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BILDERBERG MEETINGS

BAD AACHEN CONFERENCE

18, 19 and 20 April 1980

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INTRODUCTION

The twenty-eighth Bilderberg Meeting was held at the Parkhotel Quellenhof, Bad Aachen, Federal Republic of Germany, on 18, 19 and 20 April 1980 under the chairmanship of Lord Home of the Hirsel, K.T.

There were 113 participants, drawn from a number of fields: government and politics, diplomacy, industry, trade unions, transport, banking, the law, journalism, education, and institutes specialized in national and international affairs. They came from 18 Western European countries, the United States, Canada and various international organizations.

In accordance with the rule adopted at each Meeting, all participants spoke in a purely personal capacity, without in any way committing the government or organization to which they belonged. To enable participants to speak frankly, the discussions were confidential with no reporters being admitted.

In opening the meeting, the Chairman, Lord Home, read the text of a telegram of good wishes which he had sent to the President of the Federal Republic of Germany on behalf of all the Bilderberg participants.

The agenda was as follows:

America and Europe: Past, Present and Future

To give some order to the consideration of this broad topic, the discussion was organized to deal successively with the political, security and economic aspects, and the various working papers were concerned with one or another of those aspects.

Some subjects necessarily involved two or three of those major aspects. The crisis in Iran, for example, had important political, security and economic implications, but for the sake of continuity most of the remarks on Iran have been included in the "political" section.

In the same way, it might happen that a single intervention would deal with the whole range of topics encompassed by the agenda, as where the speaker was not able to attend all the sessions of the conference. Such an intervention has not been reported integrally; its components have been summarized under each of the various topics.

I. POLITICAL ASPECT

French Working Paper:

"EUROPE AND THE UNITED STATES — YESTERDAY AND TOMORROW"

What changes have taken and have yet to take place! In the world context: China at loggerheads with the Soviet Union, the end of decolonization and the emergence of the independent African states; the UN dominated by the African and Asian countries; and the energy crisis partly due to the oil-producing countries' control of their main source of wealth. In transatlantic relations: a quarter of a century ago, the success of the Marshall Plan was plain, but the economic weight of Europe was still very limited compared with that of the U.S. And the European currencies respectfully followed the untouchable dollar. Tomorrow, may not the change be even more startling, perhaps the North-South confrontation will be on a scale that is hardly imagined today. May there not be a common slump in the West European economies that will largely wipe out the gains of twenty years of rapid growth? And this slump would not take us back to where we started, because this time the U.S. would be just as troubled and problem-racked as the countries of Europe.

And yet at the same time, what continuity! We are still faced, at least since the late fifties, when the Soviet Union first became able to destroy American cities, with the fundamental question concerning our security: how to make the threat of American atomic reprisals credible in the event of a conventional Soviet attack, in other words, how to use the deterrent when the threat of reprisals forces the U.S. to risk suicide? The identity problems facing the leading countries of Western Europe remain — to such an extent that they must be analyzed in some detail. And there is another question which is just as topical in 1980 as in 1950 or 1965: how should the machinery for consultation and decision between Atlantic allies function in the event of a local crisis or war in regions not covered by the treaty? Political cultures have also survived, including images of other countries. This applies to the French perception of the U.S., although with some shift of emphasis.

In fact, nothing is more difficult than to detect new trends or even turning points, for one must be constantly on the alert against simplifying the past. Take for example the relations between the Federal Republic and the U.S.: Adenauer's dealings with the American leaders were often stormy, even when his great friend John Foster Dulles was Secretary of State, and the memoirs of Henry Kissinger confirm — which could be surmised in 1970-72 — the extent of American mistrust of Willy Brandt.

Even more important and even more relevant is the tendency to simplify the past by assuming that there was a long, bleak period of cold war, followed by a golden age of détente. Obviously, there were breathtaking moments, especially in 1948-49 and during the Korean war. But it would be a mistake to forget how the hot and cold spells followed each other. The signature of the Atlantic Treaty in

April 1949 was followed a month later by the raising of the Berlin blockade. The entry of the Federal Republic into NATO on 5 May 1955 did not create any new tensions. Ten days later, the Austrian State Treaty was signed and in July the Four met peacefully in Geneva. And it was only a few months after the Cuban crisis that the nonproliferation treaty was signed in Moscow.

Was the cold war a permanent phenomenon of the fifties? This is a retrospective illusion. From 1950 to 1953, it was certainly the case. But in Geneva, in June-July 1954, Pierre Mendès-France was able to rely on the benevolence of the two chairmen of the conference on Indochina, Mr. Eden and Mr. Molotov. Was détente the policy of any particular leader? Khrushchev was at one time the man of the Berlin and missile crises, and at another, the man of appeasement. And de Gaulle? Détente only came into the picture after some severe trials of strength. These had been met with firmness when it came to thwarting a Soviet thrust, as in West Berlin in 1958, and, to a large extent, with resignation when it came to recognizing the de facto situation in Europe since 1948. In other words, Western assumptions about détente have always been somewhat contradictory. One of them involves acceptance of the division of Europe, at the expense of the German, Hungarian and Czech victims of Soviet domination. The other seeks to contain and offset the power of the USSR. There is also a determination to go beyond containment and to introduce a breath of fresh, Western air into the East. It is in this respect that détente took on perhaps a relatively new character in the second half of the sixties.

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Through all these changes and continuities, transatlantic relations have never ceased to suffer from one major disparity. On one side, the U.S. (even when the President is beset by conflicting advisers) can act as a single political unit. On the other, Europe is unable to act as a genuine political entity.

The U.S. has also undergone far-reaching changes in its attitudes, which have had serious repercussions on transatlantic relationships. The domestic unrest arising out of the Vietnam war provided ammunition for European criticism of the U.S. (It was somewhat paradoxical to note how far student anti-Americanism in Europe at the end of the sixties was "Americanized" even in its vocabulary.) This unrest was one of the causes of a deep-seated American malaise, which was due also to a feeling of decline as a world power and, as a result of Watergate, of uncertainty as to the value of the democratic model that had once been a source of such pride. This led to a sort of purity mania which had international implications, not all of them beneficial. The determination to punish a perjured president cast general discredit on the White House. The wish to have no more secrets threw open the files of the CIA, providing proof of distinctly shady operations which, when carried out by others, are normally shrouded in decent obscurity.

Without the American malaise of the seventies, it is impossible to understand American attitudes in the last weeks of 1979 and early weeks of 1980. President Carter's recovery of popularity through advocating and practising firmness was due to the fact that the taking of hostages in Teheran and the Soviet intervention in Afghanistan gave public opinion a fresh opportunity to support the right causes and to look to a revival of U.S. leadership in the name of morality and law. Indignation wiped out the humiliations of Vietnam and Watergate. But could the same degree of emotion be expected from Europeans who had not undergone the same experience?

For the Europeans, during these same preceding years, had been conscious of an American shift and also an American continuity that affected them directly. The change was the one that occurred around 1969, of which the key decision to suspend convertibility of the dollar on 15 August 1971 was the most spectacular feature. For twenty years or so, the U.S. had, in its dealings with Europe, given priority to the political over the economic. Even though the economic benefits, particularly through the arrival of American firms, were real, the overriding concern had certainly been political, and included the encouragement of European unity.

The inconvertibility of the dollar symbolized the new priority for the economic aspect, with the currency being treated as a tool of domestic development, whereas formerly it had been largely an instrument of international policy. In the view of even the best disposed European leaders, the seventies were marked by a certain egocentric irresponsibility in American behavior, especially in monetary matters. This irresponsibility certainly did not promote the practice of political solidarity among those who had to put up with its consequences, just as an appeal for solidarity in using the economic weapon against the common enemy has only a muted reception when it is launched by a leading partner which has shown itself to be incapable of providing the most urgent and decisive evidence of its own solidarity, by reducing its fantastic domestic consumption of energy.

The American continuity is a kind of inability to practice the minimum of consultation required in an alliance which in theory is between equals. Of course, one of the reasons for this inability is virtually built in: the decision-making process within the administration in Washington is so complicated that once a decision has been painfully arrived at, only a masochist would want to reopen the question through consultations with allies! But this is no excuse for confusing the provision of information (often tardy, incomplete information at that) about a decision that has already been taken with consultation beforehand.

Is it reasonable therefore to call for solidarity in support of a unilateral decision? Take, for example, the boycott of the Olympic Games. Or to expect complete confidence without supplying the essential information? Take, for example, the concentration of Soviet troops on the Afghan frontier and the warnings sent to Moscow by the U.S. Government. Sometimes, even the most loyal ally is treated with devastating casualness. A proposal is launched, the ally is pressured into approving it, he makes a stand, and then the proposal is dropped and the ally is left out on a limb. This, broadly speaking, is what happened with the MLF, the Multilateral Force, in the early sixties, and also with

the neutron bomb at the end of the seventies, in both of which cases the Federal Republic emerged badly (less so the second time because the Chancellor in 1978 was more circumpect than his predecessor in 1964).

While he was Secretary of State, Henry Kissinger used to accuse the Europeans of thinking only in terms of their regional interests and of refusing to exercise any world responsbilities. The reproach would be more convincing if the U.S., whether before, during or after 1974, had ever demonstrated any willingness to share its decision-making powers. All it asks of its allies is to accept the consequences of American decisions.

But the Europeans' protests have never been entirely convincing either. Sharing the responsibility means being willing to pay the price for any concerted move, to run risks, in short to accept the fact that every action involves a cost. The Europeans very much prefer to allow the U.S. to bear the cost, even when demanding, as Michel Jobert did from Henry Kissinger, the right to participate in decision-making. Take a recent example: the complaint that the Europeans were not consulted over Afghanistan would have been more justified if it had not been made clear that Europe wished to be associated with the decisions over the response on condition that there was no response.

"The Europeans" — the formula does not fit, as a rule. For the identity of Europe remains remarkably imprecise. Sometimes, Europe acts as a single unit, as in the great trade negotiations from the Kennedy Round to the Nixon Round, and in drafting the Helsinki agreements. Its greatest external success, despite the somewhat inadequate results, have been the agreements concluded with 58 African, Caribbean and Pacific countries which signed the second Lomé Convention with it on 31 October 1979.

But these moments of unity are rare, and are becoming rarer as the number of members increases. With six, it was awkward, with nine it is very difficult, and with 12 it will be virtually impossible. The entry of Greece, Spain and Portugal will create as many political problems as economic difficulties. But the three southern European countries must enter organized Europe: the Nine cannot refuse to help to strengthen these recent and still fragile pluralist, liberal democracies, in a world where the number of such democracies is becoming almost negligible. But should not the U.S. recognize that by assuming the burden of enlargement, the Nine are paying a considerable price on behalf of the West as a whole?

This question of numbers — should Great Britain enter or not? — has long been one of the main obstacles in the way of European unity, especially at times when, on both sides of the Atlantic, there has seemed to be a common vision of the role that each should play. The "partnership" between the U.S. and Europe, defined by President Kennedy or Jean Monnet, appeared to correspond to the concept of the "two breakwaters" referred to by General de Gaulle in his first speech in Germany in September 1962:

> Why speak of union? First of all, because we are together and directly threatened . . . But also because the alliance of the free world, in other words the mutual commitment of Europe and America, can only in the long run preserve its confidence and solidity if there is on the

> old continent a breakwater of power and prosperity akin to that of the U.S. in the new world. Such a breakwater can only be based on solidarity between our two countries . . .

In fact, the divergences were already considerable at the time. They were connected with the way in which the European countries defined or felt their respective identities. Why, for example, were the Netherlands such passionate supporters of Great Britain's entry when their leaders knew perfectly well that it would halt progress towards the supranational Community which they claimed to favor equally strongly? Because they feared Franco-German domination of the nascent Europe. For a long time, Mr. Luns played at the European level the same role as General de Gaulle at the Atlantic level: he claimed equal rights between unequal powers. And the General, followed even more emphatically by President Pompidou, refused the Netherlands what France was claiming from the U.S. Netherlands policy underwent some shift around 1967 because of domestic politics, but the entry of Great Britain and a certain loss of solidarity within the European Community speeded up this shift, which received further impetus from a feeling of isolation during the crisis of 1973-74, when the Netherlands were pressured by the other Europeans to behave as ingloriously as themselves towards the oil-producing countries. The Netherlands determination to play a role of their own and not simply to follow the lead of the stronger powers has merely changed its outlet, as was apparent in December 1979 over the Atlantic decision to base Pershing II missiles in Europe.

The question of the identity of the Netherlands, however, does not raise any major problem in transatlantic relations. The same is true of Italy. Admittedly, ever since 1943 the U.S. has retained a certain degree of influence over Italian domestic politics, but these now dominate the outlook of all the parties to such an extent that discussion of external affairs is a means rather than an end. The attitudes of the Italian Communist party — which admits quite readily that without Atlantic protection, its leaders would, at best, meet the fate of Alexander Dubcek — cause no alarm, apart from America's virtual obsession with the fear that these same Communists may be asked by the Christian Democrats to share the responsibility for rescuing the Italian political system from its terrible impasse.

On the other hand, a twofold comparison will show that this problem of identity still faces Great Britain, France and the Federal Republic of Germany. Take the Franco-British comparison first. Since the end of the war, both Great Britain and France have been asking themselves the same question, to which there may be no reply and which they have been alone in asking: "How can I preserve or regain worldwide influence when I know perfectly well that I am no longer a world power?" Great Britain replied: by occupying a privileged position in the counsels of one of the two real great powers. Priority for the "special relationship" with the U.S. was decisive for a quarter of a century. This was followed by a gap of about ten years: Edward Heath believed in the advantages of membership of the European Community, and then, when the Labor Party came to power in 1974, it hardly aspired to play a prominent international role, preferring to concentrate on domestic issues. Mrs. Thatcher has resumed the

special relationship policy. In strongly supporting the U.S. in the Afghan crisis, she is impelled not ony by her own energy and anticommunism, but also by the desire to be a privileged ally (a privilege from which incidentally Great Britain has never derived much benefit).

The French reply, under the Fourth and Fifth Republics alike, has been to support a Europe in which France would be the only power to seek worldwide influence, i.e., to use the power of Europe to strengthen the voice of France. The reason why this Europe was opened to Great Britain in 1969-70 was because of the emergence of a new fear of German economic power, a fear which President Giscard d'Estaing does not share, unlike his predecessor, Georges Pompidou. We had very significant evidence of this in 1978. It is true to say that during the previous ten years, French monetary behavior had been somewhat paradoxical. In principle, France wanted a strong Europe with the Federal Republic against the U.S. But each time the dollar and the mark collided and went different ways, whether by floating or by remaining fixed, the franc followed the dollar rather than the mark. Conversely, the system introduced in 1978 represents a kind of link between the franc and the mark against the dollar, which fits in logically with the over-all French attitude.

For against whom does France wish to make her voice heard? This is where the Franco-German comparison comes in. Of the two great powers, which is the more important for the two leading partners in the European game? For the Federal Republic, it is the Soviet Union, against which it needs protection; this gives the U.S. almost a secondary role. For France, the more important power is the U.S., precisely because after de Gaulle, as under de Gaulle, France seeks the rank of a Western power, meaning that she feels and normally displays solidarity in the event of a direct threat from the East (Berlin in 1958 and 1961, Cuba in 1962), but that when there is no direct threat (and she likes to think that there is no direct threat), her margin of independence has to be enlarged vis-à-vis the U.S. For, because we are Westerners, our unequal, assymetrical interdependence with the U.S. is far greater than with the USSR, whether in economics, technology or culture. In other words, there are times when the Soviet Union serves as a fulcrum enabling France to raise her stature in relation to the U.S. by inducing the Soviet Union to treat her as a first-rate power. Whether in the case of de Gaulle in Moscow in December 1944 or June 1966, or Valéry Giscard d'Estaing in Moscow in April 1979, this was one of the purposes of the visit.

It may be helpful to look a little more closely at these two situations. The Federal Republic has two lasting, specific characteristics. In the first place, it is the only Western country to depend on an international system which has no other relevance — that of 1945. Second, no other Western country is so closely confined within the international system which succeeded it, namely that of 1948-49.

The 1945 system: first of all, there is Berlin, the western part of which is defended by the Americans, French and British in their capacity as occupants, who have the right to move about at will in East Berlin as a survival of the quadripartite agreements of 1944-45. The situation in West Berlin has been virtually stabilized, thanks to détente, following the agreement between the Four

which came into force in 1972. Would not the abandonment of détente be liable to create fresh trouble in Berlin? But there is not only Berlin. The Federal Republic is not fully a sovereign state, and the Bundestag unanimously declared in 1972 that it should not become one, and that the rights and responsibilities exercised by the Four, who had taken over all aspects of German sovereignty in 1945, should be maintained. Indeed, these shared rights and responsibilities of the four postwar occupying powers are to some extent all that is left of the unity of the German nation. In a period of tension, the danger of a breakdown of the system revives.

The Federal Republic is not a nation. It originated, as a result of the cold war, out of a twofold rejection: of past totalitarianism and of neighboring totalitarianism. Whereas in France the unifying concept is national independence, and excommunication takes the form of accusing a political opponent of being the "foreign party," the German consensus is based on the FDGO, the fundamental liberal and democratic order, and the German equivalent of "foreign party" is *Verfassungsfeind* or "enemy of the Constitution."The result is that from the start, since 1949, there has been a stronger feeling of solidarity, of transnational community, with the countries adhering to these same pluralist, liberal principles, whether in European or "Atlantic" affairs.

The distinctive identity of the Federal Republic has, however, undergone a change as a result of a shift in attitude due both to the international situation and to its own determination, which became apparent — after the shock of the Berlin wall — with the arrival of Gerhard Schröder at the Ministry of Foreign Affairs and was further strengthened by the great coalition headed by Kurt-Georg Kiesinger and above all by the Brandt government. The *Ostpolitik* has brought very substantial gains to the cause of freedom in Germany. Millions of West Germans have been able to pay regular visits to the East, reception of West German television has been enlarged in the GDR, and telephone links have been facilitated as a result of jointly agreed technical improvements. The remark attributed to the present Chancellor — "The Americans have 50 hostages in Teheran, we have 17 million in the GDR" — is certainly not entirely far-fetched. This accounts for the extreme caution shown in taking sanctions against the USSR which might result in much more costly countersanctions.

There is a further argument: does not the maintenance of contacts between the citizens of the GDR and Western Germany serve the cause of the West as a whole? And does not the same apply to the concern, which is shared by the French leaders, that a new rise in tension leading to a hardening in Soviet policy towards the other East European countries, might set back the domestic gains in Hungary and Poland which have been fostered by contacts with the West? The excellent personal relations between Helmut Schmidt and Edouard Gierek are symbolical of this state of affairs.

Through its *Ostpolitik,* therefore, the Federal Republic has made a by no means negligible contribution towards the general Western cause, even though the policy was not seen in this light by Henry Kissinger or Georges Pompidou. The aid given to a virtually bankrupt Turkey for several years past has also conformed to a Western political responsibility.

The fact remains, however, that the Federal Republic does not wish to play a world role. For a long time, it sought to leave complete responsibility in U.S. hands, while it concentrated on economic and commercial expansion. It is somewhat surprising, of course, to have to reproach the Germans for refusing to exercise their influence in the world when one thinks of 1945. But it is a fact that the Federal Republic, although now an economic giant, did not and still does not aspire to become a political giant. It simply wishes to avoid being caught up in the consequences of decisions taken elsewhere. The turning point in this case was probably the incident in 1973 when the U.S. used a German port to ship military equipment from Germany to the Near East without even informing the German Government. This reluctance to play a leading role is enhanced by the readiness of the other Western partners (French, British, Norwegians and also Americans) to hark back to Hitler whenever a German, even if he is a perfect democrat, raises his voice.

In the case of France, the desire to pursue a distinctive policy is all the greater in that the great power being challenged is the one in her own camp. Hence the constantly repeated assertion that there is no camp or that there ought not to be one. The Yalta myth plays a very important part in justifying this lumping of the two great powers together. It is argued, contrary to all the historical evidence, that Roosevelt and Stalin divided up the world in the Crimea, because this belief provides a justification for a policy of independence vis-à-vis the two super-powers. The idea of two rival powers from which France and Europe should keep their distance recurs regularly in the attitudes of the French leaders, even when they took a different line before coming to power. This is true of the present President of the Republic and of the Minister of Foreign Affairs. This simple fact shows up the great error of appreciation committed by Washington during the de Gaulle era. Certain attitudes were not accepted by the French because they liked de Gaulle and were letting him get on with his policies; on the contrary, they liked de Gaulle because of these attitudes, which reflected deep-seated national feelings.

These feelings were all the stronger because the U.S. has consistently refused to understand that pride and prestige are not simply the means or by-products of a policy; they may also be its purposes, its main objectives. This is true in matters of language and cultural influence, and also of satisfaction in a major technological success. Of course, Concorde was doomed to commercial failure and the anti-American resentments caused in France by the revelation of its failure were unjustified. But the American disregard for foreign technological prowess also had its effect on French reactions, at a time when it was well known that the USSR had to some extent copied Concorde and had already recognized the value of the French color television system. The U.S. gives the impression that a French technical advance is only recognized when it becomes necessary to compete with it so as to limit its impact. This was equally true of the thwarting of the American program for Caravelle airliners some 20 years or so ago, and of the launching of a competitor for the European Airbus. Prestige and economic interest are closely linked in such cases.

This accounts for a touchy determination not to allow oneself to be dominated, and a refusal to act (or talk) like the German leaders when they say,

for example, as did the Minister of Foreign Affairs in February, that it would be wrong to take part in the Olympic Games because we are defended by the U.S.; and also for a constant tendency to treat as an alignment what would after all be merely a demonstration of solidarity. This does not mean, however, that nothing is done to promote common objectives: preventing Colonel Kadhafi from penetrating into Chad and Tunisia is a service to the entire Western community, even if this was not the main purpose of the operation.

These specific German and French characteristics, although very different, resulted by the beginning of 1980 in similar attitudes based on concern over the future of détente. There was a rash of articles in the German press in a tone very similar to that of the French Government. And more than one German article was manifestly government-inspired, whereas the official government reaction was fairly contradictory.

The tone was to the effect that détente was divisible and that it was important not to discourage any "doves" in the Kremlin. This latter anxiety was logically somewhat unsound: the best way of saving or reviving détente is not to encourage the "hawks" by telling them that, whatever they do, détente can be maintained; it is to punish the hawks and thereby provide arguments for the doves. But it is true to say that détente is both indivisible and divisible. If we do not react over Afghanistan, what is there to prove to the USSR that we would react tomorrow in the event of another military offensive elsewhere than on the frontiers of the Western countries? But how many examples have there been in the past of Russo-American contacts being maintained and even developed while at another point on the globe, they were directly or indirectly clashing with each other!

The transatlantic climate in 1980 would certainly be better if the American President observed more faithfully the principle of conflicting reality. Détente is both divisible and indivisible. The Soviet Union is at one and the same time an expansionist opponent to be contained and an inescapable partner in the international political and economic game. From this standpoint, Jimmy Carter's remark that he had learned more about the USSR in three weeks than in three years has rightly disturbed Europeans, because it seems to suggest that before the crisis he had oversimplified the situation by regarding the USSR solely as a loyal partner and afterwards solely as an opponent to be dealt with through coercion instead of negotiation.

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The Europeans — despite everything, it is legitimate to generalize about them whenever one tackles the general issues, those that affect us all. Take, for example, the most important issue of the late seventies, the priority of economic factors. Currency, inflation, unemployment, energy shortages — the Western world as a whole is confronted with the same crisis.

It is interdependent, but it is also ridden with rivalries. Competition is in fact the greatest obstacle in the way of the coordination that is needed. A competition with implications that are not always grasped. For example, trade with the East European countries: if the Europeans (more particularly the Germans and the French) applied strict sanctions, how could they offset their export losses (especially in advanced technology items) except by competing with the U.S. in other markets? (Quite apart from the fact that a breakdown in the East-West economic system, including bank credits, might give the USSR an interest in a Western economic collapse, whereas for the time being, it has no such interest.) Can the competition be curtailed? Can it be prevented from having political consequences, for example in the case of Franco-American rivalry in armaments exports? There is probably very little reason to be optimistic on this score.

On the other hand, one of the most fundamental and lasting problems should not be dramatized. For the facts about the defense of Europe, referred to earlier, are unchangeable in their contradictory features. There can be no genuinely European security system because the Soviet Union has by definition a two-fold nature: it is situated in Europe and it is the only world power to be situated there. A system confined to the European continent would afford no security to the countries of Western Europe and would make them dependent on the Soviet Union.The other great world power must also participate in the system. But if it does, European security inevitably becomes a subsystem of the American-Soviet balance of power.

Nor can a superpower emerge in Western Europe. In the first instance, because of the excessive cost — and the limitations on the European effort dictated by the need to raise living standards have been known for a long time, in fact since the NATO conference in Lisbon in 1952. And secondly, because such a superpower would inevitably be nuclear, which could not be achieved either with the Federal Republic or without it. Certainly not with it: the Federal Republic has undertaken too many commitments in the opposite sense and nuclear participation by it would be too unacceptable to the USSR — and probably also to France, which relies on its nuclear power, among other things, to offset German economic superiority. And not without it either: to have a "trip-wire" army and have the fate of its citizens depend on foreign decisions is still acceptable for a small power dealing with one that is far greater; but not in relation to powers of the same rank such as Great Britain and France.

This impasse inevitably gives rise to conflicting concerns. On the one hand, there is the hope that the U.S. will threaten the USSR with the utmost devastation; and on the other, that in the event of failure of the deterrent, the Americans will cause as little damage as possible in the European countries, and more particularly in the Federal Republic. On the one hand, there is the fear that the U.S. will flirt too much with China and be led into taking an over-rigid attitude towards the USSR, with the inherent risk of Soviet reprisals; and on the other, there is the fear that the U.S. will come to far too close an understanding with the USSR and, through SALT III, sacrifice the Europeans' security.

There is no way of not living with these contradictions. Recognizing this fact will help to de-dramatize a good many situations. Transatlantic debates on

defense should therefore be confined to discussions on the best technical means of ensuring security, especially since one of the most explosive political factors, the French nuclear force, had been defused following the Ottawa declaration in 1974, which proclaimed obvious facts that had hitherto been concealed or disputed by one side or the other:

> . . . The European countries, which provide three-quarters of the alliance's conventional potential in Europe, and two of which possess *nuclear forces capable of playing a separate deterrent role contributing to the overall strengthening of the alliance's deterrent*, undertake to make the necessary contribution towards the maintenance of common defense. . .
>
> . . . All the members of the alliance agree in considering that the continued presence of Canadian forces and of substantial American forces in Europe plays an irreplaceable part in the defense of North America as well as in that of Europe. . .

On the other hand, nothing is clear and nothing has been settled in one key field in which it is essential that new policies should be framed, namely North-South relations, more particularly between the countries of Europe and the U.S., on the one hand, and the poor countries of the Third World on the other. It is not for nothing that the French President is constantly referring to this problem. It is no coincidence that a political leader like Willy Brandt considered that his most urgent task was to preside over the work of the North-South Commission which has just completed its final report and one of the most active members of which was Edward Heath.

This is not simply an economic problem. It is also a political one, especially where the U.S. is concerned. The European "leftists" and the Catholic Church, through the encyclicals and speeches of the last three Popes, are not alone in considering that the U.S., while protecting the freedoms of Europe, is the principal opponent of liberation in other continents, more particularly in Central and South America. The total population of the small countries of Central America is much the same as that of Afghanistan, and their lot, by and large, is little better than that of the Afghans today.

To sum up, despite different circumstances, despite rivalries and competition, the Western countries, including the U.S., now face problems that are not only similar but common to them all. This applies equally to their domestic difficulties and to their international East-West and North-South difficulties. From the debate on nuclear power to the problem of youth unemployment, from the rise of inflation to the phenomena of violence in our society, how many examples of similarity and action there are!

But these similarities are very inadequately realized, which makes forecasting hazardous. For two assumptions are equally probable. The first is that the common nature of the problems will lead to common or at least to jointly discussed and coordinated policies. The second is that the distorted views held on either side of the Atlantic as to each other's circumstances and attitudes will result in greater divergences, further drift and sharper clashes.

But while both assumptions are probable, we can try to make the former more so. Hence the importance of any proposals for setting priorities for this Aachen conference.

Proposals for setting priorities at Aachen

1) How can we affect the mutual exchange of information in such a way as to ensure that awareness of the facts to some extent replaces myth?

2) How could a transatlantic system of crisis management be set up? The prospects of arriving at workable proposals are slight, but the matter is urgent, for further grave decisions may have to be taken, e.g., over Saudi Arabia or Yugoslavia. . .

3) If there is a genuine transatlantic solidarity and sharing of responsibility, what domestic crisis policies should be followed, e.g., over energy-saving or plans for the conversion of the automobile industry, or for the industrial changes that will be made inevitable by competition, desirable though it may be, from a poor but progressing Third World?

4) What consistent criteria of judgment — and therefore of policy — are there which simultaneously take account of the North-South and East-West aspects of the international situation?

5) How can support for human rights, which we claim distinguishes us from the Eastern countries, be reconciled with the sometimes perfectly legitimate needs of a worldwide political or economic strategy? For example, a response to the invasion of Afghanistan involves supporting the régime in Pakistan. Is the same justification valid elsewhere, in Santiago or Bangui?

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American Working Paper:

"THE AMERICANS AND THE ALLIANCE IN 1980"

I

It would be easy, in the spring of 1980, to begin a discussion of the political relations between Europe and the United States with a catalogue of follies on both sides. Enjoying as I presently do the satisfactions of independence and free expression that go with life as a professor in a strong university, I have recently been criticizing my own government in terms that are not ideal for repetition in an international meeting. And having served for a period on the staff of Presidents confronted, as Mr. Carter is today, by the odd refusal of foreign countries to act instantly on every signal from Washington, I think I could give you a reasonably energetic and plausible account of the tactical dissatisfactions which may now be felt in Washington. But one effort would be as inappropriate as the other. We are not met here merely for the purpose of rehearsing catalogues of mutual recriminations which most of us could recite with ease.

These meetings, as I understand them, have a better purpose. Yet recollections of earlier Bilderberg gatherings, and a review of recent minutes provided by the excellent secretariat, persuade me that no matter how elevated our initial intentions may be, we shall almost inevitably engage to some degree in the ventilation of recent grievances. It can hardly be the role of an introductory paper to give encouragement to this most human predilection.

II

Let me begin with the simplest and most important point of all: The American engagement in the Atlantic Alliance remains clear and solid. Differences exist in my country, as they have since 1948, on the ways and means of fulfilling that engagement, but it is quite simply wrong to suppose that there is any effective sentiment in the U.S. today for disentanglement from Europe. I underline this reality because it is fundamental to any understanding of our current difficulties, which are serious, and our internal debates, which are harsh. There is literally no significant element in our public opinion which does not accept it as a fact of life that the U.S. has a truly vital interest in the survival and strength of the open societies of Europe.

While this reality does not tell us what the Americans will do — about strategic weapons or SALT or defense budgets or the Persian Gulf — it does tell us what they will not do: they will not abandon Europe under Soviet threat. Indeed it is further predictable that any recognized Soviet threat to Europe will strengthen both American determination and the levels of American defensive action. In this quite fundamental sense the engagement set forth in Article V of the North Atlantic Treaty remains in full force for the U.S. It is deliberately confirmed, to the point of being almost self-executing, by the continuing presence in the heart of Europe of some 300,000 Americans with weapons of all sorts.

The dependability of this American engagement is questioned from time to time, most notably in Soviet whispering campaigns. But the Soviet Government does not believe its own whispers; it only hopes that others will. People who question the strength of the engagement of the American people on this absolutely central issue can be charged with one or the other of two serious failings: either they really do not understand the Americans, or they seek to serve some other purpose by deliberate defamation.

I know of only one force in all the world that could undo this American engagement: its rejection by our European allies. If major members of the Alliance came to be governed by forces effectively hostile to the U.S., the American commitment could be threatened. Fortunately the single most crucial country, today as for thirty years, is West Germany. Like Admiral Jellicoe at Jutland — "The only man on either side who could lose the war in an afternoon" — the people of West Germany can end the Atlantic Alliance any day they choose. But if the defection of the Federal Republic were the most likely danger of the 1980's, we could expect a wonderfully tranquil decade.

I repeat that the enduring reality of the American engagement does not in itself tell us what the Americans will do. In four presently debated particulars it gives little guidance.

1. It does not tell us the level and location of the American nuclear deployments that will ensure the "credibility of the deterrent;"

2. It does not define the level and the shape of the defense establishment that makes sense for the U.S.;

3. It does not tell us what the U.S. should do now about SALT;

4. It does not tell us how far the American engagement in Europe may carry with it a special American responsibility for the protection of the oil of the Persian Gulf.

Of course no American answers to these superficially "American" questions can be complete without some judgment on the reasonable relation between what should be done by the U.S. and what can reasonably be expected on the part of European partners. Thus the difficulties of our reciprocal dependence in what may be the most effective alliance in history do not grow less as it enters its fourth decade, and these difficulties are deeper and more serious than most of our current arguments over relatively small-scale misbehavior. We have our traditional difficulties with traditional subjects, and in 1980 we face a new and urgent need to work out varied but mutually compatible responses to the dangers threatening the supplies of oil that are vital to the life of Europe and Japan, and thus also to the safety of the U.S.

These issues are not trivial; the way they are handled can spell the difference between continuing success and appalling failure in the relations between Europe and the U.S. So our policy debates are not about nothing. But in the U.S. these debates are also not about our basic objective. That was settled in 1949 and has not been unsettled since. Even the most dangerous single effort to limit our role in the Alliance, the Mansfield Amendment of the early 1970s calling for troop reductions, was justified by its author partly with the argument that 300,000 men were twice as many as were needed precisely because the underlying American commitment to the defense of Western Europe was a "cardinal foreign policy tenet agreed upon by virtually all Americans." Moreover, the Mansfield Amendment was beaten, and the idea of unilateral troop reduction has almost no present support in Washington.

The Persian Gulf aside — and I will come back to it — the most serious potential strain on the connection between Europe and the U.S. is not intrinsically political, and still less strategic; it is economic. In most of its aspects it falls outside my assignment and my competence. Nonetheless the economic relations between states are always in some measure political; even the most open international market requires a considerable political consensus to support it. When there is a high level of economic disarray, as there is today in nearly all our countries, a heavy stress is placed upon that underlying consensus. Still more seriously, economic weakness, especially in a protecting power, can readily cause nervousness among the protected. And indeed such nervousness is entirely understandable, because in fact a nation in economic disarray can only too easily give reduced priority to the problems and requirements of its role in maintaining international security. It would be foolish to pretend that no such dangers exist today.

It is not hard to compose a scenario in which these economic difficulties could produce an unraveling of political trust so severe that in the end the Alliance

itself would be undermined. Those in search of the kinds of things that could lead to such a result have only to examine the interplay between economic disaster and political catastrophe that marks the years 1929-39. If I am right in my conviction that only outright European rejection could break the basic American commitment to the defense of Europe, and right also in my high estimate of the parallel and reciprocal commitment of the most crucial of our European allies, the Federal Republic, then two of the most dangerous elements of the world of the great depression — German and American unreliability — do not exist today. But we should not underestimate the danger that economic troubles and then economic quarrels could have corrosive effects large enough, over time, to put such hopeful estimates in question.

These grim possibilities make me believe that the reduction of our shared economic disarray is in fact a first order of business for the Western Alliance. That priority is not absolute, nor does its existence define the policies that are right for each national economy. I suspect that the differences in our economic situations and our internal social priorities make it a perilous business to offer easy prescriptions to one another. Almost the only general recommendation that can be made with confidence is that there is a particular danger attached to beggar-my-neighbor economics when it is practiced between mutually dependent allies. In a free society no one can prevent the existence and expression of pressure for such measures, and in countries like my own where party discipline is weak and the role of legislators strong, there may be a special need for restraint and responsibility on the part of the Executive Branch. But in the end international reciprocity is the one sovereign remedy, and it is obviously easier to preach than to practice.

III

Confidence in the American commitment to Europe requires confidence in American strategic strength. I am convinced that the American nuclear deterrent is and will remain entirely adequate. Indeed I think there is some danger that in the years immediately ahead we may spend more money on it than we need to. At a level long since passed by both the U.S. and the Soviet Union nothing better than strategic parity is available to either side. I think this essentially political parity in strategic weapons came in clear sight in the late 1950s (and indeed Gerard Smith has reminded me that the arrival of such parity was announced by Gordon Dean in 1957, in his foreword to a remarkable book called *Nuclear Weapons and Foreign Policy** by a young Harvard friend and colleague). Parity in this basic sense has been a fact throughout the 1960s and 1970s, and it is a fact today. Moreover, I am confident that the essentially marginal problem of "Minuteman vulnerability" will be dealt with long before there is any plausible

*In Henry A. Kissinger, *Nuclear Weapons and Foreign Policy*, New York, 1957, p. vii: "For all practical purposes we have in terms of nuclear capabilities reached a point which may be called 'parity.' We have long known that such a time would come. It is now upon us. I do not mean necessarily parity in numbers of large bombs. Numbers become less important when the point is reached where both sides have the capability to annihilate each other."

threat to the survivability of the U.S. strategic deterrent as a whole. There are many dangers in our future, but political "compellence" deriving from a usable Soviet strategic superiority is not one of them.

As a lesser included case, I find the American strategic umbrella over Western Europe more than adequate. As long as we have major forces deployed well forward on the continent, and as long as the underlying engagement of the American people is solid, the danger of general nuclear war created by any Soviet attack on Western Europe will far exceed what any sane Soviet government will wish to risk. Prudent modernization of NATO forces is obviously sensible, and the conventional element of the NATO deterrent, today as nearly always, deserves particular reinforcement — the Alliance cannot be defended by American will alone. But there is absolutely no cause for panic, certainly not panic over American strategic weakness.

I recognize that many of my fellow Americans do not share this generally confident view of the condition and prospects of the strategic balance. Their arguments, if I understand them correctly, turn on their estimate that the admittedly massive and continuing increase in Soviet strategic nuclear strength — especially in the number and accuracy of the large-yield warheads carried by Soviet ICBMs — could tempt the Soviet Union into a policy of active pressure against the U.S. and its friends. My disagreement with this estimate does not rest on any optimistic assessment of Soviet ambitions, or any complacent view of the general Soviet military build-up. I think that both are serious, and that together they make it likely that the 1980s will be a difficult and dangerous decade. Yet I remain persuaded that it is not new Soviet nuclear weapons that create this difficulty and danger. At the nuclear level it remains true in 1980 as it has been for twenty years that the U.S. and the USSR are mutually deterred by the overwhelming fact that any large-scale nuclear exchange between them would have costs to both that enormously outweigh any gains that they could possibly expect from such a confrontation. This imbalance is so extreme that any action which carries even a small risk of escalation to a general nuclear exchange must always seem out of bounds to the leaders of both nations — as long as they are sane. Any Soviet attack on NATO, as long as the present forces and weapons of the U.S. remain in place in Europe, must *always* have this danger in it. No one can be sure that the conflict would escalate to the limit, but no one can possibly be sure that it would not. That is enough for stable deterrence, at least as long as we in the West do not wholly lose our nerve, and why should we?

As Denis Healey has remarked, there is a tendency for our discussions of nuclear matters to move around and around in the same circle, and at least for myself I can claim that the opinions I hold in 1980 are those I have held at earlier moments of debate. I have believed for many years that there has been nuclear parity between the two superpowers, and I do not believe that this parity has ever been a threat to the solidarity of NATO. Let me indulge myself in a quotation of some paragraphs from a lecture I delivered in England almost eleven years ago:

> "Another durable element (throughout the history of NATO) is that the decisive military element in the safety of Western Europe has been

the nuclear strength and commitment of the United States. There is a highly responsible thread of thought on both sides of the Atlantic which holds that the safety of the West has never been primarily a military matter at all — that in this sense NATO itself has been unnecessary. This line of analysis may not be wrong, and both the men who have pursued it and the notions they have advanced deserve respectful attention. But still it is a thread of thought too fragile to bear the weight of continents. It may be that Western Europe would still be free and peaceful if there were no American nuclear commitment to Europe. But we dare not take that chance, and still less does Europe.

"This is a painful conclusion, because what it continues to mean, twenty-five years after D-Day, and twenty-four after Hiroshima, is that the peace of Europe depends on the stable will of Washington, and that Washington in turn must depend upon a form of strength whose actual use, as President Kennedy once said, would be a confession of terrible failure. Much of the most troublesome internal history of our alliance has turned around the unattractiveness of this inevitable dependence — a dependence quite as unnatural in its own way as the division of Germany itself. . . Those in Europe who rely on American nuclear strength have no need to fear an American sellout. . . Nothing about the changing shape of the strategic arms race modifies the firmness of the American nuclear commitment to Europe, and nothing about that commitment requires any American posture towards strategic missiles which is the least bit different from what is required in the interest of the Americans themselves. It is quite true that the relative nuclear strength of the two greatest powers is tending towards parity. There is no secret about that fact. . . It is in the nature of the strategic arms race that over time, if two runners are determined and willing to spend, their efforts will tend toward parity. Both the Americans and the Russians are determined and willing to spend. So in the long run a broad parity is inescapable. . . Nor does parity threaten the credibility of the deterrent. It was never the American "superiority" in nuclear weapons that was decisive in protecting Europe; it was simply the high probability that any large-scale use of force against a NATO country would set loose a chain of events that would lead to nuclear war. . . Relative numbers of weapons have never been decisive in the credibility of the American deterrent in Europe.

"That deterrent has been made credible, ever since the first Soviet nuclear explosion, by two quite simple things: first, the American conviction . . . that the safety of Europe runs with our own, and second, the confirmation of that conviction by the stationing of wholly persuasive numbers of American men and American nuclear weapons in Europe."

So you see that I can at least lay claim to the doubtful virtue of consistency. And indeed my own belief is that the argument I thus set forth in 1969 is even stronger in 1980 — stronger for the simple reason that while the risk of escalation entailed in any Soviet attack on Europe is essentially unchanged, because it has always been intrinsically unpredictable, the nature of the catastrophe that would then result for the Soviet Union has in fact multiplied over this decade. While it is quite true that the expansion of Soviet strategic forces has been massive, it is also true that the survivable destructive capabilities of American forces have also multiplied. Nothing is more certain than that a general nuclear war would be even more destructive, from the standpoint of the Soviet government, than it would have been in the sixties or the fifties or the forties. The men in the Kremlin have more to lose than ever, and they are not going to risk it all by rash attack on our Alliance.

A special effort has gone forward over the last year in the field of theater nuclear modernization. I think that effort makes sense mainly because sensible Europeans want it, not because it is indispensible from a purely American standpoint. I cannot myself believe that ground-launched cruise missiles and better Pershings in Europe are needed to ease *American* fears. But what sensible Europeans think needed in this field should never be trivial to Americans, and if such weapons help to solidify the confidence of Europe they will be well worth their cost. If they can help to persuade the Soviet government that its one-sided theater overarmament has been provocative and therefore selfdefeating, so much the better. But I do not myself believe that they are needed to guarantee our own American engagement. I think that engagement will be firm with or without such new weapons. The American hand that could commit the new Pershings against any enemy already controls the action of the submarines assigned to NATO. For an American it is not at all clear that one decision would ever be easier than the other. But if Europeans think differently, I respect the difference, as I also respect the energy and skill shown by Americans in office in supporting what has now become a common enterprise.

There is an inescapable difficulty here. The need is for a form of deployment which will meet legitimate and serious European concerns. When what is at stake is the deployment of weapons under American control, there is an inescapable requirement for American leadership in the process of analysis and decision. Thus it can readily appear that what is being proposed is American in origin and that European consent is required in deference to American nuclear leadership. The possibilities of misunderstanding and even recrimination are obvious. Indeed it is far from easy for the American officials engaged in this process to keep it clearly in mind that their role is not to decide the matter for Europeans, but rather to support an honest European decision. And at a certain point, both naturally and properly, what begins as an effort to respond to a European concern becomes transmuted into a matter of mutual trust and common cause. That is where I think we are today, both with respect to the plan for theatre modernization and in respect to our shared readiness for serious negotiation on this whole question with the USSR whenever it is ready.

The right size and shape of future American defense budgets will be hotly debated. My own view is strong: we have not done enough for some ten years now, and we must now do more. I have no quarrel with the general level of improvement signaled by the Administration early this year — an increase of 4-5 per cent a year in real terms over the next five years. I think these increases will have wide public support and that attacks on this essentially modest increase in defense spending will not be persuasive, since even after such an effort our defense spending will be a much smaller part of our gross national product than we spent routinely in the 1950's and 1960's when we were much less rich.

As I have already suggested, most of what needs doing is not in the much-debated field of nuclear weapons. The neutron bomb, to pick one item that has caused some discussion, is very nearly an irrelevance, compared to good transport and better one-man weapons. We need ships and aircraft that are numerous and serviceable, but we do not need to encourage ourselves or our experts in the false belief that technological sophistication can take the place of well-trained men. Indeed more good men, and more effective ways to get and keep them, may be the most serious of all our defense requirements.

IV

To speak of SALT in these grim days may seem strange. But the SALT process is at the heart of what is truly common cause between us and the Soviet Union. Nothing in the invasion of Afghanistan, brutal and cynical as it is, reduces the importance of that common cause. Because we are a people often uneasy with apparent contradictions, it has been necessary to delay the Senate debate on SALT II. Because our election years are overburdened with divisive oratory and senatorial struggles for survival, it is also right not to force the issue this year. But a strong renewal of the SALT process should be most urgent business in 1981, even — perhaps especially — if the offense of Afghanistan is not undone. The contradiction here between "confrontation" and "cooperation" is apparent, not real; we must get through the appearances to the reality, and I believe we can.

The SALT II Treaty as such may or may not survive for a new debate and decision in 1981; I myself very much hope it will, and I do not think it impossible to work out the few modest adjustments that the passage of time might require. But the SALT *process* is something much larger and deeper than any one document, and it is the *process* that needs early renewal. Properly construed that process includes not only the questions treated explicitly in SALT documents, but a great deal more that is enormously valuable to both the U.S. and the Soviet Union in their shared responsibility for keeping themselves and all the world well clear of general nuclear war.

In this connection let me say that there is one complaint currently fashionable among some Americans that does not impress me: that a situation may be developing in which we are expected to handle deterrence while Europeans take care of détente. Détente, of course, is a slippery word (in this respect quite unlike the language from which it comes), but in its most modest and yet most serious

meaning — the maintenance of a level of mutual understanding that can minimize the risk of war — the necessary first role in the Western share of détente belongs inevitably to the U.S. If there is not détente, in this quite basic sense, between the U.S. and the Soviet Union, there will be no détente for anyone. It is true that in other meanings of the word others have a greater stake than we. This is true at the level of rhetoric for Paris, at the level of human relations for Bonn, and at the levels of domestic politics and of commerce for both. But at the level of the basic diplomatic relations that can help to keep the general peace we have an absolutely inescapably primary role, and it is in everyone's interest that we should play it energetically. For this reason it is disturbing that one consequence of the invasion of Afghanistan has been a disruption of the lines of serious communication between Moscow and Washington. It is not entirely clear by whose choice this has happened, and it is unlikely that either capital is solely responsible. But as one American citizen I believe that the restoration of such communication is now urgent, both in our own interest and in the wider interest of the Western nations. There is no inconsistency between the restoration of such serious diplomatic communication and the maintenance of a persistent and sustained opposition to the aggression in Afghanistan. Indeed my own impression is that the public temper of both Americans and Europeans, after the first heat of understandable emotional outrage, will be more resolute in such a necessary persistence in opposition to Soviet expansionism if the lines of communication between Moscow and Washington are known to be open and active.

V

In framing and executing effective policies toward the Persian Gulf region after the revolution in Iran and the invasion of Afghanistan, both the U.S. and the major European nations still have a great deal to do, if only because we have all had some catching up to do. Thus Mr. Carter's solemn warning against assault from outside the region only confirms a reality that has been evident to careful observers for a long time: that it is indeed a vital interest of the U.S., as of Europe and Japan, that the Persian Gulf region should not fall under Soviet control, and that at the upper limits of power only the U.S. can hold the ring against any direct Soviet threat. Something very like this was once called the Eisenhower Doctrine, and while such doctrines quite understandably do not evoke immediate cheers from people who hope not to be fought over by superpowers, there is nothing to be gained by a silence that might tempt a test. If the danger is real it makes sense to warn against it; if it is not, the warning does no great harm.

What remains incomplete, however, is our own American understanding of the forces that both justify and limit this American declaration. It is justified not by American dependence on foreign oil, but by American dependence on the safety and well-being of Europe and Japan. Less than 15 per cent of all the oil consumed in the U.S. comes from the Persian Gulf — the corresponding figure for Europe is about 55 per cent and for Japan about 75 per cent — and in each

case the role of oil in the whole energy economy is larger than it is with us. So if it were rleative dependence that determined these matters, it would be for Europe and Japan to protect the Persian Gulf region from outside threats. They do not do so because *against the direct Soviet danger they cannot.* By the ineluctable division of labor that is caused by vast differences in ultimate strategic strength, the role of balancing the Soviet Union falls to the U.S.

Thus the deepest interest of the U.S. in the Persian Gulf region runs through Europe and Japan. This indirect but truly vital interest has been explained in thoughtful speeches to councils on foreign relations by Secretary Vance and Secretary Brown, but it has not been explained to the broader American public by anyone, or to anyone outside the government by the President himself. So it is not yet clear, to put it gently, that the American people fully understand why it is that their existing and wholly traditional acceptance of the special strategic obligation to Europe and Japan carries with it, inescapably, the obligation to play counterweight to the threat of Soviet armed assault on the Persian Gulf.

Nor is it clear that our people, or even the leaders of our government, are aware of the great difference between this limited but necessary obligation of strategic deterrence and an adequate overall response to the common dangers in the area. In responding to these broader dangers there is very little the U.S. can do alone, and not much that it can do merely by military deployments.

My own belief is that the most important and constructive opportunities before my own country are the preparation and execution of two changes in existing policy, one political and one economic. Each of them is justified on its own merits and each is also a necessary first step toward a more effective relation with both producing and consuming countries. The political change is toward a more serious exposition and application of our conviction about the problem of occupied Arab lands in the West Bank and Gaza. The economic change is the development and execution of a much stronger energy policy — conspicuously including much heavier constraint on the consumption of gasoline. I am very far from believing that either of these changes is easy, or that both of them together would resolve all the difficulties and differences that are now a part of our relations with the varied states of the Persian Gulf region. It is one thing to do what is right by our own standards, and quite another to accept the judgment of others as to either our own basic energy requirement, or our deep and abiding commitment to the security of Israel. But to put the matter on no higher level, until we have done what our own best judgment requires in these two cases, we shall not be well placed for the conduct of effective discussions either with our allies or with our friends among the major suppliers.

Of course one object in such a reframing of our own posture must be the pursuit of better understanding with others. The members of the Alliance, along with others, have a deep common interest in the security of oil supplies from the Persian Gulf. But that common interest does not of itself provide a common frame of discourse, and still less a guide to common action. The Alliance itself, as we all know, is not self-executing when it comes to the determination of specific assignments or the acceptance of specific responsibilities. Necessarily it will be even harder outside the geographical area defined by the Treaty, and there

are excellent arguments against any organized and homogenized effort. Our special capabilities and our particular day-to-day concerns are different, and there is as little persuasiveness in the notion of a parade led by Washington as there is in the suggestion that somehow there can be a new triangular harmony established by Europe, the Middle East, and Africa. We are concerned here not with paper systems but with the development of a process in which we do not pretend that we can attack the problem by attacking each other.

This may not be the place, and I am most surely not the man, for a detailed discussion of the ways in which the major nations of the Alliance, and perhaps also the Alliance as a whole, might play varied and constructive but mutually reinforcing roles in the development of their policies toward the nations of the Persian Gulf, and more broadly of the Middle East. I myself doubt that any large-scale general common plan is either practicable or desirable, at least in the near future. None of us should forget that a fundamental requirement in any effective policy or set of policies is that it should respect the fierce devotion to their own independence that characterizes even the most threatened of the major supplying Arab states — and Iran as well, for that matter. Thus it is predictable that any public Western effort at a gang-up would be self-defeating. At the same time it is absurd that consumers should continue to remain fragmented and enfeebled while suppliers continue to press for advantages that now begin to threaten — I think for the first time — to go beyond what is justified by real scarcity and real alternative costs.

But all I really feel competent to say on this subject is that there is no other topic which more urgently requires a determined effort at a most serious and responsible process of communication among all the governments concerned, exporters and importers alike. The urgency of such communication should override lesser priorities, and since I am speaking as an American I will say only that in my view the American government should be willing to talk with every other government on the terms which that government itself prefers — privately and informally, publicly and conspicuously, in small groups or in large, in terms of assured supply, of assured real return, of risk-sharing against the unpredictable. The only general rule that should govern these discussions, I think, is that we should give no assurances to anyone, on any terms, that would limit our ability to take out our own insurance, as, for example, by the timely and energetic execution of our long-asserted intention to establish and maintain substantial emergency oil reserves. I make this exception both because it is timely and because I would equally respect the efforts of other consumers to strengthen their own access to new and old sources of supply. Every new supply line that is opened, and every old one that is reinforced, is good for the overall effort, which is why, to change the subject only a little, it makes sense to sell good drilling equipment to the Soviet Union, even — especially — after Afghanistan.

In summary: extended conversation with all; reasonable cooperation with those who are prepared to share it; privacy for those who prefer it — and in the end the same independence of judgment for ourselves that we are prepared to respect in others. It is a very general description of a very general state of mind, but I hope it may offer some useful guidance to ways of thinking not noticeably worse than those that now prevail.

VI

I have now argued that we understand and can fulfill our basic engagement to Europe. I have argued the case for particular ways and means of doing our part of the job in four different fields. Before I stop let me offer a very few thoughts on how Americans in the 1980's should think about the role of Europeans.

First, I know of no reason for Americans to regret that the relative strength of European countries, at all levels other than that of large-scale strategic strength, has grown and is likely to grow further. We should be particularly happy at the prospect that new dangers in the Persian Gulf may gradually bring a reversal of the general political passivity which has governed European relations to the world east of Suez through most of the years since 1956. Nor should we expect that their growing relative economic strength and their new political awareness will make their views or actions identical with our own. No two of them indeed will do things in exactly the same way. But should we not expect and even welcome that variety, if only because we surely cannot bring it to an end? It is not perversity but history that gives events in Afghanistan one resonance in London and quite another in Paris. Yet there can be advantage for all in such special relations as those between France and Iraq, even while differences among us over sensitive questions of the transfer of nuclear technology must be expected to continue (though perhaps with some slow increase in mutual understanding). And as for Great Britain, we have the recent triumph of British diplomacy in Rhodesia to remind us that a newly active British voice can only be welcome, from the American standpoint, all around the Indian Ocean.

But the most important special case of all remains that of the Federal Republic; no other country in the Alliance is so exposed to the East; no other bears the triple burden of a national division that gives special meaning to détente, a complete nuclear dependence whose weight is softened but not eliminated by fundamental political sympathy with Washington, and an economic strength that is subject to some measure of progressive taxation for the defense of the Alliance. So there is no country whose leaders deserve a more careful hearing in the West, and none with a better claim to know exactly what the Americans think they are doing. And while the German role outside Europe, and especially in the Middle East, must be primarily economic, the kind of economic action that is open to the Federal Republic is just the kind that can have major meaning in political and even strategic terms.

So the right course for Americans is to try to conduct ourselves in ways which take account of, and even encourage, the particular activities which are preferred by our friends for their own reasons. Obviously there will always be disagreements, but our own purpose should be to avoid them wherever we can. It really is not in our interest to waste our influence in efforts of persuasion that are bound to break down on deeply different real attitudes: this is why it makes more sense to discuss the Moscow Olympics — an issue that can unite us — than technology transfer, where our differences are genuine, long-standing, and deep. An alliance that respects its own diversities conserves it strength, and sometimes also can surmount apparent contradiction.

From such a posture an American can ask in return for some understanding of our own democratic peculiarities. One of them is that we overdo our elections. Another is that we are impatient. A third is that in day-to-day affairs we are sometimes undisciplined. Elections, impatience, and indiscipline can be found in every four-year period of our history, since 1944. But every four-year period over those same thirty-six years also shows the persistence in our partnership with Europe, and, at the upper limits of danger, a sound combination of determination and discretion. We may not be a perfect ally, but in our weight-class we are much the best available. We repay understanding and even criticism. It is true that we are in a time of economic trouble, but what is most significant about our present mood is that it carries with it no weakening of our national determination to do our share in the political and military affairs of the Alliance. We have met this test in the past and I believe we will in the future, for as long as we do not come to doubt our welcome.

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DISCUSSION

A. *Iran* (It should be noted that this conference took place the week before the failed U.S. attempt to free the hostages in Teheran.) Discussion of this subject was dominated by reactions to President Carter's call for alliance solidarity on the issue of the American hostages — in particular, for support of economic sanctions aimed at securing their release.

To begin with, most participants agreed that this was not just a matter between the U.S. and Iran. Not only were humanitarian considerations and political loyalties involved, but international legal principles and centuries of diplomatic practice were at stake. As one International speaker put it, it could not possibly be in the strategic interest of the West as a whole for the U.S. to be seen — by the Russians, the Saudi Arabians and others — standing alone in its humiliation. A German said that what had happened to the Americans could happen to any other country, and called for a "joint reaction against this barbaric act." An International speaker thought that Europeans — for the sake of their own dignity, and not just to be "good allies" — ought to join in acting against this violation of international law. The author of the French working paper regretted that there had not been an immediate European reaction as soon as the hostages had been seized, at least in words. "The longer you refrain from showing solidarity in words, the more you have to show it in action."

Two other Frenchmen took a somewhat different view. One professed astonishment that what he saw as an essentially bilateral problem between Iran and the U.S. had been distorted and inflated into a much larger problem. Real solidarity had to begin, he argued, with a recognition of what was realistically possible. It might be true that legal principles were involved, but for the

Americans to insist on solidarity overlooked Europe's dependence on Iranian oil. This psychological error was pushing many Europeans toward neutralism.

A compatriot remarked that, while in the last analysis we were all in the same boat, in the shorter run Europe was much more sensitive than the U.S. to developments around the Persian Gulf. The closer one was to danger, the more he had to seek a *modus vivendi*. If Iran were to fall into the Soviet sphere, Europe would have to manage somehow. This was the backdrop against which many Frenchmen today — including some considered pro-American and pro-Atlantic — were tending toward neutralism. The worst outcome in their view would be to have followed an American policy which failed. To illustrate the point that emotional arguments were playing too preponderant a role in the hostage question, the speaker said that a Japanese newspaper had asked rhetorically whether the U.S. would be prepared to sacrifice important economic interests of its own for the sake of fifty Japanese hostages. Finally, he quoted King Hassan of Morocco as having asked whether it was a question of saving fifty hostages, or of saving America. If it were the latter, one would have to be prepared for the sacrifice of the hostages. America had to recover its freedom of action, even if this would cost it dearly.

The growing sense of frustration and humiliation in the U.S. was described by one American speaker, who was supported by others. No issue in recent times had so engaged the emotions of the American people as the fate of the hostages; it was becoming an almost obsessive aspect of life in the U.S. Perhaps the President's course of patience had been the right one, but people were feeling so outraged and dishonored that stronger action might become politically imperative. Through all of this, many Americans felt that they were not getting the support to which they were entitled from their "recluctant allies".

Looking at this from another angle, a German wondered whether the Americans were not tending to take out their frustrations about Iran on their European friends, as well as on the Russians. The analogy now dominant in American discussion was that of the appeasement of 1938, whereas the European mood was to beware of slithering into an unwanted war unawares, as the world had done in 1914. The present situation had made the dialogue between the superpowers more important than ever, the speaker said. The U.S. should not expect the Europeans to accede to all the demands that came out of Washington. In the Iranian case, for example, they might reject the idea of a naval blockade or a breach of diplomatic relations, but support some form of economic sanctions.

This led into a discussion of the probable effect of economic sanctions. A number of participants expressed strong reservations on this subject, citing historical precedents. During the Ethiopian war of the thirties, sanctions against Mussolini had served to strengthen his hand, forcing even his opponents to side with him. Economic sanctions against Rhodesia had been somewhat counterproductive. (An American was not sure that they had really been effective since they had forced the British to repeal the Stamp Act in 1766.)

Other Americans feared that economic sanctions would not only not lead to the release of the hostages, but might even invite reprisals against them.

Furthermore, by immediately reducing the living standards of the Iranian people, sanctions would play into the hands of the Ayatollah Khomeini, providing proof of the American tactics he had been warning about. Moreover, sanctions would strengthen the Soviet capacity for intervention and subversion. If the West sharply reduced Iranian imports — either through an arrangement by major trading partners or a naval blockade or mining of harbors — the Russians could be expected to try to make up the shortfall, by an airlift or land shipments across Iran's northern border. This might not have a big material effect (Iran's population was nearly twenty times what West Berlin's had been), but the propaganda value for the Soviets would be considerable. Reduction of exports — mainly oil — would work a greater hardship on Europeans than Americans.

If economic sanctions succeeded, they might lead to the collapse of the current regime, the disintegration of Iran as a state, and an invasion from neighboring countries.

A German participant was convinced that sanctions would not lead to the liberation of the hostages so long as Iran lacked the normal organs of government, including a responsible decision-making center. The pain and suffering of economic deprivation would be felt by those who were powerless to do anything about the problem. And the more effective they were, the more likely they would be to push Iran into the orbit of the Soviet Union and other East European countries.

The greatest danger, though, would come if economic sanctions did not work. What would we do next? Would there not be intense pressure on the American government to resort to military measures, with the accompanying risk of interruption of Persian Gulf oil movements, extensive armed conflict in the region, and a direct military confrontation between the superpowers?

Despite all these misgivings, the speaker said that the government of the Federal Republic was prepared, as an expression of solidarity, to support the U.S. by participating in economic sanctions. All that the Germans asked, he said, was that their judgment that sanctions were not sensible would be carefully weighed by the Americans. He said that he spoke with a great sense of personal sympathy for the plight of the Americans, having been involved himself two years previously in negotiations with a criminal terrorist group which had held some 90 people hostage for over six weeks. In that case, many "very exotic solutions" had been considered, and leaders of the major political factions had been informed and consulted continuously. Consequently, no possibilities had been overlooked, and nobody in public life had been able to question what the executive was doing. Based on that humiliating experience, the speaker was able to understand the emotional frustrations of individual Americans, and he had great admiration for the self-discipline and caution with which the U.S. administration was behaving under political pressure.

Other Germans, who were equally skeptical about chances for success, remarked that nonetheless sanctions against Iran would be relatively easy to control and that they would at least buy time. One speaker wondered to whom in Teheran we could address our common protest, and asked just what those who were against economic sanctions would propose in their place.

An answer to this was offered by an American participant, who was also dubious about economic and military measures, but who advocated the diplomatic isolation of the Iranian regime. He suggested that the hostage crisis be taken out of the bilateral mood of an Iranian-American confrontation; having as one of the adversaries the "imperialist, oppressive" U.S. just played into the hands of Khomeini and the Soviets. Instead, it would be appropriate for the Europeans to take an initiative by announcing to the Iranian government, in effect: "Since you have shown total disregard for the sanctity of embassies, established now for some 500 years, we can no longer afford to maintain a diplomatic mission in Iran, with all the risks which that entails. Accordingly, until such time as the hostages are released the European governments will withdraw their embassies from Teheran and, on a reciprocal basis, send home the diplomatic representatives of Iran in Europe."

This would be a punishment to fit the crime, and the Ayatollah would have a hard time making propaganda out of a measure which originated with Europeans, not Americans, and was not aimed at the well-being of the Iranian people. Nevertheless, it would be bound to have an effect on the Iranian population.

This proposal received support from a number of participants. A fellow American was reminded of the success of another European initiative — the Nuclear Planning Group — and thought that this new "exercise in agreement, rather than disagreement" might have considerable impact on even the Ayatollah Khomeini. A Briton regretted that Europeans had not taken such collective action months previously, when it had been evident that Iran had put itself beyond the pale of civilized countries. Moreover, he added, such political isolation might now dissuade President Carter from taking more drastic action under political pressure. An International speaker was worried, too, about the prospect of military sanctions and hoped that there was still time to prevent them.

Two Germans registered their opposition to the political isolation of Iran, and an Italian likened it to "a man's cutting off his manly attributes to spite his wife." It would mean, he explained, breaking off all communication with the person you want to talk to, while allowing your adversaries to have free access to him. Both economic sanctions and political isolation had been suggested as the only means to deal with an irrational government moved by crowd emotion. At the same time, one expected a rational reaction from the irrational, and sometimes demented, leader of that government, which was a vain hope.

The speaker ventured to guess that Lorenzo di Medici would have settled this matter by giving the Russians a free hand in Afghanistan in exchange for a free American hand in Iran. Some of our fundamental difficulties today lay inside us — our noble, respectable incapacity to do things to people who were still, in essence, living in those earlier times.

One American welcomed the political isolation proposal, but characterized it as a "one-shot solution," which did not go very far in meeting long-term problems. A compatriot agreed that we would be confronting for some time in Iran a major revolutionary upheaval whose end we could not foresee, which might lead to the ethnic division of Iran and a greater opportunity for the USSR to use that

division, along with other factors, to increase their influence. The radicals in the Khomeini regime needed a foreign scapegoat, and the hostages were filling that need. Instead of completely isolating Iran politically, would it not be wiser to devise some plan among us whereby — even if the U.S. could not do so — Europeans could maintain contact with moderate elements inside Iran?

A Luxembourg speaker tended to favor the political isolation of Iran, but he predicted that political action taken by Europeans would not necessarily be along lines requested by the Americans, who should not expect to be blindly followed. In solving problems like the Iranian crisis, we should rely more on the advice of traditional diplomatists. Above all, we should seek solutions together, not alone; there were potential hostages in all our countries, and our actions would set important precedents.

A Portuguese participant said that his country had made it clear that the Azores would be available to the U.S. as a base if needed in the liberation of the hostages. At the same time, the Portuguese were made uneasy by the memory of 1973, when a similarly helpful attitude had resulted in their being cut off from oil supplies and left with little support or help. They would hope not to be put in such a spot again.

An American participant intervened to say that his government had arrived at some "hard-earned modesty" on the subject of the hostages. No one could say with any certainty what would or would not bring about their release, and we all had to approach the question with humility. It would take some time to determine what effect the sanctions would have. The U.S. had tried a variety of approaches, loosely characterized as "diplomatic," through a number of channels. The President was now proposing an intensification of peaceful measures without foreclosing other diplomatic approaches or sterner measures. The speaker did not share the fear that a failure of the sanctions to produce some very rapid result would lead to further intensification or indeed to military measures. We should nevertheless be thinking about what to do if the sanctions did not work.

An International speaker reported that there had been full and active consultation about Iran (as well as Afghanistan) within the North Atlantic Council and the Defense Planning Committee. Very recently a message had arrived from the administration in Washington detailing the measures that the U.S. might be compelled to take in the hostage crisis, and discussing in a positive way how the alliance might react.

Finally, an American participant argued that what was going on in Teheran was not in the interest of any of us. After months of patience, it was time to apply not only political pressure but economic sanctions. We should not get sidetracked on an analysis of how effective economic sanctions would be. Simply agreeing to them would be a significant political act, demonstrating that our countries were prepared to risk certain concrete interests. Several speakers had counseled against a tough stance, for fear of pushing Iran into the Soviet camp. But that was a recipe for paralysis; a great power had to pay a price when its citizens were held illegally month after month, and this had important implications for the alliance.

Beneath all the discussion here lay the fundamental question of whether the allies shared a common analysis of the international situation. If the Europeans saw the Iranian crisis as essentially an American problem, and were only going along to show their "solidarity," then we had a much more serious problem in the alliance than we realized. The same was true of Afghanistan.

B. *Afghanistan.* A British participant likened the three major current international crises to "three plays being performed by different actors on the same stage at the same time," which had led to substantial intellectual confusion: the Afghanistan play, the Iranian play and the Arab-Israeli play. While the most dramatic of these was the hostage play — which one hoped would be only one act — the Afghanistan play was perhaps more important in the long run, pointing up the need for an effective counter to Soviet pressure, not as a means of punishing the Russians, but of deterring them.

The governing party in Britain — before being elected — had completed and published an analysis of Soviet policy which had prepared them to issue, after the Afghanistan invasion, a reaction which was sharper than either their French or German allies. (It might have ended up being the *only* sharp reaction, had President Carter not undergone his own change of feeling about Russian intentions.) In any case, this harsh British reaction was the result of their own assessment of the situation, and represented in no way an attempt to renew their old "special relationship" with the U.S., as the author of the French working paper had suggested.

One reason most of the allies had not better prepared to react to the Russian invasion of Afghanistan, according to an International speaker, was that they had heard "wolf!" cried too often before. Nevertheless, the U.S. government had warned its allies as early as last November that Soviet troops were massing on the northern frontier of Afghanistan, a presage of possible intervention. All the allies were menaced in the same way by this escalation of Soviet military power, but they did not all see the danger in the same way, so that there was no consensus about how we should react. The U.S., though, had unequivocally warned the Soviets that any new movement toward the oil fields would mean war. If the European powers had given the same sort of warning to Germany after Munich, World War II might have been avoided. (A German speaker differed with that, saying that no protest would have stopped Hitler, who had "wanted his war.")

Another German speaker, who was seconded by a Luxemburger, wondered whether Afghanistan was part of a relentless geopolitical advance of the Soviets, or rather a specific response to a specific problem on their southern border — a passing phenomenon. In either case, the problem of Afghanistan would not be solved by moving the Europeans into the firing line. That would jeopardize all the palpable gains of détente, which had brought more room for dissidence and more human contacts between the two Germanys.

The author of the French working paper took exception to the general European preoccupation with analyzing at length *why* the Russians had intervened in Afghanistan. To him, it had been simply to avoid the contamination of Islam, as they had intervened in Czechoslavakia to avoid the

contamination of liberty. One could say that they had acted to protect their internal empire — but none of this was important to the question of whether and how we should react.

On this point, an American speaker said that the basic questions about Soviet motives in Afghanistan should be asked in connection with their part in the coup d'état which had brought a Communist regime into power there in April 1978. The Soviets had been preparing for that opportunity for many years, having begun a training and advisory program in the 1950's which enabled them to organize their own cadres within the Afghan armed forces. As early as the 1960's, they had organized Communist political groups inside the country, and in 1977 they had forced a merger between the two principal feuding groups. Given their close ties to Taraki and Karmal, it was inconceivable that the Soviets had not had advance knowledge of the coup of April 1978.

The key question was why they had found it necessary at that time to destroy a nonaligned and independent government which fully protected their interests and posed no threat to them. The speaker's conclusion was that this had been an act of imperialism, culminating 150 years of advance into central Asia. He further believed that neither the Americans nor the Europeans had possessed the political or military assets to forestall that coup.

After April 1978, the old split within the Afghan Communist movement had re-emerged, and insurgents had begun to operate in the fall and winter of 1978-79. In September 1979, Taraki had been overthrown by Amin, who had proved to be a less dependable puppet. The USSR had then invaded in order to protect "their revolution," a clear example of the operation of the Brezhnev Doctrine.

The Russians' entrenchment in Afghanistan offered them various advantages. Through overlapping tribal groups in Iran and Pakistan, they had new opportunities for infiltration and subversion in those countries. By contending that history was on their side, they also could hope to intimidate other states, especially in the Gulf area. This participant disagreed with the suggestion of the previous speaker that the Soviet invasion had resulted from their own fear that the Islamic revolution might spread into their southern regions, although the growth of the relative size of the central Asian population within the USSR was indeed a cause for concern in Moscow.

We should not base any of our policies on wishful thinking that the Soviets could be dislodged by military means. The Afghan insurgents lacked firepower and outside support, and no groups were openly complaining in the Soviet Union about Russian casualties. Nor should we hold out much hope for neutralization of the country. Furthermore, it was unrealistic to expect the Soviets to leave voluntarily, as anyone who had been associated with their regime would be summarily dispatched by the Afghans after their departure.

Unfortunately, the Western response to the coup of April 1978 had been almost nonexistent. And our neglect had not even been "benign." The most important thing we could have done was to restore close ties and working relations with Pakistan. Instead — in the name of human rights and nuclear nonproliferation — we had virtually destroyed the links between the U.S. and

Pakistan, cutting off all American assistance to that country in 1979. The shock of the Soviet invasion had finally made clear the threat to international stability and to our oil lines.

The speaker concluded that, for the most part, our response to the invasion of Afghanistan had been appropriate. Although we could not hope to oust the Soviets militarily, we had to make the point that this kind of transgression against the international order could not be tolerated, and that we would not hesitate to take measures to protect our access to the oil of the region. We would have to keep our military forces "over the horizon", and we could not expect the Arab states to help us. We should seek to regain Pakistan's shaken confidence, and to supply arms to the Afghan rebels, who would continue to fight as long as possible. The terrain in Afghanistan was not conducive to effective guerilla warfare, especially against helicopters, but the rebels' bravery would keep them going for some time. Above all, our response to what the Soviets had undertaken would have to be with consistent policies which underlined our interests both in that region and globally.

A Portuguese participant said that the Afghan invasion had to be condemned on the basis of international principles. It had changed the geostrategic picture not only in that region, but worldwide. The question was, what were we going to do next in response to this Soviet move? The speaker found the Iranian and Afghan problems to be very different in nature, and he regretted that the Americans in both cases were "going along the same road, taking similar measures."

The pros and cons of boycotting the Olympic Games in Moscow were dealt with in several interventions. A Briton thought that such action would only be effective in the context of a wider demonstration, while an International participant characterized it as a sentimental rather than a strategic reaction. Let us not make Afghanistan the touchstone of the survival of détente, he said. An American emphasized that a boycott would be a powerful symbolic protest, delivered within the Soviet Union in a highly visible and dramatic way. Its message would not be lost on the Russian people, whether or not it was followed by other measures.

A German speaker agreed about the symbolic importance of staying away from the games. Thinking back to "Hitler's Olympics" of 1936, he asked whether the various countries really had to wait for a lead from the U.S. Olympic Committee before acting on their own. With all of our talk about human rights, did we not have the moral strength to adopt a stand? The German Committee would take its final decision the following week, but it appeared that three-quarters of the citizens of the Federal Republic favored a boycott.

Another German predicted that his country was likely to follow the American lead and boycott the games, although many people doubted this would induce the Russians to leave Afghanistan, and indeed feared that it might bring reprisals on dissidents and Jews in the Soviet Union. The Germans in any case could not be more concerned than they were about the implications of Afghanistan, and believed that there had to be a Western response. They were prepared to support economic sanctions in matters of strategic importance, but not if certain

countries, or the West as a whole, would be hurt more than the Russians. It had to be remembered that the Germans had certain treaty obligations with the USSR, and they wanted to avoid giving the Russians any excuse to break those treaties. (A compatriot agreed that it was enormously important for the Germans, living in a divided nation, to maintain their obligations, and they would not let themselves be talked into not honoring their agreements.) Most people in the Federal Republic believed in a combination of incentives and pressures to get the Russians out of Afghanistan, and in the need for a long-term strategy to deter further aggression. This would include redressing the military imbalance, and perhaps the single most important and credible signal America could give the Russians in the wake of Afghanistan would be the reintroduction of Selective Service in the U.S.

A Greek speaker advocated both a boycott of the Moscow games and a limit on the growth of Western credits to the USSR.

According to a German participant, the French working paper had overemphasized the consequences of economic sanctions on the Soviet Union, and the possibilities of Russian retaliation. Germany's trade with the Eastern bloc, for instance, amounted to little more than seven per cent of its total foreign trade, and the value of high technology exports to the East had been exaggerated. Furthermore, an embargo could be easily bypassed via neutral or socialist countries, and the Soviets could take counter measures within their own orbit. Perhaps the strongest argument against economic sanctions was that relations among the allies were bound to suffer as they wrangled month after month about the framework and its details.

Several participants commented on the suggestion by the author of the French working paper that the fate of the people of El Salvador, under a regime supported by the U.S., was probably not much better than that of the Afghans.

One American remarked ironically that he was "fascinated by visions of 80,000 U.S. troops in El Salvador," while another called the comparison "inaccurate, outrageous . . not helpful or productive."

A Swiss participant commented on the difference between the two situations as observed by the International Red Cross. In Latin America — e.g., El Salvador, Nicaragua, Guatemala, Argentina, Colombia — the Red Cross was allowed to visit all political prisoners without the presence of witnesses, to bring letters and family news both ways, and to give medical care. The prisoners in these countries were free to register complaints on any subject, including the U.S. But it was notable that, while there might be complaints about U.S. political influence, there were no complaints of American military aggression or torture.

In Afghanistan, the Red Cross had not been allowed to visit a single prisoner, political or military, and it had been furnished no list of names. In the USSR, it had not been permitted for the last fifty years to visit political prisoners, and such visits were also forbidden in East Germany and other East bloc countries, as

this tended to make Europe's "solidarity" with the U.S. merely tactical or emotional. The divergence of attitudes did not need to concern us; that was common enough within the European Community, so why should we not expect it across the sea? But we should each put our analysis of a problem on the table, discuss the substance of our differences, and hope to arrive at a consensus.

A German participant described the events of recent months, as well as some of the interventions at this conference, as being "as peculiar as they are unusual." The Iranians had taken the American hostages and the Soviets had oppressed the Afghans. Europeans had expressed regret at this, then turned back to their daily business, including criticism of the Americans. Perhaps criticism of the Carter administration was justified in many ways, but it had to be admitted that many Europeans would have criticized any U.S. administration, no matter what its policies; it was simply a pretext for not taking any action themselves. The national egoism which Europeans had so clearly displayed in recent months would not help us to find our way back to the spirit of the alliance and to do the courageous things which had to be done.

Another German speaker called for a concerted Western response to the constellation of four crises: Iran, Afghanistan, Palestine, and a new arms race if SALT II were not ratified. These dangers were all interrelated, and it would be unwise to try to settle some of them without reference to the others. Only on the basis of close consultation and cooperation could real alliance leadership emerge; it was no good to try to command it. The leader had to listen to its allies, to be prepared to talk to them several times about a single issue, to put itself into their shoes every day. It was not enough to proclaim leadership occasionally in Sunday speeches. But the leader's role in the alliance could only be exercised by the U.S., which could not be supplanted by another nation or configuration.

The latter conclusion was described as "perhaps too Manichean" by an International participant. Could not the allies, all together, facilitate the task of American leadership, and at the same time do more than they had in the past?

Another International speaker said that the Americans, whose generosity and unique power had provided the framework for past alliance policy, were "becoming more like the rest of us." They would no longer be able to provide that leadership — no matter what administration was in office — and this foretold a reformulation of the alliance into a real multilateral affair, with the other partners, especially the Federal Republic, Britain and France, taking up the leadership slack. If that did not happen, though, we risked drifting into an "everyone for himself" policy, which would generate profound frustration on both sides of the Atlantic. The U.S. would be led to blame its allies if America's unilateral policies did not succeed, and Europeans would resent being pushed into responsibilities for which they were not yet ready. The fumbling of the alliance in trying to come to grips with Afghanistan and Iran underlined the need to start meeting the next crisis, having learned something from the last one. In any case, this transition to shared leadership was bound to give us "a rough ride, over choppy seas."

An American speaker reflected on the role of political leadership, which was, as he saw it, to explain to the public amidst the confusion of events what the

underlying pattern was and what the basic direction of policy ought to be. The most dangerous course would be to try to register every fluctuation of public opinion that might arise. The public would not forgive its leaders for producing catastrophes, even if they were the result of public preference.

The trouble with our discussions — both in the U.S. and among the allies — was that they were focussed on technical questions, such as the working of economic sanctions, and not on the fundamental issues of where we were aiming to go and what we were trying to do. We would have continual difficulties until we explained those issues to our people in a coherent and clear-cut fashion.

D. *Division of Labor.* The division of responsibilities between the U.S. and its European allies had been nicely responsive to immediate postwar conditions, according to an American speaker, but the reallocation of wealth attendant on Europe's recovery had not been accompanied by a reallocation of responsibilities. Several participants said that a new division of labor was now appropriate, but, as one Briton put it, this would probably mean a change in the thrust of the alliance. The U.S. would still be the most important nation, but no longer the dominant one.

An Italian dated the onset of the transition phase to the collapse of the Bretton Woods system in 1971. Just as the dollar had fallen as the cornerstone of the monetary system, so American military power had ceased to be convertible into credible action. This presupposed a new sharing not only of responsibility but also of labor. America was still the center of power, but as it was a democratic state, we could never expect to be as quick at decision-making as the Warsaw Pact.

Various speakers agreed that if the U.S., and possibly Britain, were called on to deploy military or naval forces outside Europe, the other allies would stand ready to fill in the gap. But one German participant explained why his country had to be careful not to do this alone, or to "stick its neck out too far," as he put it. Germany was a divided nation: 17 million Germans lived in the eastern part, some two and a half million in Berlin, and hundreds of thousands in the Soviet Union, Poland and Rumania. Since the Helsinki conference, 230,000 Germans had been allowed by agreement to leave the East, and to acquire full human rights in the West. German leaders had been worried that the human rights campaign might jeopardize the progress that was being made along these lines. If the Eastern administrations, which were already very sensitive about the matter, were to be challenged too openly by the Federal Republic, these repatriations could be brought to a halt. The delicacy of the situation was not widely understood among Germany's allies, but it was being played out against a backdrop of heightened nervousness in the Eastern countries. A recent military parade in Budapest, for example, had lasted for three hours — an intimidating display of tanks, rockets and low-flying MIGs. This speaker asked parenthetically whether it was appropriate for the U.S. to question the solidarity of its European allies when it did not even have military conscription. Granted there had to be more equitible sharing of the burden, but even American politicians and journalists were raising the question of whether the U.S. was really living up to its defense capabilities without the draft. The author of the American working

paper intervened to remark that the U.S. might well have to re-examine its all-volunteer army policy.

An Italian objected to the term "division of labor," which he said the Comecon nations used in place of "the market." It suggested that one party did the deciding, and the others had to do what had been decided. This concept would not increase the force of the alliance, but just change the rankings.

A Briton, though, judged a fairer division of labor to be a reasonable American aim, and a "touchstone of an effective and truly Atlantic alliance." If the alliance could not respond as a whole, then those who could should be more forthcoming.

The author of the French working paper remarked that nothing had changed on this subject since the first NATO conference in Lisbon in 1952. Suggestions that the Europeans shoulder a greater share of the burden had invariably been met with the objection that increased defense spending would weaken their economies, which would encourage Communism. The truth was that Europeans did not honestly wish for real European military strength. They recognized that it could not be achieved unless Germany had nuclear arms, which was politically out of the question.

A Briton conceded that this might be the habitual European mood, but he argued that it was the task of politicians to try to change public attitudes. It was demonstrably false that Europeans could not spend a larger percentage of GNP on defense without favoring Communism. All the European governments at the moment were deliberately depressing living standards "out of theological devotion to untested economic theories from Chicago," and increased defense spending — if not at the expense of other public spending — would in fact reduce the threat of Communism. We could really not go on basing our thinking on the premise that nobody wanted to see the German defense forces increased. The speaker was not advocating nuclear weapons for Germany, but simply a greater European contribution on the conventional side, which would relieve some of the burden on the U.S.

E. *The Current American Mood.* A U.S. participant described the mood in his country today, which he said was marked by much confusion, the absence of a sense of great crisis, and a reluctance to make important sacrifices — whether for energy, for defense, or for the hostages in Iran. This was perhaps not surprising, as the American people were confronted with a series of problems for which they felt they had no answers, including inflation, oil and Islamic fundamentalism ("a curve ball thrown by history"). They had got through the last quarter century fairly well, but the future would not be a projection of the past, as there were many new elements in the picture.

To judge from the leading presidential candidates, one might say that Americans were reasonably content, and did not want an activist government. But their problems were deep and long-term, and could not be solved by passing them along to the diplomats, as a previous speaker had suggested. The most important contribution Europeans could make now was to be very much aware of U.S. politics, and to try to advance their suggestions in a way that would not antagonize "the sleeping, unknown god of American public opinion."

A compatriot agreed with this analysis of U.S. opinion, but thought nevertheless that, given proper leadership, the American public could focus on new things. Most of us tended to forget what an unprecedented step had been taken by the U.S. in 1949 in signing a treaty of alliance with Europe which called for its troops to be stationed abroad indefinitely.

A British participant sensed that, if American opinion was muddled, it was the result of an incoherent U.S. policy over a period of time and could be remedied quickly by a coherent one. Several participants had suggested an irrevocable shift away from American leadership in the political and military fields, but the speaker did not agree. President Carter's incoherence had been unnecessary and had produced doubt and hesitation in the public mind. The lessons of Afghanistan and other crises might begin to turn the tide.

An American speaker alluded to the effect on alliance consultations of the U.S. election campaign (which had become, in the words of another participant, "as stylized as a Japanese *kabuki* play"). Apart from some philosophical patterns, though, the two U.S. parties had no fundamental differences on foreign policy. The American handling of the Iranian and Afghan crises had not been influenced in any substantial way by the presidential campaign, and the members of the alliance were certainly not being asked to support policies created for U.S. domestic political reasons. The policies might or might not be wise, but they were being offered on their merits.

Just as Americans were used to disagreements on domestic political issues, so they did not expect full agreement from their allies. But discord "was not always welcome in individual cases," and recent policy disputes in the alliance about Iran and Afghanistan — which Americans thought involved Europe more intimately than the U.S. — had produced stirrings of isolationism in the U.S., which the speaker hoped would subside. In any case, the alliance remained central to U.S. policy for profound reasons, both strategic and sentimental.

A German participant, who said he had argued about this subject for a decade with Senator Mansfield, agreed that a revival of isolationism was always a latent danger in the U.S.

F. *The Political Evolution of Europe.* If America's current mood complicated alliance relations, so did the growing pains of the European Community. A Belgian participant felt ill at ease with the ambivalence surrounding talk about "Europe." True, a certain number of geographic units had banded together, and international organizations had been formed, but there was no real European decision-making machinery in operation. This was a constant source of difficulty, since American public opinion tended to think that the Community, with all its organs, was in a position to act in a crisis. This was unfortunately not the case, as a veto process was effectively at work, in violation of the Rome Treaty. One of the major responsibilities of Europeans now as to set up a rapid decision-making process. A Luxembourg speaker lent his support to that point.

An International participant regretted that the European Community, as an entity, had been largely ignored in these discussions. European speakers had not underlined the importance of the Community, nor had the Americans indicated that the E.C. might be useful in negotiations to resolve the current crises.

Without greater emphasis on Community action, Europe would not be able to do "the difficult things" in either the political or the economic sphere.

A German speaker shared this concern, warning of the dangers that the Community might break up in bickering over secondary issues, voluminous and important though they might be.

A British participant described as a completely new development of the past half-dozen years his country's acceptance of the discipline of European political cooperation. Britain's first response in any situation now was to wish to consult and coordinate with its partners in the Community. (This attitude was not always reciprocated by the others, a fact of which those who criticized British diplomacy might not be aware.) The speaker believed that the emerging European political cooperation — although the resultant delays might exasperate the Americans — was potentially very important. Europeans should build on it and forego the small political successes which they might achieve if they acted a little faster alone. The manifestation of this spirit was beginning to bear fruit, as with the recent program to help Turkey, in which Germany had taken the lead. The machinery of the two great institutions — the E.C. and NATO — would grind on, but in the gaps between them problems would continue to be slowly resolved on a country by country basis.

Concerning Turkey, an International speaker praised the alliance for the program it had supported to assist that country, but a German participant remarked frankly that the disparities in commitments given to Turkey by the various allies invited a "ridiculous comparison". He went on to comment on the Community's decision to admit Greece. There had been no need to enlarge the E.C. membership, and this would mean a certain economic burden for all parties, but it was an important step for Greek security. The same reasoning applied to Spain and Portugal; their national industries would have a hard time at first, but in the long run their people would benefit.

A Greek participant ventured to say that the preceding speaker, in his conception of "helping Greece," was perhaps overlooking the substantial popular discontent and loss of faith in NATO among the Greek people. There was a fundamental disharmony which could lead within a year and half to Greece's departure from NATO. The absence of support now on issues of principle could bring results which pro-Western Greeks would not want to see.

A Turkish participant said that the next task for his countrymen, along with building up a healthy economy, was to mend their relations with the Greeks. The sources of their difficulties must now appear insignificant compared with other problems in that part of the world. As a Greek participant at this conference had pointed out, there had not been a single Greek murdered during the recent political crisis in Turkey. That could be taken as one measure of the lack of real animosity between the two peoples.

The Turkish speaker praised the remarkable spirit of solidarity behind the OECD efforts — led by Germany — to provide necessary aid for Turkey, which had been put in severe financial straits by the foreign exchange crisis produced by oil price increases and the U.S. arms embargo.

G. *The Alliance and the Third World.* The foregoing speaker went on to discuss the way in which the West, in its relations with the Middle East, had repeatedly chosen to identify itself with individual governments, kings, princes, shahs and sheikhs, rather than with nations or peoples. If our intelligence services had not alerted us to the fragility of those regimes, then we had not been well served. The only worthy statesmanlike approach in the long run was to identify ourselves with broader national interests in spite of the temptations of short-run advantage.

We also tended to bring a double standard to our dealings with that part of the world, and to employ rather questionable practices to facilitate our relations — a phenomenon which would shock us if used at home. If we looked the other way rather than face the issue of corruption, would we not be partly responsible for the fall of the old structure which we hoped to preserve? For the longer run, the speaker was not pessimistic about the outlook for the Middle East. Tens of thousands of students from those countries had been, or were being, educated in the West. If we did not spoil those students, but treated them like our own, giving them a real sense of the world and a sound education, we were bound to reap the benefit. They would eventually bring to the management of their countries' affairs a wiser and more sophisticated mentality than would otherwise have been the case. The combination of a fundamental Islamic faith and an early exposure to the humanistic values of the West should constitute a strong bulwark against Communist pressures in the Middle East.

A Greek participant remarked that the working papers had looked at European-American relations as the center, with Third World problems put in as addenda because of the crisis in the Persian Gulf area. He was more inclined to look at the Third World as the center of the alliance's problems. In the post-war period, the U.S. had placed immediate prestige and self-interest second to considerations of longer term interest. As a result, Europe and Japan had recovered to become nearly equal partners with the U.S., while the Soviets had been contained in Europe. By the mid-sixties, then, one could have hoped for similar acts of statesmanship toward other parts of the world, but by and large these had not come to pass. There had been some successes — America's negotiations about the Panama Canal, Britain's about Rhodesia-Zimbabwe, France's approaches to the Arab world before 1973 — but these were the exceptions.

The gap in psychological comprehension between the West and the Third World had been too wide. A few Westerners with a long experience of political subjugation understood, but there were not many of them. Too much stress had been laid on simple geopolitics. This overlooked the fact that, only when the internal situation of a country became untenable, was the Soviet Union able to move in. Difficulties had also been caused by the West's having to defend the free market concept in the Third World. Political pressures, including consumerism, had made it easy to cut back on foreign aid, with the result that, by 1973, we had not succeeded in making the Third World feel a large community of interest with the West. Consequently we had been punished ever since then, and our varying responses to that punishment pointed up the

differences among us. Even at this late stage, there were certain lessons to be learned from our experience: (1) It was a mistake to support regimes just because they were anti-communist; "an internally sound neutral was ten times better than an unsound ally." (2) The OPEC countries had somehow to be brought into partnership with the West. (3) Aid should go to needy countries, not just to those with political appeal. (4) We needed to be concerned with countries for their own sake.

A Swiss participant felt that the Western countries would be well advised to include humanitarian considerations in their common global approach to world problems, and to defend their position with conviction. Otherwise the prisoners and other victims of turmoil would have to endure suffering without end.

H. *The Arab-Israeli Conflict.* One of the most dramatic examples of being concerned with countries for their own sake involved the Arab-Israeli conflict. While we all wished for a secure Israel, we did not all see equally clearly that the only way to achieve it was through a relationship between an Israeli and a Palestinian state. A German said that, just as Israel had a claim to sure and acknowledged borders as a state, so the Palestinians had a claim to self-determination.

Two Britons, an Italian and an American agreed that any effective restabilization of borders in the Middle East was inseparable from progress toward a solution of the Palestinian problem, in which Europe ought to play some role.

The author of the American working paper spoke of the need for a radical improvement in the fairness of arrangements and the prospects for citizens on the West Bank and in the Gaza Strip.

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An International participant said that he had found the working papers and the discussion of these political aspects too complacent. We were not taking seriously enough "the trembling beneath our feet." The main source of our difficulties within the alliance was the changing power relationship between the U.S. and Europe, and the ball was in the Europeans' court to organize themselves better to speak with the Americans.

But European criticism of the U.S. seemed to have become unusually intemperate; one could not help comparing the mood now with the solidarity expressed at the time of the Cuban missile crisis. The speaker suggested that there was more behind this than simply Europe's desire to be heard, and to take a bigger share of responsibility. Did the explanation perhaps lie in the fact that all of us — and particularly the Europeans — had begun to feel like hostages, partly of the oil-producing countries and partly of the Soviet Union? Had our

self-confidence given way to self-doubt, which we were trying to rationalize by criticizing our allies? If this was so, we had to make these fears conscious if we hoped to deal with them.

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II. SECURITY ASPECT

International Working Paper:

"NEW THREATS AND OLD ALLIES: PROSPECTS FOR THE SECURITY OF EUROPE AND AMERICA"

Nothing in relations between Europe and America changes very much or very fast. That is nowhere more true than in the realm of security. It is frustrating for analysts, who must seek to judge whether the latest flap is a passing thing or the portent of real change, and who find it is almost always the former. For citizens on both sides of the Atlantic, of course, it is a happy state of affairs. It reflects stable societies and settled relations among them rooted in enduring common interests. It means that patterns of transatlantic security relations persist even though the bumbling of governments strains them. NATO at age thirty looks much like NATO at twenty, and not much different than at ten, the military departure of France having made surprisingly little difference.

On their surface, recent events contain hints of a turning point. NATO's recent decisions on theatre nuclear forces (TNF) are a beginning, not an end to that issue, and they suggest changing patterns of nuclear relations between Europe and America. Similarly, the taking of American hostages by Iranian terrorists and the Soviet invasion of Afghanistan stand as stark testimony that the most probable threats to Western security derive from outside, not inside Europe. Afghanistan also marks the definitive end of the period of East-West détente that began in the early 1970's, even if the shape of what will follow is not clear.

On second glance, however, recent events appear to confirm existing patterns, not overturn them. NATO decided, in December 1979, to deploy new cruise and ballistic missiles in Europe capable of reaching the Soviet Union. That step, politically difficult in Europe, represents a reinforcement of, not a departure from existing NATO nuclear strategy: the new weapons will be American, and the principal rationale for them was that they enhance the link to America's strategic nuclear deterrent.

Responses to Afghanistan are harder to read at this distance, but there, too, major change in existing transatlantic patterns is unlikely. Europeans will be called to do more in defense, outside Europe but primarily inside; America will remain the pre-eminent military guardian of Western interests outside Europe. The U.S. will want more flexibility in using its European-based garrisons for purposes beyond Europe, but that will stop short of the need to draw down forces in Europe soon.

Still, it would be unwise to take existing patterns as immutable. The history of the last 35 years is littered with "might-have-beens" suggesting that security arrangements could have turned out differently. When in 1951, for instance, the U.S. first sent large numbers of troops again to Europe, Secretary of State Marshall told Congress that there was nothing "magic" about the numbers, and clearly implied that the stationing was temporary. Or suppose the French parliament had approved the European Defense Community in 1954; a much

more significant European defense organization was not out of the question. Or take the sequence of events from de Gaulle's proposal for a directoire in 1958 through the Skybolt misadventure and French *non* to British entry into the EEC in 1962 to the end of the Multilateral Force (MLF) in 1965. If that sequence had played out differently, the European share in Western nuclear responsibilities might have been much greater.

More than likely, the future will look much like the recent past. The U.S. and its European allies will continue to live with the dilemmas and paradoxes of their defense, never mind that the dilemmas grow sharper. Yet it is worth considering what might drive future security relations between Europe and America to patterns sharply different from simple projections of the present and recent past. I look for possibilities in three areas: one is traditional, nuclear weapons and conventional defense; a second is the question of threats outside Europe; and a third, addressed briefly, is shocks from outside the realm of "security" as usually defined.

Nuclear Weapons and Conventional Defense. In his celebrated Brussels speech last September, Henry Kissinger said that the nuclear umbrella with which he and his fellow secretaries of state rhetorically had covered Europe consisted of assurances that "cannot be true, and if my analysis is correct we must face the fact that it is absurd to base the strategy of the West on the credibility of the threat of mutual suicide." What was mischievous about his words was hardly the newness of the thought — it has been in the back of the mind of everyone on both sides of the Atlantic who thought about the issue for a decade — but was, rather, the political fact of the emperor's aide saying that the emperor had no clothes. He began to back away from his words as soon as he said them.

Plainly, there is in the current pattern of transatlantic nuclear relations a paradox that cannot be resolved. No one could ever be sure, 20 years ago or now, that the U.S. would in fact use nuclear weapons if only Europe were attacked. The reasons for doubt are greater now, but the situation is not qualitatively different since the time in the mid-1960's when the U.S. became vulnerable to a nuclear attack from the Soviet Union even if America struck first. Weaponry matters, but now, as two decades ago, it comes down to Europe's confidence in America's will. That is why nuclear issues are barometers of more general strains in transatlantic relations.

Necessary as nuclear modernizations — by both the U.S. and its allies in NATO — are, nuclear parity between East and West, both in Europe and in intercontinental systems, will be a continuing fact of life. The Soviet Union is deploying SS-17, 18, and 19 ICBMs at the rate of about 125 launchers a year. In systems aimed at Europe, the SS-20 has received most of the attention; some 50-60 are being implaced each year. But the Soviets also are developing new shorter-range systems for Europe: the SS-21, 22 and 23.

Whatever the U.S. and Europe do, and there are a number of things they should do, they will not recover a nuclear superiority that is psychologically reassuring, let alone militarily significant. Nuclear questions will continue to be sensitive. The December decisions by NATO thus represent a beginning, not an end; they will not usher in anything like the last 15 years of *relative* quiet on

nuclear issues between the U.S. and Europe. What will that mean? A continuation of the present is most likely: modest new deployments plus evolutionary changes in doctrine plus efforts at political reassurance. Yet several other courses are possible, though neither is likely.

The recent decisions by NATO, and the process that produced them, bear comparing to the MLF episode of the early 1960's. Many of the initial concerns were the same; then as now they came down to the unknowable: would the U.S. respond? Allied attentions first ran to hardware "solutions" culminating in the multilateral force (MLF) — a fleet of NATO surface ships, manned by sailors of different nations, carrying medium-range nuclear missiles whose firing would be under American control. In the end, the resolutions were much more political than "hardware". From 1963 onward the U.S. assigned submarine-launched missile warheads from its central strategic arsenal to NATO for planning purposes, and officers from NATO countries became interested bystanders at the Strategic Air Command (SAC) headquarters in Omaha.

However, the principal measure was the creation, in 1966, of the Nuclear Planning Group (NPG). Initially with a rotating membership always including the Alliance's major members and now with a permanent membership, the NPG served to give Europeans access to American nuclear planning. It built confidence without changing weaponry or procedures for its use. It sufficed to lay nuclear matters to rest, I judge, in part because of the evident lack of wisdom of more dramatic "hardware" solutions. However, it was also enough because the East-West climate was warming, and European confidence in America was growing, hence nuclear matters were less sensitive.

Last December, NATO opted for a combination of hardware and procedural solutions. The hardware — 572 cruise and Pershing II ballistic missiles — while more political than military in purpose, was based on a solid military rationale, even if that rationale was not always the one argued in official pronouncements. In 1980, unlike 1966, procedural solutions alone probably would not have sufficed, but NATO's decisions embodied several of these as well. New nuclear machinery was created: the so-called High Level Group of the NPG made senior officials from capitals central to NATO discussions, and a parallel Special Group dealt with arms control implications.

The spectre of the neutron bomb debacle was much on the minds of those who made the December decisions. Washington learned from the neutron bomb that it could not, on a sensitive nuclear issue, merely tell its European allies that it was prepared to do what they wanted. Washington left no doubt where it wanted to come out on theatre nuclear forces (TNF), but did so without bullying Europeans. And new procedures helped. But in the end, decision-making was not very different from the previous two decades of NATO nuclear practice, notwithstanding the European-ness of the TNF issue and the prominence of European NATO members, especially the Federal Republic. That pattern amounted, somewhat crudely, to the U.S. deciding, with American preferences overturned only in light of serious European complaints.

Now, as in the 1960's, the most dramatic alternative to more of the same is a European nuclear force. On that score, General de Gaulle's logic is compelling: if

Europeans fear that America will not push the button, then they need buttons of their own with nuclear weapons to match. If the logic is both familiar and compelling, so are the obstacles: the political difficulty of Anglo-French cooperation, and the much greater problem of how to include Germany. The most that can be said about recent developments is that Europeans have moved slightly toward more interest in their own nuclear weapons.

If European nuclear independence is beyond the pale, the opposite possibility, conventional deterrence, merits more consideration. Again, the logic is compelling: if deterrence through the prospect of nuclear escalation is improbable or unwise, then deterrence without the threat of nuclear weapons is preferable. Again, of course, the problems are familiar and formidable. For so long NATO has preached its hopeless inferiority in conventional forces that it has come to believe it. And beneath the surface of that debate other factors are at work, especially the abiding reluctance of Europeans to contemplate a conventional war in Europe.

There is no question that the Soviet force in Eastern Europe is impressive and growing more so. Since 1965, the Soviets have increased the total number of their divisions from 148 to 170, and added about 1,400 aircraft and 31 regiments to their tactical air armies. Much of the expansion in numbers has resulted from the military build-up in the Far East, but qualitative improvements spread across the entire range of Soviet forces.

Yet the situation hardly is as bleak as it is often portrayed, and probably never has been. If the Warsaw Pact attacked without mobilization, NATO could field almost as many men in the central region as the Pact. The Pact's numerical advantage would peak after about two weeks of mobilization, but still be less than 2:1, hardly happy for the West but not appealing to a conservative Soviet military planner. Moreover, despite continuing Soviet force improvements, NATO's position should look better in several years, not worse, given the improvements undertaken in the Long-Term Defense Program (LTDP). The debate over the impact of new weaponry, such as precision-guided munitions, still rages, but it is hard to believe that on balance it does not favor the defense.

Assessing the conventional balance is bedevilled by bean-counting and the distance between Eastern and Western worst-case analyses. Popular analyses of the balance too often still count numbers of divisions on East and West, ignoring differences in size and structure; or compare numbers of tanks, forgetting that tanks may fight other tanks but so do anti-tank weapons and aircraft. Prudently conservative military planners in the West must assume that most Soviet tanks would actually work, and even more improbably, that Soviet allies in Eastern Europe would fight alongside their Russian comrades. Suffice to say the situation must look different from the Kremlin.

There is no question that reliance on conventional deterrence would require more defense effort, especially in Europe, but the increases need not be so large as to be completely out of the question. There *is* something anomalous in a Europe as big and far richer than the Soviet Union unable to defend itself without America. Nuclear weapons would then be structured to deter other nuclear weapons, and NATO would be spared the awful prospect of planning for

a first-use of nuclear weapons that seems more and more incredible. America would loom less large in a less nuclear NATO, but its conventional presence would remain, surely through a long interim.

The Nature of the Threat. It has now become ritual on both sides of the Atlantic to say that the gravest threat to Western security lies not in Europe but outside it. Iran and Afghanistan have given more evidence in support of that rhetoric. Yet it is far less clear precisely what such statements mean for American and European policy, still less what they imply for existing security arrangements. This issue is as old as the nuclear question. Most of the time it has been the U.S. hectoring its European partners to attend to the Soviet threat beyond Europe. Vietnam is the most obvious case in point. There, the preaching failed: Europeans simply did not see Vietnam as a threat to them. Worse, it diverted American attention from Europe. The most Europeans would do was limit criticism of the American role.

Now, there is a shared assessment of the threat, at least in rhetoric, but no consensus on what to do about it. Afghanistan may turn out to be a watershed. Surely it is not hard to imagine how threats beyond Europe could change the nature of transatlantic security relations almost beyond recognition. If there is near-term threat to the cohesion of the Alliance, it is this.

The problem is both one of managing alliance politics and a deeper one, of substance. Afghanistan underscores the problem of alliance politics. The strong American reaction caught Europeans off guard. There were the customary problems of consultation. As usual, the Washington reaction presumed that America had wisdom, and that Europeans should line up behind the American lead, as irritating as ever. When Europe did not follow America's lead, it was easy for Americans to see Europeans as weak and parochial, special pleaders for special European interests. They were bound to ask if there was *any* security threat outside Europe that would induce Europeans to respond by curtailing *their* detente through limiting trade and other relations with the East.

Of course, European perceptions were just the obverse. The American reaction came out of context. After not doing enough for years, the U.S. was now doing too much, too fast, or not doing the right things. Underlying European anxiety was the feeling that Washington had no tolerably clear conception either of its relation with the Soviet Union or of how to respond to turmoil outside Europe.

From America's perspective the pattern is much the same as for nuclear issues: America decides, Europe complains, as Peter Jay put it. Europe's responsibility lags behind its capability and its stakes. That makes an impossible tightrope for American policy: too little consulting on security issues is to ignore European interests, too much is to evade leadership; too little military reaction to Soviet adventures is weakness, too much is provocation.

In the wake of Afghanistan, Europeans will certainly be called upon to do more in the realm of defense, mostly inside Europe and mostly by meeting existing commitments. However, several European nations, Britain and France in particular, can contribute to broader Western military cooperation outside Europe. Whether that cooperation takes place inside or outside NATO is a secondary matter in the short run; NATO has a role to play, but the allies do not

lack for means of talking with each other if the will is there, and institutional issues should not be allowed to hang up the debate.

Europeans can also contribute by allowing the U.S. more flexibility in the use of its forces stationed in Europe to meet threats beyond Europe. Beyond that, there will be pressure on Europeans to do more in Europe to compensate as increases in American forces for contingencies outside Europe begin to compete with, or even cut into forces earmarked for Europe. What Europeans cannot do is refuse to do more outside Europe yet complain if any American actions threaten existing levels of American deployment in Europe.

The new catchword, "division of labor", suggests a more appropriate formulation of the transatlantic bargain than the "burden-sharing" of the 1960's. Yet without a forthcoming European attitude and careful American handling, division of labor could easily produce the same kind of strain in the Alliance as burden-sharing, for there is a real risk that the American Congress will perceive Europe not to be doing its share.

Managing the politics in the short run will be hard enough, but deeper issues must also be confronted. For 15 years the ritual refrain on both sides of the Atlantic has been that détente is indivisible. What the American and the European response to Afghanistan demonstrates is not that the refrain is untrue as that it always was too simple. Détente is, and was, divisible for some purposes.

There is no question that détente in Europe is real in a way that Soviet-American détente never was. For Germans, in particular, but for other Western Europeans as well, the web of economic dealings and humanitarian contacts creates stakes for Europeans that do not exist for Americans. One-fourth of all the Federal Republic's trade is with the East. Total American trade with the Soviet Union amounted to a little over two and one-half billion dollars in 1978; West German trade with the Soviet Union was well over twice that figure.

Europeans are thus bound to view détente through the prism of Europe. That need not be bad. It may make sense for Europeans to differentiate between Eastern Europe and the Soviet Union so that the situation in Eastern Europe may not close down entirely, and to sustain some "carrots" in relations with the East. There may be virtue in Europe and America pursuing the same objectives through somewhat different policies.

Yet the concept is easier than the practice. That is clear enough in European arms control. When negotiations on theatre nuclear forces (TNF) look so unpromising — because the U.S. is in the position of trading its potential weapons for real and increasing systems on the other side — Americans are bound to ask why European politics sustains a romantic attachment to negotiating before arming.

The danger is even grater in framing responses to threats outside Europe. Americans could see Europeans prepared to spend billions insuring against military contingencies in Europe that are, admittedly, the worst but also the least likely, while unwilling to do much about more probable military contingencies outside Europe. If there is anomaly in a Europe unable to defend itself without

America, so, too, is it anomalous that 35 years after the war the U.S. is still the preeminent military protector of Western interests outside Europe, interests that are easily as important to Europe as to America.

"Mansfieldism" in the American Congress is quiet but not absent. It could be awakened, perhaps dramatically, by a perception that Europeans were not doing their share to meet the real threats to security, threats outside Europe. Division of labor cannot mean that Europeans do the easy or nice things — sustaining "carrots" in relations with Eastern Europe, developing special economic ties to Yugoslavia — while the grubbier, military tasks fall to America. Europeans must share risks as well as labors. There is more than a hint of unilateralism already in the American mood, partly reflecting nostalgia for past American strength, never mind how true the image, but also reflecting impatience with friends and allies.

The danger for NATO is not that it will be seen as ineffective, only irrelevant. In the early days of NATO, there was a neat one-to-one correspondence between the nature of the perceived threat to Western security and the scope of the institution designed to deal with that threat. That is no longer true. NATO, even if effective, seems relevant to only a narrower and narrower slice of the security threat Europe and America confront.

External Shocks and Internal Politics. In the end, the shape of security relations between Europe and America will be determined more by factors that have little to do with "security," even by a broad definition, than by anything discussed in this paper. Those relations will be driven by internal politics in Europe and America and by outside shocks. The 1973 oil embargo is a case in point. Its repetition in a stark form — such as a complete cutoff of Saudi Arabian oil — would turn relations between the U.S. and Europe upside down. The SS-20 would pale as a threat beside the prospect of homes without heat, and a transatlantic scramble for energy would make a mockery of the Alliance.

Similarly, while Eurocommunism is less fashionable as a topic these days, it and other internal political developments are just as important over the long run. My own sense is that NATO is fairly resilient in dealing with internal political changes in member countries. The special arrangements created for France, or Greece, or briefly for Portugal suggest some possible adaptations. The real problem is not that special mechanisms cannot be created, but that they further erode the cohesion and common purpose of the Alliance, a central theme of this paper. They convert NATO into a more and more limited security organization.

Some developments in internal politics could make a dramatic difference. For instance, Mansfield-amendment type pressure for withdrawals of American forces from Europe might arise not from perceptions of Europe's irresoluteness and NATO's irrelevance, but rather from the combination of deep recession in the U.S. with a turn toward serious trade-warring across the Atlantic.

There is not much those who tend the security of Europe and America can do about such shocks, other than bear in mind that they may occur. In the 1980's it will be all the harder to frame common responses in pursuit of basic interests because there will be so many more uncertainties and issues around, some of them divisive across the Atlantic. There will be all the more risk that in the next crisis the allies will break apart like characters in a bad play: Americans shooting

from the hip, Germans fretting, the French gloating, the British waving the flag and the rest standing around trying to sort out the plot.

The question of leadership is the most overworked topic in transatlantic relations. It has become trite, though no less true, to say that America can no longer lead as it did but that Europe is not yet in a position to fill the gap. In that sense, a transition is clearly on us. But it has been on us for a decade or more.

Something much more complicated than a loss of American will is afoot. Europeans exaggerate the lingering effect of the trauma of Vietnam. The nature of the change in the international environment is straightforward: the preeminence the U.S. enjoyed by comparison to both Europe and the Soviet Union in the early postwar period was unusual in history, and it should not surprise us that it has eroded. Nor should it surprise or even dismay us that the world became more complicated as the center of power shifted vaguely southward, though specific manifestations of that shift are cause for dismay.

In that context the public mood on both sides of the Atlantic is bound to be unpredictable. That matters more in America's case because of the still central U.S. role, but it is a difficulty for Europeans in framing their role as well. Varied, even conflicting undertones in public mood will coexist, with one or another breaking to the surface: a desire to wish problems away by believing that, after all, nothing much that happens in the world affects the U.S.; or a feeling that America must build strength and go it alone, impatient with allies who complain but cannot act.

Common security interests between America and Europe are strong and likely to prevail. No doubt NATO at 40 will look much like NATO at 30. But there is real risk that in a more and more turbulent world, differences, many of them over secondary issues, will undermine basic interests Europe and America continue to share. To prevent that, issues like the following must be addressed:

1. *Nuclear questions* will continue to be sensitive. They are as much political as military, reflecting the state of European confidence in American will. There are no "hardware" solutions once-for-all, though the U.S. and its allies must modernize their forces. But East-West nuclear parity will be a continuing fact of life.

2. It is thus more urgent than ever to come to a sensible assessment of *the conventional balance in Europe.* It is not beyond the pale for the allies to defend Europe without the awful reliance on nuclear threats — such as first use in a losing conventional war — that are less and less credible.

3. The most immediate challenge to common purpose between Europe and America is *security threats outside Europe.* "Division of labor" cannot be cosmetic, nor can it mean only that Europe does the easy things.

4. *Europe must share risks as well as labors.* That means cooperating in military measures beyond Europe. It may also mean facing the fact that, for the time being, East-West negotiations over theatre nuclear forces (TNF) are unwise in substance, notwithstanding their political attraction.

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DISCUSSION

A. *The Present Military Situation of NATO.* A British participant took issue with the implication of the author of the International working paper that NATO was a rather complacent and weary organization where nothing ever changed much. As a military alliance which existed to field forces, NATO could not entertain the idea of changelessness. In truth, the picture had been one of constant evolution, in response not only to advances in military science but also to political events (e.g., France, Greece, the founding of the NPG, British withdrawal from the Mediterranean, the revolution in Portugal, the phenomenon of Eurocommunism, the impact of the Long-Term Defense Plan). NATO was indeed a very adaptable organization, and harnessing it depended on the will of the member nations. To say that the body was a lively one, though, did not mean that its thoughts and actions always responded to the demands of the hour.

An International speaker offered an overview of NATO's present military situation. He began by recalling the beginnings of NATO, which he described as a tremendous improvement over previous alliances with its unique peacetime military integration. Despite numerous internal crises, the alliance remained "alive and kicking." The recent events in Iran and Afghanistan had produced shock waves in NATO and, for the first time since the Cuban missile crisis, there was the specter of a generalized war. We faced this prospect with the knowledge that the Eastern bloc had an overall ratio of superiority in the conventional field of 2:1 in armor and ground forces, somewhat less in aircraft. But if NATO could take full advantage of the minimum warning time — say, five days — it would be able to contain a Soviet onslaught by its conventional forces after some initial sacrifice of ground. The speaker was worried, though, about the use of warning time. In the annual paper exercises, there were always some governments which feared to declare an alert and mobilization. This reflected the widespread pacifist leanings among our people, and the wish not to increase the chances of war. In fact, the contrary was true. By inaction, we might miss the last opportunity to defuse a dangerous situation.

Since the summit meetings of 1977-78, NATO had set about correcting the disparities which had been expected to tip the military balance clearly toward the East by the early eighties. Its members had sought to do this by spending, on average, three per cent more a year in real terms. (Some, like Turkey, were unable to spend that much, but Portugal, on the other hand, had raised its military budget this year by ten per cent in real terms.) The Long-term Defense Program, with well over a thousand concrete projects, was proceeding smoothly. Just as a slackening in these efforts had been detected, we had been rudely awakened by the Soviet invasion of Afghanistan.

But our military expenditures as a percentage of GNP were only about half what they had been 20 years ago. This belied the common thesis about the unbearable burdens of defense.

The Soviet Union was still spending four to five per cent more for arms in real terms each year. With only slightly more than half the national income of the

U.S., the USSR was spending $20 billion more on defense — and only ten per cent of their budget represented personnel costs vs. 50 per cent in the U.S.

As for comparing NATO's readiness and efficiency with that of the Warsaw Pact forces, however, the speaker thought that this could not be done with any authority or certainty. The proof of the pudding was in the eating, and he hoped that this particular pudding would never have to be eaten.

A Briton argued that it was difficult in the nature of things to agree on military facts. Everyone would have a different view about how a war might start, how it would be fought, and what would happen at various stages. Moreover, there was a tendency in the military always to exaggerate the strength of the adversary, for reasons of institutional vested interests. None of the nuclear weapons systems in the world had ever been used, and no one could be sure just how they would work. There was a whole new range of electronic countermeasures. Any rational aggressor would need a degree of certainty which was beyond reach to take a step involving a significant risk of nuclear response from the other side. These considerations had enabled the Europeans to feel secure even though the Russians had achieved nuclear parity.

This discussion of the military situation struck one American participant as rather complacent. If the consensus here was correct, then the consensus of many military experts was incorrect. Few of them believed that NATO had a significant capacity for prolonged conventional defense in Europe. The whole history of European defense showed that what was needed to win a conventional battle was superiority, not to an overwhelming degree, but at the decisive points. Did our conventional strength really justify our counting on such a breakthrough? If so, this should be made clear to our policy makers. Certainly it was not beyond the wit of rational men to come to an agreement about what our true military position was.

B. *Strategic Issues.* An International participant was struck by the volatility of our defense debates, although the problems remained the same. Six months before, our discussion here would have been dominated by the issues of theatre nuclear forces (TNF) and the effectiveness of the nuclear deterrent. Now we seemed to be groping for confidence about the conventional balance in Europe, and doubtful if our military forces were relevant to troubles in the Third World.

In our debates about both TNF and strategic forces, we tended to project our political questions and doubts into the nuclear arguments. For example, discussion about TNF and the SS-20 would have been conducted completely differently at a time when there was more confidence in Europe about U.S. leadership. "When something is wrong politically, the alliance gets nuclear pimples." Was there not, underneath the current American debate about the vulnerability of its land-based missiles, more of a political than a strategic rationale, i.e., what was to be the role of U.S. power in the 1980's?

The speaker foresaw that, in five to eight years, the strategic nuclear position of the Soviets would be in no way enviable, as trends were running against the kind of arsenal they had set up. But even if we should get back to a position where the U.S. did not have to worry about a measure of strategic weakness, there would be no return to the fifties or sixties. There was a central trend now

in nuclear strategic technology which would lead sooner or later to the vulnerability to pre-emptive strikes of all strategic systems. We were seeing this with the land-based systems today, as well as in U.S. pronouncements about the possibility of finding and destroying Soviet submarines. This would offer a profound challenge to the European-American nuclear umbrella relationship. Whether you doubted it or believed in it now, the U.S. President's readiness to be the first one to use nuclear systems for a European contingency was bound to be affected by his knowledge that he would be exposing his own domestic strategic sites to a counterstrike by the USSR. This problem was not here yet, but it was time for the alliance to start thinking about it. If the first use of nuclear weapons became more unlikely and less credible, was there another way, and would conventional forces provide it? But we risked discussing this issue in the wrong way. It was not technology and equipment which were at stake, but available personnel. The fact that the U.S., with its global role, had significantly fewer reservists than the Federal Republic, with a regional role, said something about this.

Two German interventions touched on the TNF question. One speaker alluded to the fact that the USSR was deploying one additional SS-20 every week, and said that the best approach to redressing this imbalance still lay in a serious attempt at arms control, based on the NATO positions of December 1979. It was to be hoped that the ratification of SALT II after the U.S. election would open the way to further negotiations on theatre nuclear forces. Without that, we would be led on to an unbridled arms race.

The other speaker, who opposed any bilateral or trilateral arrangements within NATO, had favored modernization of theatre nuclear forces for some time. But this must not be done by putting medium range ballistic missiles only on German soil. That would not only tempt the Soviets to single out German targets, but might lead the Germans themselves, say in 1986-90, to behave differently from other Europeans.

An Italian speaker said that the U.S. was maintaining a strategy that had been elaborated when it had been the principal superpower. That position had declined, and this had been perceived by its allies, adversaries and third parties. The entire political situation of the alliance now had to be re-thought. Elements such as long-range TNF's would mean an increased role for Europe in nuclear negotiations — indirect perhaps, but with an impact on the alliance nevertheless. Unless this process could be carried out within SALT or a similar framework, serious problems might result.

An American participant sensed that the military debates in all of our countries were surrogates for political debate, and that a systematic strategic analysis was hard to achieve because of the intrusion of political considerations. In the U.S., the most "bloodthirsty" strategies were being advocated by the most "liberal" groups, apparently as a way to avoid building up nuclear forces and to evade the issue of whether there was any military significance to the use of nuclear weapons. This had led to the elaboration of theories that related deterrence largely or entirely to an economic analysis of the degree of destruction needed to give pause to a potential aggressor. The curious result was that systems analysis

had been used, on all sides of the debate, as a way of using numbers to prove preconceived positions. Not only would the American Minuteman force be vulnerable, but there were substantial psychological inhibitions on a president whose only option was the mass extermination of civilians, in the absence of plans that gave him any rational basis for relating the outcome of a war to the challenge he might face. This dilemma would likely be intensified by the end of the eighties, when there might again be a mutual vulnerability of strategic forces, but the point was that it was extremely dangerous to gear our defense policy for the indefinite future to the sort of plans which now existed for the use of nuclear weapons. This could lead to a degree of escapism that might produce paralysis in a crisis. Of course if there were an all-out Soviet attack in the center of Europe, the risk to the USSR of something unforeseeable would probably always be greater than they would be prepared to take.

Those who had a sense of strategy were oddly united with those who wanted to do nothing with military force, in that the latter reckoned that leaving U.S. forces in Europe could do no damage. They could never be used, according to this reasoning, because they were protected by the nuclear umbrella, and it was better to have them in Europe than in some remote place where they might actually become involved in a military operation. In short, there had been a misleading consensus behind the presence of American forces in Europe that did not really guarantee a willingness to look at the world in geopolitical and strategic terms.

According to the author of the American working paper, although it was not inevitable, it was certainly in the line of inertia in the development of nuclear weapons that we might find ourselves moving steadily away from the sound part of the strategic doctrine of the fifties and sixties, elaborated in the notion of the secure second strike deterrent force, which was a totally different thing from "mutual assured destruction." It was now true that — because of MIRVs and the possible large scale deployment of ICMs — a time might come when one side or the other would perceive the kind of advantage which did not now exist in the international strategic forces. But it was still possible to make technical improvements and design arrangements which would make the next generation of these weapons at least fundamentally no more dangerous than what we had at present. One of the most important tasks before our defense planners and their political masters would be to block the inevitability of the "If-I-go-first-I-win" kind of thinking.

Another American speaker said that, while parity might have existed since the late fifties or early sixties, there must surely be a difference in that parity (a) when the U.S. maintained a substantial advantage and the Soviets were able only to destroy American cities, and (b) when the U.S. no longer had a substantial advantage and the Soviets had the capacity to destroy American weapons. Likewise, there was a difference in Europe between (a) a situation in which the U.S. and the alliance contemplated with some degree of rationality the strategic first use of nuclear weapons, and (b) a situation in which we knew that the Soviets were contemplating such a strategy, had executed it in their own maneuvers, and had added to their forces a whole family of nuclear weaponry,

quite apart from the SS-20. In short, we were entering a period that was qualitatively different from what had gone before.

A German speaker remarked that we had arrived at a military equilibrium, or parity in a rough sense. This had been marked by SALT I, confirmed by SALT II, and would possibly be further confirmed by MBFR. It was time to think again about the meaning of "deterrence", and about its practical implementation, for which we needed above all men, not just money.

The author of the French working paper observed that efforts to strengthen the nuclear side of the alliance had made the possibility of non-nuclear intervention less credible. We sought instinctively not to mix up the two theatres, knowing that we were not very strong in theatre strike forces; yet we still had the desire to intervene locally. A model for such intervention had been provided by France's assistance to Tunisia against the attempted coup from Libya. Much of the French strategy in Africa had been criticized in the U.S., but it should be seen in the perspective of a worldwide strategy for Western defense.

A Briton detected in this discussion a feeling that the present strategic situation wa a "straitjacket" which was stultifying to Western interests and was not giving us the scope we needed. We could not hope to recover that degree of nuclear superiority which was psychologically reasssuring, taking into account anything that Europe could do now through its two nuclear powers or was likely to find politically convenient and feasible in the near future. The superpowers knew that their differences were not going to be settled by nuclear exchange, and had reached a stage of mutual deterrence, which some modernization here or additional deployment there would not alter significantly. But this was not the kind of deterrent which would preclude carefully calculated expansion on the Afghan model. The Russians would stand ready to take quick advantage of ambivalent situations.

C. *The Need for Stronger Conventional Forces.* The above speaker went on to say that NATO had almost talked itself into a position of conventional inferiority. Europe might not be reluctant to face a conventional war if it would, by so doing, avoid the nuclear alternative. In any event, new conventional possibilities ought to be much more closely studied. The sudden leap forward in all branches of electronic warfare had opened the way to technically-advanced nations to neutralize opposing forces, and by the threat of such neutralization, to deter attacks. Advances in light, maneuverable, reasonably cheap anti-armor weapons were potentially dramatic. Developments allowing the attrition of armor at long range by specialized aircraft, combined with defense suppression by electronic means; firing from gun-launched "smart" weapons; at sea, the ability to deceive enemy fleets — all these were now within our grasp. They could make conventional deterrence a way to break free from unsatisfactory nuclear dependence. This would demand much more highly developed industrial collaboration between nations and far better systems for the training and integration of reserves. The process would be painful and politically difficult, but it would be worth it.

An Italian participant agreed that improved conventional deterrents would carry a high price tag in terms of industrial and military integration. This would

also mean a greater political weight for Europe, a divergence of political perceptions, and perhaps a different strategy for the alliance itself. All this would work if the Americans would be flexible enough in their strategy to make use of European differences for common ends; but if the rigidity of U.S. strategy increased, it would not work.

A German intervened to say that, even in the conventional field, his people must not become the largest army in Europe. Not only would the Russians and Poles not like it; neither would the Britons or the French. At first the other allies would be glad to have the Germans do the job alone, but eventually it would damage the psychological cohesion of the alliance.

The author of the International working paper reiterated that, if we feared that the threshold for the use of American central strategic nuclear forces was too low, we ought logically to try to raise it by greater reliance on conventional forces. We should aim, he said, for a situation where NATO's main reliance on the central front would be on conventional deterrence and where nuclear weapons would be structured to deter other nuclear weapons. But we should seek to spare ourselves the awful prospect, which we now faced, of being forced to make the first use of nuclear weapons. We were often the prisoners of our own claims of conventional inferiority. In fact, the situation should be getting better rather than worse, as NATO implemented measures in the Long-Term Defense Program. The situation would never be as happy as we would like, but it probably did not look very tempting to Moscow, either.

D. *Security Threats Outside the Alliance Area.* The author of the International working paper remarked that it had become commonplace to say that our greatest threats now emanated from outside Europe. But what did this really mean, and what were the implications? To speak simply of the division of labor needed to deal with those threats tended to focus on the question of who was to do what. The more important question was whether we were all — individually and together — doing enough.

A British speaker said that the conventional basis for deterrence would allow for greater flexibility in dealing with threats outside Europe. Whatever strategy we adopted, Europeans would certainly be exhorted to do more, and to take a hand in some of the "grubbier" jobs. If this could be done within the context of NATO, all our interests would be better served, but there were still bound to be demands made on us on a bilateral or ad hoc basis. The rules of the alliance provided for the redeployment of troops in national emergencies, and several countries had taken full advantage of that. Perhaps we had moved toward a substantial blurring of the frontier between Europe and "outside". Certainly the Soviets recognized no border. In this environment, we should expect those nations which manifestly possessed the means to do so to maintain intervention forces with which their allies could be supported. Granted, Soviet action in the future might be much more diffuse and difficult to pin down, but our vital interests were almost certain to be threatened. The new technology referred to in the previous section, leading to a greater emphasis on conventional strategy, would make it easier to visualize a concerted response to worldwide challenges, and geographic rules on the map were not beyond alteration. This did not mean

that an intervention force was in any way dependent on a move to a more conventional strategy; it would just be made far easier. The biggest difficulty in mounting an intervention force lay in deciding exactly what one wanted to do. Once the strategic and tactical objectives were agreed upon, the rest tended to fall into place. There would certainly be logistic problems to surmount, but we could not go on accepting a situation in which we were powerless to intervene outside Europe in even quite minor contingencies.

An American participant said that, for his country, the Middle East and the northwest quadrant of the Indian Ocean had already become a major strategic front, imposing new demands and giving rise to major new programs which would be expanded over the next five to ten years, with important military and political implications for the alliance. The U.S. was developing, at an accelerated pace, the ability to bring to bear various levels of military power in various plausibly foreseeable circumstances, sometimes difficult to define, but involving the concept that units of central strategic reserves could be moved rapidly by air and sea. Substantial funds and diplomatic efforts were required to insure passage through the territory of various friends and allies, in both the Pacific and Atlantic areas. It was not just a matter of planning, but also of paying for "parking spaces" and all the facilities needed to support a higher level of American presence, primarily through naval deployments. This would include fuel and lubrication products, shelter, water and reserve munitions. A major expansion was envisaged at Diego Garcia, as a hinge to U.S. capacity in that area. These programs, already underway, would cost tens of millions of dollars, but more could and would be done.

The object of the exercise was to develop a fundamental capacity to affect the attitudes and behavior of the Soviets and others in that part of the world, and to acquire the option to provide help against security threats — to play, for example, the kind of role that the U.K. had played in Oman. Such a role would only be feasible if we, and other people in the area, did not have to work in the shadow of overwhelming Soviet military power, to which we had no counter. What was needed was not a show of force, but a substantial force capable of handling a range of contingencies, even some involving the USSR, in Pakistan and Iran. We did not need the capacity to meet the Soviets everywhere at once under the worst cases, but we needed a substantial force that could be moved quite rapidly.

This U.S. investment was based not on an economic calculation about the importance of oil, but on a cool-headed reckoning that our relationships could be skewed by an imbalance in that part of the world. The speaker could not think of a case where the interests of the European-American alliance had been so tangibly and palpably engaged outside the area of the alliance as they were now in the Middle East. We were indeed fortunate that the threat was so clear, so lacking in the ambiguities that had been between us in the case of Vietnam. But there were two key implications for the alliance: (1) Cooperation between the U.S. and the powers able to play a role in that area (Britain and France) was critical, but other countries would be important in providing access. (2) This effort targeted on the Indian Ocean did not mean that the U.S. would not do

more elsewhere, although it would not be able to do as much more as it otherwise would have. Therefore its allies would have to do more, especially in replacing some of the reserve mobilization capability. The implementation of these enlarged responsibilities would have to be informed by a political awareness on two points: (1) That the Middle East was a new strategic front; and (2) that it was so for *all of us,* so that traditional notions about how alliance lines were drawn would have to be adjusted.

A Briton agreed that there would have to be a division of labor in planning for collective action outside Europe, especially as it was too expensive for small and medium-size powers to maintain a broad range of capabilities. But significant increases in defense expenditure in some Continental countries seemed inevitable if we wanted an intervention force outside Europe. This would raise the much more difficult question of where such a force would be used, and how. Would it be to help local governments resist external attack or internal dissidence? There was a role to be played in the latter case, but it was usually best given indirectly. The moment one went beyond that, one risked trouble. A decade ago, the Kuwaitis had been anxious for a commitment from Britain to protect them from an Iraqui attack. But they would not allow the stationing of British forces, who therefore had had to be based 500 miles down the Gulf at Bahrein. The whole time they were there, the Kuwaiti government had been financing the Free Bahrein movement whose purpose it had been to get British forces out of Bahrein!

Similar difficulties had been encountered in recent months by officials seeking bases for an expanded Western capability in the Gulf. It was proving hard to get the agreement of local people for this, yet it was appallingly difficult and expensive to design a real all-purpose, intercontinental intervention force which did not require a base in the area. Perhaps it was easier to design forces to deter the Russians from intervening, but this would require an enhanced role for Europeans in the defense of Western Europe.

An International participant confessed to serious reservations about this broad redefinition of the responsibilities of the alliance. The alliance, after all, was just barely able to defend Europe, and burdens in distant areas would in effect have to be borne, as now, by the U.S., with perhaps some help from the U.K. and other countries. The danger of a general war would be greatly increased. But the alliance could at least take concrete diplomatic measures and reinforced defense measures which would have an unequivocal meaning for the USSR and third countries. We would have to see how our peoples and governments responded to such a call, though, as "enthusiasm is rather patchy." Above all, we should not allow the Soviet Union to sow discord among us, and we should not countenance heads of NATO member governments going abroad purporting to act as mediators between the U.S. and the USSR, and pretending that their country could commit itself to another policy, "which in no way corresponds to actual fact."

A Canadian speaker said that, while the division of responsibilities was quite clear at the military level, it was less so at the political level. It was understandable enough to say that détente was indivisible, and to want to apply

this concept outside of Europe, but there were practical difficulties. For one thing, problems were unforeseeable, and it was difficult to speak of a global strategy when a regional spirit persisted. Broadening NATO's jurisdiction might render the alliance impractical. The Third World would see it as a new form of imperialism and neo-colonialism. There was also the prospect of nuclear proliferation, which would tend to water down the cohesion of the alliance.

NATO was perfectly credible insofar as it dealt with the military defense of Europe, and what had been accomplished by the members outside of the alliance framework had not really been so bad (e.g., consultations on terrorism, on the political stability of African regimes). With the advent of détente, it would be increasingly difficult to justify the military budgets attendant on a greater role for Europe. The Europeans would follow America as much as they could, but perhaps the most likely avenue would be one of ad hoc cooperation on projects related to specific difficulties (such as the Iranian hostages or other crises). This approach would be more easily justified than broad-based military cooperation in the eyes of Europeans who did not feel any direct threat to their security.

An American speaker found the so-called Carter Doctrine disquieting. For the first time in the postwar period, the U.S. had enunciated a doctrine for the defense of an area without changing its forces or increasing them significantly, and without creating the capability of dealing with contingencies in the area. We were thus creating an extraordinarily dangerous gap between our commitments and our capabilities.

Our policy-makers were likely not to be experts, and the experts themselves were so influenced by their philosophical preconceptions that they tended somewhat to "cook" their military analyses. The experts were far from agreed about our relative capacity to intervene, but it would be critical to have an accurate measure of that if we were confronted with crises outside the alliance area — for example, in places like Yugoslavia or the Arabian peninsula, not necessarily caused by the Soviet Union.

The author of the American working paper remarked that administration "doctrines" were seldom successful. The content of the "Carter doctrine" simply lay somewhere among the multiple military options which we confronted.

An Italian participant wondered whether the Carter Doctrine did not contain an element of politcal uncertainty. Was there not a gap between its long-term objects and the relationship of forces in the region, and between the willingness expressed and the realistic political possibilities? In the medium term, it was impossible to set up local military forces without increasing the risk of Soviet military intervention. In the long run, as Keynes had said, we would all be dead. So we had to devise a containment strategy for the short run, and this was complicated by the fragmentary nature of the information we had to work with. Moreover, it was not politically credible that our short-run efforts would be extended into the medium term. In the speaker's opinion, we had to work toward fostering local alliances upon whom we could count in emergencies. Bilateral alliances were not sufficient in countries which were vulnerable and suspicious of direct American support.

An American speaker analyzed the probable consequences of military intervention in the Persian Gulf. The oil fields would be the first thing to go, he predicted. If the three ports and eight pumping stations in the area were destroyed — internally or externally — 60 to 70 per cent of the oil flow would be interrupted. More than enough material for upheaval in the region had been provided by political and social instability, massive corruption, inadequacy of the ruling regimes, and the increased component of foreign indentured labor. One did not need "Cubans, Soviets or any other foreign force to do the job." In the last dozen years, 15 of the 28 Arab rulers had been removed by non-peaceful means. In the past 15 years, there had been 12 inter-Arab wars of substantial magnitude, without Soviet involvement.

What was fundamentally involved in the concept of our "willingness to fight in the Persian Gulf" was our protection of the status quo. If we ever really got engaged in a successful military venture there, the most likely result would be the complete destruction of, not only the oil fields, but the social and political structure of Iran and many other countries, accompanied by an irrational Moslem uprising against the infidels.

Our strategic stockpile of oil was extremely limited, and the Saudis had refused to add to it. But the Soviets could very well do for a number of years without oil from that region, and without the disorganized situation there. Local governments had refused to be associated with any major effort by the U.S. to build up the strategic stockpile, and America's European allies were reluctant to come along.

Was the Carter Doctrine not really just a reiteration of the Dulles Doctrine: that we would retaliate at the places and times, and with the means, of our choosing? Did that not make sense in the circumstances? Many other proposals on the subject seemed to emanate from a "never-never land." The beginning of all wisdom was to know one's weaknesses.

Another American observed that any military build-up in the Middle East was first and foremost the responsibility of the U.S. It would have to be sufficient to make clear that any further Soviet aggression entailed a risk of direct confrontation with the U.S. Until the Palestinian problem was solved, Arab cooperation in any security measures would be limited. Indeed such cooperation would be dangerous to the internal stability of the Arab states.

We had to recognize, according to a U.S. speaker, that what was happening in the Near East amounted to the opening of an additional front vis-à-vis the Western alliance. Whatever their motives, the Soviets were now intruding militarily into southwest Asia, the Saudi Arabian peninsula, and across from it is East Africa. The current American capacity to respond in that region had to be seen against this background: There had been 10 or 15 years of neglect of its forces, induced partly by the burdens of Vietnam. Moreover, the traditional U.S. form of intervention on the Euro-Asian land mass, through massive reinforcement by sea and air, unchallenged by any opposing force, was no longer a workable strategy. It could now be contested by the Soviet navy and air force, whose capabilities were being built up.

We were also being subjected to a proliferation of Soviet military pressures around the world, through their naval forces or proxies. There had been instances of this in the fifties and sixties, but it had not added up to the pattern we saw now. The ostensible — even real perhaps — reason for these Russian involvements was to support some local movement or authority, but in every case they had used their presence, once established, for their own purposes. We should not turn the new slogan, which said that a military balance was necessary but not sufficient, into the notion that it was not really necessary, that what we needed was just skillful diplomacy, more sympathy with the forces of change, and so forth. All that could not compete effectively with Soviet military growth.

The alliance now faced a crucial problem, in the technical, political and procedural sense: while it was itself confined to Europe, it had interests which were outside Europe. Although the instrumentalities of the alliance and of other institutions could not always be put at the service of those interests, we could no longer avoid the necessity of behaving like allies on a worldwide basis, not just in the area of the North Atlantic Treaty.

E. *The Question of Political Will.* The author of the International working paper remarked that defense efforts in all of our countries had gone up and down very substantially over the years. In 1953, the U.S. had been spending almost 15 per cent of its GNP on defense, and France and Britain 11 per cent. By 1978, the U.S. had been down to five per cent, and only recently had this figure begun to rise. Europeans were right in pointing out that, while more military power might be necessary, it was unlikely to be sufficient.

In American debate on this subject, there was an almost nostalgic feeling that, if we augmented our military force, that would solve our problems. Although we contemplated doing more, we did not seem to have a very good idea of what we ought to be doing. If one country decided to spend more on aid to developing countries instead of increasing its military budget, that should be acceptable. But the "admission ticket" for all of us for spending on defense and related matters probably ought to be six to eight per cent of GNP rather than three to five per cent. Whether all of us could achieve that was a hard question of domestic politics, not alliance politics.

What did we expect to get for our money? For some purposes (e.g., deterring the USSR from certain kinds of activities), we might not want to be very precise in our public proclamations about what our forces were to be used for. But we then risked creating a gap between what we *said* we wanted to do and what we actually *could* do. Unless we explained to our people what their money was being spent for, it might prove hard to sustain the willingness to make the required expenditure.

An American participant was reluctantly persuaded that increased military spending for preparedness would be necessary on both sides of the Atlantic. But, given the problems of inflation, unemployment, unsatisfactory productivity, and the distractions of national elections, he was not sure that our political processes would succeed in producing the necessary financial support.

The author of the French working paper thought that the will of his country could be characterized as strong in one sense but weak in another. One strong

element in French independence consisted in her always remaining somewhat on the outside. On the other hand, the sense of independence in the world conflict that was partly the result of France's nuclear strategy had encouraged a trend toward neutralism, particularly in the left wing parties. Nevertheless, it had been remarkable that, in the whole Atlantic discussion about Pershing II, there had been total silence from the French. Experienced observers would have understood that this in fact amounted to "shouting approval." Furthermore, it was noteworthy that the French Communist party had totally failed in its campaign to mobilize opposition to the alliance's decision. Even the C.G.T. had balked. When the Communists had used "Pershing II!" as a rallying cry, the response had been "SS-20!" In Italy, the will to defend the country was relatively strong within the Communist party, as Berlinguer realized that without the Atlantic alliance a fate similar to that of Dubcek was likely to befall him.

Another French speaker referred to the neutralist current developing in Europe. People had not been seduced by Russian ideology, but they were intimidated by the displays of naked force and were becoming fatalistic. They sought to minimize and rationalize the worrisome signs.

One could understand the impatience of European leaders with the shilly-shallying of the U.S. administration, but instead of giving voice to their criticism could they not have proposed getting together with the Americans to work out a common strategy? Was it really too late for Europe to avoid the dilemma of appeasement or war?

A German participant said that we had to inform our people honestly if we expected to enlist their support for defense; we could not "steamroller" them. He mentioned two examples: (1) Before the German debate about the deployment of rockets, the trade union leaders had been well-briefed by the government. So when "doves had come from all over the world to ask the German unions to stand firm for peace," they were prepared to reply. (2) If our people were sometimes reluctant to take on a greater defense burden, it was perhaps because NATO had shouted "wolf!" too often and too loud.

A Briton was worried by our tendency to find every possible reason for not facing up to our problems. It was right to acknowledge our weaknesses, but by turning away and not risking certain dangers, we would actually help to bring them about. Wringing our hands was the best way to invite provocation.

A similar rule could be applied to the question of American leadership, at least in military and political matters. Unless the U.S. showed a willingness to act alone, it would not get collective action from its allies, or a peaceful reaction from its adversaries. This was not true in the economic sphere, where events since the Marshall Plan and Bretton Woods had shown the necessity of collective action. But for the U.S. to say that, in political or military matters, it could act only in concert with its allies was to undermine its credibility; it would maintain its credibility only by expressing a willingness to act unilaterally.

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III. ECONOMIC ASPECT

German Working Paper:

"ENERGY POLICY, MONETARY POLICY, FOREIGN TRADE AND PAYMENTS: RELATIONS BETWEEN EUROPE AND THE U.S."

I

The external conditions for the development of Western democracies are determined by their political and military security and by basic factors in the world economy. Whereas a liberal economic system will find the framework for its future development in political stability and a secure defense policy, the resources it needs will come from the economy.

Public opinion, and even government circles and political parties, are still unable to appreciate fully the overriding significance of the economic side of external relations. Foreign policy is seen primarily as the involvement in political relations with other nations in the classic diplomatic tradition. But developments have long since taken a different course. The potential that was available to the former nation states for economic and social development using their own resources is now increasingly limited, and today it is more evident than ever before that the international exchange of raw materials, goods and ideas has become for many countries no less than a question of survival. Clemenceau is credited with saying "War is too important a matter to be left to the generals." Today, this remark should perhaps be amended to read "Trade is too important a matter to be left to businessmen and experts."

The 25th anniversary of this conference is a good occasion for a brief excursion into the past. It seems to me that the attitude of our American ally as regards the relationship between business and politics has undergone many a change over the past decades. The massive reconstruction program launched by the U.S. after the Second World War for the benefit of its future competitor, Europe, was a political program. On its presentation to Congress, President Truman called the bill "an undertaking of vital importance for our foreign policy." Secretary of State Marshall referred to it as "an investment in peace," explaining this in the following words: "If we come to the conclusion that the U.S. is unable or unwilling to support economic reconstruction, then we must face the consequences of a collapse in these countries and their transformation into dictatorial police states."

In line with this statement of political principle, the countries of Europe received from 1948 to 1952 economic aid totalling $9 billion, the equivalent of $80 per capita of the population of the U.S. Not only did political leadership, and leadership in international economic and monetary relations, devolve upon the U.S. in the postwar years by virtue of its economic potential: in addition, the U.S. pursued this as a political task. American influence was decisive at that time in creating with institutions like the International Monetary Fund, the GATT and

the OECD a framework for the economic and monetary system of the West that was both durable and suited to the postwar era.

Since then there has been a radical change in the premises on which the system of our external and monetary policy cooperation is based. Insofar as a specific period of time can be identified in connection with this change, the early seventies would be the most likely candidate. In the terminal phase of the Vietnam war, America was compelled to recognize the limits of its power. In retrospect, America came out of the Vietnam war a weak leader, chary of alliances and morally insecure. There was a need for it to redefine its global political responsibility in the old debate between isolationism and internationalism. As I see it, only the most recent events in Afghanistan have finally made it clear that there can be no question of a total retreat from world politics, because not even the U.S. is able to flee the 20th century and seek refuge in the 19th.

At the same time, the accession of Great Britain, Denmark and Ireland to the European Community contributed to the growing strength of Europe, accelerating its transformation from the role of an American protégé to that of a partner. This was a natural, and politically a most necessary, consequence of the shift in economic emphasis. The European Community had taken the place of the U.S. as the largest world trading nation and was in the process of shortening America's lead in technology. While the U.S. still accounted for 40 per cent of global GNP in 1950, this share had sunk by 1970 to 30 per cent. The U.S. had surrendered its position as the *economie dominante*.

The events of the first energy crisis led to fundamental shifts in the underlying monetary and foreign trade system. It would not be too much of an exaggeration, I feel, to say that it was in those years that the U.S., under the repercussions of the Vietnam war and the energy crisis, relinquished the authoritative position in international economic and currency matters which it had maintained throughout the fifties and sixties. This gave way to a system of collective decision-making as between partners, the predominant feature of which are the world economic summits that have been convened at regular intervals since the first energy crisis. It was in events in the monetary sector that this transition was most meaningfully demonstrated. With the collapse of the Bretton Woods system, the dollar surrendered its special role. Since then, to quote the Governor of the Bank of England, Gordon Richardson, we have been living in an "oligopolistic world."

Given the current circumstances of large-scale economies of roughly equal strength in the Western alliance, the resulting situation is irreversible. What is more, it conforms to the liberal spirit of the alliance. Although it is surely a very difficult task to assess the strengths and weaknesses of this form of cooperation as between partners, we have still to ask ourselves the following: what is the capability of our system, and how suitable are the instruments of Western cooperation in providing an adequate answer to the growing economic tasks, problems, even challenges in the world today?

II

On his return from a recent visit to the Gulf States, the German Minister for Economic Affairs declared that with regard to energy we would have to accustom ourselves to life at the edge of an abyss. He was criticized for this from several quarters and accused of overdramatizing the situation. The suitability of the word "we" in that quotation is open to question, as the problems facing the present generation will stay within limit. But this is not an adequate perspective. One of the basic aspects of our energy policy concerns the periods of time in terms of which such policy is formulated. As James Freeman Clarke so excellently put it: "A politician thinks of the next election, a statesman of the next generation." If we accept this definition, the first thing we should have to do would be to forbid all politicians to have anything at all to do with energy policy.

There are quite moderate forecasts saying that world energy consumption by the year 2000 will be almost double what it is now, and roughly three times as much by the year 2030. And these forecasts are based on a low estimate of world population growth (9 billion by 2030), moderate economic growth (global average of 2.2 per cent a year), and progress in energy conservation and in the use of new technologies. In face of this projected development of demand, the limitations of available energy resources are alarming. If global energy consumption rises at only three per cent a year, the economically exploitable reserves of oil would last just over 20 years, those of natural gas just over 30 years, and those of coal more than 60 years. The rising cost of energy will certainly serve to make further reserves economically viable and to encourage the development and deployment of new technologies. Mobilizing this potential supply, however, would take a great deal of time and call for the provision of substantial financial resources for research and development and the solution of growing problems of environmental protection.

Any estimates of energy supply and demand have a large uncertainty factor. This is especially true of oil. While political developments in the oil-producing states are of vital importance, they are at the same time hardly predictable. In many of the major oil-producing countries, the large income derived from oil exports has been the cause of what is often hectic economic development, giving rise to social and cultural tensions. Structural weaknesses in the economy, the disparate development of various population groups, and the growing search for a national identity trigger off conflicts within the country and sow the seeds of instability. In the Islamic countries there are already strong forces in favor of limiting oil production, slowing down economic growth, and greater orientation toward regional and separatist interests. The socialist countries are in any case hardly prepared to make allowances for the economic interests of Western industrialized nations. Fortunately, however, this attitude is generally outweighed by their need for the funds they receive from oil exports.

A further important risk factor is the lasting international tension in the Middle East, and in particular the continuing conflict situation. The maximum threat to oil supplies will arise if and when the great powers are drawn into a

local conflict. The Soviet presence in this area which is vital to Western interests is now greater than ever before in terms of politics and both land and sea forces, especially in Afghanistan, South Yemen and Ethiopia. With its invasion of Afghanistan, the Soviet Union has advanced toward the world's most important oil supply center and the oil transport routes. The first aim of the Soviet Union will probably be to consolidate these bridgeheads. Its foreign policy toward the conservative oil-producing states is still a pragmatic one. In the long term, I would say that the Soviet Union is putting its hopes on the collapse of the present systems and the decline of Western influence.

In doing so, the Soviet Union is obviously pursuing a global strategy. But I also feel that insufficient weight is given to the fact that the Soviet Union itself is faced with ever-increasing energy supply problems. The Soviet Union, which still exports oil over and above its supply commitments to Eastern bloc countries, will soon be compelled to import oil in increasing quantities. Reliable estimates place the import requirement for 1985 as high as 150 million tons. While some Soviet sources are already nearing depletion, the Soviet economy either cannot deal at all or cannot deal quickly enough with the huge organizational and technical problems of developing new oilfields in the east and north, particularly as the U.S. is now no longer supplying the necessary technical equipment. In this situation, the Soviet Union is faced with substantial problems with regard to its foreign trade and foreign policy. Presently, 50 per cent of its foreign exchange inflows come from oil exports. If the Soviet Union is forced to become an oil importer, this would largely erode the financial basis for its imports of consumer goods. It will also have to face up to the question of whether it should curtail or at least freeze its exports of oil to Comecon countries. This in turn would force the Comecon countries that are dependent on Moscow for their energy supplies to expand their trade with the West, in order to earn the foreign exchange they need to buy oil. I feel that developments of this kind should be recognized within the Western alliance, and encouraged.

The end of the oil age is becoming increasingly apparent, and this is again placing greater emphasis on nuclear energy as an indispensable substitute for oil, particularly as regards the nations of the West. In my opinion, a number of mistakes were made in the psychological preparation of our citizens for this means of generating energy. It is easy to see that the concept of nuclear fission will engender in the mind of those people who are unable to comprehend the technology behind it a degree of apprehension which cannot always be dispelled by logical arguments. Those who spoke of the absolute safety and reliability of the new technology were not doing the confidence of the population a good service. We are all of us at risk, in every aspect of our lives. What we have to ask ourselves is whether this risk is justified, once we have weighed the alternatives, and whether we are compelled to accept it.

In what I have to say about nuclear energy I am speaking as a representative of the German constituent state which bears the main burden of responsibility in connection with German nuclear energy development, because it is concerned with the problem of nuclear waste disposal. As you may know, the State Government of Lower Saxony was faced with a difficult political decision in May

of last year, and was unable to agree to give the green light for the reprocessing of irradiated fuel elements, which would have created the conditions for entry into the — and I am putting this into inverted commas — "plutonium economy." This decision was determined essentially by the fact that the population is not yet prepared to accept the new technology, and the will of the majority of the people is of course the main element in any democratic community, and additionally by the fact that no consensus was reached either among the major political forces. However, in the course of a lengthy hearing in which a great number of experts gave their opinions for and against reprocessing, the State Government came to the conclusion that reprocessing is feasible with current technology and that it would also be justifiable from the viewpoint of population safety.

I am convinced that the reprocessing of nuclear fuels and the peaceful use of plutonium constitute an issue that will gain in significance in future, both for the Federal Republic of Germany in particular, and for the countries of the West in general. We know that with current reactor types, and particularly if construction picks up, global resources of uranium will probably already have reached a precariously low level by the start of the next century. Only by making use of advanced reactor systems would we be able to extend the useful life of these resources by hundreds of years, unless of course completely new technologies were in the meantime to become available. The question of reprocessing is thus much more urgent for countries with no resources of uranium at their disposal than for countries such as the U.S. and Canada which have their own abundant supplies. These countries will be able to do without fast breeder reactors for much longer, provided of course that they cut back on their uranium exports. In this context, it seems to me that the U.S. is pursuing a policy that cuts both ways by making the export of nuclear technology more difficult and by attempting to push through at the international level a moratorium on or at least the control over reprocessing. However laudable and appropriate this policy of nonproliferation may be in its essentials, one cannot help asking whether it will not in fact achieve just the opposite by inciting other countries to direct their efforts toward a state of nuclear autarky.

I am convinced that in the long term, measures taken on market economy principles will be the only promising answer to the worldwide shortage both of energy and of other resources. In our debates on the economy, we are in general still caught up too closely in the conventional mode of thinking in terms of the two production factors, capital and labor. For the industrialized countries of the West, however, this is a matter of the delayed effects and aftereffects of social problems of the 19th and 20th centuries, which have since then lost a great deal of their incisiveness. It was above all in the wake of the classical Marxian economic theory with its single pair of opposites, capital and labor, that the classical value of nature as incorporated in the third production factor, land, fell completely into oblivion.

Today we can no longer follow in the footsteps of David Ricardo, who in his seminal work on economics entitled *The Principles of Political Economy and Taxation* referred to air, water, land and commodities as so-called "free goods"

that were there for the taking. We need to readjust our way of thinking to include the third production factor, so that natural resources are given their proper significance as one of the fundamental factors of economic policy and so that the ecological scope of such policies may be clearly determined. There is a great difference between presenting price rises to the public as the result of mysterious price manipulations by international corporations or producer cartels, and presenting them as the inevitable consequence of the global shortage of a vital production factor. The first-named course is hardly convincing as a means of achieving a new energy-consciousness, because in offering substitute solutions of a political nature it shirks from the issue instead of facing the consequences of a world market beset by shortages. Just as in the fifties and sixties labor shortage in the German economy caused disproportionately large wage increases in accordance with the laws governing the market economy, the present shortages of the production factor nature will force us to accerpt disproportionately large price increases for natural resources.

I am thus convinced that restricting the scope for energy price formation would be tantamount to sidestepping basic economic facts and would in the medium term remain a futile attempt to ignore changed conditions. Coming to terms with scarcity will be soonest effected by way of market prices that make allowance for it. Higher prices will lead to more economical consumption. They are an incentive to accelerate the development of additional and in part completely new sources of energy. They are the precondition for the necessary increased investment and will make the exploitation even of less favorably located sources viable. Finally, they will encourage the reuse of raw materials, an aspect which is gaining ever greater economic significance.

At this juncture, I feel I should say a few words on the American system of energy price controls. European observers are irritated by the fact that there has been a further increase in the difference between the American dometic price level for petroleum products and their price in the world market. In October 1979, the American composite price for oil was some 18 per cent below the world market price. Since then, OPEC price increases will probably have widened this gap by some six to eight per cent. The American gasoline price, including taxes, remains low in comparison to European prices, amounting for instance to less than half of the gasoline price in France, Italy and the Federal Republic of Germany. Since there are as yet no signs of a removal of price controls on gasoline, there will be no change in this artificial divergence from world market price levels.

We are of course aware that any adjustments to price policy must be made with great caution if social tensions are to be avoided. The starting position of a country with a large territory and a relatively inefficient system of local transport is different from that of the countries of Europe. Nevertheless, one is surely justified in saying that the artificially depressed price level in the U.S. is the cause of many problems. The U.S. is one of the few industrialized countries in which oil consumption continued to increase in the period from 1973 to 1978, namely by 10.6 per cent. In the same period, oil consumption in the European Community declined by 7.3 per cent and in Japan by 12.3 per cent. In absolute

terms, however, this reduction by some 67 million tons was not sufficient to offset the increased consumption of 78 million tons on the part of the U.S.

The tiresome issue of U.S. import subsidies for petroleum products should also be dealt with in this context. Controlled and artificially depressed prices have an adverse effect on the international attractiveness of a market, leading to corrective adjustments in foreign trade. This has long been known from experience. But there is a danger that other countries will be induced to take similar measures and that this will in the end result in a disastrous international race in contradiction to all the well-tried rules of our international trade cooperation. It would be the financially weak countries that would lose this race, and the winners would be the small group of countries that have control over the world's supplies of oil.

There is in any case a danger that the oil-exporting countries will attempt to derive ever-increasing benefits from their strong position. As a basis for transactions with the countries they supply, they may well in future start to demand economic considerations of a new kind, such as concrete assurances to take specific products which are otherwise difficult to sell, or the transfer of technology and the like. What is indeed to prevent their demanding that the countries they supply should toe a specific political line?

I feel that on no account should the countries of the Western alliance give any encouragement to such developments. One of the consequences of the international oil companies being pushed back by oil-producing countries is that the question of supply contracts from state to state has become a pressing one. I regard supply contracts of this kind as a double-edged instrument, because they promote the continuing politicizing of world oil trade, whereas they should at most be a subsidiary measure to private-sector activities.

The solidarity of the countries in the Western alliance will in future be subject to an ever-increasing pressure in the conflict of interests over dwindling supplies of oil. Despite all manifestations of solidarity, there will still be a very great temptation for countries to go it alone. Even within the European Community there is very little scope for supranational decision-making in view of the marked differences between the economic deployment and availability of energy. The European Community does not always succeed in speaking with one voice at international conferences on energy. The fact that France is not represented in the International Energy Agency makes it difficult for Western industrialized countries to work together.

At the same time, there is no way of avoiding the task of pushing forward with the coordination and if possible the harmonization of Western energy policies. The countries of the West will otherwise run the risk of becoming divided as regards energy policy to the detriment of their united impact on world politics in general. Basically, what we need is some kind of code of fair conduct, if only one might be permitted to hope that a code of this kind would remain valid in times of crisis as well.

III

Oil price increases will have a significant effect on monetary policy in the years to come. The most frequently used hypothesis postulates a real increase in oil prices of some 100 per cent from 1975 up to the year 2000. This would be equivalent to a yearly increase in the price of crude oil of roughly three per cent above the global inflation rate.

In conjunction with the worldwide boom, the first oil price explosion in 1973-74 led to an intense upsurge in inflation which slackened off only gradually in the following years. By 1978, many countries had succeeded in curbing price rises, if not to the full extent required. Floating exchange rates made the insulation against imported inflation more effective. Gradually, however, more countries came to share the view that inflation destroys jobs instead of creating them. Experience has shown that it is not possible in the long term to buy full employment and a high rate of economic growth with "easy money" and soaring inflation. Greatest success was registered by the countries that had come to grips with inflation by applying restrictive policies.

At the world level, inflation started to gather pace again a year ago. In October 1979, the consumer price average in the industrialized countries registered some 10 per cent, the first time it had reached two figures since August 1975. The upward movement of prices can be attributed to another very marked rise in the price of oil and other raw materials and also to the acceleration of "homemade" inflation. In other words: inflation is just as dependent on the price of oil as on the money supply. The rush to buy gold is symptomatic of the growing fear of inflation. The price of gold has become the "temperature chart of international fears." With rising rates of inflation there has also been greater regional dispersion of price increase rates. Thus the inflation differential between the U.S. and Europe increased from 0.1 percentage points in 1978 to 2.5 percentage points in 1979.

The future of the dollar, too, will ultimately depend on whether the U.S. is able to get a grip on price increases, where the annual rate of some 13 per cent has assumed dimensions unknown since the end of the Second World War. This price increase rate is even higher than the average rate of inflation in the European Community at roughly 10 per cent. A stable dollar is in the interest of us all. The dollar is still the most important currency in the Western world and can be replaced by no other. On the strength of its dominant position in the world economy, the U.S. assumed the role of the country providing the key currency after the Second World War. Today the dollar is still the major reserve currency, and approximately four-fifths of world currency reserves are held in dollars. The dollar has similar importance as a world trade currency. Roughly 60 per cent of world trade is transacted in dollars, as compared to about 40 per cent in Deutschmarks. Finally, the dollar fulfills a function of prime importance as an intervention currency.

While the U.S. would clearly be quite content if the dollar were to surrender some of its importance as the key currency, the Europeans resist the idea of their currencies gradually assuming the role of reserve assets. Many Europeans claim

that there is no alternative to the dollar as a reserve currency, that currencies such as the Deutschmark and the Swiss franc can only be "substitute" reserve assets, and that there is no other way than to restore confidence in the dollar and to give it the role of key currency in the eighties as well. This is probably one reason why European countries are prepared to participate in measures designed to stabilize the dollar.

However, long-term stabilization of the dollar is conceivable only if the U.S. makes progress towards achieving balance-of-payments equilibrium. To do this will first require the marked dependence on imported energy to be substantially reduced, the consumers to be compelled to conserve energy, and the introduction of a free market energy pricing system. Secondly, the U.S. economy must make better use of its export potential, in order to offset the presetn large deficits in the balance of trade with Japan and the OPEC countries.

The sustained lack of confidence in the dollar was just *one* of the factors behind the initiative for the deliberate creation of a zone of nonfluctuating rates of exchange in Europe by means of regional agreements. On 13 March 1979, the European Monetary System (EMS) came into effect, replacing the arrangement known as the "snake." After a transitional period of two years the EMS is to be permanently established and a European Monetary Fund set up. The jurisdiction, function and institutional form of the latter are still under debate. The EMS is a regional solution to problems of monetary policy. It carries the hope for new impetus to economic and monetary policy cooperation in Europe. Beside this, the EMS can be seen as an attempt to encourage renewed activity directed toward the political integration of Europe. Its purpose is not to isolate the European market from the rest of the world, nor is it intended as a means of discriminating against any particular currency. By creating greater stability within Europe, the aim is to contribute toward more stability in the world currency system and in world trade relations. The EMS is not intended to compete with the International Monetary Fund (IMF) either, but rather to complement it. As the Council of Europe has expressly stated, the system is fully consistent with the IMF Articles of Agreement.

The EMS has already achieved one of its two objectives, namely a greater degree of exchange rate stability. It has not led to communal stability in view of the marked divergence between rates of inflation. The underlying risk in the EMS is that stable rates of exchange can be maintained on a lasting basis only if the partners aim to achieve greater price stability. The harmonization of inflation rates at a medium level would not be justifiable. The main burden of an economic policy directed toward stability will devolve on monetary policy, which will call for a greater degree of autonomy for central banks in other European countries as well.

Fixed rates of exchange tend to ease the transfer of inflationary developments from one country to another. If we are unable to eliminate the inflation differential within the EMS by means of reduced price increase rates in the countries with the highest inflation, there is a danger that strong-currency countries will be compelled by large-scale intervention to create excessive amounts of money, which would jeopardize the stability already achieved. If rates of

exchange that are no longer in line with real conditions are not to be supported by large-scale intervention, exchange rate adjustments are called for, as expressly provided by the system, which are timely, adequate, and wherever possible free from speculative potential. The readiness to give higher priority to stability, however, could greatly improve the prospects of success for the EMS. But it still remains to be seen whether the high-inflation countries will in fact make the changes in monetary policy that are needed for the system to be successful.

In their external relations, the countries of the Western alliance are facing the following three major tasks in respect of monetary policy: the reduction of oil-induced balance-of-payments disequilibria, their adequate financing, and making allowances for the investment requirements of oil-exporting countries.

The recent price developments in world energy markets are having drastic effects on the non-oil developing countries. Given the as yet limited foundations of their economic development, it is much harder for them to be forced to sacrifice prosperity as a result of added burdens on the balance of payments, and such sacrifices may well lead to a dramatic rise in social tensions. Probably the most important task in the economic policy of developing countries is the formulation of strategies for adjustment to the present situation. In the long term they may even have better prospects for achieving this than industrialized countries, because an economy that is still in process of development is more adaptable and better equipped to make use of new technology, particularly solar energy. In the deployment of development aid from Western industrialized countries greater emphasis than in the past should be placed on its being used selectively and primarily for economic and technological assistance, to enable developing countries to lessen their dependence on energy imports and to ease the burden on their balances of payments.

However, we can hardly expect things to proceed without any dramatic developments. The oil bill of the developing countries (that is, the net oil importers) came in 1973 to $5.2 billion, but by 1979 it had risen to over $50 billion. This is more than twice the total development aid provided by the West, which amounted to approximately $20 billion.

In my opinion the oil-exporting countries, whose policies are directly responsible for such developments, should assume a special responsibility in this connection, and should constantly be reminded of their obligation. The oil-producing countries must themselves contribute as much as possible toward financing the deficit of developing countries by investing their oil income and by providing development aid. The development assistance provided by the West cannot function as a means of compensation for balance-of-payments difficulties caused by oil price increases, nor is this its intended purpose.

The international financing institutions, particularly the International Monetary Fund, but also the World Bank and the regional development banks, will probably have to assume the responsibility for financing an increasing volume of such deficits. The funds presently available will be sufficient for this purpose. Additional financial assistance in special instances will have to be decided from case to case, taking account of the surpluses of oil-producing countries. I do not at present see any need for new financing institutions.

Despite all this, the pressure exerted by the Third World on the industrialized countries of the West for more extensive international redeployment is bound to increase. External factors will play an ever-increasing part in our policies toward the Third World in the coming years and will inevitably result in developments in the sectors of trade and financial policy which will be detrimental to the industrialized countries of the West. To the same extent that East-West relations will fluctuate even more strongly between antagonism and cooperation during the eighties, extreme developments in the Third World will be potentially more explosive than ever before. In view of this, the policy we adopt toward the developing countries will gain fresh significance as a means of safeguarding the basis for peace in the eighties.

With regard to the oil producers it is becoming apparent, in contrast to the oil crisis of 1973-74, that recycling their additional income in the world economy is coming up against sizeable difficulties. The need to boost exports to the oil-producing countries is being blocked by their limited absorptive capacity, their increased caution as regards development planning and their growing opposition to an excessively rapid conversion of their economic and social conditions. During the first eight months of 1979, exports by Western industrialized countries to the major OPEC countries fell off by some 7.5 per cent. There has been a drastic deterioration in the current accounts of industrialized countries as a whole. Whereas in 1978 they still registered a surplus of $33 billion, 1980 will show a deficit of $18 billion.

This lends even greater significance to the question of whether and to what extent the recycling of capital will prove feasible. There are still a number of question marks over this issue. The process of recycling has got off to a very sluggish start, as is shown by the exponential increase in the foreign currency reserves of the OPEC countries in 1979. The freezing of Iranian accounts with U.S. banks, the insecurity of the global political and economic situation and the preference for gold as an investment medium give rise to considerable doubt as to whether the oil producers will be prepared to place their income as a long-term investment in the capital markets of the West.

In my opinion we shall have to generate even more ideas than we do at present on how to arouse the interest of oil-producing countries in investment in our countries. We shall have to ask ourselves whether and in what form we can increase our offer of industrial participation. This would be of particular interest, for instance, in respect of capital-intensive projects in the energy sector, such as the transformation of coal.

It is greatly to be hoped that the planned substitution account within the International Monetary Fund will comply with the investment requirements of oil-producing countries. Reserve dollar holdings can be deposited in this account by monetary authorities against the issue of bonds denominated in Special Drawing Rights. The aim is thus to steer the diversification of currency reserves out of the dollar that is required by the oil producers into an orderly arrangement that will have no adverse effects on exchange rates. The account will be able to function as a reservoir for unsteady dollar holdings only if the central banks are prepared to invest such holdings. In order to ensure voluntary

participation on a broad scale, the substitution account will have to be attractive to potential investors even in comparison with other objects of investment. Some important issues, such as the interest rate, potential mobility and the maintenance of capital value, are still to be resolved. The U.S. will have to be assigned an adequate joint responsibility for the guarantee of capital value and the interest payable on holdings, which should give it additional encouragement to pursue a policy in line with stability objectives.

The substitution account can contribute toward easing the pressure on the monetary system and making it more stable. We should not expect too much, however, in view of the fact that at best a limited part of existing dollar holdings will be consolidated. As it is, the success of the account is dependent on there being no critical developments in the foreign exchange markets, otherwise currencies that appear ripe for revaluation would probably be regarded as a more attractive alternative.

In the final analysis, the decisive question with regard to the investment policy of oil producers will be the effectiveness of the stability policies pursued by the industrialized nations of the West. By taking consistent action against inflation, these countries will at the same time be making their capital markets more attractive for investments from oil-producing countries. Here, too, it is important for us to recreate and to maintain confidence in the value of our currencies.

IV

Developments on the world energy market, above all the most recent political events in the Middle East, and in particular the occupation of Afghanistan by the Red Army, are bound to cause the countries of the Western alliance to put the principles and methods of their trade cooperation to a renewed test. In this context I should like to put up a personal opinion for discussion, a question that will doubtless have to be considered. Phrased in a somewhat pointed manner, the question is as follows: is not our trade policy in the Western alliance too illiberal where it ought in fact to be more liberal, and is it not too liberal where it ought not to be liberal?

I am convinced that we should pursue a liberal trade policy where the international exchange of goods takes place, in the classic form, so to speak, on the basis of reciprocity under peacetime conditions. It may not be very original to declare one's support for the conventional proposal of free world trade, but in politics it has long since ceased to be a matter of course. For some people, the claim that free world trade is the best guarantee for prosperity, growth and full employment will always amount to a provocative statement. But the freedom of world trade is both an economic and a political quantity. It is the mirror image of a free economy just as controlled world trade is the mirror image of a state economy. To relinquish or even only to accept sweeping restrictions in the concept of free world trade would inevitably have repercussions on the very structure of our national economies. So in advocating a liberal economic system at home, the freedom of entrepreneurs to make their own decisions, and private ownership, we must also come out in favor of liberal systems abroad. The

renunciation of state control of the economy, centralized planning and controlled investments cannot only be valid at home, especially in the case of economies that are largely dependent on export trade.

The GATT is our most important institution for the maintenance of free world trade. The successful conclusion of the Tokyo round is certainly a welcome event that can be entered on the credit side of trade relations. On both sides of the Atlantic and in Japan there was awareness of the responsibility borne by the Western industrialized nations for the further development of world trade. The test of the new arrangements will be in their practical application by the signatories and in the effective functioning of the GATT control mechanisms.

This is not to say that we can rest on our laurels. Developments in the world energy market with their adverse effect on the economies of the Western industrialized nations have increased the risk of countries playing a lone hand in their foreign trade relations. Even in past years in which there were no drastic increases in the price of energy the net result was not a positive one. After repeated attacks on free world trade, GATT estimates show that from 1974 to 1977 some four per cent of the volume of world trade was subjected to fresh restrictions. This percentage covers trade flows of between $30 and $50 billion. We know from experience that developments of this kind can easily break out into an extensive conflagration, as state interventions in the country of one trading partner not only create a basis for appeals from interest groups in other countries but also incite demands from subsequently located industries. Import restrictions that hit textile-producing countries will also affect exports of textile machinery by industrialized countries.

Much ingenuity has been applied in recent years in adding to classic import and export restrictions a veritable arsenal of internal political measures, such as bilateral self-restraint arrangements, wrongful administrative rules, fiscal policy and monetary manipulations. They are even more dangerous than open protectionism, glossed over as they are with handy phrases such as "organized liberalism" or "orderly markets." It is to be hoped that the results of the Tokyo round will also provide a practical remedy here.

This is not the place to embark upon a detailed enumeration of the sins committed in the name of protectionism on both sides of the Atlantic. The parties concerned are all living in glass houses in which, as the proverb tells us, one should refrain from throwing stones. Unfortunately, one gains the impression that the register of sins is growing longer. It is easy to understand why the U.S. and other major trade partners voice strong objections to EEC agricultural protectionism in particular, not only because it impedes access to European markets, but also because European agricultural policy generates competitive pressure in non-EEC markets. In this context, however, it should not be forgotten that the U.S. has for years been earning considerable surpluses both in general trade and in agricultural trade with the European Community.

A most instructive example under the heading of trade restrictions and distortions is the current debate on both sides of the Atlantic on trade in synthetic fibers. The issue in question, at least as seen by the European side, is as it were one of second-generation competitive distortion. It is claimed that

American price controls on oil and natural gas, resulting in lower energy prices, are the root cause of a marked increase in synthetic fiber imports by the European Community.

A defensive approach is now no longer sufficient to deal with protectionism in its many and varied forms. Even if legitimate social interests are taken into account, the price of protectionism is too high, both from the macroeconomic and from the political point of view. The short-lived improvement is achieved at the cost of solidifying existing market shares and thus initiating a long-term trend that is out of touch with market requirements, curtailing structural change and thus in the medium term adversely affecting the international competitiveness of domestic industries, increasing the risk to employment as a result of reduced competitiveness of the protected branches of industry, and finally aggravating the existing lack of confidence in growth resulting from uncertainty about the future development of trade.

Nor is the development of external trade relations with the centrally-planned economies of the Eastern bloc a contribution toward liberalization of world trade. There has been no reduction in the efforts of these countries to promote their exports by way of barter deals. In isolated instances, transactions of this kind may well have a positive effect on the development of East-West trade where there are advantages to be gained for both sides from linking up exports and imports. But they can hardly be expected to cause rejoicing in those for whom the example of free international trade has lost none of its attractiveness. Barter deals will be a questionable alternative particularly in cases where the exporter is offered in return goods which he will be unable to sell in the West in view of type, volume, or even quality. Small and medium-sized enterprises in particular are compelled to accept competitive drawbacks, while large-scale businesses will often have their own trading and distributing companies through which they can market barter goods. It is difficult to see how there can be any radical improvement in this situation in the near future. The export structure of Eastern-bloc trading partners remains unfavorable, and the goods they offer meet with overcrowded markets. There are also frequent quality problems.

The freedom of international economic relations is also being called in question today by developments that are occupying international conferences under the heading of "new international economic order." There is some reason to doubt whether this "new international economic order" that is called for by developing countries with varying degrees of intensity would in fact be a better economic order. Some of the key demands made by the developing countries within the framework of integrated commodity programs are of a blatant anti-market-economy character. One sometimes gains the impression that the infamous constructional defects of the European Community's agricultural market organization must have served as a model at the international level. In the current negotiations on commodity agreements for selected products, old demands such as price and quantity regulation, purchase commitments by the user countries, financing of surplus production and automatic compensation for reduction in proceeds have in no way been removed from the agenda. The state of negotiations at the International Conference on the Law of the Sea also gives

cause for concern. Despite the principle of free access also for private enterprises to the maritime resources, developments are showing a distinct leaning in favor of the International Seabed Authority. In the opinion of German industry this Authority will no longer be competitive once it has been burdened with the planned high financial expenditure. Quantitative restrictions to production to the benefit of terrestrial mining will provide an opening for the misuse of the Authority. Voting procedure and the regulation of influence in the Council of the Authority are unbalanced. There can be no guarantee of competitive equality between the Authority and private enterprises, the more so as the parallel system is to end anyway after 25 months, unless a new arrangement can be reached. What is becoming apparent here is that this international economic authority could gain an increasingly powerful monopoly position.There is a twofold danger in this: firstly, the politicizing of trade, because bodies of this kind take their decisions on the basis of political weight rather than on rational economic criteria; and secondly, the proliferation of bureaucracy, as economic decisions are shifted from the enterprises concerned to an international authority. This brings to mind a pertinent witticism: "What is the difference between a public and a private monopolist? The private monopolist has a guilty conscience!"

With regard to developing countries the fact is unfortunately often overlooked that there is a broad range of measures in line with the system which enable the special situation of structurally weak and underdeveloped countries to be taken effectively into account. An essential and necessary component of a free international economic order are subsidiary measures that support the market mechanism, such as the general system of customs preferences in favor of developing countries, systems that stabilize proceeds in conformity with the market, preferential treatment for developing countries, the waiving of reciprocity in the elimination of barriers to trade, and the transfer of income through development aid. Above all, however, the readiness to support free world trade must go hand in hand with the readiness to continue doing so even when it concerns the liberalization of one's own imports. In this respect the old conclusion still holds, that opening up the markets for goods that developing countries can supply on competitive terms will be more effective than much of the financial aid provided. Unfortunately, this kind of trade assistance is given less weight in international statistics and at international conferences than financial aid.

Despite intensive searches by politically interested parties, no worthwhile alternatives to a liberal world economic order are in sight which have stood the test in theory and in practice. In contrast, it has been repeatedly shown that market organizations, quotas, control measures, private or public international monopolies and cartels, which restrict or even cancel the essential steering and distributing function of the market, will affect world economic dvelopment to the detriment of industrialized and developing countries and will lead to highly undesirable power struggles within the framework of international economic relations.

These are the issues in which we must keep the flag of liberal trade policies flying in the coming years as well. But on the other hand, I feel that the most

recent political events give rise to the question of whether we are not being too liberal in other areas. In other words, could not the liberal stance we support in respect of trade turn out to be a dangerous political weakness in times of acute political disputes, which the opponents of our free-trade system could all too easily turn to their own advantage, and one which would make it harder for us to mount a legitimate defense against their attacks?

As I see it, the countries of the Western alliance will be compelled over the next few years to rethink and perhaps even to redefine the relationship between trade and politics. It is in conformity with our political tradition, and also with the older, nonpolitical tradition, to point out that trade and politics are two completely different things which should be kept apart and ought never to be confounded. It is also correct to say that nobody should light-heartedly hold a brief for political intervention in the free international exchange of goods. For in doing so we would depart ever further from the worthwhile ideal of unrestricted trade to the maximum benefit of all peoples. But one should not ignore the fact that sound and old-established customs have long since ceased to be current coin for others. In the centrally-planned economies of the Eastern bloc, foreign trade and payments has always been an integral part of general politics. The state itself is a party to foreign trade, and that as a monopolist. And prompted by the energy crisis in the early seventies, the OPEC countries have declared their express support for a philosophy of "oil as a political weapon." This means that both as regards the centrally-planned economies and the OPEC countries the Western world is concerned with groups of countries for which the primacy of politics over economics is firmly established both in theory and practice.

The Western alliance will also have to consider possible alternatives. In the final analysis, what is needed is a graduated set of instruments with which to meet political challenges at the international level. It is important in this respect that the means employed should be in proportion to the challenge. If a challenge must be met, then economic measures are a milder response than military action.

In the difficult situation in which the U.S. is today, it has a legitimate right to enquire after the solidarity of its Western allies. For years the U.S. has borne almost exclusively the unpopular burden of defending the West, while Europe went about its own business protected by the American deterrent. During the Vietnam war it was possible to argue with pefectly serious motives about whether this war had anything at all to do with Europe. But the events in the Middle East touch directly upon the economic life-lines of our continent. To refer to the responsibility of America in this respect would be no better than outdated provincialism.

The effectiveness of economic sanctions has always been a subject for heated debate. Although their efficacy has been disputed by the majority, they have been used again and again. It is certainly correct to say that economic sanctions have not as yet proved able to bring about the capitulation of any state. Neither was Napoleon able to fulfill his ambitious plans with the Continental blockade against England, nor did the comprehensive embargo and the total blockade set up by the Allies against the newly-founded Soviet Union after the First World

War lead to the desired political result. But it would be wrong to describe these measures as a complete failure. They left their mark on economic development and were often the cause of substantial shortfalls in production.

Reference to the failure of the Rhodesia boycott is not a convincing argument. In South Africa, Rhodesia had a powerful and extremely cooperative neighbor. Apart from this, neither businessmen nor the Western governments took the boycott decision very seriously, as Rhodesia was not regarded as a source of danger.

It is a different matter as far as the Soviet Union is concerned. Moscow is not independent. Even Stalin was never able to manage without economic aid from the West, despite his pressing on with a policy of autarky. Khrushchev would not have been able to realize his policy of industrialization in the late fifties without Western engineering and Western credits. The ugly technological gap remains even today one of the major weaknesses in the Soviet economic system. To imagine what would happen if Western know-how were no longer available one has only to picture what European industry would look like today if there had been no inflow of technology from the U.S. after the war. Cutting supplies of grain from the West to the Soviet Union will surely not be without effect either. Even if Soviet agriculture brings in a record harvest it will not be enough to meet the requirements of the 260 million Soviet citizens. This supply gap will be even greater in the case of a bad harvest, as last year, when the Soviet Union was forced to buy 30 million tons of grain. The import requirement for 1980 is put at a similar level.

Nobody would seriously maintain that the Soviet Union could be forced to withdraw from Afghanistan by means of economic measures. This would be an exaggerated objective in the light of all historical experience of relations with totalitarian states. But it would be equally incredible to maintain that economic sanctions against the Soviet Union will have no economic effect whatsoever. The condition is that the goods affected by an embargo are properly selected and that the measures adopted are carried in effect by the solidarity of all Western industrialized countries.

In concluding, I should like once again to place this issue in a broader perspective. Economic sanctions are only a part of the general issue of trade and politics. The question can be put in a much more comprehensive form by asking whether and to what extent the countries of the Western alliance can deploy their economic strength more effectively in external relations, not only to ward off aggression and to protect their freedom, but also, on a positive basis, to ensure the continuity of world peace. To what extent is it worthwhile and indeed feasible for us to use our economic strength more than we have done up to now in international relations as a means of ensuring peaceful political cooperation in the long term?

This will, I suppose, give rise to the objection that deliberations of this kind are incompatible with a free economy as we understand it. This is a view I do not share. The economy is just as much part of our system as, for instance, personal liberty, and we do not regard compulsory military service and personal liberty as

incompatible. So I feel that it is perfectly legitimate to expect that the economy should contribute toward maintaining political systems that are based on freedom.

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Canadian Working Paper:

"ECONOMIC RELATIONS BETWEEN NORTH AMERICA AND EUROPE"

According to almost every economic forecast that has been made, both Europe and North America face a gloomy economic outlook for at least the early years of the new decade of the 1980's. The President of the European Economic Community Commission, Roy Jenkins, has predicted that the EEC's growth rate could fall well below the mere two per cent forecast only a few months ago. In a speech prepared for delivery to the European Parliament, he said the crisis was so severe that "we face no less than the break-up of the established economic and social order on which postwar Europe was built." In the Common Market, inflation is expected to reach 11.5 per cent this year, compared with nine per cent in 1979. In North America, the forecasts are no different. Both Canada and the U.S. are facing the same problems of high inflation, heavy unemployment, lower rates of economic growth, as well as the devaluation of their dollars in world markets. According to the Economic Council of Canada, Canada can expect the current combination of economic problems to continue for at least the next few years.

Even at this 25th anniversary of what is a most useful forum for the exchange of views between North Americans and Europeans, it would be an exercise in nostalgia to contrast the present situation with the far happier period that ran from the Marshall Plan roughly to the conclusion of the Kennedy Round in the early 1960's. We can recall the elements that made that happier period possible: American leadership and performance, steady growth without significant inflation, the Bretton Woods monetary system, the universal acceptance of freer trade and the muting of protectionist pressures, a slow and controllable pace of structural change, the absence of serious problems with the developing countries, and perhaps as much as anything else the availability of oil at cheap prices and without political complications. But for more than a decade we have seen on both sides of the Atlantic how each of these underlying factors has been changing in an adverse direction. And the impact on the overall relationship between North America and Europe has already become serious; today, it could threaten the whole fabric of cooperation among the OECD countries we call the West, even to the point of impairing cooperation in the political and national security areas.

A distinguished Canadian diplomat whose principal sphere of activity was economics, Mr. Jack Hamilton Warren, once remarked that the U.S. and Canada could always cope with two or three significant areas of difference on economic matters at any one time. However, if the agenda of friction and disagreement extended to seven or eight serious problems at the same time, there was a danger that the fabric would break down. Much the same must be true of Europe and North America. It is not an exaggeration to fear today that this is just the kind of situation we collectively confront. Each of the adverse trends I have suggested above creates its own pressure on individual nations and groups of nations to act selfishly in response to its own public opinion. Each of these has in fact been doing so in recent years, despite the adoption by OECD and others of pious (and at times useful) declarations of adherence to the basic principles of cooperative action that have made the OECD nations an extraordinary historic model and basic success story for more than 30 years. And today, in the face of the serious crisis of political instability and Soviet action in the Middle East, the danger of nationalist economic policies carried out without regard to the welfare or concerns of others is perhaps at its highest point yet.

By no means are all of the actual or potential divisions between North America and Europe as entities. My own country, Canada, has significant continuing differences with the U.S., and there are similar differences among the individual nations of Europe. But the most useful thing a paper like this may attempt is to identify the key areas of potential difference and especially those that do tend to arise on a North American/European fault line. In a paper of bearable length, one cannot hope to assess any of these problems in depth, much less their totality. But a listing of the key problem areas and the serious difficulties that now exist or may arise in each of these may both remind us of the overall gravity of the situation and serve as a possible guide to discussion.

On this basis, I identify, not necessarily in their order of importance, six problem areas that were already evident by the beginning of 1980. These are:

1. The mangement of inflation and reduced growth.
2. The monetary system and the future of the dollar.
3. Free trade versus growing protectionism.
4. Structural change and industrial policy.
5. The handling of the energy crisis, especially in respect to oil.
6. Relations with the developing countries.

Next, in the wake of the Iranian hostage crisis and the Soviet invasion of Afghanistan, it is necessary to stress two additional areas.

7. The handling of economic sanctions in general.
8. Policies toward trade with the U.S.S.R. and Eastern Europe.

Finally, it is useful to look ahead at least briefly to two longer-term possibilities that could affect the economic relationships between Europe and North America in the 1980's. These are:

9. Changes in the population structure of each, and their implications.
10. The possibility, at some point, of something resembling a North American bloc embracing at least Canada, the U.S. and Mexico.

Let us, then, look at each of these problem areas, where we stand, what problems already exist, and what may emerge in the future.

1. *The management of inflation and reduced growth.* Over the past three years there have been serious frictions in the coordination of national policies in this area. The U.S. pressed in 1977 and 1978 for more expansionist policies by the Federal Republic of Germany and Japan, while these countries, along with others, urged that the U.S. itself act more strongly to defend the dollar and to fight inflation. It may be argued that, despite German protestations, something resembling the "locomotive theory" as regards Germany and Japan "was precisely the policy that was adopted in 1978 and given the full sanction of the Germans at the Bonn Summit of the heads of government in July of that year."[1] Similarly, pressures from Europe undoubtedly played a significant part in the anti-inflation actions taken by the U.S. government in November of 1978 and more decisively in the so-called Volcker package, in October 1979.[2]

For the moment, however, the problem of coordination appears less serious, since the steady increase (or re-emergence in some cases) of high inflation rates throughout the OECD nations has led to general governmental agreement that the attack on inflation must have top priority. Yet there undoubtedly remain serious problems as to whether individual countries, especially in Europe, are likely to regard the anti-inflationary policies of the U.S. in particular as adequate. (The new Carter package of 1980 is already being criticized on these grounds.) And, to the extent that the increased severity of the inflation problem in the U.S. stems from the perception that increased post-Afghanistan defense budgets are a major contributing factor to inflation, there is plainly a danger that controversy over inflation policy may re-open long-standing doubts in the U.S. as to the adequacy of the defense contributions of European allies (and, I might add, of Canada).

Moreover, it must never be forgotten that in the approach to this set of problems there is an underlying difference between what might be called the folklore of many European countries, notably West Germany, and the folklore of the U.S. and Canada. In the former, historic memories reinforce popular support for strong anti-inflationary policies, whereas the concern for unemployment is muted, in part, by the fact that the burden can be to some extent placed on immigrant workers. In the U.S. and Canada, on the other hand, unemployment and recession are not only historical bugaboos but in the present situation, in the U.S. at least, have a totally disproportionate impact on minority and other groups already dissatisfied with the progress made in bringing them into the mainstream of national economic life and progress. It will be extraordinary if the political pressures reflecting these facts do not produce significant domestic difficulties for a truly "hard-line" American policy against inflation, and if this in turn does not tend in the next year or two to raise the level of European criticism once again to serious levels.

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[1] Andrew Shonfield, "The World Economy in 1979", *Foreign Affairs*, "America and the World 1979", p. 606.

[2] *Ibid.*, pp.596-600.

2. *The monetary system and the future of the dollar.* In these same past three years, there have been periods when there was sharp European criticism of American passivity toward the decline in value of the dollar. And in the fall of 1979 it was unquestionably the refusal of the Deutsche Bundesbank to continue supporting the dollar that clinched the case within the American government for the Volcker package. This specific sensitivity remains potentially acute.

And behind it, of course, lie the wider questions of the continued role of the dollar as the dominant reserve currency, and of the operation of an overall system envisaged since 1971 as one of managed floating exchange rates. Many Europeans feel that the U.S. has done too little managing. And if all the major OECD nations have avoided the competitive depreciation of their currencies as in the 1930's, they have been concerned to maintain an exchange rate helpful to exports, even if that conflicted with broader objectives of a sound monetary system. There is a built-in conflict here that can too easily become a renewed source of serious friction.[3]

The new European Monetary System was in part designed to insulate major European countries from the perceived vagaries of the dollar, and there are some Americans who welcome the greater exchange rate discipline of the EMS as exerting a stiffening influence on U.S. policy toward the dollar.[4] In this process, the Deutsche mark in particular has now emerged as an important reserve currency in itself as well as being the bellwether of the EMS. Yet the German authorities do not seem prepared to accept all the responsibilities that go with such a reserve currency role even as they and other Europeans recognize that the U.S. cannot continue to discharge all the special responsibilities of the dominant reserve currency holder, even if it should do better than it has.

In short, we are in a transition period when the dollar is clearly less effective as the main reserve currency in world trade, but where no satisfactory replacement or supplement has yet emerged. As Andrew Shonfield has put it, referring specifically to the possibility of a "dollar substitution account," it was, as of the end of 1979, "hard to avoid the impression that the pace of required institutional change was lagging dangerously far behind changes occurring in the international marketplace.[5] The enormous growth in the Eurocurrency markets means that the level of liquidity available to support world trade is essentially free from official control; however well-managed individual banking institutions may be, this is a situation that could cause serious difficulty at some point.

Not all of these matters, by any means, are items of current serious disagreement between Europeans and North Americans. But they do reflect a basic economic structure that may be in increasing disarray, a fact which in itself affects the economic well-being and cooperative spirit on both sides of the Atlantic.

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[3]For a more extended discussion, see Marina v. N. Whitman, "A Year of Travail: The United States and the International Economy", *Foreign Affairs*, America and the World 1978".

[4]See, for example, Harold van B. Cleaveland and Thomas F. Huertas, "Stagflation: How We Got Into It — How To Get Out", *Foreign Affairs*, Fall, 1979.

[5]*Loc. cit.*, p. 261.

3. *Free trade versus growing protectionism.* The recently concluded MTN negotiations were undoubtedly a significant success. It was agreed to cut world tariffs an average of 33 per cent on approximately 5,700 items over an eight-year period. The EEC granted tariff cuts on $1 billion worth of products, including rice, tobacco and beef. The U.S. cut tariffs on $2.8 billion of farm imports. The average level of tariffs currently used in the U.S. is 8.3 per cent, in the EEC 9.8 per cent and in Canada 15.5 per cent, but these levels will be significantly reduced by the latest GATT agreements. The second important result of the GATT was the adoption of six new codes to curtail the increasing use of non-tariff barriers. A common and over-used non-tariff barrier that was under fire was the use of government subsidies to protect inefficient domestic industries from import competition or, alternatively, to give exporters an unfair price advantage in world markets. The main objective of the U.S. was not to push for greater tariff cuts, but rather, to achieve the adoption of codes to dismantle or curb non-tariff barriers.

But the continuing success of the MTN agreements in holding protectionist pressures at bay depends heavily on whether specific negotiations do in fact succeed in achieving progress on the issues of subsidies, in particular. The tendency of government to interfere directly in industry is perhaps the strongest expression of economic nationalism and protectionism. Protectionist trends, or at the very least the economic nationalist sentiment, can be seen quite readily in Canada by advertisements and programs for "buying Canadian". The same is true in many other countries and has been produced largely by the energy crisis, inflation, and rising unemployment.

Despite awareness of the advantages to open and liberal trading systems, protectionist sentiments have increased on both sides of the Atlantic. Both North America and Europe find themselves suddenly strongly challenged, even in their home markets, by new competitors.

Protectionist trends have become significant in the automobile industry, previously notable for its free-trade views. Chrysler Corporation ended this past summer with 80,000 cars and trucks left unsold. If domestic cars and trucks are not selling, there will be greater barriers for imported cars. Imported cars in North America are more and more prevalent than ever before, which seems to indicate that a gradual reversal effect is taking place.

In short, the effectiveness of the new MTN agreements could be undercut at any time if further progress is not made, not only on the subsidy issue but on public procurement policies; in the latter, a particularly sensitive issue is whether Europe is genuinely permitting free competitive bidding in aircraft purchases, or whether in practice bidders are being required to place too much of the production in the buying countries on a "tied" basis. Subsidized European agricultural exports, and the special problems of steel, petrochemicals and textiles all remain highly sensitive areas not dealt with under the MTN agreements.

4. *Structural change and industrial policy.* This difficult and hard-to-grasp area was addressed at the Bilderberg Conference in Princeton two years ago. While new production patterns in medium- and high-technology products have been thought of as a problem that is most acute with respect to middle-income

countries and Japan, such problems do exist in certain areas between America and Europe. And the tendency of European countries to back "chosen instrument" entities (whether nominally private or public) is a constant underlying source of friction felt by major sections of North American business.

The problem of handling structured change has come to have a particularly close relationship to the problem of continued free trade. As times get tougher, the pressure to defend national industries that may no longer be competitive is bound to get much more severe. Some of these protectionist pressures are common to both Europe and North America and may cause them to act in parallel; others, however, are already matters of confrontation (as in the case of steel) and the list could multiply. To put it bluntly, although the need to adjust to inevitable change is becoming increasingly evident, few of us appear prepared to contemplate the requirements or face the consequences.

5. *The handling of the energy crisis, especially in respect to oil.* I understand that the problem of energy first appeared as a separate agenda topic at the Bilderberg Conference held in 1973, when a great deal of the discussion was devoted to criticism of the energy wastefulness of the U.S., in particular, with general agreement that the industrialized countries needed to develop much more effective and concerted policies to produce alternatives to oil and to reduce their energy consumption growth rates. It is chastening indeed to realize how much the problem has worsened in the seven years since that time, and how its worsening has steadily outpaced the slow development of effective policies and responses.

There is no need here to go over the history of oil prices; in the second, or "post-Iran" price crisis, they have risen from approximately $13 per barrel at the beginning of 1979 to a level of roughly $30 per barrel today. And, although spot prices have now dropped and there appears to be an uneasy equilibrium in the market, basic changes in the production policies of the leading OPEC countries undoubtedly mean that the market will remain tight and that real prices will continue to increase over the next few years. Already, at least four OPEC countries have announced production cutbacks in 1980.

Secondly, internal unrest in every oil-producing country in the Middle East holds a threat to steady oil availability in oil-importing countries. If the Iranian revolution had left any room for doubt on this point, it must have been dispelled by the invasion of the Grand Mosque in Mecca in November, in circumstances still murky. Libya and the PLO are capable of assisting or stirring up trouble all through the oil-producing areas, with few exceptions. And, of course, their attitudes relate directly to progress, or the lack of it, in the negotiations between Israel and Egypt toward a settlement of the Arab-Israeli conflict.

Finally, whereas we have become accustomed to thinking of the major oil-producers as basically supportive of the economic system, the change in Iran has meant that a very high proportion of the oil of the Middle East is now in the hands of "hostile" governments that have no such concern for the economic welfare of the OECD countries. This change in the political spectrum compounds the dangers of action affecting both prices and the availability of supplies.*

*For a longer summary of developments during 1979, see Robert Stobaugh and Daniel Yergin, "Energy: An Emergency Telescoped", *Foreign Affairs*, "America and the World 1979", pp. 563-595.

Yet, in the face of these basic changes and the drastic price rises of 1979, there was an almost total lack of effective cooperation among the major European countries and the U.S. (Canada is, of course, both an exporter and an importer of oil.) While the future oil-import ceilings adopted at the Tokyo summit in June were undoubtedly a major step forward for the long term, there is no question that Europeans still perceive North America as vastly wasteful, especially in its transportation and heating practices, that Americans in their turn see Europeans as trying to make their own special deals for oil, with serious effects on Western solidarity in the Middle East (for example, the recent trip by President Giscard d'Estaing of France), and that the institutions for cooperation within the OECD framework, notably the International Energy Agency, have neither been effective in preventing destructive scrambles for oil in the short term or in producing really solid programs for action in the long term. If the situation were viewed as a race between "elements of friction" and "elements of cooperation", one would have to say that for the last year and a half the former have been growing much more rapidly that the latter.

As for the longer term, there has probably been some narrowing of the differences between experts and informed observers on both sides of the Atlantic. For this, at least, we do owe some debt to the IEA. But, in terms of practical action, the expanded production and distribution of coal still faces major problems of scale and political objection within the U.S., and there remain serious underlying differences in the respective views of the future role of nuclear power, and especially over the use to be made of plutonium-producing technologies.

Thus, any checklist of points of friction and difference between North America and Europe in the energy field would be a very long one indeed. Many of the most sensitive of these points of friction relate directly to political policies concerning the Middle East, and may therefore belong in our overall discussions at this conference. But even if there were greater agreement on political policy, the prospect of an increasingly tight oil market and only slow reduction in the oil-import levels of the U.S. is enough, in itself, to present a serious threat to popular support for the kind of cooperation we have known over the years.

6. *Relations with the developing countries.* The publication of the Brandt report has once again highlighted the fairly wide area of agreement among thoughtful and careful students of this situation as to what needs doing — and the enormous gap between that perception and the political realities that dictate the responses of individual governments. In the face of enormous economic problems and other priorities, there can be no question that the "North" has steadily fallen short, and in the process is risking what could be in the long term a desperately serious whirlwind of poverty, violence and disruption.

And, whatever the possibilities for disaster in the longer term — of another food crisis, for example — there are plainly immensely serious problems to be handled in the short term. As leading private bankers are now pointing out, the enormous increase in the surpluses of the oil-producing countries must mean a heavy deficit on the part of the oil-importing developing countries. And, whereas it was possible to handle this deficit between 1974 and 1979 by recycling through

the private banking system, the capacity of that system seems clearly not adequate to the present need. New multilateral mechanisms and resources, notably through the IMF, are plainly going to be required to prevent a collapse that would have a serious effect on the private banking system as well as the progress of the developing countries themselves.

None of these problems seems, at the moment, to be a serious cause of difference as between Europe and North America, viewed as entities. The Lomé Convention between the European Community and a large group of developing countries seems to North Americans a wholly constructive operation, and in general the geographical areas of special interest to individual nations and groups of nations have not prevented the development of a very healthy diversity of economic relationships. Similarly, it may not be unhealthy that a number of nations, including Canada, who might be accused of falling short of doing their share on the military side, have at the same time engaged in substantial economic assistance programs with the developing countries — so that something like a division of labor has been developing both on geographic and functional lines among the industrialized countries. In short, this is not an area of serious friction on the North American/European axis; it is an area where there are serious short-term problems and room for grave concern in the long term.

While the positive economic actions now under way in response to the Afghan invasion hardly belong under the broad heading of relations with the developing countries, they deserve at least brief mention. The burdens the U.S. has been carrying in the Middle East, and especially the enormous amounts of aid extended to Egypt and Israel, have certainly impeded the design of a program for across-the-board development aid to developing countries. If that burden were now expanded to include special aid programs on a large scale elsewhere in the Middle East, the likelihood of a sharp Congressional backlash aimed in part at Europe would become very great.

Thus, from an American standpoint, the fact that Europe — and West Germany in particular — has taken a lead in the program to help Turkey has been not only useful but politically of great importance. And the same now applies to economic aid to Pakistan, and cooperation with other key countries in the Middle East. Up to this point, much European activity in this area has been perceived in the U.S. as selfishly motivated — tied to special deals for oil and the like; a new perception of serious and constructive parallel action could make a considerable favorable difference.

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The catalogue of problem areas we have listed was serious enough as of late 1979. It has now been made much more serious by the Iranian and Afghan crises and the responses to these by the U.S., with an accompanying effort to enlist European cooperation in key economic measures. It has been hard enough to

avoid really sharp differences when the U.S. has been, and remains, necessarily to the fore in dealing with the Arab-Israeli conflict, with all its implications for a Europe totally dependent on Middle Eastern oil. Now we have the U.S. in the forefront of these two new grave crises, and a growing perception in the U.S. that Europe is simply not cooperating as it should either in the political or economic sphere. ("NATO Out to Lunch" was the heading of a recent *New York Times* editorial.) And the sense of lack of support could all too readily feed the fires of nationalist economic policies, protectionism, and all the evils now just barely held in check. So it is necessary, from the U.S. standpoint at least, to take a hard look at two additional areas: economic sanctions and East-West trade policies. On these issues, my own country, Canada, is perhaps more of the European than the U.S. view, but that hardly diminishes the gravity of the differences and potential splits.

7. *The handling of economic sanctions in general.* The issue of economic sanctions has a long history of breaking up collective action and alliance structures. Obvious examples were the attempt to apply sanctions to Mussolini's Italy in the 1930's (undercut by the U.S. and by many in Europe) and the attempt to bring Ian Smith to heel in what was then Rhodesia in the 1960's and 1970's (undercut by other European countries and by the Byrd Amendment on the part of the U.S.). No country represented here can lightly cast the first stone in this area.

The failure to get agreement on economic sanctions against the Ayatollah's regime over the hostages has probably not had a serious or lasting impact; when the Afghan crisis broke, the Carter Administration muted its pressures (perhaps without adequate notice or consultation), and the quiet cooperation actually extended to limit Iran's economic dealings has prevented any significant split from developing. However, the seizures of Iranian assets by the U.S. — extending to holdings of subsidiaries of American banks located in Europe — both caused specific problems and lawsuits and raised the specter of diverting the holdings of the oil producers away from Eurodollar areas., But so far frictions on the first count have remained bearable, and the fears felt on the second have not seemed to materialize — though a future case could make the concern even more active and justified.

The post-Afghan differences, in the area of economic action, have been much more grave. Europe (with no excess grain to worry about), Canada and Australia have cooperated in not replacing the grain withheld from the Soviet Union by the U.S., although it is not clear whether European channels have been used to divert grain originating in other areas. And, at the official level, there has apparently been some progress in tightening the COCOM guidelines for high-technology exports that may have military applications.

But the most serious problem, already acutely felt in many U.S. business circles and virtually certain to hit the political fan full force if it keeps up, is the sense that Europeans have, in many cases, not only not limited their own high-technology exports to the U.S.S.R. but actually rushed in to pick up potential deals that were in advanced stages of fruition by American companies. The American industries affected are, in some cases, ones already concerned by

European state trading and other practices addressed in the MTN framework or elsewhere; it is not hard to foresee that they, and their ready allies, may soon take the line that if European allies are not playing ball with the U.S. there is every reason for the U.S. to lash out at the Europeans in protectionist or other directions.

Can the West in fact use its vast economic powers for political purposes — as has been urged, I understand, in this very forum on other occasions? It may be argued that Iran was a special case where the merits of applying pressure were arguable. The really serious question has to do with:

8. *Policies toward trade with the U.S.S.R. and Eastern Europe.* Whatever the might-have-beens that go back to 1972 and to the Jackson-Vanik Amendment, the fact is that Western Europe and the U.S. have developed radically different postures and degrees of involvement in East-West industrial trade. Its impact on employment in Europe generally is far greater than in the U.S. (or Canada), and for France and West Germany it is linked, in slightly differing ways, with the overall concept of détente and even, as Americans see it, with growing bilateral special relationships with the U.S.S.R.

These differences may diminish if the political crisis should deepen — for example, if the Soviets put pressure on post-Tito Yugoslavia, or have an evident hand in some new trouble in the Middle East. But if the crisis stays at the simmering level — with the Soviets staying in Afghanistan but nothing further happening for the moment — the gap between European and American policies could widen and become increasingly evident. This difference in policies and attitudes, and its truly serious implications for solidarity in all fields, is surely one of the most important topics that needs airing at this Conference.

9. *Changes in the population structure of each, and their implications.* One depleting "resource" which will affect both North America and Europe well into the 1980's is the population levels of the Western countries. During the 1980's, North American countries are expected to continue achieving a positive net birth rate, but the rate will be much lower than in previous years. However, in some European countries, such as West Germany for example, the population is actually shrinking because of a negative population growth. As a positive note, this will mean that our societies should become more productive and mature, but it could also mean serious competition between countries for immigrants from the Third World countries for increased population. Canada and the U.S. are no longer interesting skilled people from Europe, as once was the case, but there is no indication that the reversal is happening.

On the positive side, North America will begin to see the maturation of its society, with the majority of the "baby boom births" between the ages of 25 and 44. On both sides of the Atlantic, there will be fewer young workers entering the labor force, reflecting the low birthrates of the late sixties and seventies. Since there was no equivalent of the North American baby boom in Europe, European countries will feel the effects of slower population growth much sooner than North America. Although demography is a relevant factor in relations between North America and Europe, because of the scope of this paper, I only wish to note the relationship. In fact, this topic deserves an entire paper in view of its fundamental significance for the shape and character of our economic future.

10. *The possibility of something resembling a North America bloc.* One aspect of North American-European economic relations that should be mentioned is the fact that North America, unlike the European community, has not formed a united economic bloc. There have been intensified debates concerning that possibility, especially in the last several years, but as yet, no formal agreements have been contemplated or proposed. If a North American economic union was envisaged as a goal similar to the Western Europe Common Market, there could be three major agreements between the three North America countries. First of all, free trade would certainly prevail between the three countries, i.e., the prohibition of all duties on exports and imports across the North American borders. Secondly, there could be movement in the direction of a customs union, covering the exchange of goods and a common external tariff in dealings with other countries. Thirdly, an eventual possibility would be a North American Common Market, including the free movement of labor and capital between Canada, the U.S. and Mexico.

On balance, the European Common Market has worked well, and is now in its twenty-first year of operation. There are several good reasons to believe that a North American Common Market could work equally as well, if not better. With the huge reserves of oil in Canada, and to a lesser degree in the U.S. and Mexico, there is a definite possibility that the North American bloc could become energy self-sufficient. Also, almost one-quarter of the world's grain production is grown in North America. In comparison to the nine-nation European community, North America has a higher population, and also a larger G.N.P. Besides the belief that North America has the resources to work as an effective common bloc, a North American Common Market could also effectively increase the bargaining power for all three countries. With increased competition for Third World markets and raw materials, a North American bloc could deal more effectively with the competition than could the individual countries. It is also possible that European-North American relations might be greatly improved and enhanced if the EEC could make agreements with North America as a bloc, rather than with the individual countries.

However, it is doubtful whether a North American Common Market will be accomplished in the near future, if one is ever set up at all. Canada and Mexico have been traditionally unwilling to enter into such agreements with the U.S. since, as the most powerful nation, the U.S. would be the dominant force. Mexico is also strongly protectionist, and would be unlikely to agree to free trade with Canada and the U.S. (Mexico even refused to join the GATT agreements). Canada, too, is unwilling to enter into a Common Market with the U.S. and Mexico for fear of being engulfed and overpowered by the U.S. However, Canada is also hesitant about joining forces with the other two countries for fear of losing a major portion of her oil reserves to them. The U.S., in particular, has been accused by Canada of using the Common Market scheme as a means of obtaining cheap oil from Canada. Despite the fact that a total North America Common Market is very unlikely, there has been talk about free trade between Canada and the U.S. However, it has been simply that — talk — and the likelihood of such an arrangement, at least in the near future, is also doubtful.

Conclusion.. If the above discussion of key areas of common interest and concern is at all realistic, it must at once be apparent that the relationship between Europe and North America, in the economic area, faces the gravest difficulties it has encountered for the past 30 years. Undoubtedly, part of the difficulty lies in inadequate institutions — a subject hardly touched on in this paper. But we do not lack for machinery of cooperation and consultation, and the innovations of the 1970's — economic summits, the IEA, etc. — have filled notable gaps to good effect, up to a point.

Nor can we say that the problems arise from "domestic politics," with the implication that there is some underlying broad consensus among well-informed groups on both sides of the Atlantic, and that only special interests and regional and other political pressures prevent that consensus from being carried out. That may have been true 10 or 15 years ago — and of course there is never any escape from the political impact of what voters perceive today as issues desperately affecting their welfare. Part of our object here should be to understand such concerns, as they exist in our several countries.

The real point of this paper, however, is that today there are serious differences of viewpoint and policy that extend *throughout* our respective nations. As Mr. Jenkins said in the speech I quoted at the outset, the system that has served us, and the world, well, for a generation, is being pulled part as never before. "Will the 1980's repeat the experience of the 1930's?" may be too stark a formulation, but not by much.

DISCUSSION

A. *The Management of Our Economies.* A Briton led off the discussion of the economic topic with a brief sketch of the "golden quarter century" following the Second World War. This had been a period of exceptionally high growth, low inflation and low unemployment, due to a combination of free trade, Keynesian demand management, and fixed exchange parities (the latter two underpinned by the American readiness to finance the deficits of other countries and to accept an excessively high dollar exchange rate as the price of an anchor for a fixed parity regime). This had all come to an end in 1971, and the oil price increase two years later had hit a world that was already beginning to suffer from high inflation and stagnating growth. This "stagflation" had subsequently changed all economic relationships, in different ways in different countries, and in ways that nobody fully understood. For example, by 1979 the savings ratio in the U.S. had fallen to under three per cent, while in the U.K. it was 18.5 per cent. This was of course a major determinant of the amount of effective demand in the economy.

Virtually all of our governments believed in demand management, and every country was currently running a budget deficit. But monetary policy was proving no easier to operate than Keynesian demand management, and no more certain in its effects. Canada, for instance, was about the only country which had consistently hit its monetary targets, but it had one of the worst inflation records. Germany had enjoyed low inflation rates, but had repeatedly missed its monetary targets.

So it seemed necessary to seek a mix of fiscal and demand management measures, monetary control, and — in any country with an organized trade union movement — a degree of social consensus which led to moderation in wage settlements. Countries like Austria and Germany had had considerable success using this combination of methods.

The German budget deficits had run parallel to the British in recent years, although the German savings ratio was rather smaller, suggesting a stronger case for cutting the German deficit. At the Bonn Summit of 1978, it had been agreed that the stronger economies, showing surpluses, should aim to grow faster, while the weaker ones, with deficits, should concentrate on reducing inflation. The German government had reluctantly agreed to stimulate its economy by about one per cent, despite misgivings about potential damaging effects on the capital markets. These had not come to pass, and the German economy last year had shown the highest growth rate in Europe.

But were the fashionable monetarist policies right? In exchange for reduced inflation, we had experienced an appalling rise in unemployment (20 million out of work in the OECD countries), reduced output and living standards, falling investment, interest rate wars and the threat of trade wars. Would it not be better to try to reinvest our domestic surpluses and savings in the same sort of way that we tried internationally to recycle the OPEC surpluses? (It was hard to draw a moral and economic distinction between the two cases.) Could we not persuade the countries whose relative economic strength had increased enormously in recent decades — especially Germany and Japan — to carry greater burdens commensurate with their strength, especially in the Third World?

An Austrian participant shared the viewpoint of the foregoing speaker, but he pointed out that an incomes policy "or social partnership," which was the means for holding down inflation during periods of productive development, usually had some price restrictions bound to it. But in an economy of scarcities such as we now faced, the cost/price system was impaired, and we could not easily "fight back" with price restrictions on scarce commodities. Another danger was that some politicians were willing to "sin on incomes policy," producing large budget deficits which they then tended to fight with monetary policy, or "competitive appreciation," which made imports easy. This sort of policy mix could lead to dangerous results in investments.

A German speaker said that neither Keynes nor Friedman could give us the right answer alone. A combination of monetary and fiscal policies was required. Interest rates of 20 per cent did not indicate that we had taken the wrong road, only that we had taken it too late. If we had taken those measures earlier, the rates would not have had to reach that level. The imperfections of the market economy did not justify throwing the whole concept overboard.

The Federal Republic was a country with a good income, but a weak base of equity capital, after two lost wars and two major bouts of inflation. It had done well to solve its post-1973 problems. The Germans would aim to reduce their budget deficits, which they saw as fueling inflation. Their current account deficit was related to their oil import burden, and was *not* a consequence of a deliberate governmental decision. The Germans could live with this for perhaps three or four years, but they were trying to remove it. At the same time, they were mindful of their obligations in the international field, as exemplified by their assistance to Turkey.

Another German thought that, from an industrial viewpoint, the past decade had brought excessive consumption and public spending, and too little investment. We were caught up in the existing network of the distribution and use of GNP. This ought to be changed, but that would require political action. Only then could we gradually increase the ability of private enterprise to carry greater risks in tackling problems like substitute energies and the improvement of industrial productivity. The speaker disavowed being a purist on the question of free enterprise and the market economy, but the seventies had shown that increased government spending had not enhanced industrial productivity. Unless we were prepared to take certain risks, we would be sure of getting more and more governmental intervention and subsidies, which were already excessive in all of our countries.

According to a Frenchman, though, the market economy was "a phantom . . . one of the greatest illusions of economists." If one had the impression that, between 1945 and 1970, the economy and politics had been uncoupled, it was because the international economic system had been protected by a fairly steady political umbrella. The umbrella had since collapsed, and the economy had become terribly politicized. We had all been talking about the coordination of national economic policies for the past 20 years; it was to be hoped that we would continue to talk about it. But the international system would never have the supranational capability to impose on all countries a regime not willingly

agreed to by each of them. It would be going too far to say there could be no coordination, but one should not harbor too many illusions about this. Even if the political will were there, there was the technical aspect. The coordination of economic policies required that all parties shared the same basic analysis of a problem. As we had seen over the past few years, this was not the case. We must not allow too big a gap between words and deeds. We were living in a time when our economies were so beset by politics that it might be extremely dangerous to act as if this were not so.

An International participant dealt at length with macroeconomic demand management policies. While it seemed generally agreed that we should give priority to the fight against inflation, had the effectiveness of our policies — particularly the monetary ones — been as we had hoped? We were indeed moving into a period of competitive appreciation of exchange rates, and we had to be careful not to go too far. The risk of a deepening recession with high unemployment was substantial.

On the other hand, we were bound to follow policies in the direction of absorbing real income loss to the OPEC countries resulting from the huge oil price increase, without squeezing profits and productive investment. The policies followed so far had opened the perspective that we would do much better this time than we had done in 1974-75, when wage increases had cut sharply into profits and investment. We could therefore be moderately optimistic that the next eighteen months would more likely see a flattening out of the OECD growth rate than a severe recession.

This optimism was not shared by an American speaker, who reported that he had never been more concerned about the economic outlook. The U.S. was perhaps in a similar position to that of 1974, when a domestic "summit" meeting had been convened to deal with the great problem of inflation, which was even more serious today. Americans now risked the probability of the ground of economic activity falling away under their feet. The administration had no real choice but to present balanced budgets, as the judgments of the financial markets could simply not be ignored. In the U.S., balanced budgets had traditionally been sought by raising taxes, but this would not stand Americans in good stead over time. If, as the speaker believed, a substantial recession was upon us, then the government would have to stand ready to reduce taxes to encourage investment and increase productivity. But this would not in any sense help to solve the inflation problem. The U.S. thus found itself in an unhappy situation, with no set of fully satisfactory policies at hand to deal with it.

According to a Canadian participant, no single factor in the economic sphere was more serious than the inflation which had pervaded our economies for 30 years. Nothing was more destructive to national well-being nor so corrosive to moral values. A profound weakness in all our countries was the lack of public education about inflation, traceable to the reluctance of governments to accept the blame for inflationary tendencies. Consequently the public was not prepared for tough measures, but it was impossible to overcome the disease without public support. The lead in this campaign had to come from the U.S., but unfortunately the "Volcker package" would not work without the "Carter package," which

seemed imperilled by the defense requirements of the budget. Interest rates could be pushed up high, but at what cost in output?

B. *Monetary Relations.* A British speaker observed that exchange rates were following current account performance and short-term interest rate differentials, rather than monetary performance. This was leading to great turbulence on the foreign exchange markets, which was being exacerbated by commodity futures speculation. The bursting of the "silver bubble" had put severe strains on the American banking system. Oil prices had doubled again in the preceding 12 months, but governments recognized that their electorates were more worried about prices than unemployment, and were afraid to make good the demand-deflecting impact of oil price increases — with the one exception of Germany. Germany had been right to borrow abroad to finance its deficit, thus maintaining demand. The world was now engaged in widespread competitive currency appreciation to minimize inflation, in contrast to the competitive depreciation of the fifties and sixties, designed to maximize exports. After nagging the U.S. for years to strengthen the dollar, the Germans — once it had become stronger — had set about weakening it and cancelling all its gains for their own reasons.

Interest rate differentials would not last indefinitely, and it was important to try to find alternative reserve assets to the dollar. Ideally, we should have a mixed system, with the Swiss franc, the Deutsche mark and the yen assuming some reserve role. It was to be hoped that some form of substitution account could be arranged, which would mean reserves of some $50 billion to start with.

We now faced an extremely destructive interest rate war, with each country aimed at having higher rates than the others. How could we hope to foster increased investment in this situation? The growth of output had been falling steadily around the world, with no commensurate gains against inflation. Studies had clearly shown that the application of monetarist policies alone produced a loss of ninety cents of output for every gain of ten cents on the price front.

More and more governments were anxious to control lending in the Euromarkets as a way of avoiding domestic monetary controls. The speaker felt that one of the biggest dangers now was the possibility of a major default by a Third World country, which could generate international financial difficulties on a scale not seen since the early thirties.

A compatriot said that he was in fairly substantial agreement with the preceding speaker, except that he wondered whether borrowing abroad had really been the best way for the industrial countries to meet the shock of the first oil price rise. We might in the end conclude that Japan's and Germany's choice of suitable domestic measures had been the correct course. (Even better would have been a joint negotiation with the OPEC countries at that time.) The continuing talk of control of the Euromarkets — whether through minimum reserve requirements, more stringent capital ratios, or the application of capital ratios on a consoldiated basis — whatever the virtues from another point of view, was apt to cause uncertainty, which would add to the prudential constraints that banks would be obliged to impose.

A French speaker described the international monetary system as the outcome of a power relationship. The embargoes, blockades and revolutions served to

remind us that machinery put in place to facilitate the economy could suddenly be put out of commission. The rescheduling of debt was ultimately a political, not an economic decision.

A Belgian participant regretted that there had been little mention made of the European Monetary System in these discussions. The EMS had been in being for 14 months, and was giving rise to a zone of relative monetary stability in Europe. This was a useful thing at the world level as well as the regional one. Decisions taken by the institutions of the European Community foreshadowed its being strengthened in the near future. Unless the EMS could be made to work, there was little chance of world monetary order. The speaker was also convinced that the existence of the ecu might help to solve problems such as the recycling of OPEC surpluses.

Another Belgian argued that Atlantic cooperation on monetary matters was indispensable. Since August of 1971, there had been no end to our competitive revaluations. We had kept raising interest rates to put a brake on inflation and save our currencies — but all this had been done without much agreement on common policy. Until recently, the dollar had been considered undervalued. When the U.S. had at last braked inflation, the dollar had risen. Considering the importance of the dollar on world markets, it was not appropriate that our economic and social structures should resist this sort of process.

C. *Energy Considerations and the Impact of the Oil Price Increases.* The foregoing speaker went on to say that energy policy was the second subject on which Atlantic cooperation was essential. It was unthinkable that, between 1973 and 1980, the U.S. had refused to deregulate oil and gas prices and to let them find their level in the world market. This was the only way to limit consumption. Moreover, the present system distorted the prices of raw materials in industry, to the disadvantage of the free market that we all pretended to espouse. U.S. prices were catching up with world prices little by little, but the policy of one country in the alliance nevertheless stood opposed to that of the others. Admittedly, the Europeans were not a model for energy cooperation; their inefficiency was frequently embarrassing.

But our joint success or failure in energy would radically affect inflation, unemployment and internal stability. If we did not resolve this problem — and the monetary problem — we would be "eaten up from inside." We would lose any capacity to shape a military or political strategy, or to aid the development of the Third World. We would just amount to some 600 million relatively poor people, only ten per cent of the world's population.

A German speaker agreed that market forces should be allowed to shape the energy sector as much as possible, although his country was going to proceed cautiously in the development of nuclear fuel for energy purposes. There was a network of concerned people working together in Europe and the U.S. to stop the move toward nuclear generation of electricity. The U.K. with its reserves of oil, gas and coal, could do without nuclear energy, but in the Continental countries there was already a strong demand for electricity, which would "explode" in a structural upheaval if oil supplies were cut off. This would have grave consequences for the balance of payments and exchange rate systems. Some

countries would try to cover their deficit by printing money; others would fight inflation with high interest rates, thus tearing the foreign exchange markets to pieces. World financial markets could not stand up to much more torment, especially concerning the credit-worthiness of the exchange market. A chain reaction in the financial community could not be excluded in the event of something like the blockade of the Persian Gulf.

An American participant made use of a fable — based nonetheless on the facts — to illustrate the "hellishness" of our energy situation. Among his suggested measures were (a) non-interest bearing, indexed bonds in which the OPEC countries could invest their oil revenues, and (b) an intergovernmental agency of oil-importing nations to deal with OPEC. A compatriot welcomed the accuracy of this description of our present predicament, but feared that the establishment of a new state agency would render matters worse instead of better. He also questioned the forecast of a chronic OPEC surplus, not offset by increased imports. It was true that events in Iran had constituted a warning about the dangers from too-rapid growth, but on balance the OPEC countries could still be expected to spend their surpluses even faster than the last time. In real terms, these surpluses were less now than in 1974, and in relation to GNP they represented a reduced percentage. Port facilities had been improved, large bureaucracies were in place, and the military had more cogent arguments for their budgets — all of which indicated continued spending.

Even if the surpluses would therefore not be so large, many people still argued for governmental intervention in the recycling process, on the grounds that it would be too large for the commercial banks to handle. But for several reasons the task of the commercial banks might be lessened. Oil exporting countries were more willing to invest at longer term. Investment bankers were becoming more active. Producers were dealing more directly with corporations and governments. Moreover, there was the worry that an intergovernmental agency would be pushed far beyond financial intermediation into sensitive negotiations concerning the price of oil and other conditions. Such negotiations would then take place in the worst possible political context. Cohesion among the OPEC partners would be facilitated, and the OPEC representatives would be forced, under the public gaze, to seek the maximum political and economic price.

This sensitized negotiating environment would be particularly unfortunate now that we seemed to be getting closer to those economic conditions conducive to stability in the energy field. For one thing, it had recently been perceived that increased prices *did* cut consumption, and that reductions in oil use were getting larger. For another, the new oil price levels meant that most forms of synthetic fuels would now be economic, even if it would take time to get them in production. Finally, high interest rates and the public aversion to inflation meant that it was unwise to extrapolate our experience of the last five years, during which oil exporters had received, in effect, a negative real return.

An International participant, while agreeing that the market mechanism held out the best hope for energy progress in the medium and longer term, pointed out that, because of the special characteristics of the oil market, there had been huge price variations in the short run, unrelated to any unilateral decision of

OPEC. In future we should aim to manage better these short-term fluctuations, taking into account the considerable changes that had taken place in the market since 1974-75, when our energy cooperation had been instituted. The attitude of OPEC, the position of the major oil companies, and overall supply and demand relations had given rise to a new appraisal of this aspect of energy policy. If we could maintain a clear, steady, predictable increase of real prices for a significant period, this would have a notable impact on energy consumption in the eighties, and would change the supply and demand picture considerably.

The speaker agreed that it was necessary to create some financial instrument to induce moderate OPEC countries to continue producing rather than holding oil in the ground, but he did not see how the substitution account itself would solve the problem, not being geared to the trade-off between holding paper as opposed to oil reserves. One should also consider whether the proposed indexed bonds would be helpful or counterproductive.

A German intervened to say that the substitution account of the IMF would be a step in the right direction, but it would only be a contribution, not a full solution to the problem. Besides fearing the effects of a distinction between "moderate" and other oil-producing countries, he was opposed for several reasons to the indexed bond proposal. We would find ourselves unavoidably in a disastrous worldwide network of indexation, which would feed inflation. Other countries would not be satisfied to see indexation reserved just for the oil producers. The bonds could be sold to OPEC countries only on a voluntary basis, so the OPEC would take all the good credit risks and leave the bad ones to an international agency, which would not be in a position to lay down conditions. This system would ease the pressure on OPEC to make its surplus funds available to the oil-importing LDCs. Finally, the presence of an international agency would weaken the private financial institutions and capital markets.

A Dutch participant pointed out that a new instrument for the recycling problem was almost at hand: the so-called "safety net," or Kissinger Plan, for which the U.S. government had launched the initiative in 1974 in the context of the OECD. This idea of a $20 billion fund had been grudgingly accepted by various European countries, but then had got buried in the U.S. Congress when it had come up for ratification. The changed circumstances presented an opportunity to revive that plan.

A British participant discussed the underlying reasons for the surprisingly successful recycling process, and mentioned some problems that might hinder it in the future. To begin with, the macroeconomic environment had been relatively favorable with the OECD countries experiencing a depressed investment demand and therefore not being such avid competitors for funds in the market. Then the OPEC countries had proved to have a higher absorptive capacity than expected — for migrant workers, construction projects, and the import of weapons and food. Above all, they had been ready to keep their rapidly accumulating assets invested in short-term securities and bank deposits. Finally, the lax monetary policy of those years, particularly in the U.S., had eased the recycling process, whatever might have been its undesirable effects in other respects. Within this

favorable environment, the international banking system and capital markets had devised new forms of lending and intermediation, recycling the surpluses to the countries in deficit.

The future would be less smooth, for a number of reasons. The OECD countries would be bigger competitors for available funds as they moved into current account deficit. Monetary policy was much more restrictive now, especially in the U.S. The OPEC nations would have less absorptive capacity, now that their surpluses had begun to reappear. (It looked as if they might reach $100-120 billion this year.) Finally, the institutional environment was not likely to be as propitious to the recycling process as before. The large commercial banks would need to be more discriminating about potential borrowers. It was easy to reduce spreads in a highly liquid borrower's market. But it was more difficult to "enlarge the concertina" to discriminate on the basis of creditworthiness.

An American participant expressed his agreement with the analysis of the preceding speaker. The commercial banks would continue to play an important part in the recycling process, but a less significant one than before. The producing countries were in many cases selling directly to the importing countries rather than to the major oil companies, and were themselves handling the financing, which would therefore not pass through the banking system. The reserve stocks of the importing countries had improved. Finally, the IMF was in a better position to participate in the recycling, thanks to the resources of the Witteveen facility. While there were adequate resources in the banking system to deal with deficits of the same magnitude if they continued for two or three years, it was time for governments to address themselves to a problem which might eventually become serious.

Although the IMF would be a principal source of future assistance, one had to guard against modifying its conditions too radically, lest it become an aid agency instead of an international monetary agency.

The speaker was less concerned than the press and some government people that the commercial banks would find themselves in trouble because of LDC defaults. The banks were being extremely prudent about types of loans, amounts and borrowers. Some countries would have trouble servicing their debt, but they were much more likely to renegotiate than to default.

A Frenchman emphasized the politicization of the oil indusltry, and was skeptical about negotiations between consuming and producing countries. We had nothing to offer them that they could not obtain by themselves. If it was just a matter of indexing prices, why should they give anything in exchange for that, as they could obtain it unilaterally anyway? The only way to face up to the energy crisis was to have a workable policy based on supply and demand. There were signs that we were at last on the right road, but we had lost six or seven years' time.

Figures provided by an American participant indicated the dimensions of the energy problem in the longer run. One recent estimate was that by the year 2000 we would still need 33 million barrels of oil a day from OPEC. But the production-to-reserve ratio would have declined from 45 years to 31 years worldwide, and to 10 years for most countries. The political and physical

limitations on OPEC would be such that sufficient oil would just not be produced, and the sky would be the limit for prices. We could not temporize; we had to be prepared to act more courageously. The free market concept for a commodity like oil simply did not operate when it came into short supply. The spot market would take over at unbelievable prices. OPEC followed the spot market and, having set a price, would never let it go down again.

A German remarked that, after 30 years of cheap oil, we needed longer than 30 months to adjust our assumptions and ways of thinking. We would have to realize that higher prices in real terms were unavoidable, and to work hard on conservation and the development of alternative sources. An American commented that the need to reduce oil imports in his country made a strong case for either rationing or increased gasoline taxes.

Western Canadian oil, at nine cents a kilo, was still a cheap commodity in relation to other ones, according to a Canadian participant. Beef was $9.00 a kilo, and butter $3.50. An irrational system subsidized the price of oil to keep the retail level so low that consumers wasted it, while denying oil and gas companies enough income to replace reserves. Canada subsidized the cost of imported crude oil, which discouraged refiners from upgrading heavy fuel oil into gasoline and diesel oil. So one-third more crude than was needed was imported to supply motor fuels and heating oil, while a glut of heavy fuel oil was created in Eastern Canada. If the subsidy were removed, the refiner would have to pay $30 a barrel instead of $14.75. This would discourage heavy fuel oil production, to be replaced by natural gas (of which Canada had a large surplus), thus cutting back imports which would be available to countries which had a much greater need.

Conservation was probably the most important factor in solving the fuel crisis, but so far it was practically non-existent in Canada. Everyone agreed that oil and gas should be conserved in North America, but this would not happen *until* it hurt in the pocketbook. No one cared much if he paid $1.00 a gallon for gasoline, but if he had to pay $2.50, as in Europe, we would see more conservation in North America.

A Swiss participant said that, as a consequence of the oil crisis, economic policy would have to be reoriented toward lower growth rates, which were to be welcomed only insofar as they decreased our dependence on oil. A decline in the prosperity of industrial nations was the necessary price, but there were political limits to this policy. We had to rely on the price mechanism, but we should not be opposed to an artificial increase in fuel prices through new consumption taxes. Such taxes did not inactivate the regulatory mechanism of the market economy; they merely accelerated inevitable developments. The application of such a tax should preferably be done through an international concert of industrialized nations, as the introduction of it here and there would be difficult politically and would distort competition. Concerted action of this kind would have a great psychological effect, and might even cause producers to adopt a more cautious policy.

Beyond this, we needed alternative energy sources and improved productivity. Huge investments would be required to achieve these goals, and they should be financed in as noninflationary a manner as possible. This meant that our

consumption-oriented economy of the past had to give way to an economy which put greater stress on savings and productivity. We would need a fundamental rethinking on social policy and taxation on both sides of the Atlantic.

D. *The Less-Developed Countries.* Discussion of monetary relations and of the impact of the oil price rise led to a consideration of how the oil-importing developing countries (OIDCs) were affected. One British participant thought that the outlook for them was deteriorating month by month, with an annual deficit of $60 billion expected, which the private banking system would be unable or unwilling to finance. By the summer of 1979, the non-oil Third World had already owed $190 billion to private banks which had to be repaid or refinanced by 1982. Many of the Third World countries had grown faster after the first oil crisis because they had been able to borrow from private banks without accepting policy restrictions. More official financing of Third World debt was now mandatory, but this would only work if the IMF was prepared to be more flexible about its conditions. Germany and Japan should be expected to carry a greater burden in the Third World, but the Japanese would have to be appealed to on practical grounds, as the concept of charity as we thought of it did not loom large in their system. In fact, Japan's record generally in the foreign economic field had been deplorable, and it was to be hoped that she would aspire to the same sort of generosity and imagination that the U.S. had displayed in the postwar period. Unfortunately, these considerations had been steadfastly ignored by the governments participating in the Tokyo Round.

Another Briton shared this gloomy outlook about prospects for the OIDCs. The World Bank had estimated that the total medium- and long-term indebtedness of the medium- and low-income developing countries was going to rise from a 1970 figure of $68 billion to a 1990 figure of $1,278 billion. Of that enormous twenty-fold increase in 20 years, the bulk of the increased indebtedness would be for the medium-income countries. The poor countries would have to rely mainly on official sources of finance. But would that be forthcoming? To paraphrase Abraham Lincoln: How long could our world endure half rich and half poor?

An American agreed that this was one of the most serious problems we faced. He did not see how the private banking system could provide for the immense needs of the poorer countries, nor could he imagine that many creditor nations were prepared to grant the concessional terms that they would require.

A German participant pointed out that the increase in the oil bill of the poorer countries since 1973 had hit their balance of payments for twice the amount of the aggregate development aid they had received during that time. One could not help feeling skeptical about all the plans for development aid from the industrialized countries. If the oil price exploded again, that aid would amount to nothing. One example was Turkey. The Germans had not cut off their military aid to Turkey, but some others had done so for moral reasons, despite warnings that it would be a great strategic mistake. They realized it now, but the damage had been done, and they were still not helping Turkey to the extent of their financial ability.

The speaker went on to say that the leaders of the LDCs understood that the oil price explosion had hurt the Third World much more than the industrialized countries. And they were beginning to see that they did not have at all the same interests as the oil-producing countries. What they did not perhaps fully understand was what a menace the population explosion was to their countries. It seemed that no one wanted to tell them that — neither the Catholic Church nor others. It would be nearly impossible to feed and employ the future world population at the rate it was growing. This had to be faced seriously; it could not be solved by talking about "gadgets and gimmicks."

For the economic problems of the Third World, official aid would never do the job alone. Private investment had to be encouraged and guaranteed if we wanted to get the transfer of technical and marketing know-how. The Brandt Commission had come up with some practical suggestions for improving North-South relations. It was not so important to have "mass meetings" too frequently, whether under the auspices of the World Bank, UNCTAD or the IMF. Meetings between middle-level people could be most useful, and there were many non-governmental organizations prepared to help.

Another German shared this view about the importance of the role of private enterprise in the Third World. The oil-producing countries were very dependent on the industrialized countries for components and trained manpower, a fact that was not always well understood. The non-oil countries needed the collaboration of the private sector to produce and export manufactured products, and this was a field which offered challenging employment to the young people with academic degrees in the OECD nations. Southeast Asia provided recent examples of the benefits of according a key role in economic development to private enterprise operating in a free environment.

Another model in the field of Third World relations was discussed by a participant from the Netherlands. This was the Lomé Convention, an agreement which the European Community had concluded with 58 developing countries. The countries participating accounted for half the world's trade. The tendency nowadays was to categorize every problem as a global one, and to convene a world conference to deal with it. These meetings, which sometimes brought together as many as 4,000 people, seemed to accomplish less and less. For instance, UNCTAD's approach to the raw materials problem involved a huge common fund and interference with the market system — when no one knew whether there was really a substitute for the market mechanism. This work was now in its fourth year, and the results so far were very disappointing in comparison with that of the Lomé Convention, under which problems were solved in a practical way covering a number of specific raw materials. Good results had also been achieved in the transfer of technology to the LDCs. In short, Lomé demonstrated the practical benefits which could be obtained for the Third World in a less-than-global setting.

A German participant said that one of the most important issues for the West would be the American-European dealings with the Third World. By the end of 1979, the first sign of cracks had already appeared in what had hitherto been our common position in the North-South dialogue. Then, just the week before this

conference, the U.S. proposals submitted to another round of negotiations in this context at the United Nations had fallen short of an agreed Western position previously worked out among OECD members in Paris.

The Third World, organized for negotiating purposes in the "Group of 77," ranged from rich oil-exporting countries to the poorest of the poor among the member states of the U.N. Ever since 1974, when they had introduced their proposals for a "new economic order," they had been presenting the West with "shopping lists" of demands which had grown longer from one conference to the next. The latest examples had been UNCTAD V and UNIDO III, and now the global rounds at the U.N. in New York.

While the West had been fairly united on this subject in the past, Europe and the U.S. now seemed to be moving apart. Faced with a lack of American leadership, or even consistency, the European Community had had to assume the role of principal, if not sole, spokesman for the West. Our partners on the other side of the conference table were not only the Group of 77, but also all of the nonaligned countries as well as the Islamic group of nations. The nonaligned movement had, on the questions of Afghanistan and Cambodia at the U.N., entered into a "coalition of common interests" with the West. Some of that same group had supported us in blocking Cuba from gaining a seat on the Security Council. Many of them had realized that Soviet arms and Communist ideology did not promote their development. Most of them found détente to be very much in their interest. A sizeable number of them provided Europe with raw materials and large export markets. They were, in short, potential partners of the future in many fields: economic, political and security. Their potential as valuable if not vital partners would grow — as would their possible role of potential troublemakers.

Although senior officers of our governments had been working for months on the subject of our relations with the Third World, what was still lacking was a joint grand design to answer the Third World's proposal for a new economic order. We had so far responded to Third World demands on a piecemeal, case-by-case basis. This was not sufficient. In order to turn potential allies, or victims, of the Soviet Union into future partners of the West, we had to abandon our ultraconservative position, which seemed to have as yet taken no account of our security requirements. Time might be running out for the opportunity to work out a joint strategy which showed imagination and responsibility.

E. *Trade Relations.* An International speaker claimed that the functioning of the European Community as a true partner of the U.S. had made possible the success of the Tokyo Round. It had also provided an essential political element: the end of the "religious war" between the U.S. and the EC over the Common Agricultural Policy. It was important to underline this at a time when Europe was undergoing its own "religious war" about this subject.

As to defining a future strategy of economic policy, we were in need of a period of tranquility during which we could get to know and trust one another. There were bound to be certain economic changes, especially in our relations with third countries.

A Dane observed that our attempts to find answers to problems in the trade field were hampered by our unwillingness to redefine and rethink relations between commerce and politics.

An American participant called "protectionism" a "shibboleth raised by those who believe in a trading world that does not exist to silence those who would point that out." One man's "protectionism" was another man's "exercise of responsibility," or another's "free market subsidy." Many U.S. trade unionists had a hard time seeing free trade anywhere in the world, from European agricultural protection to Japanese explanations of the complexities of their marketing system. That all wore rather thin when 200,000 American automobile workers were unemployed. American labor leaders sought fair trade on a reciprocal basis, and the preservation within the U.S. of a balanced manufacturing economy with strength in all sectors. They rejected the theory of comparative advantage, as they saw that its achievement often operated unfairly.

The widespread loss of jobs resulting from unfair trading practices made it difficult to accept the notion that budgets should be balanced at the expense of employment, especially when other countries were not doing so. In the U.S., a coalition of some 147 labor, civil rights, consumer and other citizens' organizations were determined to resist the adoption of a budget which would make the least affluent people suffer the most. One heard a lot of talk about the need for limits on growth, but the key question was Whose expectations were to be reduced? This could not be done without creating enormous pressures for the redistribution of income within each of our economies. Any reduction in expectations ought to be in direct proportion to the current distribution of incomes. Any incomes policy which sought to maintain the current distribution of wealth was bound to fail.

Another U.S. intervention dealt with East-West economic relations. In the decade since those relations had begun to increase in scope and intensity, the West had done badly. If there had been a strategy at all, it had not led to increased incentives for the USSR to conduct itself with greater restraint in international affairs. Rather, it had inhibited the capacity of Western countries to react when the Soviets did *not* act with restraint. Standing the issue on its head, so to speak, we needed to do far better, both nationally and collectively. Government and business had to interact. Individual firms could not be expected to devise national strategies. This was especially important in the 1980s, with the Comecon countries becoming net petroleum importers. We might well find ourselves with additional pressures on the world petroleum supply and the financing of it that came from the West. The Soviet Union, with its geopolitical position in the oil-producing areas, might be able to impose prices on that oil supply. We still had some time to look at this issue, which was a perfect one for Western consultation and concertation.

A German speaker thought that we nevertheless might find in the years to come that the USSR was not only technologically hungry and oil-thirsty, but also in urgent need of capital. Even the oil price would respond to market mechanisms once enough substitute energies had been developed. It might turn out, for one or another of our countries, that industrial productivity took

decision-makers that would be destructive of their own societies. It was probable that the Europeans would beg the Americans to forego their nuclear commitment unless the U.S. could articulate some sort of strategy in the light of the certain circumstances. Certainly the slow-motion rearmament in which we were now engaged totally falsified the problem, as the critical period would come in the next five to seven years.

It seemed inevitable that the Soviets would attain a first-strike capability against our land-based forces. We had other forces, but that would not be conclusive. We could not obviate the risks of this position by any foreseeable arms control negotiation. We ought to address intellectually the world that would be when this Soviet capability had arrived. If it would perhaps make crises less likely, it would make them infinitely more dangerous.

The rapid rate of geopolitical change in the world might be unrelated to the East-West confrontation, but it affected it profoundly. The beginning of decline was to become fascinated by — if not enamored of — your opponent. Was it not historically true that revolutions occurred more in benevolent authoritarian regimes than in oppressive totalitarian ones? We had no clear answer to the problem of political legitimacy. All our experience had been with societies in which there had been a nation before there had been a state. But almost all of the developing countries had become states before they had been nations. The only unity they had was the political authority that represented them. So the concept of a loyal opposition was intellectually inconceivable to those peoples, and they were therefore apt to be authoritarian and totalitarian. If we assailed them for this, without knowing how to build political structures different from anything we knew now, we would risk creating a radical wave which, if not Communist in origin, would be exploitable by the Communists. The attraction of the Third World to Communism was based not on its answers to their economic development problems, but to their need for a theory of authority in their political development.

The lack of settled views on the energy problem was noteworthy, but it was apparent that many of the European allies thought that they could defend their energy policy best by clever diplomacy and skill in economic relations on models not dissimilar to American corporate enterprises, while relying on the U.S. to provide the defense of the oil-producing areas while questioning the reliability of its defense of Europe. In the long run, this was an untenable situation.

In conclusion, the speaker said that someone had to sound the alarm and put forward programs, not only in the military field, but also in relation to the developing world. (So far we were accepting the premises of our opponents and not advancing programs of our own.) If we could do this, there was no reason we should not master the crisis, given our resources and talents and the real weaknesses of our adversaries.

Finally, the conference was told by a German participant that "pessimism" and "optimism" were words that ought to be banned from a politician's vocabulary. One had always to strive to be as objective as possible.

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During the Conference, a gala dinner was given by the German hosts in celebration of the twenty-fifth anniversary of Bilderberg, and to mark the transfer of responsibility for future meetings into the hands of a younger generation. This dinner was the occasion for numerous speeches and toasts, and for the presentation of a "Festschrift" to Ernst van der Beugel in appreciation of his many years as Honorary Secretary General of Bilderberg. The invaluable contributions of many other individuals to the direction of Bilderberg over the years were evoked on this anniversary, including among others those of H.R.H. The Prince of the Netherlands, Lord Home, Joseph Johnson and William Bundy.

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In closing the Conference, Lord Home, the retiring Chairman, reiterated the thanks due to all those whose generous help had meant so much to the success of Bilderberg in the past. In addition, he expressed the gratitude of all those present to the German hosts of the Aachen Meeting, led by Otto Wolff von Amerongen; to the authors of the working papers; to the interpreters and secretariat; and to the Quellenhof hotel staff.