

BILDERBERG MEETINGS

PRINCETON  
CONFERENCE

21-23 April 1978

NOT FOR QUOTATION

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## INTRODUCTION

The twenty-sixth Bilderberg Meeting was held at the Henry Chauncey Conference Center, Princeton, New Jersey, U.S.A., on 21, 22 and 23 April 1978, under the chairmanship of Lord Home of the Hirsel, K.T.

There were 101 participants, drawn from a variety of fields: Government and politics, diplomacy, industry, trade unions, banking, the armed forces, journalism, education and specialized research institutes. They came from 18 Western European countries, the United States, Canada and various international organizations.

In accordance with the rules 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.

The Agenda was as follows:

- I. Western defense with its political implications.
- II. The changing structure of production and trade:  
consequences for the Western industrialized countries.

In addition to the above formal agenda, a half day's discussion was devoted to current problems in European-American relations.

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 United States on behalf of all the Bilderberg participants.

## 1. WESTERN DEFENSE WITH ITS POLITICAL IMPLICATIONS

Two working papers, one by an American participant, the other by an International participant, provided the basis for discussion of this topic. Abbreviated texts of the two papers, as well as introductory remarks by their authors, follow.

### *American Working Paper:*

#### "SOME POLITICAL ASPECTS OF WESTERN DEFENSE"

##### I.

The Western defense alliance has now existed for almost 30 years, a remarkable record. In an age in which change is rapid and profound, it is extraordinary that a group of nations should not only stay linked together for so long, but should repeatedly search for ways to make their alliance more effective and enduring. For all their differences, the members of the alliance have continued to see their fundamental interests served by its continued existence.

Those interests vary in character among the several members. Broadly speaking, however, the allies were drawn into the alliance, and have stayed in it, because they see it as the most effective means of protecting themselves from Soviet attack or from inhibitions on their freedom of action by the weight of Soviet power.

Less than 40 years ago, it was possible for a single European power — Germany — to pose a severe challenge to the survival of the USSR. Since the end of World War II, though, no Western country has seriously harbored aggressive or "revanchist" ambitions against the Soviet Union. On the contrary, virtually all nations adjacent to the USSR have felt it necessary to look to collective arrangements, but above all to the U.S. to buttress their security.

It was not inevitable that the U.S. should have proved responsive to this need. At least the history of the U.S. until World War II did not make the American response clearly predictable. But having been drawn twice in a generation into major conflicts originating in central Europe, the second of which also evolved into a severe threat in the Pacific; and having seen its hopes for an emerging world order under the aegis of great power cooperation in the UN frustrated, the U.S. came to see its own security interests best safeguarded by the maintenance of substantial and far-flung military forces augmented by foreign alliances, thus breaking with a tradition of over 150 years.

Recognizing that the USSR had survived from the war as the one other militarily powerful state, the U.S. took only a short time to perceive that both its strategic interests and its political values made it essential that Soviet power should be contained at the lines it had reached in the late forties — for a time some Americans talked of rolling it back — and that the effects of that power beyond those lines should be held to a minimum.

For Americans, this perception applied especially to Western Europe — the nations of the North Atlantic region with whom the U.S. had cultural and other bonds and who seemed most threatened. And this indeed is where America's first peacetime alliance since the early days of the Republic was formed and in time took its most elaborate and intensive form.

The issue in the late forties and early fifties was not only that the danger of expanding Soviet power made it essential for a group of European and North American states to establish formal security relations. It was clear that that portion of Germany not occupied by the Red Army had to be part of the area protected and to be an active participant in the endeavor.

A majority of West Germans in time took a similar view. The European alliance with America provided the institutional framework for incorporating West Germany in the structure of the Atlantic world, thereby minimizing fears of a militant German resurgence and enhancing prospects for eventual European unity.

In sum, the emerging Western alliance reflected (1) the interest of Europeans in an American commitment to their security, (2) an American perception that the freedom of Western Europe from Soviet attack or coercion was vital to the well-being of the U.S., and (3) the recognition of all concerned that West Germany should be protected by, and be a participant in, the common effort.

Despite many crosscurrents, debates about whose interests predominate, arguments about strategy as well as the appropriate division of the burdens of defense, differing views about the proper functions of the alliance beyond defense in Europe, and numerous other issues, these fundamental interests and perceptions have persisted and served to keep the alliance in being.

It was perhaps not the only instrumentality by which these interests could have been satisfied, but so far it has proved to be the most satisfactory. No significant democratic political elements within the member countries have preferred any specific alternative with any serious appeal. (Western Communist parties have grudgingly come to tolerate the alliance and the need for Western defense efforts; the Italian party has even enunciated a positive rationale for them. But there is of course serious reason to question whether the professed acceptance of the alliance would in fact be reflected in the actions of these parties were they to share governmental power in a member country.)

In America, where the commitment of military forces to Europe was originally thought of as temporary, it has long since come to be viewed as lasting into the indefinite future, although there have been debates about a

reduction in the size. The presumed inclination of Americans since Vietnam to avoid foreign military involvements has not applied to Europe, at least as far as the stationing and improvement of U.S. forces there is concerned. American debates about the efficacy of aspects of NATO equipment and strategy do not concern the basic American interest in Europe's security.

France's withdrawal from the integrated command of NATO in the sixties did not represent a repudiation of the basic premises of the alliance. There were indeed many in France who believed that the French public would be more likely to support the burdens of a sizeable defense establishment if France were outside the formal military NATO structure. In any event, there is little reason to suppose that France's interest in safeguarding its security vis-à-vis the USSR through an alliance including the U.S. has changed, even though French spokesmen at times have questioned whether the American commitment can still be relied on in a situation of U.S.-Soviet nuclear parity. The "all-azimuth" defense doctrine never obscured the fact that the bulk of French military efforts was concerned with the contingencies of attack from the East.

There is likewise little reason to doubt that either Greece or Turkey still prefers to see its security interests served through participation in the collective defense effort of the Western alliance. But politically and emotionally charged disputes have clouded the security concerns that originally led them into military association with the U.S. and then with the alliance. Greece has left the integrated command but remained in the alliance, as well as seeking closer ties with the European Community. In Turkey there is a genuine sense of grievance especially vis-à-vis the U.S. which, more than in any other allied country, has given rise to questions about the continued wisdom and utility of Turkey's Western security ties. But any substantial change in Turkey's orientation would hardly meet the requirements that have kept Turkey in the alliance; and they would do substantial damage to the security interests of Turkey's allies. So, interests may yet prevail over politics and emotion. (See below Section III)

Thus the conjunction of basic interests that led to the creation by the West of the instrumentalities of collective defense in the late forties and early fifties has not fundamentally changed, and the geopolitical realities suggest that they are unlikely to change for the indefinite future. This does not, however, dispose of the subject. For there are many factors, real or apparent, which influence the behavior of nations and their governments and may affect the way even the most basic interests are perceived and implemented.

The Western alliance has occasionally teetered on the brink of suffering serious inroads in its cohesion because of the differences and even antagonisms among members. But the allies have also been able to overcome, adapt to, or manage such differences to a remarkable degree. Thus, the basic strategic concept embodied in 1967 in MC 14/3, to take an example, has served the

alliance well despite its compromises and the unevenness with which its prescriptions have been implemented. It was an instance of sound political decision-making in an area where total agreement is bound to be elusive. Its continued retention as the underlying guide to allied defense is another such instance.

But an accumulation of unresolved divergences may gradually come to outweigh or obscure fundamental commonalities and then adversely affect the common defense. We may be unable to do better than manage some problems, but our bias should be in favor of resolving them. Among present uncertainties there is the worrisome one that internal political changes in some allied countries may, for the first time since the forties, become so fundamental as to raise the question whether that bias in favor of cohesion retains its vitality.

## II

When Western defense arrangements were originally made, the Soviets maintained large forces on their Western periphery; their actions in Eastern and Southeastern Europe caused major concern about the extent of their ambitions. The U.S. had major strategic advantages with respect to the USSR. Although the Soviets had exploded their first nuclear devices, the U.S. had a number of usable nuclear weapons and the means of delivering them to targets in the Soviet Union. The American navy, along with those of Britain and other allies, had substantial control of the seas, assuring both an additional means of retaliating against Soviet territory from aircraft carriers and of protecting sealanes needed to reinforce Europe. These forces, and modest American and allied ground and air forces in Europe, were judged to provide substantial assurance that local Soviet military superiority could be adequately offset and that the Soviets were deterred from using it either directly or indirectly.

The outbreak of the Korean war — widely seen as supported by the Soviets — raised fears that American strategic advantages might no longer be adequate to deter Soviet attack in Europe, and the dispatch of four additional U.S. divisions to Europe was authorized. The Supreme Allied Command Europe was set up with General Eisenhower as its commander. Following the failure of the EDC in 1954, arrangements were made for German and Italian participation in the 1948 Brussels Treaty, which was transformed into the WEU. After German accession to NATO in 1955, German troops were added to the Western forces arrayed against those of the USSR and its satellites in central Europe, which were now grouped in the Warsaw Pact. The latter had been created as a riposte to the FRG's entry into NATO but in fact changed little in the Soviet-dominated alliance system.

In the late fifties, as the Soviet nuclear arsenal grew, questions were seriously raised whether the threat of recourse to American strategic nuclear forces could be relied upon indefinitely to deter Soviet regional attack or to

resist Soviet pressure in central Europe. To meet these concerns, the U.S. deployed increasing numbers and types of nuclear weapons to the European theater, some suitable for use in a land battle and some also with a capacity to reach targets inside the USSR itself. While retaining final authority for the release of nuclear weapons, the U.S. distributed them to allied forces. Gradually, in the sixties, nuclear weapons made their appearance in Soviet theater forces, but the West continued to hold substantial advantages in these weapons.

In connection with the emergence of theater nuclear forces, complex issues arose in the alliance about the precise role of nuclear weapons. These issues have not been adequately solved to this day by the governments and institutions of the alliance. In all probability they can not be definitively resolved.

One of the issues was that while Europeans, particularly Germans, have a major interest in the deterrent role of nuclear weapons, they are bound to be deeply concerned about the actual use of these weapons on their soil or on soil adjacent to them. Americans, while likewise interested in the first instance in deterring war, are chiefly concerned about the possible escalation of a war to strategic dimensions, i.e., involving American soil. They consequently have been less inhibited in envisaging the use of nuclear weapons in theater warfare should deterrence fail.

There is nothing sinister about this difference in the perspectives of the allies. Its existence has long been recognized despite the governing doctrine that the NATO "triad" (conventional defense, theater nuclear forces and U.S. strategic forces) constitutes a seamless web of deterrence. For many years now, the best means of overcoming the problem of the differing perspective has been to concentrate on an effective conventional defense which would deny the Warsaw Pact the certainty of quick breakthroughs and thus postpone, for the West, the need for immediate decisions concerning the employment of nuclear weapons. In addition, of course, NATO's official flexible response doctrine calls for possible use of nuclear weapons if conventional defense cannot hold the aggression. The attacker must thus operate with the possibility that NATO might resort to nuclear weapons, whatever the divergences in perspective between Americans and Europeans.

Still, our nuclear "threshold" appears to be pegged at a relatively low point for purposes of deterrence and at a relatively higher, though unspecified, point for the event that deterrence does not work and a war may have to be fought.

The situation has been compounded by the strengthening of Warsaw Pact theater forces, and many observers are concerned that the length of warning of an attack which Western governments might expect, and of the time to prepare for battle, are becoming dangerously contracted. This has made correction of deficiencies in Western forces increasingly urgent, both to impose additional requirements on the potential attacker, and hence increase warning time, and

to reduce the urgency with which recourse to nuclear weapons may have to be considered by the West. (This assumes that the Warsaw Pact does not itself initiate the use of nuclear weapons, though some of its military literature, exercises and force dispositions indicate otherwise.)

While efforts to refine NATO's nuclear employment doctrines should be pursued, they can probably not be carried beyond a certain point because of the difference in perspective between the allies. The conventional capabilities required for a credible forward defense must, therefore, continue to be given major attention by all governments involved despite the attendant economic burdens.

Credible forward defense requires forces which with relatively short warning can blunt, fight to a standstill, and then beat back enemy offensives on the central front. These forces should incorporate newly available weapons systems capable of attacking with conventional ordinance enemy supply lines, stockpiles, choke points and reserve concentrations well to the east of the battlefield. The U.S., in its fiscal '79 budget, is also taking steps which in some five years would substantially increase the number of ground and air forces that could be moved to Europe within ten days. These actions should be pressed and accompanied by European actions likewise designed to augment the forces needed for conventional forward defense.

There are those who believe that American emphasis on the need for effective forward defense indicates an intention to "decouple" the use of nuclear weapons from conventional defense and, in any event, to "decouple" the strategic part of the NATO "triad" from the theater elements. Such concerns were recently further aroused by press leaks in connection with PRM 10, implying that the U.S. might be prepared to seek an end to a conflict in central Europe even though some portion of the territory of the Federal Republic had been overrun. It is to be hoped that this unnecessary question about the validity of Alliance commitments has been put to rest.

Whether other versions of the "decoupling" concern will be put fully to rest is an open question. American plans to invest heavily in the forces stationed in Europe and to pre-position additional quantities of equipment in connection with an increased capacity for rapid reinforcement should strengthen the presumption against "decoupling." These actions in fact would increase the American stake in a successful defense.

In any event, in supporting improved conventional capabilities for effective forward defense both in an initial battle and, if required, over a longer period of time, I emphatically do not favor raising the nuclear threshold out of sight. The opponent's uncertainty about the point when, and the manner how, nuclear weapons, including enhanced radiation weapons for anti-tank and other purposes, might be used adds measurably to deterrence.

At the same time, all the allies should be able to face a battle with capabilities that provide reasonable assurance that a decision whether to use

nuclear weapons will not impose itself on Western political leaders in the very first moments of a conflict.

The disputes about the acquisition and deployment of the "neutron bomb" — an issue also being vigorously pressed by the Soviets — are regrettable. Public information concerning the characteristics of this type of weapon indicate that it would provide useful additional capabilities — though far from the only ones — particularly against the tank forces of the Warsaw Pact, which have long been a concern for the West (and whose reduction has been one of the major objectives of the MBFR negotiations).

Arguments that these weapons are peculiarly "inhuman", due to their specific effects on personnel, seem to be misplaced when they are compared to nuclear weapons now in the arsenals of both East and West, with equal if not far more severe effects on human life. Arguments that these weapons represent a technological development that blurs the distinction between nuclear and conventional weapons seem equally ill-founded. There is no evidence that arrangements for releasing these weapons would be less rigorous than for previously deployed types of nuclear weapons.

The point that their greater "usability" lowers the nuclear threshold, appears to go back to the divergences over the location of the threshold within the spectrum of flexible response. But the enhanced usability of a weapon should not imply its immediate or careless use, especially since that matter has now been highlighted in public and political discourse. On the other hand, an attacker's awareness that such weapons are available to the other side may contribute to deterrence by raising uncertainties about the prospects for successful attack as well as for escalation. No doubt it is this latter effect that evoked such vigorous Soviet pressures against deployment.

It would seem unwise to single out a particular technical development in nuclear weaponry, especially one directly germane to the deterrence of theater war in Europe, for separate negotiating purposes in MBFR or other forums. MBFR negotiations already include, at Western initiative, a possible tradeoff between Soviet tank forces and Western nuclear capabilities in the geographic area involved. Deployment decisions concerning particular weapons systems might conceivably be related to progress in, and the eventual outcome of, those negotiations. But it is hard to see why the West should deny itself benefits from weapons which contribute to offsetting asymmetries in opposing force capabilities and dispositions, the more so since the Western objective in the MBFR talks is to seek improved stability by reducing asymmetries and evolving relatively more balanced opposed forces, hopefully at lower levels.

The disputes that have arisen within the alliance over the "neutron bomb" should serve as an incentive for better use of existing consultative mechanisms and for conducting careful public debates about security issues on the basis of the fullest available information. At a time when issues not directly related to defense already impinge upon the coherence of the alliance, the divisiveness of

defense issues should be held to a minimum.

It was probably unwise to portray the neutron weapon, whose technology has been available for over a decade, as a dramatic innovation and to allow decisions concerning its procurement and deployment to appear psychologically and politically more significant than a whole series of other decisions concerning particular weapons systems which have been introduced into NATO forces.

The issue is not one of secrecy versus openness. Matters of this sort are always addressed in public consideration of the defense budget in the U.S., and are regularly discussed in public by those concerned with NATO defense. In this instance, the setting of deadlines for decisions and the special publicity given to reputedly unique characteristics of the weapon produced domestic political controversy out of all proportion with the issue. The unusual device of making the U.S. production decision dependent on allied decisions concerning deployment and hence a matter of intra-alliance bargaining rather than, as customary, one of joint and cooperative decision contributed to these unnecessary tensions.

The introduction of the "neutron bomb" would not require a major revision of existing NATO doctrine; it would contribute to its implementation. That, indeed, should be the broad effect of the various military actions by NATO and individual governments that are currently being taken or contemplated. While the recent improvements in Warsaw Pact forces will continue to require serious efforts by the West to maintain an adequate balance, they do not justify revision of the basic concepts that have governed our defense policies for several years (especially since a consensus for alternatives will be difficult to attain). By the same token, the allies will have to insure that the meaning of these established concepts is not eroded in practice. The problem with NATO defense concepts has not been their inadequacy but the readiness of allies to implement them satisfactorily and to adapt forces and dispositions to changes in the threat.

### III

Much concern has been devoted to the military imbalances that have developed in central Europe and to measures required to redress them both by unilateral action and by negotiation. But there is reason to be concerned as well about the security of what are called "the flanks" (that is, allies located north of the region where East and West abut in central Europe, i.e., Denmark and Norway; and located to the south and southeast of the center which abut or are adjacent to the Warsaw Pact, i.e., Italy, Greece and Turkey). Both "flanks" include important bodies of water where the relative naval balance affects the security of the littoral states.

The term "flank" came to be used for both areas because it was assumed that the central front was the major area of confrontation and the principal

avenue through which attack would occur; and Germany as a divided nation seemed to represent the main area of tension and thus the principal source of possible war. But we should probably drop this terminology, insofar as it implies a subordination of concerns regarding the north and the south to those regarding the center. The North Atlantic Alliance makes no such distinction in stipulating obligations between members; it regards an attack on any member, wherever located, as an attack on all.

One can speculate whether a threat to a "flank" nation could occur without the center's being directly threatened; or whether a threat or attack might occur in the center without simultaneous hostile actions in the north and south. In the light of Soviet military dispositions in the north, it would be rash to dismiss threats at least initially confined to the north, and it is wise to prepare for military contingencies centered on the north. NATO, at least, would not necessarily extend a conflict that arose in the north to the center, though it might take action elsewhere. It cannot be assumed that sooner or later the Warsaw Pact would move aggressively also in the center. And there is likewise reason to be concerned about contingencies in the south which might, or might not, immediately involve the center.

In any case, while the security of the northern and southern members of the alliance is of crucial importance to the security of the center, the former should not be viewed as subordinate to the latter. This point is important because there is a tendency to focus military planning on the needs of the center and to view the military requirements in the north and south as being heavily determined by the contribution that would be made to the defense of the center. Thus, there are those who would view the Sixth Fleet as having largely a peacetime mission in the Mediterranean as well as some role in various Middle Eastern conflict contingencies, but as being promptly diverted to support a land battle in the center. Similarly, one hears that U.S. naval forces which may have peacetime missions in northern waters would rapidly concentrate on the protection of the Atlantic communications lanes to the central front, while missions in the north would be discharged by aircraft deployed to fixed land bases in Greenland, Iceland and the northern U.K.

The issues are highly complex and relate to unresolved questions about the future size and composition of the U.S. Navy. Our legitimate concern with the needs of the central front should not become a fixation to which all other concerns are subordinated. Any sense that security in the north or south is no longer of intrinsic importance would have a debilitating effect in those regions, and in the center as well. It would also detract from deterrence. Decisions concerning the future character of the U.S. Navy should be made in consultation with the allies; shifts in traditional deployment patterns should be weighed in terms not only of improved flexibilities but also of what they may convey about U.S. political priorities and how they affect deterrence and war contingencies.

Of the two regions, the south presents the most disturbing problems. This is not without its irony, since the Soviet threat in the Mediterranean does not now loom as large as it once did. The loss of naval and air facilities in Egypt has deprived the USSR of important assets in the area and complicates sustained Soviet naval as well as air operations. While the Soviets have sought facilities elsewhere to take the place of those lost in Egypt, they have not yet obtained them. Facilities available in Syria and those sought or used for limited purposes in Libya, Tunisia and Algeria are less effective than those in Egypt. Soviet naval operations in the Western Mediterranean are more sporadic than in the past and the Mediterranean squadron must depend on more support from Soviet bases, transit from and to which must take place through constricted and potentially dangerous waterways. Still, the uncertainties and hazards facing the alliance in the area are major ones.

In Italy, the new political adjustments, including an enlarged Communist role in the parliamentary coalition on which the minority government depends, have only just been agreed on as this paper is being written. The Communists, while striving for a share of formal government power and contemplating a possible national election after the interlude of the presidential election, seem unlikely to take overt actions affecting Italy's relations with the alliance or individual allies. They recognize that the majority of Italians continue to see Italy's interests best safeguarded by undiminished participation in the alliance as well as in other Western institutions. Political expediency thus dictates a posture which minimizes questions about the PCI's loyalty to these associations. That loyalty, however, is of recent origin and the completeness of the conversion from bitter past opposition, at least to NATO, remains in question. But it does not seem to be uniform throughout the leadership, cadres and members of the party. Tactically, the PCI would probably try to leave any initiative curtailing Italy's NATO role to other members.

Whatever the future may hold, there is a growing uncertainty about Italy's future international orientation. Italy's allies seem unclear how, or indeed whether, to seek to influence these developments — apart from agreeing that improved international economic conditions would benefit Italy and might slow the PCI's political rise. But one can hardly be unconcerned about the possibility, if the PCI continues its ascent, of a lessened Italian role in the alliance and of curtailments in the use of Italian facilities by the U.S. and other allied military forces.

Some may believe that Italy's geographic position is so important that, regardless of its status in the alliance, Western nations would defend it against the Soviet Union. Perhaps so, but the feasibility of doing so could be greatly inhibited if in the meantime Italy had become a *de facto* neutral, or if allied military power had had to be deployed at a great distance from Italy. Moreover, the deterrent capacity of that power would probably also have declined in the event of such redeployment.

It is frequently suggested that a PCI government role might actually enhance Italy's participation in Western Defense, because the PCI would see its independence from Moscow best safeguarded by the maintenance of present alliance arrangements. Consequently, it is argued, Italy's allies should plan now for dealing with an Italy whose government includes Communists, and for ways to encourage the PCI in its pro-western and anti-Soviet tendencies. If Western governments wanted to engage in such contingency plans, they had best do so in complete secrecy lest they contribute to self-fulfilling prophecies.\*

The continued problems between Greece and Turkey, Greece's withdrawal from the integrated forces of the alliance, and the estrangement of Turkey from the U.S. all pose severe concerns to the alliance. There are signs of renewed efforts by Greece and Turkey to explore improved bilateral relations and to contain their conflicts. These efforts should of course be welcomed by the allies. The U.S. in particular, but Turkey's other allies as well, must be concerned by that nation's growing disenchantment with its Western association and by the economic difficulties which further compound its situation. Turkey's defense capacity meanwhile is declining, while the U.S. and hence the alliance, is deprived of facilities important to Turkey's as well as to the common defense.

It was hardly a coincidence that one of the crucial early steps resulting from America's recognition that the defense of Europe was vital to its own security was the Truman Doctrine. The imperatives that produced that initiative just over 30 years ago, and then led to the inclusion of Greece and Turkey in the alliance in the early fifties, have not changed. They have become more compelling as Soviet power has grown and Soviet involvement in the Middle East and Africa has intensified.

The Turkish government has insisted that the question of Cyprus should not be linked to the lifting of the U.S. arms embargo and the ratification of the U.S.-Turkish Defense Cooperation Agreement (DCA). But a significant body of political opinion in the U.S. continues to make the connection. This deadlock is likely to persist if the issues continue to be treated in such stark terms. The time has come to find ways in which partial or tentative actions on one side would be reciprocated by actions on the other without explicitly connecting them.

While the U.S.-Turkish deadlock is perhaps the most disturbing element for the alliance, along with the danger of open Greek-Turkish hostilities, the members of the alliance who are also members of the European Community need to consider the effect of eventual Greek entry into the EC. This, together with Spanish and Portuguese entry, is to be welcomed. But it would be

\*This paper is being written before results of the French parliamentary election are known, and includes no discussion of the potential impact on French defense policy of a possible Left victory. It is hoped that such a discussion would have proved academic, and that trends toward *de facto* French military cooperation with alliance forces in the south and elsewhere would continue.

unfortunate if Greek entry into the Community were seen as a substitute for Greece's active participation in NATO. It is to be hoped that one of the results of Greek-Turkish rapprochement would be the return of Greece to full participation in NATO.

There is also the danger that Greece's incorporation in the Community would serve to highlight the alienation of Turkey from the West. This would be detrimental to Western interests even if one does not accept the more dire predictions that Turkey would find itself driven into Soviet arms. Still, if Turkey's military isolation were to be accompanied by persisting economic malaise and general disassociation from the West, it would not be surprising if Turkish relations with Warsaw Pact/Comecon countries became more extensive and if Soviet use of the Straits and Turkish airspace became less inhibited. Whatever the rights and wrongs of the past, it is certainly not in the interest of Western defense if 50 years of progress in moving into association with the Western world were somehow to be reversed in Turkey.

By all odds, then, the question of Greek-Turkish relations, the relations of both countries with the U.S. and their role in the alliance, is the most disturbing single complex of issues facing the alliance. If not managed successfully it could, despite the underlying interest in collective defense, open a breach in the southeastern portion of the alliance; facilitate Soviet southward pressures at the very time when the Soviet military position in the Mediterranean labors under the effects of an important setback; inhibit tendencies toward diversity in the southern tier of the Warsaw Pact; and further weaken Western positions in the Eastern Mediterranean at a time when the position in the central and Western Mediterranean is clouded by the rise of the Left, when developments in Yugoslavia after Tito are a question mark, and when communication lines to the Middle East are already none too secure.

The stakes are therefore high and statecraft is needed to match them. In the U.S. in particular, the executive and the Congressional leaders should work in harmony to devise calibrated actions which would lead steadily to the normalization of military and political relations, giving the parties in the region incentives to proceed along the same gradual path, without the appearance of yielding to pressure.

Those in the Congress who have maintained that the U.S. embargo involves a moral issue, i.e., the sanctity of American legislation and the compliance of another state, and hence of the U.S. government itself, with the terms of that legislation, should consider that the integrity of the alliance and the ability of the U.S. (and others) to comply with the commitments enshrined in it likewise involve moral issues as well as fundamental security interests.

A gradual process of normalization would not deprive the Congress of annual opportunities to review the situation, as appropriations associated with a restored military relationship would have to be approved by normal procedures.

With the growth in Soviet capabilities for military intervention over long distances, the alliance has had to face the question of how its security might be affected when Soviet actions of this type occur. The term of the alliance, insofar as the commitments of the members to each other are concerned, apply only to Europe; nevertheless it has long been recognized that the alliance cannot ignore events outside the treaty area. Assessments of such events have been made within the alliance and discussed in its various organs. The evolution of Soviet military power has been carefully monitored. Individual allies involved in various problems beyond the treaty area frequently report through the mechanisms of the alliance.

When Soviet military actions were concentrated in Middle Eastern countries that were also on the Mediterranean littoral, the direct relevance to security in the treaty area was evident. Joint and harmonized alliance actions did not, however, extend to policies toward those Middle Eastern countries. On the contrary, as was apparent during the Yom Kippur war, not only did coordination prove difficult, but divergences appeared among the allies even in regard to policy actions that might be taken toward the USSR.

But in the last two years, there have been major Soviet/Cuban military interventions in African conflicts. These interventions, moreover, have been directed not only at the immediate area of conflict but appear to involve Soviet interest in securing facilities for the use of naval and air forces which, as in Egypt and Somalia earlier, would operate from them in furtherance of Soviet military objectives. All the North Atlantic allies are aware of these trends and share information concerning them, but they have no forum in the alliance in which to coordinate individual or common policies or actions. It is unlikely that this situation will change, and a case can be made that it would be unwise to turn the alliance into an institution with even tenuous commitments extending beyond the traditional treaty area. Apart from other obstacles, any attempt to do so would face the problem of accommodating the concerns of other friendly countries, e.g., Australia.

In the absence of formal mechanisms for dealing with extra-treaty contingencies, there has been frequent resort to *ad hoc* meetings and coordinated actions on the part of those allies whose interests were engaged. This kind of flexible *ad hoc* approach has worked reasonably well and can benefit the alliance as a whole, though in some instances it has also raised controversy. But if the common denominator in many international crises will in the future be some sort of Soviet military involvement, the alliance may have to find ways to address systematically the issue of how its security interests might be affected and what to do about it. If the Soviets establish a network of facilities for the sustained use of their naval and air forces astride the major searoutes on which alliance members depend, this could constitute a

major alliance security concern. Simply to monitor developments would be inadequate. The traditional worry that formal North Atlantic Council consideration of third world issues would introduce a bloc approach to North-South relations with adverse effects on the interests of some allies, would perhaps be less relevant in the postulated case since the prime concern would be with the Soviet factor.

Given past difficulties in adapting alliance consultative and coordinating procedures, an enlargement of the geographic scope of alliance responsibilities seems unlikely. But when those allies whose interests are chiefly engaged take matters into their own hands, they must bear in mind the concerns of the alliance as a whole and use its mechanisms whenever feasible.

More important than the procedures is the capacity of allies to take various kinds of military measures when necessary. These could range from providing military equipment to the deployment of naval or other forces as a demonstration, precaution or other effort to influence the course of events. It might, as in the French action in Zaire, involve lifting troops and equipment of a third party. An important issue is whether such action can be undertaken without drawing down forces and equipment earmarked for alliance contingencies. This issue arises principally, though not exclusively, for the U.S. If one postulates that Soviet interventions may be on the increase, the need for Western nations to have the option to take counter-action must figure prominently on the agenda.

The most recent report of U.S. Secretary of Defense, as did its immediate predecessors, pegs U.S. force planning to the requirements for "one and a half" wars. But would the "half war" concept be adequate in circumstances of several simultaneous crises? It might be more appropriate to think of the "half war" in terms of "ten-twentieth" crises, not necessarily involving overt military actions. This more diverse concept might also be more relevant to defense planning by other allies.

In any event, the allies individually and the alliance as a whole must sooner or later give attention to the question of what to do in contingencies outside the treaty area which have a bearing on the security of the treaty area. A pattern of partially coordinated or uncoordinated unilateralism, or the formation of *ad hoc* sub-alliances, are the likely alternatives. This would not necessarily be a disastrous development provided individual allies, or groups of them, in acting to protect their interests respect those of allies not associated in the endeavor. But there would be a risk of fragmentation and this could spill over into the established functions of the alliance.

#### V.

The above sketches of some of the political problems of allied defense are far from exhaustive, but they serve to illustrate the enduring character of the

interests that brought the allies together to ensure a common defense. Those interests reflect not only a sense of common danger but a commitment to broadly shared values. Indeed, for the first time since the early days of the alliance, all members, as well as Spain which is associated with the alliance through its bilateral treaty with the U.S., adhere to democratic forms of government. This adds a further element of strength to the alliance.

But democratic politics also pose challenges to coalitions such as the North Atlantic Alliance. Controversies over priorities, the political diversity and mood swings characteristic of democracies, and transnational interactions between various domestic interest groups can all have a divisive impact. I have briefly alluded to three areas — strategy on the "central front", problems of the "flanks", and problems of crises outside the treaty area but affecting the security of the alliance. All of them involve divergent interests or perspectives which, if not managed with care, could erode the underlying commonality that has sustained the alliance. Several other problem areas could have been cited: arms control, economic problems among the industrialized nations, aspects of "detente", internal political transformations in several allied countries, etc.

I remain convinced, however, that the problems we have encountered in the alliance are manageable and that our common interests will assert themselves, as they have for nearly 30 years. The alliance is not a rigid structure but is adaptable to change. Despite shortfalls, all allies contribute their share to the common defense, even when they are not members of all elements of the alliance structure. This remains a remarkable historical accomplishment among free, sovereign nations and will provide the impetus to cope with the challenges we now face.

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In his introductory remarks, the author of the American working paper observed that there were profound interests that had brought the United States and Europe together after the second World War. The underlying confluence of interests that had created the North Atlantic Treaty Organization was just as valid today as it had been 30 years ago. However, he warned that other factors could erode even as fundamental a set of common interests as had made the alliance. One of these factors was the problem of the use of nuclear weapons, illustrated by the debate over the deployment of the neutron bomb.

Another matter of concern was the problem of events taking place outside the alliance area proper. The author suggested that it was appropriate to consider what the role of the alliance should be with respect to areas of crisis that involved the Soviet Union. It was correct to assume that many of these crises would involve the Soviets, and this had a profound effect on the security

of the alliance. One could not avoid the question of how the allies as allies and the alliance as an institution should organize themselves with respect to regions outside the strict treaty area.

The American author concluded with what he called a hopeful note concerning the future of the alliance — that 30 years was a long time for sovereign democratic nations to stay together in peacetime and that this was perhaps unique in history and thus augured well for the future.

*International Working Paper:*

“DEFENSE, SECURITY AND THE WESTERN ALLIANCE”

The security of the West has never been, in the first instance, a military matter but primarily a political one. This is more than a statement of the obvious; it is central to the Western system of collective security. The Alliance is a group of sovereign states who cannot be cajoled into cooperation but must agree to it; only political cohesion on the basis of durable consensus can provide this. The Alliance must reconcile the security of the world's leading power, the U.S., with the security of half a continent some 4,000 miles across the Atlantic; this cannot be imposed by written guarantees; it must be based on the continuity of joint interest. American self-interest in the security of Western Europe is the only reliable guarantee of American support in a European war. Finally, political stability is a deterrent against the employment of military force; in a disunited Western Europe Soviet military might can be turned to political advantage, and in a politically restless Eastern Europe, Soviet military forces will actually be used, if the past 25 years are any guide.

At the same time, there are specific reasons why political cohesion is not a sufficient condition for Western security and why it must be underpinned by military strength. For the Soviet Union, military power has a supremely political function, as a means to keep her empire together. It offers the primary justification to the Soviet claim of great power status and is the chief compensator for the obvious weaknesses of the Soviet system: poor economic performance, ideological stultification and internal repression. The greater these weaknesses, the more the temptation to rely on military power might grow.

Therefore, Western security strategy must combine military strength and political cohesion. One is meaningless without the other. To meet the threat from without is a familiar task for the Alliance; after years when the military balance in Europe seemed to be shifting gradually in favor of the East, NATO is now improving its military capabilities with the prospect of rectifying some of the more disturbing imbalances. The main challenge to security for the West today is elsewhere: how to generate political cohesion and the consensus on

which it must rest, at a time of major political changes in a number of Alliance countries. If we succeed in meeting this challenge, then the security threats are manageable; if we fail, however, the resulting turbulence can shake and even destroy the foundations of Western security as we have known them for the past 30 years. I shall explore these issues with the help of three theses for discussion.

I. *The Soviet military threat in Europe has grown but it remains one that the West can cope with if it has the will.*

Much of the defense debate in our countries tends to be of short breath. We look at new weapons systems, at force increases in particular areas, at specific deployment patterns. But military forces are there to do a job. From the Soviet perspective that job has remained constant: to repulse and defeat with the maximum prospect of success any Western attack, and then to fight and win a European war on Western territory. At the same time, this Soviet posture, however defensively justified, must be seen by the West as a threat. Over the past decade it has become a more efficient one, with the Soviet military effort designed to reduce traditional vulnerabilities and to augment the quality of military performance.

*On the ground*, this has meant a drastic improvement in the mobility of Eastern forces. The traditional emphasis on tanks has remained, but the growth rate in tanks — about 40 per cent over the past ten years — has been much exceeded by that of armored personnel carriers: almost 80 per cent. Artillery is becoming self-propelled, logistics are being integrated into major units, and the size of combat units has been increased to make them more self-reliant. Anti-armor weaponry with front-line units has also been increased, until recently exceeding the Western ratio. A modernization of theater nuclear capabilities has been underway for some time. The main effect of these efforts has been to increase the ability for rapid concentration and dispersal, encouraging tactics for rapid advance into enemy territory without depending on the massive force concentrations which in the past not only provided NATO with ample tactical warning but also offered targets highly vulnerable to nuclear strikes.

*In the air*, the main trend has been to free combat aircraft from air defense to a more direct battle role. The traditional Warsaw Pact emphasis on air defense meant that, in the past, a considerable number of their aircraft would be employed in defense against enemy strikes as the primary task, and this attenuated the numerical superiority of the Eastern inventory over that of the West. But Warsaw Pact air defense is now increasingly performed by missile forces, thus releasing aircraft for the support of the ground battle and for offensive missions. Moreover, air transport capabilities have been improved. Both developments will serve to enhance further the mobility and

maneuverability of Eastern ground operations in a potential conflict with the West.

*At sea*, the size of Soviet forces has not increased, but their performance efficiency has. They can now stay at sea longer, cover wider spans of water, challenge Western vessels with greater confidence, and they have acquired an improved capability for interdiction of major shipping lanes.

Finally, the Soviet Union — and this goes beyond the prevailing pattern of continuous force improvement — has started to introduce a new capability for strategic nuclear delivery against targets in Western Europe. Since the late 1950s, Russia enjoyed a quasi-monopoly of medium-range ballistic missiles, some 600 of them targeted against Europe. Now, after almost two decades of stagnation, weapon systems are entering the Soviet arsenal whose primary function is to do the old job even better, although no Western counter-systems have been devised to induce such a step. These are the (unhappily termed) “Euro-strategic” weapons — the SS-20 and the Backfire bomber — which, while only adding further to what is already an unchallenged Soviet capability for the large-scale nuclear destruction of Western Europe, escape from any restrictions sought in current East-West arms control.

These are disturbing developments. They have taken place at a time of tangible improvement in the political relationship between East and West in Europe and in spite of repeated Soviet calls that “Military detente should follow political detente”. They have required precious financial and industrial resources, at a time when other military demands — for the Soviet strategic effort and for strengthening Soviet forces in the Far East — have been heavy and economic growth has significantly slowed down. And they all occurred at a time when Western countries, for reasons ranging from America’s Vietnam involvement to economic and manpower pressures in Western Europe, were clearly not the driving force in the arms competition.

And yet, the shift in the military balance toward the East has neither removed some of the traditional shortcomings of Soviet military power in Europe nor is it beyond correction by Western efforts. Traditional shortcomings remain: the uncertainty whether a war in Europe could be limited to the region; the possibility of a second front in the Far East; the uncertainty over the comportment of Russia’s East European allies in case of war; the vulnerability of Soviet naval installations. These uncertainties, together with existing Western defenses, would make any major Soviet military action against Western Europe — even at such vulnerable places as Berlin or North Norway — a matter of very high risk. Soviet military efforts over the past years, while increasing the efficiency of Soviet forces, have not markedly reduced that risk to make military aggression against the West significantly more attractive. What they have done, though, is to increase the political weight of Soviet military power in an East-West crisis.

It is this which has made a Western response so urgent. Today, the growing

concern over increased Soviet capabilities has not only prompted the American and German governments but other allies as well to give priority to the strengthening of the conventional defense in Europe. Moreover, while the Warsaw Pact has improved force efficiency over the past ten years, the West has not stood entirely still. American forces in Europe today are at a higher degree of combat efficiency than during the years of the Vietnam war when men and resources were drained from the European contingent; and the West German armed forces have gained in professionalism, confidence and quality of equipment. Today, after a period of relative stagnation, the Alliance is entering a period of increased defense spending, and greater confidence that it can meet, over time, the conventional threat from the East — not in terms of matching all items of the Warsaw Pact inventory but in terms of denying to the Soviet Union a reasonable chance of military success in a war and, in a crisis, the prospect of demonstrating military superiority to political advantage.

This is most visible in the recent emphasis on conventional anti-tank weapons. Over the next few years, NATO forces will have acquired almost 200,000 anti-tank guided weapons; U.S. forces alone have increased their overall holdings from 1970 almost thirty-fold, and some other major NATO armies are not far behind. Another weapon system which promises significant improvement for NATO’s anti-tank capability is, of course, the much discussed “neutron bomb” to which I shall return later.

In addition to this strengthening of anti-armor — the ability to meet the enemy when he comes — the Alliance must develop means to reduce the danger of surprise by the ability to detect an attack early and to deal with it in a coordinated manner. The improvement in command and control, and the likely introduction of AWACS (Advanced Warning and Control System) aircraft reflect this concern.

These examples show not that the West has done everything necessary but that it can do so; that there are answers to the increased Soviet military effort. But a few caveats are in order. First, the examples given above indicate future capabilities; many of the new systems are not even on order, and it will take time until they are fully deployed. Second, new weapons have reached their present state of development and implementation not without a major effort of energy and money, intra-alliance persuasion, bargaining and negotiation. Third, however promising some of the new military technologies may be, technology alone cannot provide the answer to the problems of Western defense.

There are several reasons for this. For one, the Soviet Union has been modernizing her forces consistently; the West can no longer offset Eastern numerical advantages by Western technological superiority alone. Moreover, much of what are called the new weapons technologies are ambiguous in their effect: they can improve the prospects of success for both the defender and the attacker, and many increase the military bonus of surprise, thus making the future balance of forces in Europe a more nervous one. Finally, new weapon

systems must be paid for, they must be manned, and men trained to use them. Defense budgets will not rise significantly in the future, at least not enough to absorb both major increases in equipment cost and increases in manpower and maintenance. Indeed, practically all Western countries will be facing a manpower problem before long. It is true that the Soviet Union will have a similar problem some time in the future. But it will hit Western military establishments earlier, and not only those who — like the U.S. and Britain — depend on a voluntary system. In the longer term, more radical answers have to be found to the problems of maintaining an adequate conventional Western defense than those provided by improved weapon systems and procedures.

However, these answers can be found. There is no reason to fear that Western defense in five or ten years' time will be incapable of balancing the Soviet conventional military threat in Europe then, provided there is the will to do so and the common structure to put it into effect.

## II. *There is no alternative to reliance on the U.S. nuclear strategic forces to deter Soviet nuclear capabilities in Europe.*

This is scarcely a new revelation. Western Europe has been vulnerable to Soviet nuclear strikes since the Soviet Union's accession to nuclear power, long before Soviet planes and missiles could reach the U.S. Since the late 1950s, some 600 medium-range Soviet ballistic missiles with megaton warheads have been targeted against West European cities. The small number of strategic nuclear weapons in the French *force de frappe* and in Britain's deterrence forces have no more than marginal significance in the central balance. Theater nuclear weapons in Europe are no counter to the Soviet nuclear arsenal; their usefulness in fighting a war has always been doubtful, their contribution to Europe's security being essentially one of deterrence: to deter the first use of Soviet theater nuclear weapons, and to deter any major Soviet attack through the risk of nuclear escalation. The only available reassurance against Europe's vulnerability to Soviet nuclear strikes is the deterrence cover of American strategic forces.

From the European perspective, this is less than ideal reassurance, even if there could be certainty that the U.S. would, in the event of a Soviet attack against Western Europe, risk its own survival by threatening the Soviet Union with a nuclear strategic strike. However, no such certainty is available. This is not, as General de Gaulle suggested, because no one country can be expected to risk its survival for the sake of another, nor because of any American unreliability. It is because of a more fundamental characteristic of nuclear deterrence: uncertainty is essential to make it work.

Certainty of nuclear response would not only mobilize American, but also European public opinion against alliance. It would allow the enemy to bypass the criteria for response or threaten specific countermeasures which could

deter a nuclear riposte. Moreover, it would be an artificial certainty: there has never been a nuclear war and all predictions of how it would evolve are likely to be proven wrong.

Uncertainty is therefore unavoidable. At the same time, it breeds uneasiness, particularly in Europe. This has been a recurrent feature in the Alliance; it has been emphasized further by the Soviet-American effort in SALT to codify their deterrent relationship on the basis of nuclear strategic parity. More recently, European uneasiness has been manifested around two items of nuclear weaponry: the neutron bomb and the cruise missile, both issues of Alliance politics in the cloak of nuclear hardware.

*The neutron bomb:* On the face of it, the neutron bomb should have been welcomed not just by military experts but by public opinion in Europe as well. Contrary to popular claims, it is less destructive than most of the theater nuclear warheads deployed by NATO, and it seems to offer a serious counter to the Soviet armored threat which has been at the center of much public concern in Europe.

From a military point of view, there are two real issues: (1) Is the neutron bomb more cost-effective as an anti-armor weapon than other, conventional systems? (2) Can it be expected to be deployed in time, given that the U.S. president must first authorize the release? On the first point, the answer will have to depend on a careful comparison with non-nuclear alternatives, and I do not feel competent to offer an assessment. As a rule, a conventional weapon that can be used right away in a war is preferable to a nuclear one that cannot be used unless released by the American president. On this point, I see no reason why the president should be more disposed to release the neutron bomb than any other theater nuclear device. The claim that the new weapon will "lower the nuclear threshold", i.e., that it will lead to an earlier use of nuclear weapons, seems unjustified. True, the neutron bomb produces less damage; but the primary consideration in the mind of the president when faced with a release request is not the damage of a particular weapon system. It is whether the release will change the nature of the conflict from conventional to nuclear. This decision remains equally agonizing for the neutron bomb as for any other theater nuclear weapon. It is for this reason that the main impact of the neutron bomb, once deployed, will be in discouraging, *through deterrence*, the Warsaw Pact armies from their heavy emphasis on armored vehicles; if a war should break out, however, the presidential release decision may well come too late to give to the new system its optimum impact on the battlefield.

In spite of this relatively straightforward military assessment, public concern, although directed at one of the least disturbing of theater nuclear weapons, needs to be taken seriously. It reflects anxiety over nuclear war and the uncertainty that surrounds it. It cannot be dismissed merely as a propaganda campaign funnelled by the East but represents a more deep-rooted uneasiness over the nuclear issue as such by those who would be the most likely victims

of a theater nuclear war. Because of the inherent uncertainty in nuclear matters there is no way in which this uneasiness could be laid to rest. Moreover, it is ambiguous: if nuclear weapons are emphasized in Alliance planning, European public opinion is concerned over their potential use; if instead American administrations give priority to a conventional defense for Europe, European political opinion suspects a weakening of America's nuclear guarantee.

Alliance politics will have to live with these sensitivities and contradictions, and to take account of them. If the neutron bomb debate has one lesson, it is how nuclear diplomacy in the Alliance should not be conducted. By delaying his decision on introducing the weapon until European governments have made up their minds, President Carter not only elevated the new device into the category of a major policy decision, he also passed the buck to governments who must be sensitive to the nuclear uneasiness of their citizens and who thus find it much more difficult to take the decision themselves rather than merely accept an American fiat. The neutron bomb controversy has to a large degree been the consequence of this maladroit handling of what would otherwise have been no more than one aspect of NATO's modernization program for theater nuclear weapons.

*The cruise missile:* The European concern — more inside governments than among public opinion — over this new weapon system stems from two sources: a growing apprehension over Soviet medium-range missile capabilities, now modernized through the introduction of the SS-20, and fears that a Soviet-American bilateral agreement in SALT might effectively curtail a technology which could serve West European military requirements.

Again, it is possible to separate the military from the political argument. Like the neutron bomb, the cruise missile is still not in production; this will take at least three years. Its interest to Western Europe is two-fold: as a potential successor system for French and British strategic launchers, and as a theater system that could strike at targets inside the Warsaw Pact where manned aircraft might not be able to penetrate with confidence in the future. Yet few serious European studies have been conducted to demonstrate the utility of the new technologies for European requirements.\* They may show that ballistic missile, rather than cruise missile, technology retains significant advantages for the types of deterrent forces Britain and France will need and can afford, and that some of the assumed cost advantages of theater cruise missiles might disappear if confronted with the high saturation rate Soviet air defenses might impose.

But the actual utility of cruise missile technology is less important for European concerns than the principle that potential options for a European answer to Soviet threats should not be foreclosed. The threat of Soviet medium-range "Euro-strategic" systems is felt the more as SALT not only fails

\*One notable exception is "The Future of the British Nuclear Deterrent" by Ian Smart, London 1977.

to restrain these Soviet weapons but might restrain the ability of the U.S. to allocate some of her deterrent forces to target them and deter their use.

The real issue behind this debate is, however, not technical or strategic; it is political. There are limits, therefore, to the relevance of technical arguments. That there is a tension between Soviet-American deterrence on the one hand, and Soviet-West European on the other is evident. In its ultimate logical conclusion, this would argue for an independent European deterrence force capable of imposing on Soviet actions the same restraint as the American deterrent does today. But this is not feasible in the foreseeable future (and I doubt if it would really be necessary and desirable). In the absence of such an alternative, Western Europe has no other choice than to rely on the continuing protection of the American nuclear deterrent. Moreover, she must avoid undermining the credibility of this deterrent by actions which are insufficient to substitute for it but sufficient to weaken it. A "Euro-strategic" balance, based on a West European nuclear arsenal with ranges suitable for major targets in the Soviet Union, would put in doubt the indivisibility of American deterrence for Europe and the U.S., on which the credibility of the American deterrence cover for Europe continues to rest. In face of the dilemma of either offsetting Soviet regional strategic forces and weakening the deterrence link with the U.S., or living with the imbalance and counting on America's strategic deterrence to make it more tolerable, the rational European choice lies clearly with the latter alternative.

This will, of course, never be easy for West Europeans to accept and particularly for Germany, the major non-nuclear country of the Alliance. Not surprisingly, the current concerns are most strongly articulated in Bonn today. If we accept that there is no "hardware" solution to the problem, political answers must be sought. The current SALT negotiations have identified a major task for the future: how to associate America's allies more closely with decisions in the bilateral Soviet-American negotiations which affect their immediate security interests. At the same time, they have revealed current consultation practices to be insufficient: in spite of an unprecedented effort by the Carter administration to inform and consult allies on the state of the SALT negotiations, European concerns were more pronounced at the end of the first Carter year than at its beginning. To devise a more promising procedure which would both give West European governments a say on the substance, and a responsibility for the fate, of future SALT negotiations is now among the more urgent tasks for the Alliance.

III. *The major test for the Alliance over the next decade is whether it can maintain its cohesion in the face of domestic political change in Alliance countries.*

The military tasks of West European defense are manageable, the nuclear

uncertainty we can live with. Yet both these statements depend on one major condition: the continued vitality of a common structure of collective security in the North Atlantic area.

It has, of course, always depended on this. But today, after the Alliance has existed for over a generation, this issue is becoming of central relevance for the security of the West. When de Gaulle took France out of NATO's military integration in 1966, it was still possible to assume that in a major crisis or a European war Gaullist France would remain a firm ally. Today, Gaullist ideas are voiced in Turkey, Greece, and on the French Left, yet the commonality of interest can no longer be assumed. There are a number of reasons for this. First, detente has made the military threat less tangible and hence allowed other issues to acquire greater weight. Second, the Alliance has provided stability and security for over a generation, hence stability and security seem to many to be a natural state of affairs, not requiring continuous effort. Third, and most important, we are witnessing a generation change in political parties and political leadership in Europe and in the U.S. It would be surprising indeed if the new generation were to adopt automatically the consolidated wisdom of its predecessors. It is this which gives new significance to old Communist parties in Western Europe. Eurocommunism may or may not be a genuine movement of ideological reform within Western Communist groups; its significance for the Alliance lies in the simultaneity of this process, which makes left-wing views more respectable, with the search for consensus among the new generation of political elites in Western Europe.

Like most institutions, the Western Alliance is apprehensive of the period of questioning, critique and debate which must precede the gradual evolution of the new security consensus. In many ways it resembles those prestigious gentlemen's clubs that stretch their pleasant facades along London's Pall Mall: a place of shared assumptions that no longer need to be made explicit, and of congenial familiarity that tolerates but does not really welcome newcomers.

It cannot, of course, be excluded that consensus among Western nations on the common needs and means of their security is no longer attainable. Perhaps we are drifting into a two-tier Alliance, with Southern Europe opting for a looser link with NATO than the countries concerned with the defense of the central front. Perhaps the future lies with a *de facto* bilateral security arrangement between the U.S. and West Germany, as the prophets of "bigemony" have it. But it is important to remember that the Alliance is not just an accumulation of convenient building blocks; it is a carefully balanced framework for political stability. You cannot change it without endangering stability itself. A bilateral American-German alliance, for instance, may adequately deter the Soviet Union, but would it also enjoy the political support in both countries that is the condition for a harmonious and durable security relationship?

These risks have recently been highlighted by the prospects of a left-wing

government in France. As this paper is being written, the outcome of the March elections remains unpredictable. Whatever their outcome, they might serve to provide a hypothetical "worst case". Supposing the Left forms a government with the participation of the Communist Party, whose leader has stated in December unequivocally that the main security threat for France is the German *Bundeswehr*. The new government, eager to honor its election promises, nationalizes large sectors of industry, increases basic wages and, to protect high-price French products from cheaper imports, closes the borders to its Common Market partners. The common West European institutions, in the European Community and in the Alliance, cannot survive the ensuing crisis. West Germany, seeing her European hopes dashed and her position as the strongest economic and military power on the continent resented openly by her major neighbor, rediscovers, in the new mood of European nationalism, her national vocation and begins to challenge the division of the nation into East and West, a division on which post-war security in Europe has rested.

This is, of course, very much a "worst case" scenario. It is not intended to provide an accurate prediction of the future. But it shows what far-reaching consequences could arise once the consensus of collective Western security starts to crumble. European unity and Western collective security is not only the condition for deterring Soviet pressure and for maintaining America's security guarantee. It is also the condition for making the national division tolerable for West Germany. The political cost will therefore be very high if the new generation of political leaders should fail to produce the consensus on which Western cooperation can be built.

This will be no easy task. The pressure of domestic priorities is felt in all Western countries today, and will often push security concerns into second place. Nor can we count on the Soviet Union for frightening Western opinion into joint action, although its continuing military effort and tensions within Eastern Europe will underline the advantages of the Alliance in Western public opinion. Rather, conscious effort on two levels will be required to build the new consensus.

The first level is that of debate, of making European and Western security interests in a changing world explicit. A number of fundamental questions are confronting our security in the 1980s, and they must be argued out in the open: What are the requirements for security in Europe? What the prospects for detente? What the contingencies to prepare for? What the impact of Third World conflict on relations between the First and the Second World? And what are the prospects not only of defense and deterrence against the East but for a positive contribution toward a more equitable international order? To provide for an efficient East-West balance of power will not be a sufficient ideal to generate popular support for the Alliance in the next decade.

This debate will not be conducted in terms of abstract principles. East-West security relations are entering a new phase. In the Soviet Union, a new

generation of leaders will shortly take over, formed less by ideology but also less by the experience of the last World War. In Eastern Europe, economic frustrations could again undermine the authority of the regimes and lead to new challenges to Soviet power. In the Middle East, the renewal of military conflict remains a real possibility. The growing tendency for conflict in the Third World will offer to the Soviet Union opportunities for manifesting the continuing utility of military force and could challenge real Western interests as the access to raw materials acquires increasing weight in our security concerns. In East-West relations, disappointment over détente, concern over Soviet action in the Third World, and frustration over the failure of arms control may give way to harsher rivalry. These will be most directly felt where East and West meet: in Europe. We are in for a turbulent period, but one which will also emphasize the continuing relevance of the Western security alliance.

The other level of effort to maintain cohesion in the face of change is to strengthen the existing structures of Western cooperation and to resist the temptations of unilateralism — in the military as in the economic and monetary field, energy and on development aid, in the Alliance as in the European Community. As Western security enters what could be a long period of turbulence, we will do well to fasten the safety belts of Alliance.

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The International author introduced his working paper with the observation that the alliance was discovering a sense of new vitality at a time of increasing political tensions between East and West. Here lay the real significance of the current Strategic Arms Limitation Talks and their outcome. If there were no SALT agreement, the trend toward a hardening and a tightening of positions would be reinforced. The strategic nuclear issue was the main plank for Soviet-American cooperation. This was a regrettable fact, because if it were to crack, there was very little to take its place. The consequences would be felt in the first instance least of all in the U.S., but much more in Europe and the Soviet Union. The U.S. could, if it had to, manage without détente; most of Western Europe could not. Hopes that the present or future leadership of the Soviet Union might be encouraged to see advantages in restraint and less reliance on military power would be dashed. Thus, not just the military implications of a successful agreement should be considered, but also the political implications of a failure to reach an agreement on SALT.

The major test for the alliance over the next decade was to maintain cohesion at a time of significant domestic political change. The author observed that his paper was written before the recent elections in France. Many observers were relieved when it became apparent that the Communists would not get into a French government. But it would be wrong to become

complacent, because the problem of domestic political change remained. The outcome of the French elections had been very close, and political groups which did not share the basic consensus on Western security could still win majorities and form governments in a number of member countries, particularly in Southern Europe. The alliance required a degree of reliability and predictability, and strains on its cohesion had not gone away.

Another problem was seen to be confused and uncertain leadership in the U.S. This was not just the fault of personalities but also of changes in the system. The authority of the President had declined without any compensating increase in the authority of any other body. This state of affairs would make life difficult for allies, adversaries and Americans alike. Confused allies would become irritated and frustrated and confused Soviets would likely be more militant. The impact would be felt most where alliance cohesion was necessary for domestic cohesion. This was especially true for West Germany, where the decision of whether or not to remain in the alliance was more a political than a security question.

Finally, there had been a failure to use existing institutions or to develop new institutions for proper consultation among alliance members. This had been especially true with the neutron bomb. There had been no need to make it a major policy issue; passing the buck had not been consultation. Proper structures for joint decision-making did not exist. There was a great need for an institutional framework for consultation so that European governments would be listened to on matters such as SALT which greatly affected them.

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## DISCUSSION

An International participant was called upon to provide an overview of progress made in strengthening the alliance. He began by referring to three fundamental aspects of the change in Soviet military power:

(1) *It was a relentless change*, not the product of a precipitous shift of mood in Moscow which suddenly allocated greater resources to defense. The military-industrial complex in the U.S.S.R. was undergoing a profound transformation that had contributed to concern about the threat. Increased quantities of high-quality weapons were being manufactured, enabling the Soviets to revolutionize and increase the number of forces facing Western Europe. In the past decade, they had also built up their forces facing Communist China to 45 divisions — with associated rocket and tactical support — without skipping a beat in the improvement of their European forces. At the

same time, they had built up a large residue of military equipment with which they could respond quickly and effectively to the calls of Third World leaders. The cutting edge of Soviet influence in the Third World was their ability to respond to these calls. The Soviets greatly exceeded the U.S. in Third World arms shipments. The implications of all of this were that the West could no longer count on qualitative superiority to offset its clear quantitative inferiority. Nor could it be sure of having enough time to mobilize its resources for a future conflict.

(2) *The new Soviet threat was a balanced one*, not just a mindless feeding of military appetite. A careful analysis confirmed that we had witnessed the elimination of Soviet deficiencies. The days were past when anomalies in the Russians' military structure kept them from global activity, a limitation which we had been able to exploit at great savings to ourselves, with our theories of massive retaliation and the trip-wire. The current strategy of flexible response was thus an imperative, although the contemporary fetish to analyze and dissect the effect of this deterrent destroyed the ambiguity which made it work. Potential aggressors were provided a road map to overcome the deterrent.

(3) *The Soviet threat had changed from a Eurasian continental one to an increasingly global one*. This suggested a management task for the West far different from that at the start of the alliance.

To meet that task, NATO had been undergoing a period of hyperactivity in which needs were analyzed and recommendations were made to strengthen the alliance. The first need had been to generate a political consensus for the sacrifices needed to face up to the threat. Three and a half years ago, there had been leaders who did not acknowledge a threat and were not prepared to meet it. Plans and programs had had to be developed for more effective mobilization of civil and military resources. In recent months, some 140 measures had been agreed to by nations on both sides of the Atlantic, and ten long-term studies had been completed. While a decade of neglect could not be repaired in two or three years, one could be cautiously optimistic that the corner had been turned on the military side.

The speaker was less sanguine about certain non-military aspects of the alliance, and he referred to five contradictions or confusions which bedeviled policy-making:

(1) *The Center vs. the Northern and Southern regions*. It was a delusion to think that merely correcting imbalances on the central front would assure our security. Problems outside Western Europe were also threatening, and we needed ways to deal with them. There could be no security for the U.S. without the security of Western Europe; and there could be no security for Western Europe if we ignored events outside our sphere.

(2) *Our socio-economic needs vs. our security needs*. There was a risk in

diverting resources traditionally needed for defense to meet socio-economic crises.

(3) *Authoritarian regimes vs. totalitarian regimes*. The former were frequently the product of historical events or transitory threats or pressures, and did not run counter to our common standards of individual freedom. A blanket approach in applying value judgments was not warranted.

(4) *Arms control objectives vs. continuing security needs*. Technological developments had begun to blur the line between the two, as a Euro-strategic "grey area" emerged. The language of non-circumvention was of major concern to Western Europeans. A modernization of Western European theater nuclear capabilities was urgently needed, which required a new form of consultation within the alliance.

(5) *Our need for defense/security vs. our need for detente*. The statement of principle enunciated by the U.S. and the Soviet Union in 1972 had said, in effect, that one side would not take unfair advantage of the other. Since then, the Russians in Africa — directly or through the Cubans — had spawned or seized insurgent national movements while the West sat by helplessly. This suggested the need for a profound reassessment of policy by the Western alliance, whose political, economic and social resources far surpassed those of the U.S.S.R.

The wide-ranging discussion that followed focused principally on seven basic areas of concern:

#### A. *The General Evolution of East-West Relations*

We knew that basic Soviet purposes were antagonistic to ours, but we were unsure about Soviet priorities. An American participant felt these were likely to be headed by (1) freedom from external threat, (2) strategic parity with the U.S., and (3) the modernization of Soviet society. We did not know, though, where the dynamics of Soviet foreign policy lay. Was their priority defensive or offensive? Did the Soviet leadership know, itself? On the external side, the Soviet Union had suffered a string of setbacks. Internally, it had potential worries about such things as energy. There could be some kind of reorientation if Eastern European countries had to turn elsewhere for oil.

But several other speakers felt Soviet intentions were fundamentally offensive. A Norwegian dismissed Communist China as a threat to the U.S.S.R. and argued that the Soviets had a strong grip on their Eastern European allies.

A Swiss participant said the Soviet Union had the means and the will to act as a global military power, but that Soviet influence was greatest only where arms were the decisive way to get it. Influence so acquired could be transitory and superficial; military influence was not always tantamount to political

influence. He foresaw growing Russian economic dependence on the outside world. But as the Soviet Union's major objective had shifted from the struggle to secure power against the external world to a quest for a larger place in it, the result might mean greater aggressiveness.

While Soviet power and capability in many areas would remain marginal, there was a new reticence — especially in the U.S. — to assert Western power. This might foster the Russians' aggressiveness by leading them to underestimate the firmness of our resolve. In the end, our perceptions of the Russians' strength served to paralyze us just as much as their real power ("immobilizing pessimism"), and we realized that detente and arms control talks had not persuaded the Soviets to de-emphasize military power in international relations.

#### *B. Crises Outside the Alliance Area*

If indeed the Soviet threat had now become global, then the alliance had logically to be concerned with "out-of-area contingencies," especially those involving the Soviet Union. One school of thought remained unconvinced of his need, believing, as one American put it, that NATO already had "enough on its plate" in dealing with crises in its own geographical area. But several participants argued that it could not afford to ignore developments further field. A Briton used the example of the shipping route around the Cape of Good Hope. He said it was as vital to the U.S. as to Western Europe and therefore events in Africa or the Indian Ocean had to come into the calculations of NATO.

Regarding Soviet activities in the Third World, an International participant said the Soviet Union had shipped \$1 billion in arms to Ethiopia — more than the total of U.S. shipments to that country since World War II. Soviet claims that they were supporting "legality" in their various African adventures were viewed with skepticism. First of all, it was Soviet arms which had made the Somali move into the Ogaden possible; secondly, the Soviet reaction had had nothing to do with the Somali move, and the mere flip of a coin, as the author of the American working paper put it, might have brought them to support the other side. Did we mean to accept the proposition that the Soviets could intervene anywhere in the world against what was defined as "illegal," while leaving the task of definition to groups such as the Organization of African Unity?

This pattern of Soviet conduct, which might be applied in other areas, such as the Middle East, was described by one American as an "exceedingly dangerous evolution in the international political arena." We ought to deter it by maintaining a high level of risk for Soviet-sponsored military activities, which would require a definition of our interests and a clear resolution to employ or make available our military equipment. His statement that we had

the means to make such adventures expensive for the Cubans was supported by another American, who feared that the notion that the U.S. was afraid of nine million "invincible Cubans" would foster a psychological handicap that would be hard to remedy.

A British speaker — while not advocating the presence of U.S. arms or troops in Africa — said that so long as they were *not* there, while Soviet elements were, the Russians could cut through Africa "like a knife through butter," and nothing could be done about it. Other participants, who did not argue with that conclusion, were nevertheless not so worried about it. An American suggested that the Soviet experience in Africa had, by and large, been an unhappy one. He cited Ghana, Egypt and Angola as examples, and added that Cuban losses in Africa had been substantial. The Russians had tried and failed to form satellites in Africa, ending up with the enmity of the local peoples, who were not interested in Marxist ideology.

A Danish participant went so far as to say that if the West had not turned its back years ago on African nationalist groups "there would not be a single Cuban soldier in Africa today. It's our own fault." But he concluded that, in any case, the West could not build its future relations with Africa on the basis of confrontation, so that probably President Carter's approach was the right one.

Other speakers argued that the Russians had never been checked where they were not up against substantial opposition. But whether the Soviet-Cuban adventures were to leave a lasting mark on any particular country was not the real issue here, according to an American participant. It was the lack of any discernible, coherent line of Western policy. Soviet influence outside the area of the alliance had been greatly magnified in recent years, but the West seemed paralyzed because we had no clear idea of what affected our security, of what purposes we were trying to serve, or of where we had to draw the line. One problem in reaching a consensus within the alliance on these questions was that the impact of extra-European developments was likely to be felt more intensely in the future in Europe than in America, which was more self-sufficient in raw materials.

#### *C. The Current Military Balance*

An International participant described our present military position vis-à-vis the Soviet Union, across the board, as one of rough equivalence or essential parity (defined in terms of our entire deterrent, or "triad of forces.") He said that succeeding political leaders had described this parity in terms that were increasingly flexible, which was disquieting. It was extremely important to maintain parity, which, the speaker pointed out, was not an inevitable fact of life but a calculated management decision made in the U.S. Congress and the Pentagon in the 1960's.

When it came to an assessment of the alliance's conventional forces on the central front, however, some participants expressed concern that the Soviets had the edge. Even with no Soviet reinforcing, said a British speaker, NATO was "outgunned, outmanned, and out-tanked." A Belgian agreed, pointing out that there had been a quantitative and qualitative erosion of alliance forces in the last two decades. Without adequate reserves immediately available for rotation of the combat units, resort to battlefield nuclear weapons would appear necessary within perhaps four days after the outbreak of hostilities.

The single most urgent requirement for the alliance was therefore a continuing and improved build-up of conventional forces to sustain the credibility of our forward defense. Our emphasis on effective forward defense in recent years represented an attempt to avoid divisiveness within the alliance on the perennial question of the role of nuclear weapons. Europeans had always tended to want the nuclear threshold as low as possible for deterrence and as high as possible for fighting a war if deterrence failed. This was bound to be hard to resolve, and the debate about the neutron bomb was in part a reflection of this dilemma.

#### *D. Theater Nuclear Systems and the Neutron Bomb*

In the theater nuclear area, said an International participant, the situation had changed rapidly in recent years. The theater nuclear threat in Europe had greatly increased. He pointed out that modern Soviet missiles had doubled the range and tripled the load-carrying capacity of earlier systems. Moreover, they had been relieved of a defensive role. The range of the SS-20 included all of Western Europe, as well as Great Britain. At longer and middle ranges, NATO was increasingly deficient. The cruise missile was not the answer to all our problems; it was not a match for the SS-20. The alliance needed to have a package of systems, including ballistic systems, improved aircraft, offshore facilities, and the cruise missile.

As the consequences of parity — or inferiority — in our theater systems crept in, then the very credibility of any nuclear response was put into question. This was why introduction of the neutron bomb would raise the nuclear threshold, rather than lower it, as the Soviet press had claimed. ("It must scare them," remarked one U.S. participant. "It means NATO deterrence is alive.") The more usable the system, the less likely it would ever have to be used. This was "the paradox of deterrence," which laymen sometimes failed to understand.

Some participants expressed concern that deployment of the neutron bomb might have the effect of "decoupling" nuclear from conventional arms. A reply to this heard in Europe was that a more likely cause of decoupling would be a situation of strategic parity combined with overwhelming Soviet superiority in theater nuclear weapons.

In any event it seemed certain, as one American observed, that our tactical nuclear arsenal, including battlefield weapons, was going to be modernized, and would become more effective in terms of both military utility and command and control. Care and circumspection had to be used in public discussions of this modernization, as things tended to be judged according to our description of them.

Several participants questioned why the neutron bomb had become such a controversial matter. One International speaker called it a greatly inflated issue and an example of weakness and vacillation by allies on both sides of the Atlantic. He said the whole matter had become a victory for the Soviets and for left-wing leaders in the member countries of the alliance. A British participant argued that we had fallen into a trap of Soviet propaganda by calling the neutron device a "bomb" in the first place. In fact, the device was an eight-inch anti-tank shell. The speaker went on to say that there really should have been no argument at all, as the choice was between nuclear weapons or defeat. A Danish participant criticized Western governments for not having had the courage to explain to the public what the real nature of the neutron bomb was.

Whether or not the alliance had the will to make use of nuclear weapons if it became necessary was a question on the minds of some participants. An Italian, remarking on the "wishy-washy" attitude of European governments toward the neutron bomb, suggested that perhaps we had ceased to be psychologically ready to use nuclear weapons.

Several questions were raised by a German speaker about the implications of President Carter's handling of the neutron bomb issue. Would his apparent deep personal aversion to things nuclear spill over into debates about weapons modernization? Did this signal a major change in strategic doctrine? Did America intend to yield to the Europeans part of its sovereignty over the development and deployment of new nuclear warheads? One French speaker thought that the affair would have the healthy effect of making the Europeans think more about their own defense. But a Briton argued that there was no substitute for the U.S. nuclear deterrent; it was what kept the alliance together. When doubt existed, the U.S. would have to reassure Europe of its commitment.

#### *E. Consultation and Mutual Understanding*

The author of the International working paper said that if the neutron bomb affair was any indication, we had not yet developed the right structure for consultation. Institutions could not substitute for political will, but they could facilitate it.

A Dutch view was that existing structures were adequate if properly used, and that we should not try to involve organizations such as the EEC or the OECD directly in alliance affairs. An Italian speaker said that our security

could not be insured until our summit meetings dealt with political, strategic, and even psychological questions, not just economic ones.

A German said that Europe had yet to find a way to make its voice heard in real consultations on defense matters. It had been suggested that a "third window" be opened where Europe could have a say about the "gray area" weapons, or that these questions be thrown into the MBFR basket. Perhaps they should be left in SALT, but a completely new kind of transatlantic consultation should be institutionalized. An International speaker argued that negotiations on atomic weapons that were to be deployed in Europe should not be conducted unilaterally between the U.S. and the Soviet Union.

Several participants raised the question of the strength of American leadership. There was an uncertainty about it that was confusing to allies and adversaries alike. It was clear, as one American pointed out, that President Carter's lofty goals in the area of human rights had run into the realities of power; a compromise of principles with power was necessary. Another American advised the Europeans not to worry about the current state of unpredictability in the U.S. He said it was historically true that shifts of power from president to Congress and back occurred, and that the situation would improve. Meanwhile, he said, Europeans should take advantage of an opportunity when the U.S. was not trying to play the dominant role.

At the extreme, Europeans questioned the steadfastness of America's commitment to use nuclear force to defend the Continent. Although no individual at the conference said he shared this doubt personally, there was a consensus that Europeans, being dependent on the U.S., were uneasy and needed reassurance.

A Canadian speaker, who was used to the swings of the pendulum in U.S. politics, said he was beginning to wonder if all our countries were not afflicted with a structural crisis of ungovernability. Values which had been accepted since the war were now being challenged, and we would have to take this into account in our defense planning. Several other participants echoed this concern; they felt that the younger generation especially had doubts about fighting to defend Western society. A Dutch speaker observed that the post-World War II generation tended to be disenchanted with anything that had to do with nuclear armament.

But an American had come to the opposite conclusion. He sensed that the electorate in his country was considerably ahead of its leaders in its perception of problems of defense. This was reflected by the debate over the Panama Canal, which showed that the policy of the executive branch was out of step with the public mood.

#### *F. Political and Economic Strains With the Alliance*

The possibility that political groups which did not share the basic consensus

of the West might come into governments in the member countries was viewed as a grave danger for the alliance. Not only would it risk breaches of security, but it would have a generally negative effect on the defense effort in the country concerned. Eurocommunists could never be expected to engage themselves in the true interests of the alliance.

A French speaker drew more optimistic conclusions about the implications of his country's elections. As he saw it, a sort of veil had been torn away, and the French were able to see that many of the old arguments had been artificial, unrelated to the real world. There was a much wider sharing of common values than had been supposed, and French public opinion appeared more lucid than before.

An Italian participant analyzed the situation of the Communist Party in his own country (PCI). The revolutionary mood which had been in the air at the end of World War II was now to be found in a comparatively small segment of society, exacerbated by terrorism and extremism. The vast majority of Italians rejected the notion of revolutionary change, a fact which the PCI could not help reflecting on in a country of free elections.

But the Communists had not changed sufficiently. They were particularly backward when it came to foreign policy, either because they feared or were dependent on the Russians, or sincerely believed them to be right, or were discouraged by social hostility from adopting a different attitude.

The conventional wisdom had been that keeping the Italian Communist leaders out of government would accelerate their changing. But the speaker now wondered whether keeping them in the "waiting room" indefinitely would not so impair their credibility as to make it difficult for their members to follow them if they were one day able to exert a moderating influence in Italian affairs.

Another Italian participant argued that internal instability in his country, accompanied by intensified Soviet pressure, called for increased Atlantic and American guarantees of Italian security. He said this was contrary to the views of some analysts who seemed to feel that a neutral or destabilized Italy might warrant a decreased or conditional guarantee. These opposite conclusions resulted from a difference of perceptions, which the speaker said was the main problem of the alliance.

In a discussion of developments in the Southern sector, it was agreed that Greece, Turkey and the sea between them constituted a unitary area of strategic importance to the alliance. A Greek participant reviewed the background of his country's withdrawal from the integrated NATO military organization in 1974 after the Turkish invasion of Cyprus. That affair had shown, he said, that the alliance lacked a mechanism for managing a crisis between two of its members. (An International participant interjected that any procedure which necessarily involved coercive measures would always be out of place within an alliance.) Greece was now prepared to restructure its

relationship with NATO, keeping the bulk of its forces under national command, while making them available to the alliance in an emergency and participating in all activities needed to insure preparedness.

The speaker went on to say that the political option leading to Greece's accession to EEC membership had been taken nearly 20 years ago, and had nothing to do with present problems with Turkey. The Greeks had no wish to isolate Turkey and indeed would be pleased to see it join one day in a united Europe. A Danish speaker reported that the Nine all took a positive approach to Greek membership, but that they did not want Turkey to have added difficulties with its allies and friends. A Turkish participant remarked that he, too, hoped the Turkish-Greek disagreement was only temporary.

Other generalized European political trends were referred to as posing potential threats to the cohesion of the alliance: pluralism, regionalism, and generational changes, for example. Referring to the last, an American participant said there were serious implications of the coming to power, or to the threshold of power, of a generation that did not have the experience of World War II. This was especially true in the Soviet Union, where the memories of the Stalin era, with all its excesses, were fading and a new and possibly more dangerous group of leaders was coming to the fore. Fortunately, the speaker said, he believed the new generation in the West was not unconcerned about defense.

One of the most disturbing of current phenomena was the wave of terrorism which was being manifested particularly in Germany, Italy, and France. A Swiss speaker warned that terrorism could paralyze authority. Left-wing terrorists would become victorious if governments, as a response to terrorism, moved too far to the right and became repressive.

On the economic side, concern was expressed that the worldwide recession foretold new pressures for reducing defense expenditures. A Dutch participant said the alliance could not ignore the slow-down in economic growth; it could not increase defense expenditures without adequate measures to economize. Future defense budgets would be closely reviewed to see if everything possible were being done to economize and to make the most efficient use of scarce resources through standardization and unification.

One American warned that international competition growing out of Europe's new economic strength could have a corrosive effect on the political cohesion of the alliance, as the Americans saw their economy becoming less influential within the system.

A compatriot, however, advocated even greater economic cooperation within the alliance. While we had been saying that our political/economic/strategic relations with the USSR should be seen as a whole, there was no forum where we could talk with Russians about our economic dealings, and where we could use our strengths and assets to seek to influence the manner in which the Soviets operated on the world scene. As a first step, we had to aim to

coordinate national economic policies within the alliance, at least to the extent that sovereign democratic countries could do so.

### *G. Detente and Arms Control*

A German participant observed that SALT symbolized detente to most Europeans, and that they had a deep interest in the success of those negotiations. At the same time, SALT raised anxieties among Europeans who wanted to keep open the option of using cruise missiles in the battlefield. If the Russians in SALT II sought to restrain our construction of cruise missiles, should they not in turn be constrained from using weapons which threatened the Europeans, such as the SS-20 and the Backfire? Other European speakers supported this point that SALT would infringe on systems and technologies which the Europeans regarded as vital to their defense.

SALT III, the German speaker continued, raised questions about the forward-based system. Today there were only about six SS-20s and 150 Backfire bombers, but the force was growing and we had to respond to it. Another worry was that the U.S. might reduce its own strategic forces below the level necessary to cover targets of particular interest to Europe.

The author of the International working paper referred to the relationship between parity in SALT and disparity in European nuclear delivery systems. Using phrases like "gray area weapons" did not help, and there was no way of knowing whether the U.S. would eventually cover European targets. It was useless to generate political excitement and tension by posing these questions to which there was no clear answer. Vulnerability unfortunately was a condition of security we all had to live with, he concluded.

An American commented that Europeans were mistaken to focus on a particular weapons system instead of making themselves heard on the central core of the SALT negotiations. In reply to a suggestion that SALT III or the next phase of SALT II be multilateralized, the speaker said this would serve no purpose unless the Europeans had first "done their homework" to define their own interests and purposes. It was no good for them simply to complain that U.S. decisions were depriving them of some vague, insubstantial options.

Hopes that SALT would be successful were expressed by participants from both sides of the Atlantic. An American said that in the U.S. there was a gradual acceptance of SALT as a better alternative to the need for maintaining a stable strategic balance than a continuing mutual increase in more destructive weapons. In the end, the West might seek to acquire a habit of security based upon the acceptance of the values of parity and equivalence in the military balance. Whether the Soviet leadership would also acquire that habit might depend on whether we, through the arms control process, could become comfortable with that kind of thinking ourselves.

Other participants had a much less sanguine outlook. A French speaker

described Russian objectives in arms control negotiations as threefold: (a) to protect their quantitative advantages; (b) to restrain our qualitative improvement; and (c) to protect their freedom to make qualitative progress. On the pretext of detente, the Soviet Union was thus seeking to make it more difficult for the West to defend itself.

An American participant thought that perhaps the biggest problem the alliance would have to face would be not the failure of detente but its success. If the SALT negotiations failed, the alliance was likely to be blamed for being an obstacle to peace. But if, as he expected, they succeeded, then the alliance would have to face once again the old dilemma: our citizens and their leaders demanding some progress in relations with the Soviet Union while we were unable to define a geopolitical conception by which to measure such progress.

For years we had been so strong and technologically superior that we could afford to sweep under the rug a number of issues (nuclear, consultative, extra-European). We had taken refuge in slogans and in our faith that evolution would somehow take care of us and defeat the Russians. But it was essential that we come to grips with our security problems. We had used up much of our capital, and we were now getting close to the margins of what the Western world could stand without suffering in the '80s a rapid deterioration in its overall position.

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## II. THE CHANGING STRUCTURE OF PRODUCTION AND TRADE: CONSEQUENCES FOR THE WESTERN INDUSTRIALIZED COUNTRIES

*American Working Paper:*

### "ADAPTATION TO STRUCTURAL CHANGE"

The history of the international economic system since the end of the Second World War is largely a story of structural change. The main pieces are familiar: the reshaping of western Europe, the modernization of Japan, the growth of Canada, the internationalizing of the American economy and the changes in world trade that went with these developments. Industrialization and even faster growth have brought major structural changes in the communist economies that have not been as fully reflected in their external trade. The rapid though uneven growth of the developing countries and the surging industrialization of some of them have changed the world. That classic of tropical ports, Singapore, has become an industrial city. Hong Kong produces most of what it exports instead of serving only as an entrepôt. Korea competes with Japan. Brazil is a factor to be reckoned with in world markets not only for coffee but for soybeans, shoes and steel.

Statements about how the speed of communication and travel has shrunk the world are no less true for being banal. Technological changes have not only altered how industries work but what they make. There is now mass production of any number of things that did not even exist a few decades ago. Agriculture in the United States and other places has become a capital-intensive activity with one man feeding many more than before. Old truths have died; every schoolboy used to know that to make steel a country had to have coal and iron fairly close together. In our most highly "industrialized" countries, fewer than half the workers are engaged in industry (in the U.S. only 29 per cent in 1975).

These structural changes have not simply coincided with great growth and unprecedented levels of income in the democratic industrial countries — they have made that prosperity possible. New technology, shifts in the use of resources within countries and changed patterns of world trade were prerequisites for the levels of production, consumption and leisure that prevailed in the western world up to 1973.

Looking back over these changes, one can see them as having taken place without traumatic disturbances and with little lasting damage to significant groups or areas. Governments have helped limit that damage and have played some part in furthering the process of structural change. But the underlying dynamism seems to have had deeper causes. The nature of western society favored change in ways that one may not see altogether clearly but that are identifiable enough in parts. The parts include technological innovation and the

private economy's use of it to meet demands, exploit opportunities and make money. Governments have provided security, managed economies on the whole better than worse, and removed some obstacles, not least by the unprecedented liberalizing of international trade and payments. Those who see matters this way are saying, more or less explicitly, that structural change is on the whole good and that it mostly takes place without great damage or much guidance by public powers. That view is not to be forgotten as we wind our way through an inquiry that will more often than not be concerned with less optimistic views of what is wrong and whether or not it can be set right.

The same facts of postwar history can be viewed differently. Governments, it can be argued, had a much greater role in promoting change: Japan's industrial policy, the guidance of the French *Plan* and the research and development undertaken by the government of the U.S. Structural changes did not come about smoothly nor were they altogether welcome. Japan's rise was resisted by trade restrictions, and that country is not yet fully accepted in the West. Do the agricultural policies of Europe and North America, with their costs and disputes, warrant the picture of flexible societies? Though the industrial countries have helped the growth of the developing countries in some respects, they have hampered it in others. Development is financed but access to markets is limited. Potentially an innovative device for orderly transition, the cotton textile agreements — now 15 years old — were extended to woollens and manmade fabrics when they proved not restrictive enough. That pernicious combination of inflation and unemployment called stagflation can hardly be explained except by structural problems, at least in labor markets and probably elsewhere as well. There is a widespread sense that the recession of the mid '70s is more than a conventional cyclical phenomenon slightly enlarged, that it may reflect the accumulation of difficulties partly hidden over a period of years.

These doubts about the optimistic, easy-going, rather comfortable view outlined above raise further questions. Is the point only that structural change is not necessarily always benign? Or is the emphasis on the resistances to change that have piled up over the years? Does the analysis argue for more or less government intervention — or simply different policies?

#### *The present situation*

Recessions are the best of times and the worst of times for coping with structural issues. On the one hand, trouble brings to the surface difficulties that are often concealed in periods of high demand and makes people think they should do something about them. On the other hand, to do something about longrun problems when immediate issues are so urgent is extremely difficult. The margin for adjustment is thin. "Rationalization" is apt to mean reducing the number of jobs, anathema to governments during recessions. Moreover

steps taken to deal with pressing problems — say, to avoid the failure of a major enterprise — may mortgage the possibilities of reshaping the use of resources in the same field later on. Nor can one find much in a recession that helps distinguish structural problems from cyclical ones, something that is sometimes easy and sometimes very hard indeed to do.

Perhaps a word should be said about the use of the term structural — though an effort at strict definition would be out of place in a paper such as this. As a word becomes fashionable, it loses precision and accumulates meanings. These days "structural" is sometimes used to mean "big", or "prolonged", or "intractable", and serious structural problems are likely to be all of these. But there is something else that distinguishes them from the difficulties, however great, that one may reasonably believe to be passing. The essence of the matter is that structural changes involve relatively lasting shifts in the way resources are used. The shift may be cause or effect; the problem may come from accepting or resisting the change. Inevitably other sets of relations are affected and they have to be treated as part of the structural problems as well. Thus, for example, large changes in a country's balance of payments may be the symptom either of structural change or of failure to adjust to structural change, or they may be signs of wrong macro-economic (or cyclical) policies, at home or abroad. Uncertainty about what is temporary and what is lasting is in itself part of the problem.

Looking at the current recession, one can be sure that some of the unemployment of people and resources is cyclical and will disappear once aggregate demand is again high enough. But the earlier experience of shortages in skilled labor accompanied by the heavy concentration of unemployment among minorities and youth in the U.S. pointed to structural problems. Something of the same sort seems to be appearing in Europe and Japan. The lag in investment that is both cause and effect of slow recovery is surely attributable in part to uncertainty about where expansion of capacity is warranted and whether modernization is likely to pay in one field or another. The structural consequences of the world's new energy economy will take time to work out fully. They concern not only adjustment to higher costs and energy saving but the location of some industries (most obviously petrochemicals), the stimulus to alternative energy sources, changed patterns of demand in producing and consuming countries and the accelerated development of the oil-exporting countries. The Commission of the European Community has no hesitation in speaking of a "worldwide structural crisis" in steel, shipbuilding and textiles and few observers would question that judgment. More open to debate is the question of how many other industries may also suffer from underlying structural difficulties and when and how these may show themselves. Will automobiles be next?

The international impact of these structural problems intensifies the pressures to foster exports and shut out imports that already come from

cyclical factors. The recession heightened the concern in many countries, over balance of payments difficulties, that had started with the rise in the oil price. But the protectionist pressures of recent years are in some respects different. They stem from the problems of particular industries and areas, not from generalized concern with the balance of payments. Their political impact is sharper. When the oil crisis started, fear of the consequences led to the adoption of the OECD pledges not to resort to beggar-my-neighbor measures, and these have been remarkably well kept (partly, no doubt, because of reasonably good experience with recycling). Now, however, the new protectionist pressures have put serious strains on the pledge and it is worth speculating why these were most strongly felt not when the recession was worst but after there began to be some improvement.

Part of the explanation, no doubt, is simply the continuation of difficulties. Partly, though, it seems as if the persistence of the recession has persuaded many people that full recovery to pre-recession levels is not possible, or at least will take a very long time. There is a connection with the spreading view about the probability of slower growth in the future than in the past 30 years, and somber thoughts are likely to accompany that prospect. There is also a related set of attitudes toward what is acceptable or desirable in the economic life of the advanced industrial countries that are not altogether new but seem to have gained strength as time has passed. All this taken together is only inadequately described as "protectionism", though it has profound implications for trade liberalization and long-run structural adjustments.

One of these attitudes may seem implausible at the moment but was quite common before 1973 and will probably reappear. This is the feeling that the western industrial world has reached a level of such prosperity that the cost of maintaining a certain degree of inefficiency in each national economy is not only quite bearable, but actually preferable to the political and social effort of making further changes that will be resisted by significant parts of the population. The same conclusion is reached by people who believe that the gains that might be obtained from a further liberalization of world trade are small. Some think this is because the biggest barriers were those removed in the past. Others argue that at the present sophisticated level of technical advancement countries do not gain much from specialization or further steps in the international division of labor. Everyone can do about as well as everyone else with the same technology, is the reasoning.

While not many people will make an explicit argument that everyone should always be allowed to go on doing what he has always done in the same place he has always done it, there can be no doubt that something like that attitude is implicit in a good bit of social and political behavior. Perhaps too much has been made of the unwillingness of people to move from place to place and too little attention given to the consequences of the perfectly natural wish of working men to keep doing what they know how to do best. Obviously millions

of people have changed their work and responded to improved opportunities — but the resistances can be strong. If remuneration and productivity were always closely linked, labor would move from industries where comparative advantage was being lost to new, higher paying activities. Or at least, new workers would stay out of the declining industries. But as recent GATT and ECE studies have emphasized, strong pressures have grown up to retain established patterns of wage differentials. There is also a natural tendency of unions to gear wage demands to costs of living rather than to a worker's production. The combination not only slows the shift of labor but contributes directly to inflation, thus setting in motion one more of those vicious circles that are becoming so familiar.

The problem is not just with labor; capital and management also ask for protection and like to go on doing things as they have before. It was said of Britain between the wars that "the historical evidence . . . suggests that the stickiness of capital rather than the stickiness of labour was most responsible for the rigidity" of the economic structure.\* Whether that has also been the case in recent times and other countries would require further study. It is probably true, though, that in looking for an explanation of structural difficulties "any attempt to fasten exclusive responsibility upon one factor of production rather than another will almost certainly be misleading . . ." The reluctance of business to invest in an industry in structural difficulties may help bring about change, but it can also worsen the problem by denying the means of reorganization.

Another source of resistance to structural change is the belief that a country will lose the capacity to produce some things it has always produced for itself. This is an old and familiar fear. We ought, however, to keep a few facts in mind. It is now generally understood that the reason the creation of the Common Market did not have major disturbing effects is that the expansion of trade took place through specialization within industries rather than by the replacement of one industry with another. While some activities have indeed disappeared entirely from the old industrialized countries, the more usual results involve shrinking certain activities, expanding others, reorganizing, and competing in different ways. As for national security arguments, there is room to doubt how much protection can be justified on those grounds when almost every country lacks some essential ingredients.

To preserve a way of life, to provide diversity, or to foster some other values than economic efficiency is every society's right. But then it must accept the costs and ought to minimize the burden on others. Change may be costly, but so is the failure to change. There is not much doubt that such issues are not being looked at very analytically. It is no great distortion to say that quite a few people seem to be acting tacitly on the assumption that their

\*Allan G.B. Fisher, *Economic Progress and Social Security* (London: Macmillan, 1945), p. 76.

national economy ought to produce at least something of almost everything. This is a luxury few countries can indulge in; most have had the possibility taken away from them by nature, or they have accepted interdependence with its economic gains and accompanying vulnerabilities.

If we take all these observations together (and if they are sound), the structural questions that face the industrial countries have to be thought of in terms much broader than those of international trade and protectionism. We seem to be dealing with a set of attitudes about our mature, rich societies that favors preserving them much as they are (or were before the recession and the oil crises). If we accept this as a working hypothesis, what are the consequences of pursuing the kind of conservative course suggested by these attitudes — or on the other hand the requirements of a different course of action that would aim to make, or at least facilitate, larger structural changes? In real life neither the one nor the other course will be clearly and consistently chosen and pursued, but a short paper must simplify.

#### *Consequences of the new conservatism*

Though it is easier to delineate this alternative than the other, even here the issue is blurred by some misconceptions. For instance, it seems to be widely believed in Western Europe that slower growth will be accompanied by substantial structural unemployment. Of course it may be, but there are reasons to reject the inevitability. In principle it should be possible to maintain full employment — however defined — at any level of growth. A continuing large increase in the labor force would certainly make matters more difficult, but that is not expected for Europe. Considering how heavily Western Europe has depended on imported labor during these decades of rapid growth, it would appear that there was a considerable margin for adjustment to a slower pace. The real danger, one might think, is that growth would be held down by a lack of labor. Opinions differ as to how many people may move from agriculture to other employment in Western Europe in the next two decades but there is at least some labor reserve there. A more important one is the one-sixth of the manufacturing work force of ten Western European countries employed in three poorly paid, relatively low productivity industries: textiles, clothing and footwear and leather products. Could these people be transferred to higher productivity industries and not replaced by new labor, the contribution to production could be substantial.

The expectation of structural unemployment is also linked to the unwillingness of Western European workers to take the poorest paying and most menial jobs and the probably related inability of people leaving universities to find employment commensurate with their education. The former difficulty points toward continued immigration of a class of resident helots; the latter possibility sends out a variety of alarm signals with disturbing

historical echoes, notably from the interwar years.

Comparable problems exist in the U.S., though with important regional differences. Much of the immigration is internal (from Puerto Rico and the south) and the expectation of the experts is that instead of becoming an intellectual proletariat the college graduates will mostly take less good jobs and in the process "bump" other workers downwards (which may sharpen the competition for the lowest jobs). Inevitably these possibilities pose two basic questions. What kind of social security or minimum income should the modern industrial society provide? What is to be expected in the emerging post-industrial society of the service sector — to which both the unemployed university graduates and the illiterate garbage collectors belong? Much of what has been said on this popular subject is misleading since there are very few generalizations about economic behavior that apply equally to bankers, barbers, ballerinas and bureaucrats. Most of the statistics people have to work with are also confusing. But the topic is a vital one.

If the new conservatism means that no structural change is possible, then long-run structural unemployment is probably inevitable along with a higher tax burden for the better off. If the stress is on people persisting in traditional work and the maintenance of "normal" differences, then there will also be an additional force making for inflation for the reasons set out above. To maintain existing patterns will require not only protection against imports but, probably, measures to restrain domestic competition and the introduction of new labor-saving technology so as both to protect traditional jobs and to maintain incomes regardless of productivity. The cost and difficulty of such measures may be the principal safeguard against the stagnation that would otherwise be the consequence of this course of action.

It seems doubtful that the industrial countries could combine a policy of slow or minimal change in industrial structure with slow growth and still avoid losing comparative advantage in one branch of industry after another to producers that accepted a faster pace of change — whether these were developing countries, Japan, other industrial market economies or, in some sectors, communist countries as well. Thus the conservative course will create balance of trade problems and cut down the income to be divided. While a shrinking population will reduce the impact on individual incomes, expectations of improvement will intensify the struggle for the social product (to paraphrase the title of Helmut Schmidt's article in *Foreign Affairs*, April 1974). This will throw sharply into focus policies concerned with equity, minimum living standards, and the provision of public goods. These problems each society will have to take care of for itself, but for all of them it is true that concern with fair shares puts a new emphasis on the amount there is to be distributed and therefore on efficiency in production and that that in turn concerns the international division of labor as well as the productivity of domestic producers.

There is, in short, a contradiction between maintaining customary levels of income and resisting structural change in the national economy. To resolve it the new conservatism would have to become the new egalitarianism, redistributing a static or declining product among a static or declining population (minus what had to be paid to imported workers). At least so far as the U.S. is concerned, this is so implausible as to need no further exploration. One would assume that was also true of most European countries unless they greatly improved their ability to live as *rentiers* (Norway from its oil?) or lowered expectations in the face of a Malthusian menace. The avoidance of these consequences through increased productivity, perfectly paced to permit a static pattern of employment and no loss of income, can also be dismissed — though it is clearly the right target for any government committed to keeping at least a facsimile of the status quo.

Even if the internal problems created by the new conservatism could be resolved, would the industrial countries be able to live with the external effects? What these are is implicit in what has already been said. The most obvious is the refusal to give ground to foreign producers in relatively inefficient industries and hence more protectionism — probably over a wider range of products as time passes. The importance of this stance to the developing countries (LDCs) is clear if we simply recall that 35 percent of what the non oil-exporting LDCs sent to the OECD countries in 1976 was manufactured goods. As some of this flow comes from plants established by multinational corporations producing for the OECD market, there would be some tendency for foreign investment to decline as well (if the conservative policy were general in the OECD countries). Development lending by the World Bank and other institutions would have to take account of this limitation of markets. There would be further repercussions as LDCs lost purchasing power for the products of Europe and North America. In capital goods required for development, the old producers would hold their advantages longer than in other fields.

There would be some compensatory factors for the LDCs. The industrial countries would become increasingly uncompetitive over a wider range of products, leaving room for LDC industries at home and abroad. The effort to keep up OECD exports might also create pressures for generous financing of the sale of capital goods and then to forgive debts or roll them over. Food supplies might remain relatively plentiful and cheap if the new conservatism led to a continuation in the Community and the U.S. of farm policies that tended to produce surpluses as a result of limiting pressures for change on farmers and slowing the growth of the domestic market for their products. One could spin out these possibilities further; think of the implications of China's embarking on a major development policy using outside resources but paying its way as much as possible. It can all be summed up, however, by saying that pursuit of the kind of new conservatism sketched here would move fairly far towards

trying to insulate the countries that practiced it from structural change in the world economy and would reduce their ability, and probably their will, to contribute to the improvement of the position of the developing countries in the world economy, either through the transfer of resources or the opening of new opportunities for the developing countries.

Very likely all this is a caricature. Certainly few advocates of the different views put together here wish the results I have sketched. It has not been my intention to bias the argument but it is hard to avoid most of the conclusions suggested unless one assumes that people would change course once they saw what was happening.

#### *The requirements of accepting change*

If the West is to adopt the opposite course it will also face many difficulties. Simply to say we should accept structural change as necessary or desirable would be wishing away the basic problem we now face. Instead we need to see what would have to be done to find ways to: (1) make structural changes more acceptable by easing the burdens and dislocations that go with them; (2) facilitate and induce desirable structural changes where they encounter obstacles; (3) cope internationally with problems that cannot be confined to national borders; and (4) provide some rational way of dealing with the cases in which a society accepts the economic cost of preserving some of its structures and ways of doing things but should not thereby put burdens on other countries or stand in the way of their achieving their different goals and values.

It would be foolish to try to write so ambitious a program in one short paper. This section merely sketches a few central but rather difficult issues that our countries will have to face sooner or later. To simplify still further, we can accept for the sake of argument the widely held belief that for some time to come growth will be slower for a variety of reasons. The OECD countries can live quite decently with that prospect. They ought not however to do things that block growth in the poor countries. And if growth is faster than expected — the conventional wisdom has been wrong before — the problems of structural adjustment will be easier to deal with.

It can be taken for granted that governments need means of easing adjustments and helping those hurt by the resulting dislocation. The deficiencies of most national systems are real enough, but the principles are clear. The American measures work better than they used to but are quite inadequate to the problems, partly because import competition is treated differently from other sources of change. Internationally, there is a need for better international surveillance of the use of safeguard clauses and more pressure on a country to use the time granted for adjustment. The MTN negotiations are supposed to deal with these issues and we need not explore them in detail.

A much less discussed aspect of adjustment assistance — which also pertains to regional policies — is how to decide what to do with labor and other resources that are helped to move out of declining industries. If there were one sick industry and all the rest were thriving, one might think the market would take care of the matter so long as the workers were given extra help and, if necessary, retraining. But if there are a number of industries in difficulties and the government has to encourage new investment by tax relief, loans or something else it must also have some responsibility for being sure the new activities do not soon become a renewed problem in structural adjustment. Are official lists of rising and falling industries enough — the one to be encouraged and the other not? How good are we at this kind of thing? I recall that in the early 1960s many thought that the future of American cotton textile workers would be assured if they were trained to work in electronics plants.

This same problem has an international dimension. If, as is often the case, the same industries are giving trouble in a number of countries and they all "adjust" by moving into the same new fields, they may have embarked on new collision courses. Increased new competition in the world market is one thing, government-aided investment in surplus capacity and then in forcing exports is another. If adjustment takes place within an international industry, questions come up about the degree to which what is done in one major center could possibly be coordinated in some fashion with what is done elsewhere. To be concrete: The Community's plans for its steel industry seem to look toward adjustment in capacity and structure over a period of years; similar possibilities for the U.S. are suggested by passages in the Solomon report. Unless each of these processes takes account of the other they may simply set the stage for another round of difficulties. And that will surely happen if the Japanese are not brought in. If the evidence of structural difficulties touched on earlier is sound, steel will not be the last of the industries to cause trouble. Clearly the possibility of fitting national industrial policies together internationally — for which we are totally unequipped now — needs serious exploration.

Many people will draw back from such suggestions because they will see in them "planning", and international planning at that. They are not altogether wrong. The logic moves toward planning. One may not like that, knowing how badly equipped our governments are to determine the best use of resources. And one may totally reject thoroughgoing planning and anything approaching a command economy. But can it really be sensible to say we shall act only on the negative and leave the positive to take care of itself?

It is also not altogether fair to saddle this approach with the charge of total planning and with the horrors that label connotes to many. The prescription applies to specific cases, those for which other means have failed. There might be only one or two of them at a time. It is true, however, that if governments are all reluctant to abandon specified major industries to market forces, the sector agreements they make among themselves can have a strong family

resemblance to cartels — or will have if they are not subjected to a certain play of market forces, inside or from the outside.

The issue is not really one of relying on market forces; it is the unwillingness to do just that which causes the governments to resort to protectionist measures in the first place. Nor is it altogether clear that market forces are adequate to do all the expanding and contracting of industries and their sensible relocation that is called for by long-run needs. Some 30-odd years ago a prescient student of these matters said,

"The most feasible and also the most constructive alternative to restrictive intervention by the State is not non-intervention (*laissez-faire*), but intervention of a more constructive kind — namely, a positive program of industrial adaptation. Such a program would be designed to assist industry and labor in reorienting themselves, so that they can take maximum advantage of new opportunities. In this way the enterprise and initiative of citizens will be preserved and will be exerted in the most promising directions. The results of such a program, assuming that it is successful, might well be in many (but not all) respects similar to that which the automatic market system would accomplish if it were able to function with the theoretical perfection assumed in older text books. But the process of adjustment ought to go forward with more attention to the human problems of the individuals directly involved and with less infliction of suffering on particular groups.\*

We do not seem to have moved very far in the direction that Eugene Staley pointed. We lack an approach to industrial adaptation that gives priority to the public interest and keeps both the benefits of private initiative and the pressure of competition. If we do not wish to get involved in comprehensive planning or rely entirely on market forces, our mixed systems will have to produce some combination of regulation and government-business cooperation.

It might be said we have had a good bit of experience with such measures in the last few decades: France's *Plan*, Japan's industrial policy, and even Germany's *Konzertierte Aktion*. But in all these countries we find serious doubts that such methods will be effective in dealing with new problems — or are coping adequately with those of today. One wonders if these breakdowns reflect a deeper inability of governments, business and labor to deal with structural change.

If the emphasis is on government cooperation with business, the U.S. is probably worst off among the major OECD countries. Its history, traditions and laws make government-business cooperation a rarity and severely limit cooperation among business firms. Officials and businessmen both feel that

\*Eugene Staley, *World Economic Development: Effects on Advanced Industrial Countries*, Published by the International Labor Office, Montreal, 1944, p. 177.

something should be done, but often turn out to mean quite different things when they say this. Both cyclical and structural difficulties have stirred a new interest in better means of consultation and the inclusion of organized labor in the process. It is far from clear whether anything will come of this interest, but a better test case than usual is the Solomon Committee's proposal for "a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry."

Many people are suspicious of government-business cooperation for fear of bureaucratic dictation, corporatism, undue business influence on public policy, or simply too much distortion of market forces. Others doubt its effectiveness. An alternative approach, or perhaps a supplementary one, is to try to make markets work better. At one level one encounters deep differences among traditional views of what is desirable in competition; oldline American anti-trust vs. Community merger policy; arguments that assume classical atomistic competition vs. the imperfect but very real competition of oligopolies; the question whether monopolies are inherently bad or only when they abuse their power; whether government cooperation can stimulate interest instead of stifling private activity. These and other disputes all have a history that may be coming to life again, in part because some of the complaints of developing countries, especially about technology transfer, revive old complaints about restrictive business practices while OPEC has demonstrated that cartelizing impulses do not always go wrong.

A different approach to improving markets concerns international trade. How much can be done to overcome structural difficulties by the further removal of trade barriers? Quite a lot, is one answer, when one realizes that some of the main difficulties come from cases in which trade has remained quite restricted. Very little, is another answer, if we take the view that the reason for this is that the freer flow of trade has brought on pressures for faster changes than are politically and socially acceptable — or that it is feared that this would happen. Those who say free trade has had its day confuse the issue. Trade without tariffs and quotas is not free trade and even tariff-free trade is fairly exceptional. There is no doubt, though, that "fair trade" rises in importance along with the volume of international trade. But there is no agreed definition of fair trade; that is something that can only be worked out by the international community as it makes rules on subjects far more complicated than tariffs and quotas, i.e., on subsidies, government procurement, tax concessions, pricing practices and so on. This will only be done piecemeal and with difficulty but, if it is not done, the present degree of freedom of trade is not likely to survive. The subject leads too far afield to be pursued here, but I suggest that the deeper one gets into the matter of fair trade, the closer one will come to other efforts to deal with structural problems and vice versa.

In the minds of many people the only constructive approach to the stubborn

problems of structural change is a positive one. Instead of resisting, defending and easing adjustment, the government should promote change. In addition to what is done by macroeconomic policy to keep up aggregate demand, check inflation and maintain stability along with growth, the government should find ways of encouraging those kinds of activities that have a promising future. Financial aid and measures directing the flow of investment capital are likely to be the means. The targets have often been the creation of high technology industries, those incorporating new methods and calling for skilled labor and those creating the kind of demand that the rest of the economy is adept at filling.

But how successful has experience been? We are back, in part, at the earlier doubt of whether our governments are very well equipped to make these choices and forecasts. To get around that difficulty, some would recommend a stress on research and development, with heavy government aid, on the theory that the process will point the way to new goals and provide means that entrepreneurs could turn into new industrial ventures that would assure competitiveness by being ahead of the rest of the world. This is not the place to go into the fascinating questions about the design and conduct of governmental programs for science and technology, but one has to insert a small note of skepticism as to whether our experiences with efforts of this sort that are directed to problems of industrial advance are greatly encouraging.

Where positive measures have stimulated the building of new industries is in the developing countries. Much of the stimulus comes from private investment and publicly financed development agencies, national and international. That these activities have contributed to the problems of industrial adjustment all over the world is obvious. There is no need to repeat things said earlier about the links, but one looks in vain for promising efforts to match up processes of growth and decline. The World Bank seems an obvious center. So are the multinational corporations. Governments, in developing and industrial countries alike, seem to be getting more sophisticated in finding ways to insure that the behavior of the multinationals contributes to the results the countries want — but that has not yet been to help solve the problem of structural change. Sometimes a large firm is sufficiently diversified so that it is in expanding and contracting industries at once, and so might help to balance a process of adaptation. Businessmen are not likely to welcome this role, but some such activity might turn out to be part of the price of avoiding greater restrictions. The field seems open for imaginative invention that will use both trade and financial measures to ease these difficult but desirable transitions. But good ideas are hard to find, and every course that looks at all practical carries with it considerable risks. One of the clearest is an increase in divisions among the industrial countries as each tries to work out its own arrangements with

selected developing countries — including OPEC and the raw material producers.\*

Vital as the international problems are, they can only be coped with if each country — or at least the major ones — can overcome its greatest domestic difficulties.

Job security in some form seems essential if there is to be political and social acceptance of better adaptation to structural change. The trouble that one concept of job security can cause was underlined in the discussion of the new conservatism. In the long run to insist on no change means that job security offers little more than a kind of pension, the chance to finish off one's career in a declining industry in a depressed area at low wages. The Japanese have managed extraordinarily well to combine "lifetime employment" and worker willingness to do different jobs without loss of pay. That the system is coming under strain in recession is natural but its strengths ought to be looked at in the West and not dismissed as simply something peculiar to an exotic society. The Swedes are everyone's example of the effectiveness of an active labor market policy in a free society and the figures are impressive. Between 1958-60 and 1968-70 they reduced the share of their manufacturing employment in three labor-intensive industries from 14.2 to 9.6 percent, both fairly well ahead of all other Western European countries (except Norway, which is close). What is possible in one country is not always possible in another but there is a common problem. And if the answer is not to provide job security plus adaptation, then it must be some form of maintenance for the unemployed at the expense of those with jobs. And then the vital question is who is to fall into which category. One of the awful things about job security in times of recession is that to the extent it is provided it reduces security for those who have no jobs — which right now means the young.

The aim of this paper has been to provoke discussion and thought. Its method has been to point to difficulties, very many difficulties. If the paper had been longer, so would the list as there is no assurance of a happy ending if one only reads far enough. Whether the challenges inspire effort or the possible gains seem worth working for becomes a matter of personal chemistry. The failure to attack the problems of structural change has reasonably predictable gloomy results. It would be irresponsible to argue that therefore an effort to attack them is bound to lead to something better — but it might.

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The author of this paper summarized his thesis in two propositions:

\*To save space this paper has focused on manufacturing. In raw materials important changes are under way which are structural not only in the use of resources — the location of processing plants — but also in ownership, control, the organization of markets and, in many cases, the elimination of vertical integration.

(1) Adaptation to structural change had been one of the best things that had happened to us in the postwar period. It had been the condition of unprecedented growth and prosperity, and the result of a fairly open set of domestic economies and of some fairly deliberate decisions of an open international economy.

(2) Part of our present trouble stemmed from an accumulated resistance to change, exacerbated by the cyclical effects. While a recession tended to make us aware of underlying difficulties and to give us an incentive to act, it reduced our capacity to deal with them. Even if we could do better during the next decade, we would continue to confront the energy issue, "stagflation" (with structural causes), and expectations of slower growth (themselves contributing to the problems of recovery).

We faced this dilemma: we could follow the politically easier course of accepting these resistances, of not attacking them directly. The trade-off was that we would have less to make do with. In time we would feel this more strongly, as the aim of minimum living standards and more equitable distribution became harder to achieve. We would be tempted by the normal disposition of nations to dump problems on one another, and as a by-product we could expect the further collapse of the system of international economic cooperation.

The alternative was to attack the problem directly, but to do better than we had before on such items as liberalizing terms of trade and payment. This approach would require more attention to identifying and encouraging likely areas of growth, which raised the spectre of planning — or, worse, of unplanned government intervention. In this connection, one was struck in the U.S. as well as in Europe by the amount of deregulation, by the turning back from the notion that things could be accomplished simply by government's deciding they should be. In the two democratic countries where efforts at guiding the economy had met with significant success — France and Japan — one now sensed uncertainty about what could be achieved through central planning.

It was no answer, though, simply to fall back on "the market". It had been the unwillingness of our societies to respond entirely to the play of market forces that had produced the accumulation of resistances.

What we should be looking for, according to the author, was a system under which the market functioned as an indicator of direction and allocator of resources; responded to a set of demands reflecting social needs democratically determined; and permitted the initiative and entrepreneurship necessary for progress. And all this had to bring change at a pace that was politically and socially acceptable, under enough competition to guarantee productivity and the efficient allocation of resources.

This was indeed a tall order. It was bound to produce international friction, a tendency to say "my problems are worse than yours." A high degree of

consultation would be required, with labor involved at some level in the decision-making process. But if we could revive the sort of creativity that had attended the founding of our postwar institutions, we would have reason to be hopeful about the chances of success.

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*International Working Paper:*

**"STRUCTURAL CHANGE: A EUROPEAN VIEW"**

The profound changes in production and trade structures referred to in the American working paper affect all the Western industrialized countries in one way or another. I shall try to explain why and how these changes hit the European Community particularly hard, with the result that large areas of its industry are in a state of crisis which is due not only to the short-term economic situation but to structural causes as well. Europe's leaders do not have any ready-made answer to this crisis of adjustment; my contribution to your conference is therefore restricted to describing basic arguments and to indicating a few courses of action, while admitting that their coherence and my attempt to put them in perspective leaves something to be desired.

The traditional structure of production and trade in the Community reflects Europe's principal industrial vocation: manufacturing. Because it depends heavily on foreign markets and resources, European industry is much more exposed than others to the profound changes which a new international division of labor implies. It can only envy the less vulnerable position of American industry which, having raw materials to extract as well as process, draws its strength from an internal market of continental dimensions and which can draw on abundant and often relatively cheap domestic supplies of raw materials and energy.

European industry cannot fall back on a domestic market; it has to choose its structural reforms for both internal and external reasons. Internally, we have inherited structural weakness which the economic crisis has revealed and amplified. In many sectors European industry has not taken sufficient advantage of the boom years of the past to adapt production capacities to demand, to modernize the apparatus of production, and to organize production and marketing on a continental and intercontinental scale. The recession has reduced its capacity for adjustment while showing the urgent need for it. This is a challenge which industry cannot take on by itself in the present circumstances; governments must do their bit as well.

The need to achieve a kind of European division of labor also stems from the decision to enlarge the Community still further. Greek, Portuguese and Spanish membership will increase production capacities in some sensitive sectors of the Community, but it will also make for bigger differences in production

conditions. These countries will therefore have to be associated with the effort to adjust the Community's industrial production apparatus to the new conditions of the world market.

Externally, the Community's international competitiveness has declined to an alarming degree, as indicated by the size of its trade deficit with the U.S. and Japan. A detailed analysis, particularly of the terms of trade on foreign markets, is needed to assess the true extent of the phenomenon, but it can be safely said already that Europeans ought to be more concerned about it than they are. Many of their traditional exports seem to be threatened by the cost inflation which has hit the Community's industry far harder over the years than its immediate competitors. The anti-dumping measures taken a few years ago against exports of European cars had already highlighted these problems; the situation has only got worse since then in this and other sectors and the overall export figures reflect this state of affairs.

This loss of international competitiveness is in itself an incentive for the Community to react by carrying out structural reforms. In addition, like the other Western industrialized countries, the Community has to face up to the implications of the new international division of labor which is the consequence of the gradual industrialization of the Third World and of the decentralization, internationally, of some industrial production, particularly by the multi-nationals.

Clearly, we cannot just passively undergo the changes now taking place. We must act and not just react. Many branches of industry in the Community are now in a state of crisis and reforms are urgently needed. Readjustment can only be successful if governments support and facilitate the necessary changes, which it is their job to do. It is true, however, that the bureaucrats are ill-equipped to guide this process of adjustment along the right lines. In our market economy it is not their job to decide what to do and what not to do. But present growth prospects are not conducive to spontaneous changes. If the market remains the fundamental element in our conception of industrial policy, supplementary "voluntarist" and supportive action on the part of governments would seem to be indispensable. No government can allow whole sections of industry to disappear suddenly without anything in exchange, which would not only have serious economic and social consequences, but could even put our whole type of society at risk. The action to be taken by the authorities must therefore be aimed at improving the conditions under which adjustment can take place.

It must be admitted that these conditions are not, even in the medium term, very favorable as regards the Community. A long and severe recession has left many firms without the necessary financial resources to revive their activities and modernize their equipment. The very mediocre growth rates which are forecast suggest that there can be little hope of a rapid reduction in unemployment; on the contrary, the population figures indicate that between

1975 and 1985 nine million young people will be swelling a work force which already includes between six and seven million jobless. The morose political and social climate in Europe is not an incentive to invest. This reluctance to invest — which is a formidable handicap for a restructuring policy — reflects a number of factors, misgivings and uncertainties. High up on the list of uncertainties is the unpredictable nature of government behavior. Just look at social policy, fiscal policy, monetary policy. Other sources of uncertainty are to be found in the revival of international protectionism and the fall of the dollar, which make any strategy based on free trade hazardous. Inflation is another source of frustration. It is impossible to conduct a policy of stability at the national level, and nothing of any significance is being done by the Community or at an international level. Social security costs, the wage bargaining process and the policy of income redistribution leave still less room for maneuver. In the circumstances it is not surprising that everybody is looking to governments to take decisive action.

The Community, for its part, has taken a series of measures to cope with the problems of adjustment which are particularly acute in the steel, textile and shipbuilding industries. The aim of these measures is the restructuring of the industries concerned and the reconversion, under socially acceptable conditions, of the regions principally affected. They aim to restore as quickly as possible the international competitiveness of industries whose survival is justified without compromising the principles underlying intra-Community and international trade.

The measures taken for the industries in difficulty will have to be accompanied by an effort to promote the growth industries, where production capacities which are currently unused or which will be freed as a result of restructuring will have to be put to uses corresponding more closely to the requirements of demand. This effort should encourage the development of modern and technologically advanced industries.

A third course of action would be to try to secure firmer international footholds for European industry. The first thing to do here would be, through various forms of industrial and trade cooperation, to secure supplies of raw materials on stable conditions and at acceptable prices. Steps would also have to be taken to encourage, facilitate and protect a bigger share of European capital in foreign production and markets which are difficult to penetrate from outside.

The success of these efforts to help European industry will largely depend on what progress the Community can make towards economic and monetary union. Sure and unimpeded access to the Common Market would be a powerful incentive to bring about the changes in industrial structures which must lead to a European division of labor based on the philosophy of the market economy. The framework of Community solidarity which monetary union in particular would constitute would encourage industrialists and

businessmen to make the necessary investments.

Those, then, are the directions in which the Community has made a start. It must be admitted that the instruments and means available for a policy of structural adjustment at Community level are still inadequate, even allowing for the fact that the Community policy is only supplementing national measures. The Community must further develop the instruments which enable it to assist industrial firms which have to change their method of production or their range of products, to help workers who may be asked to switch to jobs in another industry or another region and to assist the areas most affected by these changes. It will also have to acquire the financial resources needed to deal with increased unemployment, especially among young people, during the period of adjustment; to do something, at least temporarily, to prevent regional imbalances becoming still more marked; and to attenuate the effects of an unequal distribution, among the Community countries, of the social costs and economic benefits of industrial restructuring.

Any action taken to change production and trade structures obviously calls for concertation between Western industrialized countries, and also with developing countries. This need for international concertation is not an isolated fact; it corresponds to a profound change in the nature of international economic relations as a whole. It is a question of taking account of the presence of the state in our market economies and the politicization of external trade.

We in the Community are well placed to understand that discipline is necessary in policy making to establish and maintain free trade. The state is present in the economy, and not only at external frontiers. There must therefore be discipline not just in classic commercial policy matters but in the whole economic and monetary field. For various reasons the time seems to have come to draw similar conclusions for international trade, although they are less radical and ambitious than those to be drawn for regional integration.

Over the last few decades the internationalization of trade and production has characterized economic relations between Western industrialized countries in the first place, and then increasingly those with some developing countries as well. Politics has not followed suit, although this has not stopped the gradual politicization of international trade. The degree of economic interdependence reached in business (and particularly by the multinationals) is such that most domestic policies and administrative measures affect trade in one way or another; by exaggerating a little, it could be said that trade has become the scene of a potential daily confrontation of domestic policies. This politicization is therefore largely passive, although governments are quick to learn to use the "unclassical instruments" of commercial policy; there is still, internationally, not enough concerted and "voluntarist" policy.

It must be admitted that we are hardly ready to remedy this situation and public opinion in our countries is even less so. How can things be arranged so

that state intervention, on both sides, is compatible with the desirable measure of freedom of trade? It is true that under the technical heading of "non-tariff barriers to trade" we are looking for answers to these questions. But this is a very long-term task and we have scarcely made a start on it. Until multinational codes of conduct can be drawn up covering all the points we are concerned with, we must be pragmatic and try and work out compromise arrangements, in the first place between Western industrialized countries.

The objective of international concertation on industrial restructuring fits into this general context. It is natural that we should try to bring about this concertation first of all with those countries which act in accordance with political values comparable to our own. The example of the steel industry is significant in this respect because it clearly shows that it is in the Community's and America's interest to agree on subjects like production capacities, prices and trade flows without excluding other partners, particularly Japan. I entirely agree with the author of the American working paper that Japan's inclusion in a "club setting a shining example of solidarity and responsibility" is essential if the operation is to succeed. There was some progress in this direction last year in the OECD.

In connection with restructuring, the "club's" agenda should include three big issues: growth strategy (the question of directing structural changes); relations with outsiders, particularly with developing countries; and providing a framework of economic and monetary stability in which the changes can be brought about. These are also the subjects which we could usefully consider in greater depth during the discussion which will follow. I am going to start it now by developing the theme of relations with the Third World to which the Community attaches particular importance.

Recommending that there should be a club of Western industrialized countries setting an example of solidarity and responsibility obviously does not mean that we should take refuge in a defensive policy, let alone a policy of confrontation, vis-à-vis the developing countries. Club solidarity and discipline should be seen as a means of facilitating the ordered and mutually acceptable transition towards a new international division of labor in which the developing countries are to play a much bigger role.

The Community, for its part, must continue its policy of encouraging the liberalization of trade with the developing countries, which already absorb more than 36 per cent of its exports. It must expand its markets in the Third World if it is to sustain its growth in the coming years. It cannot therefore afford to relapse into a new conservatism; it has to accept the structural changes which the inclusion of the developing countries in the international division of labor entails. For the Community, it is a question of controlling the pace at which the changes take place, of influencing their nature and of adapting to them.

As for the pace of change, the Community, like its partners, has the classic

instruments of trade defense at its disposal; a selective safeguard clause would be of particular importance if it could be agreed in the multilateral trade negotiations. The Community will take more care than in the past to see that the competing products to which it opens its market reflect normal conditions of competition.

Through its commercial policy, its cooperation policy, and its export and investment aids, the Community can influence the forms which industrialization takes in the developing countries. In the long term it is in the Community's interest to encourage forms of autonomous industrialization in the developing countries which are designed to meet the needs of large domestic markets. There is no reason why the Community should encourage the proliferation in the Third World of huge exporting industries working for multinational concerns trying to attack the Community market.

A great effort will have to be made to inform the public and get it to accept the need for structural changes in our countries despite the economic crisis. The Commission hopes that the measures needed to adjust to structural changes in the Community will be prepared by concertation at European level between representatives of industry, trade and the trade unions as well as between governments.

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In presenting his paper to the conference, the author referred to the crisis in the industrialized world and asked if there had ever been a situation where action was more obviously required. We were all in favor of the market economy — the EEC was organized around the idea of living with a bigger market — but in this crisis the market alone had not managed to act as a balancing factor, for various reasons. If we fell into protectionism again, it would be the end of an era, and probably the end of the EEC.

One of the structural elements of the crisis was the technological revolution, which would create enormous employment problems. Nine million young people would be coming out of European universities with nothing to do and no idea of their future. The Community could not live with structural unemployment of that magnitude.

The whole concept of the EEC was based on restructuring the economies of individual states, but even if that were accomplished one had to fit into the overall global adjustment that was taking place. In any case, the first task for the EEC was to try to put its own house in order.

We could not expect to achieve adaptation and restructuring of industry at the present low level of growth, so we had to seek to reestablish a degree of

growth in the economy as a whole, despite the current state of monetary instability. Then we had to buy time for certain industrial sectors with particular adjustment problems, and to try to work out a quid pro quo whereby the time allowed for adaptation was limited. It would be up to the industry to make the best use of that time before it expired.

If it wanted to support such a program, the EEC had the power — legally, financially, politically — to guarantee its effectiveness. Three elements had to be taken into consideration:

(1) *The developing countries* were an essential element of the growth policy of the industrialized world. How could we insure that this policy aided the LDCs in a permanent way, and did not simply gear their development to exporting goods to the industrialized countries, with no beneficial fallout at home?

(2) *The eastern bloc countries* were profiting from the aid we were giving to the LDCs, because the latter were buying their low technology industry from East Europe, paid through the transfer of resources from the West. This made no common sense politically.

(3) *Japan* was the weak point in our antiprotectionist crusade. If either Europe or the U.S. concluded a product agreement with Japan, then the other was right there with a "me too" request.

The author concluded that unless we prepared an action program to meet this structural crisis, the state would be forced more and more into "temporary" interventions. We would still give lip service to the free market while espousing *ad hoc* protectionism. The development of such a discrepancy between the rule of law and the way it was implemented — between *le pays réel* and *le pays légal* — was always a dangerous thing for a free society.

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## DISCUSSION

(1) *The role of the state in structural adaptation.* A German participant pointed out that one's attitude toward the issue of government intervention to promote structural change was likely to be affected by the characteristics of his own country. Germany, for example, which exported a large percentage of its production, was constrained to adjust without state intervention, and this process was facilitated by the existence of worker's codetermination and the decentralization of decision-making and risk-taking.

Several speakers from various countries felt strongly that the leading role in structural change should not be taken by national governments (or by the European Community). It was an illusion to think that they could stimulate the

adjustment process. History indicated that they would be more likely to delay it in order to make it socially acceptable, which was after all one of the functions of politicians.

A Briton said that to believe the EEC Commission could succeed in restructuring European industry would be to allow optimism to triumph over experience. A better initial goal than industrial *adjustment*, he suggested, would be to seek an improved *balance* in economic relations among nations. It would not be easy to achieve that, but the speaker recommended a pragmatic, *ad hoc* approach to special problems rather than comprehensive state-sponsored programs. This could be called "calculated free trade" or, in Raymond Barre's words, "organized liberalism"

A Canadian participant preferred the old description "muddling through," and she wondered if it was still adequate. But she did not underestimate the impact that government intervention — especially in the environmental area — might have on productivity, growth and the real rate of return on investment. There was a difficult trade-off between efficiency and these other social goals, and it was not clear who could make the choices.

If we rejected the *ad hoc* approach, a Dutch speaker asked, who could propose a better alternative? Indicative planning had certainly not borne fruit where it had been tried. Participants from Germany, the United Kingdom and the U.S. cited examples of state planning or intervention which had had deleterious effects on free markets (Japan and steel, the U.S. and energy), or had given disappointing overall results (France, Italy).

In the view of a Portuguese speaker, government intervention — at least in the developed countries — tended to reduce rather than accelerate the pace of structural adjustment. This was usually done through trade restrictions, and it was time to change the GATT rules to make it clear that use of the safeguard clause should be only temporary.

An Icelandic speaker remarked that the state was ill-equipped to determine the best use of resources, and that the free market ("relieved of its imperfections") would be the most efficient vehicle for structural adjustment. But democratic governments were unable to tolerate unemployment, so that transitory state relief might be needed. An American also stressed the state's responsibility to act, not as an employer, but as a guarantor of employment. He felt that the Humphrey-Hawkins Bill was necessary to spur the private sector in times of slow-down.

While few participants advocated an expanded state role, many seemed to agree with a Belgian who regarded it as inevitable. It was reiterated that the cost of doing nothing would be infinitely greater than the cost of doing something, and it was implied that incentives and adjustment assistance would have to come from public authorities. The conviction was widespread, though, that state intervention should aim only to "buy time".

Thus several speakers supported an American who hoped that our

governments could distinguish between (a) taking the necessary, but finite, time to accommodate structural adaptation, and (b) measures such as artificial pricing, subsidies and distorting government procurement decisions, which tended to be permanent. In any case, the speaker advocated putting the cards of national intervention on an international table, where we could see them and argue rationally about their costs. Another American, though, was skeptical about the possibility of costing out actual interventionist policies, which he compared to opening a "can of worms". Rather than trying to agree on a general set of principles, he would have preferred a more limited, sectoral approach, which he called "organized muddling through".

On the other hand, some participants felt that intergovernmental institutions could play an important role in facilitating structural adaptation in an era when so much of industry was multinational. An International speaker, for example, proposed the creation of an international industrial reconversion fund under the auspices of the OECD or the UN. A Belgian participant lent support to this line of thought when he suggested that neither national governments nor trade unions had sufficient countervailing power to deal with multinational business.

An American interventionist pointed to the need for positive international coordination, and not simply negative steps such as the reduction of trade barriers. Such positive cooperation was difficult to achieve, though, in the absence of a consensus about what constituted good demand management policy.

(2) *Structural change and economic growth.* A German speaker — while conceding that strategies for achieving structural adjustment ought to be flexible — argued that increasing the scope of governmental activity was not the best answer. State intervention to promote demand was bound, he said, to lead to an ever-growing share of the less-productive public sector of the economy. This not only contributed to lower growth rates, but actually hindered the restructuring process. In the Federal Republic, for example, public expenditure as a share of GNP had climbed from 37 to 48 per cent between 1970 and 1977. In the same period, the share of public spending devoted to *investment* had declined from 20 to 11 per cent.

Efficiency and rapid growth no longer seemed as important in affluent societies as distributional equity and economic security. But, as two U.S. speakers pointed out, efficiency and growth were needed to achieve that equity and security. Another paradox was that growth required adjustment, but adjustment was particularly difficult in times of low growth and high unemployment.

A Greek participant alluded to the different viewpoint of countries which were only half way to reaching a level of material well-being for all their citizens. They did not want to stop growing, but they found it difficult to get back on the path once they had slowed down. They looked to the highly

developed countries to devise an order of things which would meet their problems, and they particularly hoped not to be the victims of protectionist measures while they were trying to catch up. The Greeks were looking forward to the opportunity which their accession to the EEC would give them to contribute to the solution of common social and economic problems.

Even in affluent societies, there were large numbers of people still seeking an improved standard of living, and an American participant claimed that a policy of slow growth, or no growth, was totally unacceptable to the U.S. labor movement — morally, politically and economically. There were many unfilled needs in such fields as housing, transportation, schooling and health care, and we should devote our efforts to creating economies of full employment around the world.

Two International speakers counselled against "doom and gloom" about growth. We should aim for moderate, not rapid, growth without inflation, and we had the economic instruments to achieve it.

An American speaker observed that much of the discussion had assumed a continuing economic slow-down, and the impossibility of a resumption of growth — attitudes which he felt were related to the energy problem. But it was important to realize that technological advances could greatly improve the way we ran our world and used our resources. If we were to write new economic rules — for example, calling for more government intervention — which interfered with this process of advancing technology, we might make the energy crisis much more severe than it needed to be over the next several decades.

The electronics industry, for instance, was now making available greatly improved logic and memory in large quantities and at low cost. Even if the industrial world had to get by in the year 2000 with just the same level of energy it consumed today, chances were we could still generate the same increase in GNP per capita if we allowed the mechanisms to evolve to take advantage of our new technological power.

Obviously we would not then be living in exactly the same way. We would probably not be driving big automobiles or travelling in the same fashion. But we already possessed the kind of technological tools which could change the world. The speaker cited two small examples of this revolution. One was the development of the pocket calculator. An old fashioned slide rule had sold for \$16.50 in 1931. Its much more powerful electronic counterpart was available today for \$15 in 1978 dollars. Another indication was the purchase of more than 100,000 home hobby computer kits in the U.S. during the past few years. The speaker concluded by saying that we should try to avoid the self-fulfilling pessimistic forecast which assumed that man had run out of ways to solve his problems.

(3) *Implications for employment, and the role of labor.* An American said

that, in the past, unemployment had been related roughly to the business cycle, but it was now more of a structural problem, related to technological and demographic changes. Many analysts foresaw increasing competition for decreasing opportunities, and were worried that planners in both the public and private sectors were not taking this into account.

A Canadian intervention alluded specifically to the decreased mobility of an aging labor force; changing attitudes toward work, as seen in pathologically high rates of labor turnover; and the gap between the educational composition of the labor supply and the projected occupational composition of demand.

As structural change was bound to have serious implications for employment, several participants urged that labor be well represented, along with government and industry, on tripartite commissions set up to deal with industrial adaptation. It was pointed out, however, that countries like the Netherlands, which had had extensive experience with tripartite commissions, often found that conflicting interests had kept them from arriving at any useful consensus. An Austrian speaker regretted that the trade unions had "almost tragically" turned away from their international beginnings in the nineteenth century to become as protectionist as any businessmen.

An intractable difficulty continued to be presented by differences in labor rates around the world. In the steel industry, for instance, an American speaker observed that wages ranged from eighty-four cents an hour in Korea, to seven dollars in Japan, to \$13-14 in the U.S. It was easy to call this a classic case in which competition should run its course as a discipline. But there were minimal differences in technology and efficiency, and the risk was that wage scales would become deeply imbedded and support consumer purchasing power and a standard of living. Differences in raw material and delivery costs were of course ameliorating factors, but there remained a problem to be worked out in multinational negotiations:

Several participants argued that full employment at decent wages should be accorded a top priority. An Austrian speaker, while agreeing that this was an important goal for social stability in the West, pointed out that wages had become an autonomous variable rather than a dependent one, as they had been in most of our economic models. This meant that other variables had become dependent — employment, growth, balance of payments, structural change. We tended to refer to these latter as "political and economic aims", but we had to recognize that they could be only relative, not absolute, if wage rates were to be autonomous.

An Italian participant referred to the high level of unemployment in Europe and the weakness of industrial sectors such as the motor car business, which had been losing ground to Japanese competition for several years. In such an environment, he asked if it would not be appropriate for the European Commission, national governments, industry and trade union leaders to try to work out for some period of time a shorter work week of between, say, 34 and

38 hours. Other participants reckoned that chances were slim of reaching such an agreement. Unless the level of their income were maintained, workers would not approve it. And if incomes were maintained despite shorter hours, this would amount to an unprecedented increase in wage rates. An American speaker said that this idea would not be welcome in the U.S., as workers were "not interested in sharing poverty."

(4) *Trade policy.* According to an Icelandic participant, the force most responsible for postwar economic growth had been the free trade policy with the lowering of tariff barriers. It was alarming to see their place being taken by other forms of protectionism, including subsidies. Other speakers thought that non-tariff barriers were so widespread that "free trade" had become merely a slogan with no reality. If we could not eliminate production subsidies, we should at least recognize their existence.

Several participants agreed with a French speaker that the only way to preserve the market system was to accept for at least a transitory period a degree of interference with the free market ("organization," "orderly marketing agreements," "concertation"). Others emphasized the importance of keeping government intervention at a minimum, while working constantly to correct the imperfections of the free market system. Perhaps the most helpful thing governments could do to facilitate restructuring would be to fix a framework for trade.

The outcome of the current multilateral trade negotiations was of crucial importance. An American speaker explained that, because of the manner in which Congress set the terms of negotiation, its members had perhaps fastened unrealistically high hopes on the outcome of the Geneva negotiations. Most congressmen had an open mind on the trade question, but if they perceived Geneva to be a failure, they might conclude that the U.S. could not hope to control its trade destiny, and thus be inclined to slip back into protectionism. A Briton responded that Europeans, too, wanted the Geneva talks to succeed, but that this would require a more realistic appreciation of each others' trade policies than was sometimes displayed by the U.S.

This speaker went on to point out that the Eastern European countries presented a special problem: the unequal trading relationship between market and state trading systems. Roughly speaking, they bought from us what they wanted and paid by selling us what they wanted, usually manufactures than we did not need. An American suggested that the only way we would get anything for our economic/technological strengths in the East was by interfering in the market and attaching strings to our contracts.

The situation was the opposite in the North-South relationship, and several speakers said that we should take a longer-range view there and seek to increase both aid and investment in the Third World. A Belgian advocated a constant flow of transfers at the rate of one-half to one per cent of our GNPs,

but not on a "helter-skelter" basis.

An American participant, who was supported by a Canadian, thought that we had to find new methods for financing investment in the Third World, which was potentially a great engine of growth for us all. He suggested somehow tapping the immense flow of money involved in international trade, travel and shipping. This would be more reliable than having to go back to our parliaments for annual foreign aid appropriations — a task made difficult by widespread public ignorance and apathy. At home, for example, the U.S. was often pictured as a "pitiful giant . . . a sucker . . . a soft touch", but in 1976 American had registered a \$15 billion surplus in the export of job-producing manufactured goods. Unfortunately, the business community had done a "miserable job" in educating the voters about the American trade position.

Another American commented that the economic development of the Third World was bedevilled by the myth that private capital was politically intrusive, while government capital was not. This led to an irrational catering to senseless whims.

The thesis was advanced by a Frenchman that international trade had grown out of all proportion to world production, and had to be reduced. This could be accomplished by (a) outright protectionism, (b) limitation of trade to homogenous areas at the same level of economic maturity, and/or (c) negotiation and *concertation*. The speaker deplored, in any case, the war-like atmosphere of trade negotiations, and the use of battlefield figures of speech. If cooperation was to be beneficial, it had to be understood that there would be no "winners" or "losers."

(5) *The need for monetary stability.* A British participant said that, while the alliance might be fairly strong militarily and politically, a look at our financial situation would lead the proverbial Martian to doubt the existence of any alliance at all. The single most lamentable demonstration of our failure to cooperate had been in our uncoordinated response to the oil price increase. The speaker did not favor confrontation, but some kind of unified reaction had been essential. One measure of our monetary chaos had been the ten-fold expansion of the Eurocurrency market over the last four years, from \$60 billion to an estimated \$660 billion. (This "international short loan fund", as it had been called, had stood at only \$1 billion in 1930!) The resolution of this monetary disorder was the single most important problem facing the alliance in the speaker's opinion. He was backed by Belgian and Swiss interventions, which referred to the unstabilizing effect on trade and investment of monetary instability.

An American, however, saw no need to panic over international monetary disorder. We were tending, he thought, to blame the messenger (i.e., recent exchange rate changes) rather than the source of the message (deficient energy and economic policies).

A Portuguese participant called for a new approach to balance of payments adjustment problems. Many smaller countries still had to cope with "structural" deficits which made compliance with IMF restrictions difficult. On the other side, some countries continued to enjoy "structural surpluses". Some means of transitory accommodation was required.

A Canadian speaker said that the chief structural problem we faced was "stagflation" — unemployment accompanied by monetary excess. This was the predictable result of designing an economic engine with only one gear: "forward." There was no "reverse", and hardly any "neutral." Inflationary forces were continuing to gather strength and threatening to corrode the moral fabric of our societies. The most important Western currency — the U.S. dollar — had declined in buying power from \$1.00 in 1948 to 39 cents today.

So far our only response internationally had been to call on other governments, who had exercised rather more discipline in managing their economies, to join us in finding the lowest common denominator of efficiency. Correcting this condition was the most important political and economic task facing the West. The first step should be to say so, and to admit that we could not go on distributing 110 per cent of the pie, as it were.

We were tempted to blame inflation on the OPEC oil price rise, but that had simply projected into the present something that had been lying in wait for us in the future. Our freedom of movement had been impeded by the coexistence of inflation and unemployment. Whether we chose to reflate or to dampen down, the wrong result seemed to appear immediately. The speaker drew the analogy of a football field, saying that in the old days we had kicked the ball up and down the field between the ends of inflation and unemployment. But now the goal posts had come together and the field had practically disappeared.

Unless we soon recognized that we could not indefinitely run huge national deficits financed by the printing press, the speaker saw little hope for revitalizing world trade and investment.

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### III. CURRENT PROBLEMS IN EUROPEAN-AMERICAN RELATIONS

Discussion of this topic was opened by a Briton, who referred to some of the recent matters which had left America's European friends disappointed, worried and confused: the question of the dollar; the lackadaisical attitude of the administration toward the Congress both on the tax credit last year and the proposed tax cut this year (which was not solely of domestic interest); the spectacle of the Treasury Secretary of the most profligate consumer of energy unnecessarily "jawboning" Western Europe's most virtuous economy; passing the buck on the neutron bomb issue — admittedly overblown — to the German coalition government; failure to extract any price from the Russians, Cubans and East Germans for their activities in the Horn of Africa; the administration's retreat before Congressional pressure on the matter of World Bank salaries and lending policies; and the inept remarks by President Carter in Europe on the subject of defense and the undisciplined comments of Andrew Young about Africa.

The speaker likened the transatlantic relationship to that of a loving family, where accumulated misunderstandings could nevertheless bring on frustration and hostility. He sought to draw some morals from that litany of troubles:

(1) It should be remembered that Europe itself was slow to make up its own mind on major economic and defense issues.

(2) Europe's own decision-making process was national; if often "beggared description as a good ally".

(3) The U.S. had to make its own decisions, and Europeans were foolish to assume otherwise (although they could hope their views would be taken into account).

(4) But new American administrations coming into office would do well to acknowledge that things were not as easy as they seemed when one was in opposition. The European allies looked for continuity, not grand new theories. It was not the lack of change that had disappointed them so much about the Carter administration as the fact that there had been so much preaching beforehand.

(5) There was a curious confluence in the uneasiness over the Carter foreign policy, in that both friends and enemies were saying the same thing about the lack of continuity and the remoteness from the realities of power. The naive expectation that the Soviet bureaucracy could be by-passed had probably done more to set back SALT than any of the substantive issues involved.

(6) The real power of the presidency was surprisingly slim, especially since it had been undermined by Vietnam and Watergate.

(7) A certain discipline was needed over administration pronouncements. Foreign policy could not be made by successive press conferences or television broadcasts.

An American participant, referring to some of the comments of the previous speaker, offered a comprehensive analysis of the situation in which the new U.S. administration found itself.

First of all, it was important to see President Carter in his political context. He had been elected to provide not more but better government. And yet many Americans, while not really wanting more government, had come to expect and even to need it as a result of the massive social welfare programs developed over the past decade.

Secondly, a relatively passive society had unwittingly elected a president who was by nature an activist, an initiator. He was instinctively inclined toward structural change, as was evident from his energy program and other domestic proposals, as well as his foreign policy (e.g., SALT, the Middle East).

Finally, the U.S. Congress was now more powerful than ever, but less well led than at most times. Generous staff budgets allowed each senator and representative to build a sort of mini-cabinet, and many of them fancied that they knew as much as the President and his Cabinet. In short, the Congress was by and large better educated than before, more assertive and less disciplined. All of this contributed to the problems of shaping national policy and generating support.

The European-American relationship was now at a unique juncture. For the first time, we faced a serious challenge outside the alliance — in the unfolding situation in Africa — which impinged on the security and well-being of both America and Europe in a way that previous out-of-area crises had not (Korea, Cuba, Vietnam). What might at first have been construed as a peripheral, selective challenge now looked like a challenge to all of us, and this gave us an opportunity to review the nature of the alliance and its larger purposes.

True, we had not extracted from the Russians a price for their aggressive behavior in Africa, but to do that we would have had to cooperate on defining our objectives and fashioning a shared response. The upcoming NATO summit would give us a chance to reaffirm the political thrust of the alliance and to agree on longer-term concrete aims. The neutron bomb issue had shown that the internal political difficulties in our respective countries needed to be aired more directly and openly.

The speaker went on to outline what he felt were the essential purposes of the Carter administration's foreign policy:

(1) The point of departure was cooperation with U.S. allies, and that group was being deliberately widened to include countries such as Venezuela, Brazil, Nigeria, Saudi Arabia, India, Iran, and perhaps Indonesia.

(2) Stabilization of the US-USSR strategic relationship was being sought through an expanded network of negotiations, but detente would have to be comprehensive and reciprocal, not selective or unilateral.

(3) Interest was being expressed in cautious but explicit fashion in links with

Eastern European countries, notably Roumania, Hungary and Poland.

(4) The U.S. was emphasizing the importance of its presence in the Far East, with Japan as the principal anchor but with a "security frame" stretching from Korea to Malaysia. If the process of normalizing relations with China could not be accelerated, the Americans hoped at least to deepen the consultative aspect of the relationship.

(5) The aim of Southern African policy was to make it possible to resolve the racial conflict there without its becoming an ideological or big-power conflict. This meant trying to maintain a relationship with relatively moderate African countries by a strong commitment to the Anglo-American plan as the standard to be reached, hoping at the same time for peaceful change in which the black majority could coexist with the white minority. The internal settlement in Rhodesia was therefore viewed as a positive first step. Beyond that, it had to be made clear to some concerned African countries that reliance on Soviet-Cuban blackmail was counterproductive.

(6) The traditional pattern of a regional U.S. policy toward Latin America had been abandoned, and relations with countries there would become much like those in other parts of the world. Some components needed to be bilateral, but others might be regional or global. The Panama Canal treaties exemplified this de-regionalization, and were part of an effort to put relationships to the South on a more mature and constructive basis.

(8) In the military area, a three-pronged approach was intended to maintain strategic deterrence, achieve conventional balance, and develop a rapid global deployment force.

(9) Finally, the administration had sought to emphasize basic moral values. Not only was this important in enlisting support for its foreign policy, but it was also a way to identify the West with certain transcendental human aspirations. This would do more, then, than simply serve American national interests: it would promote the historical relevance of the West to the world at large.

Further discussion touched on these topics:

A. *Southern Africa.* British speakers deplored the rather grudging initial reaction in some quarters to the proposed Rhodesian settlement. Mr. Smith and three African leaders with impeccable patriotic records had agreed in principle on majority rule by free elections and universal suffrage, and it would be extremely regrettable if that settlement were prejudiced simply because it had not included Mr. Nkomo or Mr. Mugabé, who had virtually no popular electoral support. An International participant suggested that the intercession of Rhodesian trade union leaders might facilitate a settlement in that country.

Britons also expressed concern about U.S. policy toward South Africa. It was sometimes forgotten that the white South African was not a European or

an American, but a member of a "tribe", as it were, whose ancestors had been in that country hundreds of years ago, and whose skin color could be regarded as accidental. Just at the moment when these people were beginning to realize that they had to make some fundamental changes in their approach, American and British officials chose to "make tough noises publicly", which had the predictable effect of stiffening their attitude. (It was reported that a Nationalist minister in Pretoria had suggested jokingly that a statue be erected to Andrew Young, for having "accomplished more for my party than anyone else in South African history.")

If a situation were to develop where South Africa, as a result of "going it alone" in Namibia, brought upon itself mandatory economic sanctions, who would stand up and veto such sanctions, and what would the consequences be for Europe?

It could be assumed that none of us would endorse apartheid, but there were many countries in the world whose behavior on human rights was worse than South Africa's.

B. *Allied intervention elsewhere in Africa* was mooted by several participants. An American speaker said the U.S. restraint about a military commitment to Africa should not be taken as a sign of weakness. The Cuban presence there was deplorable, but the U.S. had to use its resources selectively, where they were useful and not just marginal. The African area was admittedly of strategic importance, but a lesson learned in Vietnam was that there had to be an adequate political base to bear the weight of U.S. power. The speaker conceded that he might feel differently if he thought the Soviets were establishing a permanent position in Africa.

A Briton guessed that, even if a U.S. president wanted to commit troops to Africa today, American public opinion would not allow it. But one could welcome the expressed U.S. intent to "coopt" European participation outside the NATO theatre as a way around this.

C. *Human rights* could in some cases be better assured in an atmosphere without the "cold war spirit", according to a Dane. He referred specifically to the repatriation of families from East Germany to the Federal Republic, and accused the U.S. of having given the other side at Belgrade an excuse for a hard, negative approach. He reminded the Americans that they, too, were sometimes forced to espouse the human rights concept selectively (e.g., not in Iran), and urged them not to hypocritically pretend otherwise.

An International speaker was grateful to President Carter for having put the human rights issue on the agenda of U.S. policy, and said that we had to be alert to violations in many countries.

D. On the issue of *nuclear nonproliferation*, some rapprochement was visible between what had seemed the irreconcilable viewpoints of the U.S. and some of its European allies and Japan. But a Swiss participant worried that two factors might retard progress: (1) the Americans and Canadians could afford a

more relaxed approach to nuclear development, given their more abundant energy resources; and (2) the philosophy underlying U.S. nonproliferation policy seemed formed by the far-reaching concerns about a multi-nuclear world that a responsible superpower would understandably have.

E. *Some of the peculiarities of U.S. politics* were mentioned by an American participant. The presidency, far from being "imperial", was inherently a weak office. Its power lay in persuasion, and the Carter administration tended toward rhetoric. (But the speaker saw no evidence to support the claim that the U.S. — or any Western country — had become ungovernable.)

The President, as the more liberal candidate of the more liberal party, had been elected by a narrow margin, which meant that his most crucial votes had come from the most conservative voters in the most conservative region. This had built an awkward tension into the way the administration had to deal with the country.

The Democratic party held a lopsided majority in the Congress, and the average congressman enjoyed today a 62 per cent approval rating among his constituents — some 20 per cent ahead of the President. If these self-confident legislators now seemed determined to participate more actively in shaping policy, it was perhaps because some of their leading members felt that their having deferred to previous administrations on foreign affairs issues had not served them, their constituents, or their country well.

In winding up the discussion, another American participant said that one should not underestimate President Carter's persistence and staying power, or the probable long-term effects of the work he had initiated. The Panama Canal treaties had after all been approved, and one could expect an energy bill and progress on a Middle East settlement. The speaker concluded by predicting an increasingly constructive U.S. role in promoting an international framework that would be responsive to changed conditions.

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In closing the meeting, the Chairman, Lord Home, expressed the gratitude of all the participants to those whose help had contributed to the success of the conference: the American members of the Steering Committee, led by Mr. Heinz, who had acted as hosts; the authors of the working papers; the secretariat; interpreters; and the staff of the Henry Chauncey Conference Center.

An American participant, speaking for all those who attended the meeting, thanked Lord Home for having guided the discussions in such a commendable way.