

# Dialogue

## IS REFORM AN ILLUSION?

### A Trilateral Perspective on International Problems

by CHRISTOPHER J. MAKINS

The Trilateral Commission entered its third year shortly after the Kyoto meeting in May.<sup>1</sup> The Commission's second birthday coincided with increasing public awareness of its activities and reports. The Kyoto meeting attracted extensive coverage both in the Japanese press and in North America. And, in a different vein, the Commission's work has increasingly become the subject of more sustained academic critiques. For example, Professor Geoffrey Barraclough, writing in *The New York Review of Books*, has produced a lengthy examination of the Commission which he sees as one of the most prominent and "vociferous" front organizations of the liberal establishment. In Professor Barraclough's view these organizations, like the U.S. Administration to which he attributes a more conservative and defensive approach, are advocating international policies which are seriously flawed because they fail to take due account of the new realities of international power.

In a somewhat similar way, Professor Richard Falk, in the *Yale Law Journal*, interprets the Commission's ideas as reflecting the transnational ideology of the multinational corporation. This ideology, as described by Professor Falk, seeks to subordinate territorial policies to non-territorial economic goals just as the Pope in his encyclical *Unam Sanctam* in 1302 sought to place the spiritual sword of the Church above the secular sword of kings. The Commission, he alleges, is seeking a formula which will preserve intact the concentration of wealth in the hands of the capitalist sector of the developed world. This approach, in Professor Falk's view, is that of predators and is a creature of economic inequality. But because, he believes, it is a credible strategy of transition through the current international economic disorders, it must be actively opposed by those sympathetic to his preferred, if indistinct, vision of a world order based on "global populism."

These academic critiques of the Commission deserve attention if only because of their authors' apparent unwill-

ingness to accept a gradualist or reformist approach to building a new and more equitable international system. Such critiques imply that the only two options for the developed world are essentially a more or less enlightened defense of the existing, "predatory," world order and the acceptance of what would in effect be a revolutionary, though possibly peaceful, transformation of the current structure of international relations. Paradoxically, the apparent conclusion of Professors Barraclough and Falk that there is no acceptable middle way of reform between these two extremes threatens a global confrontation scarcely less acute than that which they accuse Dr. Kissinger of seeking to provoke.

Is the reformist approach, the middle way between the rock of conservatism and the whirlpool of revolution, an illusion as such critics assert? The question is not easy to answer dogmatically. Among other things the middle ground on which any reformist path would be found tends to be occupied by a number of conservative and revolutionary wolves clad in the clothing of reformist sheep. This is how Professor Barraclough judges Dr. Kissinger. After arguing persuasively that the initial response of the U.S. and other governments to OPEC's decision to raise the oil price in 1973 was profoundly defensive and conservative, he contends that the changes in Dr. Kissinger's ideas announced since then have not affected this basic approach. (Perhaps unfortunately for Professor Barraclough, he launched his article before Dr. Kissinger's recent major statement to the 7th Special Session of the UN General Assembly.) Likewise Professor Falk, who at times loudly proclaims the relevance of a peaceful revolution in political priorities whose social and economic implications could hardly be other than far-reaching, can also declare his goals to be reformist.

#### *The Advantages of Gradualism*

Difficult though it may be to distinguish the sheep from the wolves, the question whether a viable reformist approach exists is important and cannot be shirked. Its importance lies, first, in the fact that the achievement of

<sup>1</sup>A full account of the Kyoto meeting was given in Dialogue No. 7.

the economic growth without which the present demands of the developing world could not possibly be met<sup>2</sup> will require international conditions conducive to growth and to the investment which would be necessary to achieve it. It is arguable, to say the least, whether the kind of profound economic, social and political changes postulated by the more "revolutionary" thinkers about international relations, based as they are for the most part on comparatively rapid and substantial global redistribution of wealth, are compatible with the maintenance of such conditions.<sup>3</sup> Too extreme measures could have a self-defeating effect by threatening to throttle the goose which can lay the golden eggs of growth. Happily, any suggestion that the developing world's gain must necessarily be the developed world's loss is belied by the experience of those countries, not only in the trilateral world, which have experienced rapid economic growth since World War II. Recent history clearly suggests that expansion of the global economic pie rather than the redistribution of a pie of unchanged size is the most hopeful means of improving the relative economic position of the poorer nations.

The costs and benefits of any policies for reforming the existing international system must be weighed in social and political as well as in strictly economic terms. As has been amply described in the report to the Trilateral Commission on the Governability of Democracies by Michel Crozier, Samuel P. Huntington and Joji Watanuki, recent developments within, and between, the countries of the trilateral world have undermined the capacity of governments to handle the problems they face and have tended to generate a parochial approach to international affairs. However unreasonable it may seem to some, frustrated expectations of further improvements in living standards could stimulate still more defensive and protectionist attitudes in the developed world towards global economic cooperation and, in particular, towards efforts at diminishing international economic inequality. What may, against the long sweep of history, seem like modest proposals for resource transfers (say the 1% of the GNP of the rich nations a year frequently alluded to), take on a wholly different short-term political significance in cur-

<sup>2</sup>According to a World Bank report recently quoted in *The Economist*, even an average growth rate of 3.5% in the OECD countries for the remainder of the 1970s (a figure which was below the Bank's medium projection, but which in present circumstances seems a fairly challenging rate) would correspond to a 3.8% average growth rate in non-oil-producing developing countries, assuming no significant fall in oil prices in real terms. But this would only yield about a 1% average annual increase in the LDCs' Gross Domestic Product per capita.

<sup>3</sup>Writing in the March 1975 edition of *Commentary*, Daniel P. Moynihan took this argument even further. Moynihan quoted the economist Sir Arthur Lewis in support of the view that economic growth is bound by its own laws and "is not an egalitarian process. It is bound to be more vigorous in some . . . geographical regions than in others and even to cause some impoverishment."

rent conditions. It is thus all the more unfortunate, though it is no coincidence, that the present period of general recession in the advanced industrial economies should be the time at which the need for more generous and imaginative policies for development has become so obvious and acute.

Social and political problems also attend the introduction by developing countries of policies in such areas as land reform, urbanization and population control which in most cases would be essential concomitants of successful economic development. These problems would be difficult enough in themselves. But there is the additional risk that advocacy by others of some of the more hopeful social and economic policies for achieving growth and a more equal internal distribution of wealth in the developing world may be construed as unjustified attempts at external interference in the domestic affairs of developing countries.

Taken together, these dangers could all too easily result in persistent and pernicious misunderstanding and friction in international discussions and so compromise the policy goals of both the developing and the developed world. To



**CHRISTOPHER MAKINS  
NAMED TRILATERAL  
DEPUTY DIRECTOR**

In mid-August, Christopher Makins became Deputy Director of the Trilateral Commission. Zbigniew Brzezinski continues as Director, though on a part-time basis as he has resumed his professorship at Columbia University.

Mr. Makins resigned as First Secretary of the British Embassy in Washington, where he had been since 1971, to assume the Commission post. Born in 1942, he was educated at New College, Oxford and was elected a Fellow of All Souls College, Oxford in 1963, a position he still holds. He joined Her Majesty's Diplomatic Service in 1964 and served in the British Embassy in Paris (1965-8) and in the East European and Soviet Department and subsequently in the Near Eastern Department of the Foreign and Commonwealth Office in London (1968-70). Makins is fluent in French and has over the years specialized in political-military affairs and in international cooperation in science and technology, in addition to the above-mentioned regional matters. He will be based in the Commission offices in New York City.

point to these problems does not imply recoiling in the face of them. The international community and many countries of the trilateral world and beyond have successfully adapted to explosive rates of growth since World War II, despite the formidable social and economic transformations which have been involved. Admittedly, as the authors of the *Governability of Democracies* report pointed out, this very success has in many cases left a legacy of internal problems which give cause for anxiety, though their message was not one of despair.<sup>4</sup> The need, therefore, is to find a strategy for improving international economic relations and tackling the problems of chronic poverty and hunger which will not exceed the tolerances of the system, while nonetheless setting goals compatible with the reasonable expectations of nations at all levels of development.

### ***From Words To Action***

If such an outcome is to be achieved, however, the countries of the developed world will have to make more than rhetorical commitments to promoting a more equitable world economy in the years ahead, not least because in the past rhetoric has all too often been a mask for inaction. Dr. Kissinger's speech to the 7th Special Session of the UN General Assembly set the seal on the growing recognition that, whatever may have been its successes, the development strategy of the 1950s and 1960s has failed as an approach to the alleviation of poverty and the reduction of inequality between the developed and the developing worlds. But that recognition has yet to be followed by the evolution of a new and more sophisticated program based explicitly on the reduction of disparities of wealth within the global community and consequently on the devotion to development of a disproportionate share of the fruits of future economic growth. The resolutions unanimously adopted by the 7th Special Session represent a first step in that direction. But not much more than a first step. While there is every reason to welcome the rhetorical détente and the more open-minded debate on all sides which characterized the Special Session, the agreed resolutions still have more the mark of an agenda for discussion than a program for action. Many of the most contentious issues are either still unresolved or, like the question of the indexation of commodity prices and the proposal for a strategy for industrialization, are to be the object of further study. On many of these issues the United States explicitly, and doubtless other developed countries implicitly, reaffirmed substantial reservations about the approach advocated by the developing countries. If therefore the Group of 77 decided on this occasion to

<sup>4</sup>Some commentators on the report have tended to the view that the authors were too pessimistic. *The Boston Sunday Globe*, for example, calmly stated that democracies must be expected to have their rough times, while *The Wall Street Journal* interpreted the appearance of the report as a sign that the Eastern Establishment in the United States was starting to pull itself together after the traumas of Vietnam and Watergate.

adopt a more accommodating tone in response to signs of movement on the part of the developed world (notably by the U.S. as suggested in Dr. Kissinger's speech), means have yet to be found to bridge the gap between words and action — between resolutions and reality.

### ***The Trilateral Imperative***

The elaboration of an action program, or perhaps more realistically the evolution of a process of action, will involve a difficult negotiation over a period of time and in a bewildering variety of different organizations. Such a negotiation, to be successful, will require a much greater degree of agreement among the trilateral countries than has so far been achieved on the premises and the policies in accordance with which the reform of the international order should proceed. Such an agreement need not — indeed must not — be conceived or used in a spirit of confrontation. But without it the progress from words to action about a new strategy for development will be more painful and slow and the action itself almost certainly less effective.

There have already been some encouraging signs. The IMF and IBRD have recently adopted a number of

### **New York University Press and Simul Press Publish Democracies Study**

The report on the governability of democracies prepared for the Trilateral Commission by Michel Crozier, Samuel P. Huntington, and Joji Watanuki is being published by New York University Press in the United States and Simul Press in Japan. Entitled **The Crisis of Democracy**, the NYU Press volume will appear in mid-October. Michel Crozier is Director of the Centre de Sociologie des Organisations in Paris, Samuel P. Huntington is Professor of Government at Harvard University, Joji Watanuki is Professor of Sociology at Sophia University in Tokyo, where he is also associated with the Institute of International Relations.

Several appendices have been added to the study for publication. These include a summary of the discussion of the report at the Trilateral Commission plenary meetings in Kyoto (May 30-31), the remarks made there by Ralf Dahrendorf, and a summary of discussion at a colloquium organized in Montreal by the Commission's Canadian Group offering Canadian perspectives on the governability issue.

A limited quantity of the paperback edition of the democracies study is available to readers of *Dialogue* at the reduced price of \$2.75 (regular price, \$4.95). To obtain a copy, please mark the appropriate section on the questionnaire attached to this issue.

measures (some of them, as a later article in this issue describes, similar to proposals of the Trilateral Commission) which are useful steps forward. Moreover the governments of France, Britain and the United States, among others, have come forward in recent months with more or less concrete proposals for reforming major elements of the global economic system. But as yet these constructive signs seem more like single swallows than the arrival of the summer migration. It is still hard to discern an agreed, comprehensive new approach by the developed world which is supported both by governments and also by legislatures and, in some broader sense, by the advanced industrial societies as a whole. Yet it is all too easy to perceive significant differences of approach among the trilateral countries — for example between the market-oriented philosophy which has characterized U.S. policy and the much more interventionist, dirigiste approach of some Western European governments and political parties. The task of reconciling these divergent philosophies into a set of agreed policy actions is likely to be no less difficult in the next, negotiating phase of North-South relations than in the past period in which the developed countries have gradually come to recognize and accept the dimensions of the North-South problem.

### *The Tests of Intention*

In these conditions, the advocates of a reformist approach will doubtless continue to face sceptical criticism both from the developing world itself and from those in the developed world, like Professors Barraclough and Falk, who for whatever reasons foresee more revolutionary change and are suspicious of the real intentions of the advanced industrial countries. Such suspicions, which have been abundant on both sides of the debate, can probably only be dissolved by action. The eventual proof of the existence of a true reformist approach will lie in deeds, not in words. But there will be successive tests of intention on both sides which, if successfully passed, could progressively improve the climate of negotiation.

The Trilateral Commission, no less than the trilateral governments, will only succeed as an advocate of a truly reformist strategy in the eyes of its detractors by virtue of its recommendations and attitudes. Justification, to repay Professor Falk in his own coinage of ecclesiastical history, must be more by works than by faith. The Commission's past work, notably the two reports of its Task Force on Relations with Developing Countries, have provided a good earnest of its intent. However, as it happens, the current work program of the Commission is particularly well suited to achieving this purpose.<sup>5</sup>

<sup>5</sup>The work program is detailed on facing page. The two earlier reports referred to are *A Turning Point in North/South Economic Relations* and *OPEC, the Trilateral World and the Developing Countries: New Arrangements for Cooperation, 1976-80*. The rapporteurs were Richard N. Gardner, Saburo Okita and B. J. Udink. The papers were published as Triangle Papers Nos. 3 and 7.

A first test of intention for both the Commission and governments will be their approach to the principle of the common heritage of mankind as applied to the oceans. As the forthcoming report of the Trilateral Task Force on the Oceans will make clear, this approach, and that of many countries in the developing world, has not so far been wholly encouraging from the perspective of the long-term global interest and a more equitable economic order. The Task Force's recommendations will contain suggestions on ways in which these long-term aspects can be more effectively safeguarded, for example by means of stronger international machinery to regulate the exploitation both of seabed minerals and of fisheries even within the 200-mile economic zone, which now seems an inevitable outcome of the UN Law of the Sea Conference.

A further test will come with the culmination, at the proposed 27-nation conference in December, of the fitful progress of recent months towards a consumer/producer dialogue on, among other issues, raw materials. In this connection, the forthcoming Trilateral Task Force report on a New Accommodation in World Commodity Markets will advocate measures which could form an essential component of an overall reformist approach to global economic problems. The Task Force will make proposals for a code of conduct for commodity markets, price stabilization measures, trade reform and the provision of adequate capital for investment in raw materials production in areas, and at rates of exploitation, determined by the producing countries.

Looking further ahead, the interrelated work of the Trilateral Task Forces on international institutions and international consultative procedures is likely to yield proposals for the more effective mobilization of the resources and policies of the trilateral regions in the interests of a cooperative strategy for following up the initial success of the 7th Special Session.

In such areas, those outside governments can contribute proposals and ideas for a new, reformist approach in an atmosphere detached from the political and emotional constraints which inevitably surround the dialogue between governments. Admittedly, ideas are not the commodity which is in shortest supply: reviewing the various projects now under way in the academic and non-governmental foreign affairs community one is struck by a surprising convergence of opinion on a number of issues and suggested remedies. However the effective dissemination and exploitation of such ideas, to which the Trilateral Commission is giving particular attention and to which the Commission's program and habits of consultation have a distinctive contribution to make, should help to generate a badly needed consensus, both domestic and international, on new and more hopeful policies from which actions can flow.

## TRILATERAL TASK FORCES IN PROGRESS

1. **The Oceans.** The final report of this task force is due in December 1975. An interim report was submitted to the Kyoto meeting of the Commission. Against the background of the continuing negotiations at the UN Law of the Sea Conference, the task force is assessing the global perspective on such critical oceans issues as the exploitation of mineral resources, fisheries and environmental management. It is likely to advocate governmental restraint from unilateral actions during 1976 which could prejudice the UN Law of the Sea Conference; limitation of national continental shelf jurisdiction to 200 miles; generous international revenue sharing provisions for resource exploitation within 200 miles but beyond territorial limits; an International Seabed Authority with full responsibility for managing the exploitation of seabed resources beyond national jurisdictions, with royalties used for internationally agreed purposes, including development assistance; and strong regulatory regional authorities for fishery conservation and allocation. The rapporteurs of this task force are Michael Hardy, Ann Hollick, Johan Holst, Douglas Johnston, and Shigeru Oda. Hardy is a Legal Adviser to the Commission of the European Communities; Hollick is Executive Director of the Ocean Policy Project at the School of Advanced International Studies of Johns Hopkins University; Holst is Director of Research at the Norwegian Institute of International Affairs; Johnston is Professor of Law at Dalhousie University; Oda is Professor of International Law at Tohoku University.

2. **Commodities,** interim report presented at Kyoto in May, final report due in December 1975. The task force will define the complex issues involved in the problem of commodity supplies and describe the political and economic environment within which these issues must be tackled. Among the task force's preliminary recommendations are a proposal for new codes of conduct and principles for commodity markets; new approaches to price stabilization on a commodity by commodity basis, including internationally managed, self-financing buffer stocks; trade reform to improve access by developing countries to the markets of developed countries; new approaches to generating adequate investment in the production of raw materials, including arrangements to make more capital available to developing countries; and possible measures to promote a more equitable global income distribution, such as an international tax on consumption which would gradually replace existing forms of economic aid. The rapporteurs of this task force are Carl Beigie, Wolfgang Hager and Suedo Sekiguchi. Beigie is Executive Director of the C. D. Howe Research Institute; Hager is with the Research Institute of the German Society for Foreign Policy; Sekiguchi is a Senior Staff Economist at the Japan Economic Research Center.

3. **International Institutions,** final report due in Spring 1976. Against the background of the post-World War II experience of international institution-building and the lessons to be learned from that experience, the task force will examine the institutional problems posed by changing international circumstances. The report will offer proposals for new institutional arrangements and rules to cope with current problems; and recommendations on the reform of existing international institutions and on ways in which all such institutions can be most effectively mobilized in the interests of future world order. The rapporteurs of this task force are C. Fred Bergsten, Senior Fellow at the Brookings Institution, Georges Berthoin, Former Chief Representative of the Commission of the European Community in the U.K., and Kinhide Mushakoji, Professor of International Relations at Sophia University in Tokyo.

4. **Trilateral Consultative Procedures,** final report due in Spring 1976. The task force will consider ways of improving trilateral consultation against the background of an increasingly interdependent world in which the domestic and international dimensions of economic problems are more and more interrelated. The rapporteurs are Egidio Ortona, J. Robert Schaetzel, and Nobuhiko Ushiba. Ortona was Ambassador of Italy to the U.S.; Schaetzel was Ambassador of the U.S. to the European Community; Ushiba was Ambassador of Japan to the U.S.

5. **Constructive Global Involvement of the Communist Countries,** final report due in 1976. The involvement of the USSR, the Communist countries of Eastern Europe, and China could contribute to tackling certain global problems and, at the same time, assist in the improvement of East-West relations. The task force will study a number of the key issues, such as food and energy, in which the Communist countries might become constructively involved and draw conclusions and recommendations from their study. Chihiro Hosoya, Henry Owen, and Andrew Shonfield are the rapporteurs of this task force. Hosoya is Professor of International Relations at Hitotsubashi University; Owen is Director of Foreign Policy Studies at the Brookings Institution; Shonfield is Director of the Royal Institute of International Affairs.

6. **The Renovated International System,** final report due in 1976. Drawing on the work of earlier trilateral task forces, this report will provide a framework for interpreting the challenges faced by the existing international order and guidelines for policies which will encourage the emergence of a renovated system. Rapporteurs for the project are Richard N. Cooper, Karl Kaiser and Masataka Kohsaka. Cooper is Professor of Economics at Yale University; Kaiser is Director of the Research Institute of the German Society for Foreign Policy; and Kohsaka is Professor of Law at Kyoto University.

## WORLD BANK ESTABLISHES "THIRD WINDOW," TRILATERAL COMMISSION PROPOSAL REALIZED

by CHARLES B. HECK

In late July, the Executive Directors of the World Bank decided to proceed with a new lending facility for the Bank. The new "Third Window" will be opened when government contributions to its associated Interest Subsidy Fund reach \$100 million equivalent. Third Window loans will carry an intermediate interest rate, four percentage points below the rate for regular Bank lending (now 8½%), with the difference covered by the Interest Subsidy Fund. Up to \$1000 million of loans to developing countries may be committed through the Third Window in the twelve months from its opening date, but the lack of



Richard N. Gardner, Professor of Law and International Organization at Columbia University, North American rapporteur of the Trilateral Task Force on Relations with Developing Countries.

sufficient Interest Subsidy Fund contributions might hold the loan total considerably below the billion dollar target.

Late last year, a Trilateral Commission task force recommended that such a new facility be established in the Bank to meet urgent assistance needs.<sup>1</sup> The Commission's Executive Committee discussed this task force report at its meeting in Washington on December 8-10, and endorsed the Third Window proposal in its concluding Resolution. A month later, in January 1975, the Commission task force report was an important input into the meeting of the Bank/IMF Development Committee which requested that the Bank's Executive Directors undertake an "immediate study of the concept of 'third window' lending." A clear need was perceived for additional development assistance on concessional terms, particularly for many non-oil-exporting developing countries.

World Bank Group lending has increased substantially in recent years, in real as well as nominal terms. Through its regular lending operations in FY 1975, the Bank committed about \$4320 million in loans. In FY 1973, the

nominal total was about \$2051 million; in FY 1970, about \$1580 million. Through its "second window," the International Development Association (IDA), about \$1576 million in loans were committed in FY 1975. In FY 1970, the IDA total was \$606 million.<sup>2</sup>

This increase in Bank Group lending, however, has been accompanied by an overall decline (in real terms) of Official Development Assistance (ODA) from traditional aid-giving countries,<sup>3</sup> and sharply increased developing country needs, particularly those developing countries most severely affected by recent developments in the world economy. Aid efforts on the part of highly-liquid oil-producing countries, while substantial, have not been enough to cover the widening shortfall. It was against the backdrop of this immediate need that the Third Window idea was advanced, as a means of quickly generating additional development assistance on concessional terms. Expansion through the Bank's "first window," its regular lending operations, would hardly have been concessional. Interest rates on regular loans, related to Bank borrowing



Saburo Okita, President of Overseas Economic Cooperation Fund, Japanese rapporteur of the Trilateral Task Force on Relations with Developing Countries.

costs on capital markets, are now 8½%. IDA, the Bank's "second window," loans at no interest (only a ¾% service charge per annum), with ten-year grace periods and fifty-

<sup>2</sup>There is, of course, a large inflation factor in these increases. Bank President McNamara recently estimated that "by 1980, it will require \$3 of commitments to accomplish what \$1 did in FY65, and more than \$2 to equal \$1 in FY70."

<sup>3</sup>In constant 1975 dollars, the flow of Official Development Assistance (ODA) disbursements from members of the OECD's Development Assistance Committee (DAC) fell from \$13.2 billion in 1971 and \$13.4 billion in 1972 to \$11.5 billion in 1973 and \$12.7 billion in 1974. The projected total for 1975 is \$12.2 billion. ODA from DAC members was about one-half of one percent of GNP in 1960. In 1974, it was only about one-third of one percent. This percentage is expected to decline further in the remainder of this decade although the real absolute flow of ODA may regain 1971-72 levels. See the table appended to the Address to the Board of Governors by Robert S. McNamara, President of the World Bank Group, September 1, 1975.

<sup>1</sup>See the second report of the Trilateral Task Force on Relations with Developing Countries, entitled *OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-80*. Richard N. Gardner, Saburo Okita, and B. J. Udink were the rapporteurs of this task force. Their report, released in draft form last December, was published early this year.





B. J. Udink, Former Dutch Minister for Aid to Developing Countries, European rapporteur of the Trilateral Task Force on Relations with Developing Countries.

year maturities. Immediate expansion of this very concessional facility was not practicable, however. IDA funds come primarily from governments of industrialized countries, and the situation has not been a propitious one for increased aid budgets in these traditional donor states. Also, IDA obtains government funds through a series of "Replenishments," one every few years. The Fifth Replenishment will not be available until FY 1977 at best, yet the funds from the Fourth Replenishment (running through the current fiscal year, FY 1976) have almost all been committed.

The Trilateral Commission task force proposed a subsidized-interest facility that would lend \$3 billion a year, requiring an interest subsidy fund of about \$900 million a year (covering a five percentage point subsidy). The actual Bank facility has been given a target level of only \$1 billion in loans over the next year, requiring an interest subsidy fund of about \$225 million (covering a four percentage point subsidy).

It is by no means certain that even this more modest total will be reached. As of mid-September, about \$122 million had been pledged to the Subsidy Fund. Of this amount, \$50 million still required formal approval by parliaments. Thus the Subsidy Fund has not yet reached the firm \$100 million total needed to activate the new Window. In his concluding remarks to the IMF/World Bank Annual Meeting in early September, Bank President Robert S. McNamara noted that existing government contributions would mean lending "substantially below the originally planned level of \$1 billion . . . I strongly urge those governments that have not yet been able to pledge contributions to the (Subsidy) Fund, but who are planning to do so, to make their pledges as early as possible. It is essential that the full amount required for the Subsidy Fund be pledged before the end of the calendar year, so that the Third Window can provide the amount of additional financing originally envisaged."

Although none of the trilateral country governments opposed the Third Window proposal in its final stages,

not many have pledged contributions to the Interest Subsidy Fund. The largest trilateral country pledges have come from Canada and the Netherlands, which have each offered \$20 million. Only one of the six trilateral countries with larger economies has contributed. This is the United Kingdom, which is offering \$10 million. No pledges have been made by the United States, Japan, France, Western Germany, or Italy, though there is some hope that a few of these governments will contribute in the coming months. Norway has pledged \$4 million; Denmark has pledged \$3 million.<sup>4</sup>

The Trilateral Commission task force imagined a Third Window operating through the rest of this decade. The actual Bank facility has been set up to operate for one year only, with no presumption of renewal. The view has prevailed which sees the Third Window bridging the gap between the Fourth and Fifth Replenishments of IDA. The Third Window would be an interim measure providing emergency financing over the next year while a larger Fifth Replenishment is being negotiated. It is argued that the new intermediate facility does not add much flexibility to the terms of Bank lending, aside from the added flexibility following from an increase in available funds. Already the Bank achieves intermediate rates of interest for particular countries by "blending" IDA and regular Bank lending. "Soft blend" countries receive mostly IDA credits. "Hard blend" countries receive mostly regular Bank credits. Farther out on the ends of the spectrum are those countries that receive only IDA or only regular Bank loans. Third Window loans will have certain "displacement" or "ripple" effects in Bank Group lending. As they are made to achieve particular "blends," some lending on regular and IDA terms will be "displaced" and made available for other uses. The chief beneficiaries of Third Window loans will be those countries with per capita GNP under \$375 per year, with a concentration on those under \$200. The additional projects to be financed by Third Window operations will be selected from projects already in the Bank Group's pipeline. Given the additional resources, some projects now scheduled for commitment in FY 1977 will be moved up to FY 1976. Some from FY 1978 are likely to be advanced to FY 1977. There may also be some program lending through the Third Window. Views differ on this matter, and it is not yet clear what actual mix of project and program loans will emerge.

The Trilateral Commission task force presented its Third

<sup>4</sup>It has been emphasized on all sides that contributions to the Third Window should be fully additional, that is, assistance provided through this new channel should not reduce flows through other channels. A United States government spokesman has related the absence of an American contribution to the government's difficulties in securing appropriation of already committed contributions to IDA. France has suggested a contribution might come from sale of gold restored to France from the IMF. There are hopes of a West German contribution being forthcoming in the next Federal budget. One factor in Japan's reluctance is some unfavorable domestic experience with subsidized interest rates.

Window proposal linked to an overall effort to restructure multilateral financial institutions to increase the participation of the oil-exporting countries. The task force suggested about three-eighths of government contributions to the Interest Subsidy Fund should come from OPEC countries.<sup>5</sup> The funds borrowed for the Third Window "would be raised by issuing bonds directly to OPEC governments or in the capital markets of Trilateral countries where substantial OPEC funds are available." The task force recommended a tripartite management committee for the Third Window, composed equally of representatives from developed countries, OPEC countries, and other developing countries. In the overall structure of the IMF and World Bank the task force recommended an increase of OPEC country quotas and voting rights from the existing 5% to between 15% and 20%.

Borrowing for the actual Bank facility will not be distinct from regular Bank borrowing.<sup>6</sup> Thus there will be no special link between Third Window borrowing and OPEC country resources, aside from more general Bank efforts to draw upon capital surpluses of several oil-exporting states in its regular borrowing. Negotiations over IMF quotas and voting rights have resulted in a doubling of OPEC country shares to about 10%, not 15-20%. It appears the Bank may break from its tradition of following the Fund on this matter and seek a "Selective Increase" of its capital, with the OPEC countries' share increasing from about 5% to about 15%. In the IMF negotiations, the share of other developing countries was held constant while the OPEC share was increased. The developed countries' share was correspondingly reduced. It remains to be seen how the corresponding reductions would be allocated in the Bank.

There will be no tripartite managing committee for the actual Bank Third Window. It was thought unnecessary to establish such an organ for a one-year operation. The Bank management is, however, under an obligation to consult on Third Window loans with contributors to the Interest Subsidy Fund. A number of OPEC countries are

<sup>5</sup>The task force imagined an annual subsidy fund of \$900 million apportioned among OPEC countries (\$300 million), industrialized countries (\$500 million) and World Bank earnings (\$100 million). It has been decided not to use Bank earnings, which help support the IDA, to help subsidize Third Window loans as well.

<sup>6</sup>This also means that borrowing for Third Window loans will be guaranteed in the same manner as other Bank borrowing, through the subscribed capital of member governments. All the borrowing for Third Window loans will not have to be done next year. Bank loans are disbursed over time as projects proceed, and funds are borrowed over time to meet disbursement needs.

making contributions to this fund. These countries have provided about one-half of the currently pledged total. The Saudi Arabian commitment of \$25 million is the largest of any country. Kuwait has pledged \$20 million. It is hoped this participation of highly-liquid oil-exporting countries in concessional lending by the Bank may lead to IDA contributions by these countries. In his concluding remarks at the recent Annual Meeting, Bank President McNamara saw "wide agreement that the Fifth Replenishment should be supported both by its traditional donors and by those additional countries which, since the last Replenishment, have benefitted from major increases in their national incomes and in their foreign exchange reserves."

The implementation of the Third Window idea comes at a time of several forward steps in global multilateral frameworks. The resources of the IMF "oil facility" have been expanded this year, and a "special account" has been established for the facility which will operate rather like the Third Window in offering credits at subsidized interest rates to poorer developing countries. It appears likely that the compensatory financing activity of the IMF will be substantially expanded. Proceeds from the likely sale of one-sixth of the IMF's gold holdings are to go into a special "trust fund" for poorer developing countries. On a more general level, discussions in the recently completed Special Session of the United Nations General Assembly provide considerable hope for more cooperative approaches to global problems of development and economic cooperation.

At the same time, the situation of those poorer developing countries most seriously affected by recent developments in the world economy remains quite serious. The latest IMF Annual Report notes that the balance of payments situation (on current account) of the non-oil developing countries is one of "sharp deterioration." The Fund estimates that the combined current account deficit of these countries will reach about \$35 billion in 1975, after having been \$28 billion in 1974 and \$9 billion in 1973. The largest regional increase is projected for Africa, where the deficit is expected to double from 1974 to 1975, and where "the level of indebtedness could become critical in the absence of concessionary flows." Mr. McNamara tells us that in 1974 the average per capita incomes in those countries with per capita incomes under \$200 actually declined by a small margin. "This year the outlook is for a further weakening of these economies, and the per capita incomes of the one billion people are likely to fall again."

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