloc. Japan should seek economic relationships with the ASEAN countries on an equal basis with other advanced countries. Japan should not ask for more, and does not need more.