BILDERBERG MEETINGS

SALTSJÖBADEN CONFERENCE

11–13 May 1984
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NOT FOR QUOTATION
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Member of the Steering Committee

**Member of the Advisory Group**

The thirty-second Bilderberg Meeting was held at the Grand Hotel, Saltsjöbaden, Sweden, on May 11, 12, and 13, 1984, under the chairmanship of Mr. Walter Scheel.

There were 116 participants from 19 Western European countries, the United States, Canada, and several international organizations. They represented a variety of fields: government and politics, industry, trade unions, diplomacy, the press, the military services, banking, the law, transportation, education, and institutes specialized in national and international studies.

All participants spoke in a personal capacity, without in any way committing the organization or government to which they belonged. To enable participants to speak frankly, the discussions were confidential, with no reporting being allowed.

The agenda was as follows:

I. Western Power and the Middle East:
   A Case Study in Atlantic Relationships

II. The State of Arms Control Negotiations

III. Future Employment Trends in the Industrialized Democracies

IV. The Soviet Union, the West and the Third World —
   A Case Study: Central America

In addition to this formal agenda, there was a session devoted to a discussion of current events, concentrating on the topic "Continental Drift: Economic and Political."

In opening the conference, the Chairman expressed, on behalf of all the participants, their special gratitude for the presence of their majesties King Carl XVI Gustaf of Sweden and Queen Beatrix of the Netherlands, of their Royal Highnesses Crown Prince Harald and Prince Claus, and of Prime Minister Palme. The Chairman noted that the Grand Hotel, Saltsjöbaden, had been the setting for three Bilderberg conferences, more than any other place, and that the meeting hall of the present conference had been named in honor of the late Marcus Wallenberg, who for many years had been an interested and active member of the Bilderberg Steering Committee.

The Chairman went on to say that, in today's sharply polarized world, we needed understanding among the members of the free world, particularly between the free part of Europe and North America. For many reasons, there was a marked tendency among Europeans to seek friendship with their North American partners. Western Europeans attached great value to that understanding and were sensitive to developments across the Atlantic. A glance at the newspapers or television programs on either side of the Atlantic would illustrate that sensitivity.

Europeans were paying increased attention to the relationships of the United States with countries of the Pacific basin. Some Europeans likened U.S.-Atlantic and U.S.-Pacific relationships to a hyperbola in a coordinate system, and were concerned—not for economic reasons alone—about a movement along the hyperbola toward the Pacific. Indeed, the fast-growing economies of the Pacific had overtaken Western Europe about four years ago as the main trading partner of the U.S. The Chairman felt that the shape of future developments, both economic and political, would depend primarily on Europe. He was also convinced that, given the political competition between the differing social systems in East and West, there was no alternative to the firmly-established partnership between North America and Western Europe.
I. WESTERN POWER AND THE MIDDLE EAST: A CASE STUDY IN ATLANTIC RELATIONSHIPS

"Decisive action in the hour of need
Denotes the hero, but does not succeed".

—Hilaire Belloc

The recent fiasco of President Reagan's policy in the Lebanon is not the first failure of Western power in the Middle East. In 1956 Britain and France were even more drastically humiliated at Suez. Nor is official doubletalk an American monopoly. Many of the Near East's present problems spring from contradictory commitments made during the First World War by the British Government to the Arabs, the French, and the Jews. Plain ignorance has been responsible for many Western blunders; Foreign Secretary Herbert Morrison thought Kuwait was an island in the Persian Gulf. But President Reagan has added a new dimension to misunderstanding by claiming that "the Soviet Union underlies all the unrest that is going on. If they were not engaged in this game of dominos, there would not be any hot-spots in the world." So it was America's "duty to stop the cancerous spread of Soviet influence" in the Middle East, and the continued presence of American troops in Lebanon was "central to our credibility on a world scale."

The background. In fact the Middle East has been ravaged by war and revolution for three thousand years long before the Bolsheviks stormed the Winter Palace. Religion has played a major role in the Middle East for the second half of that period. Like the Christians in Europe, the Moslims were often more cruel to those who espoused another sect of their own religion than to the Christian and Jewish minorities among them. The Christians themselves in the Middle East often shared the prevailing savagery. When Warren Austin appealed to the United Nations to the Jews and Arabs to behave like Christians, did he foresee the massacre at Chatila camp?

Since the Crusades, Western attempts to establish a physical presence in the Middle East have never lasted long. The collapse of the Ottoman Empire gave Britain and France the opportunity to create new states to serve their national objectives. But the frontiers of the new states have always been disputed, and sometimes divide peoples, like the Kurds and Syrians, who have a strong sense of national identity.

By the end of the Second World War loyalty to these artificial states was being challenged by the new concept of pan-Arab unity. Oddly enough this concept was first developed by American missionaries in Nineteenth Century Beirut, and derived new impetus in the late Thirties from the writings of Christian Arabs. For 20 years President Nasser inflamed the imagination of the Arab masses throughout the Middle East with his appeal to "Arabiya". But he failed to make a reality even of Egypt's union with Syria. The Arab League today is torn by internal strife; only the fight against Israel provides a narrow basis for unity.

The new Muslim fundamentalism. In 1964 both the traditional monarchies and the military dictatorships in the Middle East are threatened by a new form of Muslim fundamentalism which has gained massive reinforcement from the revolution in Iran. Small conspiracies of Muslim fundamentalists had already produced the bloody uprising in Kemia against the Assad regime in Syria, had assassinated Sadat, and had captured the Grand Mosque in Mecca. The new type of fundamentalism, which looks to the Ayatollah Khomeini, may well become a mass movement of social revolt in many Muslim countries since it appeals to the Shi'a Muslims, who, though numbering only 90 million as against the 650 million Sunnis, form a majority in Iran, Iraq, Bahrain and Lebanon. It was the Shi'a who provided the most effective terrorists in Lebanon, and in the end took over Southern Beirut with their Amal militia—who wear Khomeini badges—although their leader is a Westernised moderate. So far the Shi'a in Iraq seem loyal to the regime, but if Iran looked like winning the Gulf war they might well change sides, and the effects would be felt in most of the Gulf states, including Saudi Arabia.

Muslim fundamentalism is already absorbing pan-Arab nationalism in much of the Middle East, but it spreads far beyond the Arab world, witness the recent riots in Eastern Nigeria and the burning of the American Embassy in Pakistan. It is profoundly xenophobic, hates the Soviet Union as much as the U.S., and has a curiously mixed attitude to Israel, which it treats on the one hand as an outpost of ungodly Western imperialism, on the other as an example of what can be achieved by a politicised religion which can mobilise the masses.
The impotence of external powers. This brief caricature of the Middle East, past and present, may serve at least to explain why Western policy has had so many defeats there since the Soviet policy has fared no better. Russia’s alliance with Egypt collapsed like the Western alliances with Iraq and Iran. Soviet influence in Damascus is no more absolute than American influence in Jordan—or in Israel. Moreover, the ability of the Middle Eastern states themselves to exert effective power beyond their own frontiers is severely limited. Syria has been unable to produce an internal settlement in Lebanon. Iraq’s attempt to control Lebanon by force has reduced her standing in the region to that of a mere 600 dead, compared with nine killed in cross border raids in the previous three years. The idea that Moscow could “incorporate the region into the Soviet bloc” is as fanciful as the idea that America could incorporate the Middle East into the NATO.

The most that external powers can hope to achieve is to prevent the instability endemic in the area from jeopardising their major interests. For the West those interests include continued access to oil from the Gulf and the security of Israel behind recognised frontiers. Neither of these interests is shared by the Soviet Union. But Russia has one major interest in the Middle East which she shares with the West: in order to make its superpowers are not dragged into direct or indirect conflict by the action of Middle Eastern states which they cannot control. And she has one major interest which the West does not share: to prevent a victorious Muslim fundamentalism from rousing the Muslim peoples of Soviet Central Asia and Afghanistan. I believe these shared interests could form the basis of limited cooperation between Russia and the West at least in the Gulf area if not, immediately, in the Near East.

The Threat to Gulf Oil. The war between Iraq and Iran could lead to the interruption of oil supplies from the Gulf at any moment. The West might survive an interruption of some weeks by drawing on existing stocks, including America’s strategic reserve. If the interruption lasted some months, it would be a disaster, not only for the countries which need Gulf oil, particularly Japan, but for the whole economic and financial system of the Western world. The debtor countries could not survive the consequent increase in the price of oil to some $100 a barrel and a further rise in the value of the dollar. Western Europe would bring down the whole of the Western economic system. The West would have to take physical action at some stage before that to reopen the Gulf. But the Gulf is part of Russia’s backyard. Bahrain, like Beirut, is only half as far from the Soviet frontier as Grenada from the American. It would be essential to secure Moscow’s understanding and at least her acquiescence in advance of any Western move. Otherwise fighting between Baghdad and Teheran could not be excluded. It is by no means inconceivable that Russia would give the necessary understanding. In principle she has a major interest in freedom of passage through inland seas, since her access to the oceans depends largely on passage through the Baltic and Mediterranean.

Continued Talks between the West and Russia on keeping the Gulf open might well be broadened to consider other aspects of great power policy in the Middle East. If normalisation of the region was too difficult to start with, the great powers should at least discuss the possibility of controlling arms supplies. All the dangers presented by instability in the Middle East are increased by the recent unbridled competition between the external powers in supplying arms. Russia, America and China have supplied both sides in the Gulf War. The most likely scenario for closure of the Gulf assumes that Iraq fires French Exocets from French SuperEtendard aircraft to destroy the Iranian oil terminals on Kargh Island and that Iran retaliates by sowing French mines in the Gulf from French torpedo boats. There are already signs that Western powers may be supplying Middle Eastern states with what they need from Russia as well as from the United States and the Soviet Union.

In an area as unstable, where loyalties are so fragile, the political damage caused by such behaviour must outweigh any economic gain. Soviet cooperation in controlling arms supplies is a sensible objective for the West. But Russia did not attempt to overturn the postwar Ttipartite agreement between Britain, France and the U.S. on the limited arms supplies to Israel and her Arab neighbours until the West challenged Soviet security by bringing Iraq and Iran into the Baghdad Pact.

The need for Soviet cooperation. In 1977 Secretary Vance offered Gromyko the prospect of cooperation in the Middle East. The Russians were ready to accept until the Camp David agreement undermined the basis of their understanding. Perhaps now is the time to try again. With the multinational forces finally withdrawn from Lebanon, a greater United Nations role is highly desirable. But that requires support from the Soviet Union. King Hussein may be right in believing that the forthcoming elections in Israel will make the Middle East into a single market. Such a settlement too would be far easier with Soviet understanding than without it. Experience should have taught Russia as well as the West that the application of external power in the Middle East is rarely successful and never for long—particularly while the region is the theatre for competition between the superpowers. The collapse of existing policies should give us all a chance to think again about the scope for cooperation rather than confrontation as a means of securing our interests.

"The West, The Gulf and The Iraqi-Iranian War"  
Working Paper Prepared by Eric Rouleau, Editor, "Le Monde" (FR)

The interests defended by the West in the Gulf are, of course, both strategic and economic in character. The region, which contains over half the world’s oil reserves and enormous deposits of gas, provides Western Europe with half its crude and a quarter of its gas. It contributes equally to the prosperity of the industries and to the balance of payments of the Western powers.

The wealth of the Gulf derives from the other petroleum producers. The merchandise trade surplus between the marked contrast between their financial resources and their small populations; this phenomenon enables them to devote a relatively high proportion of their investments to imports of consumer and capital goods, as well as to the purchase of almost exclusively Western-made armaments. Their surpluses, which are almost entirely invested in the U.S. and Europe, are a factor making for monetary stability.

The Gulf has the reputation of being the biggest showcase for armaments in the Third World and absorbs roughly half of all the West’s exports to the whole of Africa, Asia and South America. In world terms, five Gulf states are among the first seven in military expenditure per head. In descending order, these states are: Qatar, Saudi Arabia, Iraq, the United Arab Emirates, Oman, Brunel, Kuwait, the U.S., the USSR and France.

The suppliers—the U.S., the USSR, France and the United Kingdom—themselves keep their armaments industries going, hold down unemployment, improve their balance of payments by recycling a proportion of the petrodollars and, as a bonus, are able to wield a sometimes decisive influence in their client-states. Deliveries of armaments are accompanied by technicians and advisers, sometimes numbering in their thousands, who install themselves in the nerve centres of their host countries.

Soviet interests in the Gulf are different in character from those of the Western powers, at least in the medium term. According to a report by the Defense Intelligence Agency published in the autumn of 1981, the USSR is still the world’s leading oil producer and will remain a net exporter well into the foreseeable future. Should this forecast be borne out, for example through tapping a giant new field in Siberia and developing other sources of energy, access to the Gulf would not become a vital objective for Moscow.

Nevertheless, the Gulf is on the southern perimeter of the USSR, which has a frontier with Iran 1,250 miles long. The Kremlin’s ambition is clearly to be able to defend this “front” in the event of a war, to prevent hostile bases being established in the region and thereby loosen the ties between the countries of the region and the Western powers.

The efforts of the USSR in this direction have not been outstandingly successful. Of course, its presence in Afghanistan and Southern Yemen provides it with useful strategic positions, but they are far from being of decisive importance. And of course, the fall of the Shah has deprived the U.S. of a first-rate operational base, but even so the USSR has not thereby secured a willing partner, let alone an ally. Paradoxically, the Khomeyniite republic is an even greater ideological and political obstacle to the growth of Soviet influence than the Pahlvis.

All in all, the USSR has a weak hand in the Gulf. It is not very familiar with the region, not having the economic and political background of Western countries. It has a weak hand in the Gulf.

The war between Iraq and Iran has contributed equally to the Middle East as Grenada from the Soviet Union. The threat, whether political or military. They do not believe that the United States has a first-rate operational base, but even so the USSR is by no means inconceivable that Russia would give the necessary understanding. Nevertheless, Moscow has hitherto been a model of caution and—as far as is known—has not made the slightest subversive move in any of the countries of the region.

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All in all, the USSR has a weak hand in the Gulf. It is not very familiar with the region, not having the historical links possessed by Great Britain and unlike the U.S., it has not managed to obtain a foothold in most of the Gulf states. With the exception of Iran, Iraq and Kuwait, all the other Gulf states refuse to maintain diplomatic relations with the USSR. Nevertheless, Moscow has hitherto been a model of caution and—as far as is known—has not made the slightest subversive move in any of the Gulf states. It is true, however, that it cannot rely on any local communist party and is not in a position to enlist the support of the Islamic movements, which for the most part are just as anti-Soviet as they are anti-Western.

Most of the rulers of the Gulf states have declared repeatedly both in private and in public, that they are not conscious of any Soviet threat, whether political or military. They do not believe that the invasion of Afghanistan, which they regard as a very special case, will be repeated elsewhere in the region, unless there is a third world war in the making.

They are far more concerned over two regional conflicts: in the medium term, they fear that the deterioration of the Palestinian problem will have repercussions in the Gulf, where 600,000 of Mr. Yasser Arafat’s fellow-countrymen are living and serving in key posts in the civil service, education, business and the professions. Their surpluses, which are almost entirely invested in the U.S. and Europe, are a factor making for monetary stability.

The Gulf rulers are mainly anxious in the short term about the outcome of the Gulf War. Even though they doubt whether the Iranians can win a military victory, they are afraid that the Iraqi government will be worn down, which would amount to a victory for the Islamic republic. If that were to happen, it would probably be a mistake to worry about the "Persian expansionism" that the Baathist republic is constantly denouncing. A change of regime in Baghdad will not lead to the
Distrust and animosity, the enhanced opportunities for the Republic of Germany deliver Mercedes trucks and tank transporters; Federal Iranian a well and commercial reasons, most of the European political and sober resignation becomes even more widespread. Or else it conceivable that countries such as Japan and Turkey, Spain, South Korea, Taiwan, include one country—from the US. military equip­ment—and forecasts. The same is true of the Eastern province of Saudi Arabia, where the Shiite towns are in the grip of a self-fulfilling prophecy that will stamp out the corruption of their governments; an egalitarianism that will put an end to social inequalities; and mistrust of the "infidels", who are regarded as the cause of all the ills afflicting Islamic society.

In order to cope with the challenge of the petrodollars, the region's governments have decided to form a Gulf Co-operation Council to preserve the established order. The joint—essentially policing—arrangements they have made have proved effective. But will they last? The case of the Shah should help to make the West more cautious and realistic. Some Western powers behave as if any change is bound to be for the worse in their interests. Of course, this reasoning is not without its attractions, and it becomes self-fulfilling if the normal course of events is opposed too strongly by every means.

The U.S. is making the two-fold mistake of simplifying the nature of the threat by laying stress on the Soviet peril, and of concentrating its efforts on the security aspect. As a result, it has met with scepticism and rejection, for example, to endorse the "strategic consensus" that has been put forward by Alexander Haig. It is true that this scepticism is sometimes displayed in public by men who, in private, welcome American activism. However, it is significant that it is the line taken to avoid upsetting sections of the educated classes which are genuinely mistrustful of the U.S. motives and power to act.

It is politically unrewarding, in the Arab world, to appear to be under the wing of a power that is so closely bound to Israel and has moreover forfeited a good deal of its credibility. The failure to implement the Reagan Plan for a settlement in the Near East and the vigorous withdrawal of the multinational forces from Lebanon have caused concern among those who were relying on the U.S. to enforce a peace agreement on their terms. Of course, this situation is not without its attractions, and it becomes self-fulfilling if the normal course of events is opposed too strongly by every means.

More generally, the attitude of the U.S. towards the Gulf war has been sufficiently equivocal to raise questions. A declared policy of neutrality is in itself suspect in a great power claiming to discharge world-wide responsibilities. It can hardly remain indifferent to a war that has caused hundreds of thousands of casualties and endangered the stability of one of the vital regions of the world. It is also fair to say—and the question has in fact often been asked in the Gulf press—how Iran has managed to obtain supplies of American-made arms and spare parts. The claim that Teheran has bought the weapons on the open market is only half convincing. It is known that the direct or indirect suppliers include South Korea, Taiwan, Spain, Turkey, Brazil, Japan, and Israel. Was it really beyond Washington's power to prevent Israel—to mention only one country—from delivering military equipment to the Islamic republic?

The same questions must be raised about Soviet behaviour; is it conceivable that countries such as Poland, the German Democratic Republic, Syria, Libya and North Korea could have supplied arms to Iran without Moscow being involved? Two assumptions are worth considering. Either the two superpowers are helping Iran along in the interests of a future, good relations with a country in a vitally important strategic position. Or else they are playing a hidden game which would have the advantage of not upsetting the political map of the Middle East one way or the other. These two assumptions could complement each other.

For political and commercial reasons, most of the European allies are well represented in the Iranian market. The Federal Republic of Germany delivers Mercedes trucks and tank transporters; Belgium produces rifles under licence there; Italy maintains the fleet and delivers spare parts for Bell helicopters; and Great Britain supplies spares for the Centurion and Chieftain tanks. This is probably only a small part of the deliveries being made to the Islamic republic.

France appears to be feric's sole ally. Naturally, she would have preferred to follow a more evenly balanced policy enabling her to act as a conciliator if not as a mediator. But its dispute with Iran and the sums owed her by Iran have forced her to take a very different line. The debts incurred by Baghdad, if paid in United States dollars, would total about $1.6 billion, or words, $1.6 billion for a war which has caused hundreds of thousands of casualties and endangered the stability of one of the most vital regions in the world. It is also fair to say—and the question has in fact often been asked in the Gulf press—how Iran has managed to obtain supplies of American-made arms and spare parts. The claim that Teheran has bought the weapons on the open market is only half convincing. It is known that the direct or indirect suppliers include South Korea, Taiwan, Spain, Turkey, Brazil, Japan, and Israel. Was it really beyond Washington's power to prevent Israel—to mention only one country—from delivering military equipment to the Islamic republic?

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West's leverage to bring a satisfactory end to the Iran-Iraq war is marginal, at best. On the U.S. domestic front, the recent Lebanon experience has reignited a debate focussing on whether, how, and in what circumstances the U.S. should involve itself in unstable Third World countries. While the focus is on Central America, the U.S. peacekeeping role has added fuel to the executive-legislative dispute. Moreover, U.S. disengagement is not to be expected since it is broadly understood that this would add to demoralization in the area, further dampening hope, and leave a vacuum for the Soviet Union.

Familiar Patterns. In the short run familiar courses of action are apt to prevail—Lebanese fighting rather than reconciling, Syria flexing its muscles, but brimkiness within limits and with its eyes pinned on the Iranian situation. As with Israel, Syria adhering to the course of confrontation. But the change of emphasis is to be expected and the kind of breaking point which could have caused a disintegration of the current constitutional structure in Lebanon with nothing to replace it.

There is no Western diplomatic involvement in the Lebanese situation at this juncture that offers the prospect of early resolution. However, the U.S. continuing interests and influence, despite the Movea, are likely to be used in the kind of area maintained: the issue of Israeli withdrawal from the Occupied Territories; the dispute over Southern Lebanon; the prospect of an Arab-Israeli Peace. The Middle East is currently of fascination to the Western public. There is perhaps a significant role for the United States in the '90s, but that role is likely to be different from that in the 1980s. A Middle East solution may have to be found in the terms of the unanimous, but often unspoken, Western policy to bring the Lebanon conflict to an end.

Israel and the United States. The United States has been a major player in the Middle East since the end of World War II. The U.S. has been a key player in the region, but its role has diminished over the years. The U.S. has been involved in conflicts in the Middle East, including the Six-Day War, the Yom Kippur War, and the Gulf War. The U.S. has also been involved in peace processes, including the Camp David Accords and the Oslo Accords.

The Lebanon War. The Lebanon War is a complex conflict that has lasted for over 25 years. The war has been marked by cycles of violence and peace, and has been characterized by the involvement of many different actors, including Israel, Syria, and the Palestinian Liberation Organization (PLO).

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The Lebanon War ended in 1990 with the signing of the Taif Agreement, which established a new government in Lebanon. The agreement was viewed as a victory for the pro-Syrian faction in Lebanon, which had been in power since the war began.

The war had a profound impact on Lebanon, and the country is still recovering from the effects of the conflict. The war also had a significant impact on the region, as it highlighted the vulnerability of the Middle East to external intervention.

The Lebanon War has been a subject of much study and debate, and has been the focus of many books and articles. The war has also been the subject of many films and television shows, and has been the basis for many video games and computer simulations.

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to carry this out unless there are satisfactory arrangements assuring security of Israel's northern borders. Moreover, Lebanon favors the "territory for peace" formula with Jordan, whereas the Shamir government holds to the policy of de facto control of the West Bank and the Gaza. On the whole, Labor is apt to be more openminded regarding the renewal of the peace process under U.S. aegis in 1985 than the current government.

Some Elements To Be Considered In Any New Strategy. Any future strategy, on which there should be close consultations between the U.S., Western Europe, and Japan, will have to take into account the changes which have occurred in the area. First, any American explorations will have to be pursued quietly and privately through diplomatic channels. There are enough plans around for a "fresh" start under Reagan Plan, Camp David, and various new versions of UN Security Council resolution 242. There is no point in elucidating new formal peace plans and pushing them publicly to be shot down on all sides before they get off the ground. Any new diplomatic round must be prepared carefully, otherwise Washington should stay out. There has been too much cosmetic diplomatic activity for its own sake or to achieve progress in the peace process over the last decade. A substantial part of the Arab world long ago gave up on any notion of extinguishing Israel's existence by military means once the U.S. had made clear its full commitment to Israel's security and survival. But American-Israeli strategic cooperation cannot be limited to the military sphere and must be broadened to include political components. For years, America has disagreed with Israel's settlement of the occupied territories and its de facto annexation policy, preferring instead the "territory for peace" formula, which is also favored by the Israeli Labor Party. There are continuing differences in the American and Israeli approaches, and the coming year should be a time of deep questioning and consultation reminiscent of earlier years in order to harmonize positions consistent with UN Security Council resolution 242. The new mood of sobriety in Israel offers the U.S. a fresh opportunity.

Third, the focus of any future diplomacy must go beyond Jordan. Consideration should be given to how best to test Syrian Arab intentions. Syria has spurned current Israeli overtures to work out a de facto separation of forces in Lebanon. Is it satisfied to maintain the Syrian-Israeli confrontational status or is there an interest in diplomatic negotiations with Israel aimed at coexistence and mutual security between them? As for Israel, the Syrian position has taken on a more shrill tone with the increasingly evident view of Soviet assistance and support and could lead to a sober realization, particularly under U.S. pressure.

The Palestinian Question. Important changes have occurred. The PLO has lost its independent base, but Palestinian nationalism is not dead. For a period of time the PLO had at least a certain edge at home and abroad, but today scattered fragments (Democratic Front and Popular Front) are facing down the control of the PLO umbrella. Infiltration into Israeli proper and terrorist attacks there will continue. Now that Israel has destroyed the PLO superstructure, there is no longer any "return address" to which they can send a retaliatory message. These guerrilla group attacks are also signals to Arafat and King Hussein. The PLO is more divided than ever. Who represents the Palestinians? Is it Syria and Jordan on their behalf? Is it Arafat who still retains the loyalty of many Palestinians in the occupied territories and throughout the world, but has no military clout, has been unable to unite the organization, and is fighting to survive politically? Is it the West Bank Palestinians, who while professing loyalty to Arafat, have their own independent interests with respect to Jordan? Or is it the control of Syria? Is the Arab summit decision at Rabat, Morocco in 1974 designating the PLO as sole representatives as realistically as it might have been in the past? Who in the Palestinian leadership can take the hard decision to give priority to negotiations over the armed struggle?

A divided Arab world and Palestinian movement have been unable to resolve these issues, and the burden has been put on the U.S. At the same time, U.S. insistence that the PLO must recognize Israel's right to exist and accept SC resolution 242 is apt to be maintained either under a Republican or a Democratic administration. There is no clear forebearable break on this issue, but the best hope still is for a West Bank Palestinian-Jordanian cooperation and representation with the tacit approval of the PLO. The U.S. can be expected to work to this end.

U.S.-USSR Dialogue. Finally, there is the Soviet Union. Whichever administration emerges in November is likely to make renewal of a serious overall Soviet-American dialogue focusing primarily on arms reductions, its number one priority, and the Middle East as its secondary unless a crisis develops. Moscow, in reciprocal informal exchanges between the U.S. and the USSR regarding the area are inevitable as part of any renewed dialogue, whether for no reason other than to reduce the risk of confrontation, either by misinterpretation or by design. It will be crucial to strike some delicate balance between Syria's insistence that the Soviets and the PLO be included in a Geneva conference and past U.S. and Israeli opposition to their participation. The U.S. success or failure to achieve a compromise acceptable to both sides will have a decisive influence on whether the peace process can be renewed at all sometime in 1985 or whether the area will drift towards another major bloodletting.

Iran-Iraq: More Immediately Dangerous Than Other Mid-East Problems. Of more immediate concern is the Gulf. While there has been much bluff and exaggeration in communiques, the fighting between Iran and Iraq has increased sharply, and as this is written, a major Iranian spring offensive is expected. This more popular war, with greater economic capacity, has a long range advantage in the war of attrition. While most intelligence analysts predict a continuing stalemate, a major Iranian breakthrough cannot be excluded, nor can the internal collapse of Saddam Hussein, who has not yet paid the price for starting the war. But internal stress has become evident, increasing Saddam's vulnerability. The Gulf states have been sputtered inconclusively and reached a new phase of attacking one another's economic facilities.

The war has been difficult to terminate because for Khomenei, in particular, it is more ideological than strategic. He must demonstrate that his brand of Islamic fundamentalism can triumph in the first test of its political viability. He is insisting, moreover, on Saddam's withdrawal from Kuwait as a condition of any serious further restoration of the regime. A triumph of revolutionary Stalinist fundamentalist leadership. Iranian failure would have adverse repercussions internally and weaken the legitimization and raison d'être of his revolutionary regime. Strategically, both powers have been able to increase their leverage on the others. Khomenei has been more able to use the internal troubles from the war, Iraq has less capacity to do so.

Up to now, it has been an Iran-Iraq war, it has not involved the Gulf states directly. This danger that this can encompass the entire Gulf has increased. Despite the escalation in the war, the closure of the Strait of Hormuz remains unlikely. Not only is it technically difficult, but it would injure Iraq at least as much as the other. The psychological impact at this point is more immediate and serious on Saudi Arabia and the Gulf states, on insurance rates, and on dependent Japan and Western Europe, even though conservation, availability of non-OPEC oil, reserve buildups, and a sluggish world market have lessened Western vulnerability. Washington and Moscow have responded to the war in similar ways because they find themselves in strange parallel positions. Neither side is deeply committed to either combatant, both powers have limited influence or ability to control the course of the war or to end it. Neither superpower has any particular desire to see one side win decisively, even though both the U.S. and the USSR see Iran as the greater threat to the stability of the Persian Gulf region. The economic capacity of the Gulf states may be the ultimate weapon of choice. The economic dependence on Moscow with a potential political lever to promote a decline in Western influence and an increase in its own, but Moscow has not been able to exploit the current situation: its occupation of Afghanistan has been costly in the Arab world; the Tudeh Party has been outlawed by the Shah; and a major Soviet naval presence in the area is not at this point a reality. If Iran should begin to hit oil facilities in Saudi Arabia, Kuwait, or the Gulf states, the U.S. and certain European powers would inevitably have to become involved in a supportive capacity to friendly states. If naval forces are required, it is near certain the U.S. would take the lead. If for no reason other than to remind regional and global friends and foes that U.S. power is still relevant, despite the setback in Lebanon.

Moscow is apt to act on the basis that it considers itself a part of a regional interests as significant as those of the U.S. If it should decide there is opportunity to undermine what has been the singular Western guarantee of the Gulf, there could be a challenge, not necessarily a confrontation, but at least a Soviet naval presence which would signal to Gulf states that Moscow has vital interests and considers itself a part and guarantor. The U.S. and Western powers, particularly France, have titled somewhat to Iraq as its danger increases and the Gulf states feel more threatened. This trend should be continued wherever feasible. Moscow has counseled restraint on Israeli military assistance or invading military assistance to Iraq. Trade between Japan and Western Europe with Iran has boomed. No clear-cut overall Western strategy is evident or effectively feasible in the current situation. But three things are clear: it is essential that in any crisis there be the closest consultation between the U.S. and Western Europe and Japan to arrive at a complementary and coordinated strategy which avoids serious divisions. Third, the current situation avoids any act resolute by the Gulf states and its strategic and political threat to Western energy sources, the case for closest possible coordination is even more compelling. The dangers in the Gulf and Middle East will be long and drawn out, and neither the U.S. nor the Western powers can be found "short of breath" as Syria's Khaddam indicated in the Lebanese context. Neither NATO nor the U.S.-Japanese security agreement deals with vital Middle and Gulf interests. More needs to be done to develop added Western military capacity for use in this vital area without drawing down
unduly on forces stationed in Europe. What is essential is a sustained involvement is essential and less divisiveness, if not harmonization. If Western Europeans are dissatisfied with U.S. policy, the most effective means to influence change is through confidential diplomatic channels, not public initiatives which will strain relations further and may give the Arabs some temporary solace, but no effective results. Moreover, Western Europe has paid its dues as peacekeepers, and it is entirely understandable that, within the limits of its influence, it should play a significant role in any overall strategy.

**DISCUSSION**

Moderator: Winston Lord

Participants in the discussion of the Middle East agreed that the situation was as volatile as ever and that the likelihood of progress in the near future was minimal. We were faced with the challenge of developing new policies to deal with two intractable situations—the Arab-Israeli conflict and the war between Iran and Iraq. The U.S. and Europe had much at stake in the region, but lacked a cohesive, effective approach to either situation. The dilemma was exacerbated by the need to find some framework for consultation and cooperation with the Soviet Union, which had its own interests in the Middle East.

It was a Frenchman's assessment that this was a “time of disillusionment and loss of control” in the Middle East. Israel was in a deep, unprecedented moral crisis resulting from its failure in Lebanon. The Palestinians were in a state of total disarray, having shown themselves to be incapable of solving their own problems and with no prospect of doing so in the near future. The Western powers, too, had failed to accomplish anything positive and had no new strategies.

Several speakers believed the West had lost considerable influence in the Middle East, and the credibility of the U.S., in particular, and an inter-regional and negotiator had been seriously undermined. A British participant argued that the problems in the region were largely internal, and outside powers, even the superpowers, had little influence over the course of events. There would be a “fairly long pause” before the West again attempted to produce any “grand designs” for the Middle East.

An American sought to provide a perspective on what was behind the current unsettled state of affairs. No regime in the Arab world, including Syria, was today stronger or more self-confident than it had been five years before. Why? The petrodollar era had ended, and the notion that dollars would be translated into effective development and enhancement of Arab self-confidence had disappeared. Inter-Arab divisions following Camp David had persisted and had eroded self-confidence. The Lebanese crisis had proved to be a great blow to those Arab regimes that had hoped for an era of relative political moderation and reliance on the developments of the 1970’s. For them, the situation in Lebanon portended growing sectarianism and intensifying internal conflicts.

The implication of all this for the West, the speaker continued, was that the relatively stable Arab stem of the 70’s, in which regimes had been in power for several years and were starting to practice pragmatic politics, was unlikely to remain intact all through the 80’s. This drastic change would be under pressure from two political trends. One was Islamic fundamentalism, whose political influence would be seen in two ways: a tendency of regimes to distance themselves from Western values, and the re-emergence of opposition to Israel and to Jews on a religious basis. The other trend, which the speaker viewed as positive in the long run but troublesome in the short run, was growing agitation among the political and intellectual classes for democratization. They were becoming increasingly disillusioned with the authoritarian regimes that had dominated the Arab world for so long. This trend could be seen in Egypt, for example, where President Mubarak was taking certain positions to demonstrate, as he sought to establish his legitimacy in the upcoming election, that he was in touch with currents of opinion in his country, some of which were anti-Western and anti-Israeli.

This sort of development did not bode well for near-term peace prospects. Initiatives would not be forthcoming from the Arab world, and Western initiatives would be greeted with passivity, if not hostility.

A Greek agreed that we had to take very seriously the phenomenon of Islamic fundamentalism. It was not, he warned, confined to Shites, but was increasing in strength in Sunni countries like Jordan, Saudi Arabia, and Egypt. Its roots included a basic resentment of the West and a feeling of “marginal envy and disgust” with Western consumerism and the corruption and inequity it had spawned. The movement stemmed, in addition, from what was seen as the “Israeli insult” to Moslems and to Islam in general. Its political force could be blunted only by Western support of political and economic reforms and of democratic states in the region, combined with a major effort to seek a solution to the Palestinian problem.

A German speaker supported the notion that some of the more moderate Arab states were becoming increasingly neutral toward the U.S. These regimes were particularly disillusioned by Egypt's refusal to influence the U.S. to pressure Israel for a return to the 1967 borders. Europe needed to get its act together and develop a common policy toward the Middle East.

It was widely acknowledged that the major immediate threat to stability in the Middle East arose from the war in the Persian Gulf. The irony, said a British speaker, was that none of us in the West, nor most of the Arab states, wanted to see either Iran or Iraq win. There were dangers both in a continuing war and in decisive victory for one side or the other. The war posed a threat to Western oil supplies, while defeat of either Iran or Iraq would have led to the spread of Islamic fundamentalism, which would have grave implications for stability. But the West appeared powerless to bring the war to a halt.

It was an American participant’s opinion that the war had not been settled because, from the point of view of Ayatollah Khomeini, it was more than an ideological struggle than a strategic war, which would have test of his brand of Islamic fundamentalism outside Iran, and, as such, had great significance for the future of the Iranian revolution. The speaker agreed that Western influence in persuading the two antagonists to negotiate a settlement was marginal. From the Western point of view, the most satisfactory outcome would be to have neither side win or lose decisively and to establish an equilibrium in which the West’s interests in the region’s energy resources could be protected.

How vulnerable was the West in an intervention in the flow of oil from the Gulf? An International speaker felt that, in the unlikely event that the Straits of Hormuz were closed, much of the impact could be softened by tapping spare production outside the Gulf and by routing oil through the underutilized Saudi pipeline. While the dimensions of the supply shortfall—in the range of three million barrels a day—would exceed that of 1979, the effects on the market would be lessened by the fact the current energy consumption was increasing only moderately, and Western governments had built up substantial reserves that could be committed.

A Briton considered it a more likely that Iran continued to attack tankers in the Gulf, Iran might retaliate by bombarding Kuwaiti or Saudi oil export terminals. But even in this situation, the net effect on Western supplies would be bearable. More worrisome might be the effect of an early end to the Gulf war. In this case, both Iran and Iraq could be expected to want to quickly increase oil exports, thereby achieving considerable political and economic gain, and increase the possibilities of a change of regime, which had, with difficulty, been resisting a ceiling on production. If Iran and Iraq increased production and pressed for larger quotas, it was doubtful that OPEC could maintain the current price of oil.

A Norwegian felt that it was unrealistic to expect a stalemate, with no winner or loser. The West had to choose between two evils. The most severe threat to its interests, at least in the energy field, would come from Iranian victory. OPEC had become “quite a responsible organization,” holding a price level that was in equilibrium to supply. But, if Iran should win, it was likely to become the dominant force in OPEC and was not apt to be very cooperative. Oil prices might decline in the short run if Iran won, but lead to a long-term increase in the long run. An American agreed, saying that victory would give Iran “substantial control” over access to energy supplies in the Gulf and would allow it to replace Saudi Arabia as the area’s “swing state.”

In addition to control over oil, Iran, in another American's view, had other incentives to keep the war going. Iran's strength in international politics, it kept the enemy at the front and out of policies, it might become involved in political maneuvers. Other Iranian strategies were the destabilization of moderate regimes and the promotion of Islamic fundamentalism in the region. The West, while it was not interested in Iranian victory, could not afford to be neutral about Iranian defeat. Iranian victory would be the worst possible outcome.

A British speaker questioned even more directly the assumption that Iran should not be defeated. To define the Western objective as maintaining a stalemate was “to fool ourselves.” A stalemate was unrealistic; it was better that a “repeatably Moslem power” win, rather than a radical one. In any event, Iran’s defeat was not apt to cause any more internal disintegration and external destabilization than was going on already.

A fellow Briton challenged the view that Iran was a “responsible power.” Five years ago, he argued, it had posed the main danger in the Gulf. It was a country that had indulged in atrocities and had used chemical weapons. This latter point was especially disturbing to a Swede. The tendency for some West European countries like France and the U.S. to side with Iraq had dangerous implications for the use of chemical weapons. Unless there was a strong international condemnation of Iran’s using them, it...
would be unavoidable, given their relative cheapness and ease of manufacture, that they would be used in future Third World conflicts.

If Iran were completely isolated, continued the Swedish speaker, a negotiated settlement should be that hardly likely. Although Iran appeared at present to want to settle the conflict on the battlefield, it was still possible that a climate of negotiations might develop. Iran had problems of internal stability and economic development that might ultimately force it to the bargaining table. A Turk believed that the climate for negotiations was already improving. The political situation in the region had recently been tense, elections, and Khomeini had indicated a desire to leave more and make more decision making up to the parliament. The war had taken a terrible human toll, and the people in both countries wanted an end to it. The opportunity for a settlement was getting closer. Indeed, Turkey was uniquely qualified to play a major role in negotiating it. Turkey shared both Iran and Iraq borders, extensive trade, and historical, traditional, and religious ties. Other participants wondered whether there was a role in the Gulf situation for Japan, with its heavy dependency on the region's energy supplies. A scholar from Lebanon pointed out that a military response from Japan was out of the question, and that Prime Minister Nakasone's ability to take any action was constrained at present by domestic political considerations. At best, some sort of economic development involvement on Japan's part was a possibility.

Turning to the Arab-Israeli dimension in the Middle East, an American said that in the case of Lebanon, things would "continue to muddle along, with no fundamental solution." U.S. policy there had been a "failure of peacemaking, not of peacekeeping." The U.S. had made mistakes in judgement in thinking that Lebanon would undergo once the PLO was removed and that the agreement between Lebanon and Israel would work without Syria being included.

Lebanon would be, for the short term, under Syrian influence, but not domination, continued the speaker. Syria had its own problems, notably a succession struggle. President Assad was trying to preserve the Alawite regime. There was a contest going on within that regime and between the Alawis and the Sunnis that limited Syria's freedom to act outside its own borders for the time being.

The problem of U.S. policy in Lebanon, in another American's opinion, was not that it was wrong, but that it had no policy at all. It was more a "reaction to an Israeli military adventure" that sought to destroy the PLO or to give Syria a "foothold" in Lebanon. In pursuing the latter goal, the Israelis had hoped to help the Maronites establish their dominance and to then make a peace treaty with them. These, the speaker went on, were incompatible objectives inasmuch as the Maronites could never have consolidated their power if they had made it a treaty, and, after Israel gave up its "grand design," the U.S. kept blundering along.

A third American speaker took issue with his countryman's contention that the U.S. had supported Israel's objective of destroying, extensive force and to establish some sort of partnership with the Maronites in Lebanon. In pursing the latter goal, the Israelis had hoped to help the Maronites establish their dominance and made a peace treaty with them. These, the speaker went on, were incompatible objectives inasmuch as the Maronites could never have consolidated their power if they had made it a treaty, and, after Israel gave up its "grand design," the U.S. kept blundering along.

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Looking ahead, a Greek participant felt that a solution in Lebanon was still possible. As long as there was an Alawite regime in Damascus, the West had some common ground with Syria, which did not want Lebanon to become a base for Islamic fundamentalist attacks on it. The Western goal should be to foster a settlement in Lebanon involving a truce for the Maronite domination. What was needed was a new constitutional arrangement with a more just internal balance among the various groups.

On the issue of Palestine, an American suggested that the Reagan Plan, put forward in 1982, was a casuistry of the divisions within the Arab world over the Lebanon situation, the Gulf war, and the Egyptian-Israeli treaty. The plan had required the support of King Hussein, who had backed off because he had not gotten a "green light" from the other Arab countries.

The speaker agreed that the rest of 1984 would be a period of adjustment to new realities, with no major new moves. But there was real hope for a revival of the peace process in 1985. This depended on a Labor Party victory in the Israeli elections in July, 1984. Labor policies could be expected to be quite different from those of the current regime. With a substantial majority of all Israelis wanted Jerusalem to remain the capital and were opposed to creation of an independent Palestinian state, there was a sharp difference of opinion as to whether the policy of de facto annexation of the West Bank and Gaza should continue. Many Israelis favored some form of territorial compromise with Jordan, allowing for Palestinian participation.

A British speaker felt that there was at least a chance of progress if Labor were to win, but he worried that the "minimum Arab demand" might be greater than even the Labor Party would be willing to accept. A Labor government would have to do more than make minor adjustments if there was to be a possibility of a serious negotiation.

If, on the other hand, Likud were to win, continued the speaker, there would be a "major test of American will and prudence" in restraining Israel from another war. If the U.S. failed, the result would be the end of all Western influence and possibly the collapse of those regimes that had been friendly to the West. It was not unreasonable to question American willingness to pressure Israel. The Reagan Plan had failed in part because there had never been any indication that the U.S. was willing to make Israel do its part in seeking a solution. The speaker warned that the Reagan Administration would see the democratic possibilities of the Middle East as a way of getting Israel to accept a plan. The situation was not different.

An Austrian thought that there had been too little follow-up to the Reagan Plan. The moderate Arabs had a right to be frustrated and disillusioned. If negotiations were ever to resume, Israel had to send a signal in the form of stopping its settlements policy, which increasingly looked like a policy of full annexation.

An American worried that the "point of no return" on the settlements question was fast approaching. Some in Israel were saying that it was already too late to change policy because no moderate government had been formed. This had suggested that even a Labor victory would make no real difference and that there was no possibility of a settlement of the Palestinian issue that involved giving land on the West Bank to Jordan or the Palestinians.

Others were more hopeful that a settlement could be achieved. An American felt it was not too late for a solution involving a partial Israeli withdrawal from the West Bank, which would return 85 per cent of the West Bank area to Arab control. The speaker believed the Israelis would insist only on demilitarization as a condition. Hussein might be interested if he got Egyptian and Palestinian backing and strong U.S. support. Such an interim solution would give the moderate Arabs more credibility and time to pursue a full diplomatic solution.

Another American pointed out that things had changed considerably since the Reagan Plan was introduced. Israel was now suffering from a "post-Vietnam syndrome," its strength and arrogance greatly diminished. The Israeli withdrawals from Lebanon signalled to the Arabs that perhaps Israel could not stand casualties. There had also been an erosion in confidence that the U.S. was capable of achieving its objective, even if it knew what it was doing. If the U.S. was to commit itself again to seeking a settlement, it first had to decide what it wanted to achieve, and then secure Jordan's cooperation and support. There was no question of the U.S. starting a new initiative without meeting these two minimum requirements.

A Greek participant said that support for Israel was not a vital Western interest, but rather a matter of principle—that of supporting legitimate, democratic states. It was too true for Israel. Had it been true for the Palestinians, for them, too, had an identity. In the long run, the West could best secure Israel's survival by prodding the Israelis to accept the emergence of Palestinian identity. Time was indeed running short. The Islamic movement was gaining strength. One had to hope for a Labor victory in Israel and, in the West, a willingness to prod the moderate Israelis and Arabs to get together.

Continuing on this line, an American said the balance in the U.S.-Israeli relationship had to be broadened from the military sphere into the political sphere, with as much emphasis on securing a peaceful settlement in the Middle East as on military strength as a means of guaranteeing Israel's security and survival. But one had to acknowledge that the American-Israeli relationship had brought about great progress in the last decade. It was only after it had become clear that the U.S. commitment to Israel was firm that many Arabs had opted for the conference table over the battlefield.

A British speaker warned that the real danger posed by the various conflicts in the Middle East was that the superpowers might be dragged into a confrontation resulting from the actions of other countries over whom they had no control. Neither the Soviet Union nor the U.S. really controlled their clients, Syria and Israel. It was essential that a dialogue be opened with the Soviet Union in order to develop mutual confidence. A serious attempt by the U.S., Europe, and the Soviet Union was called for to establish ground rules for dealing with instability in the Middle East, and to limit the supply of arms to the region. Some participants expressed skepticism about the latter possibility, to which the speaker replied that it could be done if the Americans and the Russians got together. It was in the interest of neither of them to provide arms to unstable regimes which could become hostile at any time.

An American pointed out that there was a basis for Soviet interest in preventing turmoil in the Middle East. Though the Russians were not net energy importers, they did have an interest in oil and gas purchases from the Gulf. They had shown "great caution" in not becoming involved in the war. The Soviet Union wanted to be part of any settlement in the Middle East, but it did not want to be seen as a superpower. But its influence in the area was limited. Its "capacity for making mischief," however, was great, and it was more inclined to make trouble when it felt excluded.
Stabilization in the Middle East required Russian cooperation. In spite of their competitive relationship with the West, the Russians did not want an explosive situation in the Middle East any more than we did.

A French participant agreed that there was a mutual East-West interest in preventing local crises from spilling over into major confrontations. Certainly, the Russians had the capacity to undermine any Western attempt at a solution. But we were wrong to think we could find a solution with the Russians that we had been incapable of finding ourselves. We needed to "do our homework" about what we expected from Soviet cooperation.

The question of how to involve the Russians was a hard one to solve, an American said. Did they want a stable peace, or was uncontrolled tension acceptable to them? It was appropriate enough to have a dialogue with them about the peace process, but the problem was that, in the Arab-Israeli dispute, they always adopted the most radical version of the Arab position. The Geneva format was doomed. There were other ways for the U.S. to establish a dialogue with the Russians without giving them a "veto over progress."

A British speaker summed up the challenge that the West faced in seeking a solution in the Middle East by saying that we had to deal with "a lot of very unpleasant people in a cruel and disorganized part of the world." We needed to "apply reason" to the problems and avoid taking initiatives unless we could reasonably expect they would succeed.

An American felt the correct approach was for the West to work together "quietly within the confines of diplomatic channels," and to avoid making public declarations. The situation in the Middle East was neither as bad nor as good as it sometimes appeared. It was always "fluid and changing." True, the West had suffered a setback in Lebanon, but not "permanent enfeeblement." The Soviets were not the wave of the future. New opportunities were possible in the coming months. It was essential that the West remain involved.

Note: Eric Rouleau, author of the French working paper, was unfortunately prevented from attending the conference because of a journalistic assignment.

II. THE STATE OF ARMS CONTROL NEGOTIATIONS

"Forging Ideas for Effective Arms Control"

Working Paper Prepared by Kenneth L. Adelman, Director, Arms Control and Disarmament Agency (USA)

A standard saying in Washington runs something like this: "Negotiating with the Soviets is not really all that bad compared to the ordeal of negotiating or, to be more accurate, battling within the U.S. to get a position in the first place."

"That is said only half in jest. The disagreements that take place over the bargaining table in Geneva can sometimes pale compared to the debates over arms control purposes and policies that take place in Washington. The Executive Branch, the Congress, the press, and the public all participate to varying degrees, depending on the issue."

Having a general understanding of how the system works in the West, the Soviets frequently assume that if they sit back and wait long enough, they can count on the West to negotiate with itself and come up with new concessions to try to move them. It is an age-old strategy. Unfortunately, experience has shown the Soviets that it is a safe and at times useful strategy for them to pursue.

This underlies the need for constancy and consensus, or at least a strong measure of support, if our arms control efforts are to be successful. The Reagan Administration has put great effort into building bipartisan support at home and greater consultation and coordination with U.S. allies. This underlies the need to try to look ahead, farther down the road, to see how we can achieve our basic arms control objectives and strengthen the public's confidence in them.

All of us here have a good grasp of where the different arms control negotiations stand today:

- Before the Soviets walked out of the INF talks, we introduced a number of initiatives, working closely with Allies. It is uncertain whether and when the Soviets will resume negotiations on these weapon systems.
- The Soviets have indefinitely suspended the START talks, but I am confident we have not seen the last of strategic arms negotiations. We have made a number of proposals there as well, to seek significant reductions and trade-offs.
- The U.S. is actively reviving issues in these areas to ensure that when the Soviets do come back, we will be ready to meet them halfway.
- Multilateral arms control negotiations will be where much of the action is this year—in the Conference on Disarmament with the new draft treaty for a total global ban on chemical weapons proposed by the U.S.; in the MBFR negotiations with the West's recently tabled proposal offering new flexibility on the data question; and in the CFE where we have tabled several proposals aimed at reducing the possibility of surprise attack in Europe and at increasing openness.

Rather than focus on specific issues in these negotiations, I would like today to discuss two different approaches toward achieving our arms control objectives which I believe should be considered over the longer term.

Looking down the road is important. In arms control, as in many areas, deciding where to go is often just as difficult as how to get there. In this sense, arms control may be as similar to a Raskolnikov (who took a lot of action without knowing what was right to do) as to a Hannieth (who knew what was right but just could not do it).

I wish first to address the need to seek ways by which we can, over time, reduce dependence on nuclear weapons in our defense posture while sustaining a balanced deterrent. Second, I wish to offer a few personal thoughts on the need to consider various ways by which we might advance arms control objectives.

De-Emphasizing Nuclear Weapons. Nuclear deterrence will, for as far as we can see into the future, need to be a central element in U.S. security policy. The U.S. commitment of that deterrent to the protection of U.S. Allies in Europe is at the heart of NATO and Western security. Whatever else we do, we must not cast doubt on the strength of that commitment and strategy, particularly in the face of the Soviet military build-up. Such doubt only increases instability and the chances of miscalculation. But a number of factors argue for examining further steps for strengthening our conventional forces and thus reducing the extent to which we must rely on nuclear weapons in U.S. and Western security strategy. For one, the U.S. no longer has the strategic nuclear superiority that it enjoyed up
Comprehensiveness is one of them. This is both a virtue and a problem. It is a virtue in the sense that it is best to limit all critical categories of armed forces. Otherwise, systems that are not limited have a tendency to be built up and exploited. Arms control in this respect is like wage-price controls, or other controls for that matter. When squeezed in a few areas, the other areas that are not so constrained tend to grow excessively, thereby diminishing or even undercutting the overall impact of the controls.

While more comprehensive agreements may be more likely to limit real military capability, they are by definition more complex and difficult to negotiate. They are also, in many respects, much more difficult to verify.

De facto arrangements would have a tendency to be less comprehensive, and to focus on areas or systems where verification presents fewer problems. They should, in theory, be easier to negotiate and possibly quicker to attain. By being less formal, de facto arrangements would also be more easily modified if circumstances changed than would legally-binding treaties or agreements. That, as well, can cut both ways depending on the circumstances.

Significantly, many opportunities are opening up in conventional weapons systems that could enhance security while decreasing reliance on nuclear weapons. Conventional weapons that could effectively assume military roles that up until now have been achievable only by nuclear weapons may not be far away. These systems are based on technologies for improved ways of finding and distinguishing targets on the battlefield and in the rear; on more sophisticated command, control and communications systems; and on more effective conventional munitions—the so-called smart weapons. They include, for example, "self-homing" artillery munitions and infrared submunitions. Our efforts in START and INF would reduce nuclear weapons to far lower and more stable levels. Our proposals are consistent with our nuclear deterrence strategy, and reflect a willingness to reduce the emphasis that has been placed to date on nuclear weapons.

In Europe, Alliance decisions over the last four years will result in a net decrease of 2,400 weapons in the nuclear stockpile there. Even with full INF deployment, this would mean five nuclear warheads withdrawn from Europe for every new one introduced.

These efforts, combined with improvements in our conventional capabilities, can help set the stage for a security policy that provides a better balance between nuclear and non-nuclear alternatives. Some of these conventional opportunities and programs are, admittedly, still in the early stages of development. They will also cost some money. But we need to look at them now in terms of how they can enhance our deterrent posture and confidence in it.

Strengthening the conventional element of our defense posture does not argue for a change in NATO's strategy of deterrence and flexible response. That doctrine, carefully crafted in the 1950's, has served the Alliance well and remains valid today. Moreover, conventional improvements should clearly not be entertained as a way to make possible a policy of "no first-use" of nuclear weapons. Such a policy would be both unwise and dangerous. To qualify the U.S. commitment to its own defense or to the defense of Europe with a "no first-use" posture would lower the Soviet calculation of the risks and potential costs of aggression against NATO. That clearly would not serve our fundamental policy objective of deterring war. The Europeans, who have borne the overwhelming brunt of two large-scale conventional wars this century, grasp this point better than we.

Flexible response—supplemented by an integrated policy for conventional force improvement that would offer a better balance of options, including the option of no early first-use of nuclear weapons—would preserve an effective deterrent and go a long way to reassuring our publics. As Oxford Professor Michael Howard has noted, "reassurance" of Western publics and political structures has been as important in maintaining our freedom and security as has "deterrence" in its narrower sense.

Defacto And De Jure Arms Control. Looking down the road from another angle, I believe some future arms control efforts might use a slightly different shape. To date arms control has been largely in the form of formal agreements establishing specific legal obligations binding on the parties. We should, of course, continue to seek such arrangements where possible to reduce and otherwise limit arms. At the same time, we should be alert to possibilities for engaging in arms control by mutual restraint, mutual example, or "mutually agreed unilateral policies. This could consist, for example, of unilateral statements of national policy which may be negotiated and confirmed in exchanges. These would in effect be reciprocal, not unilateral, undertakings.

Working Paper Prepared by Christoph Bertram
Political Editor, "Die Zeit" (FRG)

The present state of arms control is characterized by three disturbing features: the political willingness is absent between the U.S. and the Soviet Union, the only countries which really count in this respect; the technical problems for effective arms control are fast outstripping the traditional methods. And for limiting the arms competition nations have to keep their options open. All these are indications that the proposals presented in the current debate, while often intelligent or well-meaning or even both, offer no more than highly inadequate directions for how to emerge from the present deadlock. My own proposal in these circumstances is two-fold: to do everything to maintain what agreed restraints on arms competition exist, and to proceed, if necessary unilaterally, towards a more rational concept and a more stable arsenal of nuclear weapons than we have at present.

I. The Political Environment. Compared to public rhetoric only a few months ago, it is amazing how routine and tired the call for arms control has become in the Western political debates. To some extent this is the product of emotional exhaustion, caused by the feverish controversy over NATO's nuclear modernization programme in 1983; to some extent it follows from the realization that the world is not on the brink of nuclear disaster.

Moreover, the successful implementation of the first stages of NATO's nuclear programme has had a dual effect on the attitudes of the two major powers. The Soviet Union, by demanding up to the last minute of the Geneva negotiations a de jure recognition of its monopoly in land-based medium-range nuclear systems, has painted itself into a corner from which it will not emerge for a long time.

This might be different if the U.S. under its present leadership were willing to provide even modest incentives to the Soviets, not in the sense of eager concessions (which would clearly be wrong) but in that of offering to the Communist leaders in the Kremlin, embattled as they are by economic squeezes and by the fear of being left behind in the technological race, some perspective for a mutually reassuring strategy. The Soviets might then be willing to limit their own nuclear forces, perhaps in stages, to a level consistent with a nuclear detente strategy; this would offer a better balance of options, including the option of no nuclear first-use. Conventional weapons that could effectively reduce nuclear weapons to far lower and more stable levels. Our proposals are consistent with our nuclear deterrence strategy, and reflect a willingness to reduce the emphasis that has been placed to date on nuclear weapons.

The West has also taken several unilateral steps to reduce nuclear weapons, unilateral steps that we hope the Soviets would in turn replicate. The U.S. nuclear stockpile today is a third below its 1967 peak and the megatonnage has been reduced 75 per cent over the last two decades. In Europe, Alliance decisions over the last four years will result in a net decrease of 2,400 weapons in the nuclear stockpile there. Even with full INF deployment, this would mean five nuclear warheads withdrawn from Europe for every new one introduced.

These efforts, combined with improvements in our conventional capabilities, can help set the stage for a security policy that provides a better balance between nuclear and non-nuclear alternatives. Some of these conventional opportunities and programs are, admittedly, still in the early stages of development. They will also cost some money. But we need to look at them now in terms of how they can enhance our deterrent posture and confidence in it.

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Flexible response—supplemented by an integrated policy for conventional force improvement that would offer a better balance of options, including the option of no early first-use of nuclear weapons—would preserve an effective deterrent and go a long way to reassuring our publics. As Oxford Professor Michael Howard has noted, "reassurance" of Western publics and political structures has been as important in maintaining our freedom and security as has "deterrence" in its narrower sense. Defacto And De Jure Arms Control. Looking down the road from another angle, I believe some future arms control efforts might use a slightly different shape. To date arms control has been largely in the form of formal agreements establishing specific legal obligations binding on the parties. We should, of course, continue to seek such arrangements where possible to reduce and otherwise limit arms. At the same time, we should be alert to possibilities for engaging in arms control by mutual restraint, mutual example, or "mutually agreed unilateral policies. This could consist, for example, of unilateral statements of national policy which may be negotiated and confirmed in exchanges. These would in effect be reciprocal, not unilateral, undertakings.

These kinds of de facto arrangements would not, obviously, apply to all situations. In weighing the relative merits of a de jure or de facto arrangement in any given case, certain considerations come to mind.
anti-satellite warfare. Moreover, in all its proposals for strategic arms reductions (START), the Reagan Administration has indicated that it sees not only a mere regulation of the nuclear arms race but a West-German non-aggression, if not plainly unacceptable, to the Soviet Union. Whatever one may think about the American control proposals, they offer no much incentives to make decisions about the future. What is more: the structure of American arms control policies is a matter of national policy, not necessarily of principle.

As a result of both trends, and despite the popular guessings about impending moves for European governments for a new initiative towards the Soviet Union, it is the least reasonable to assume that there will be a change in the policy of judging and negotiating in earnest over how to regulate the arms competition. The possible growth of arms reductions is at the cost of change in the official U.S. attitude towards a future search for arms control 1985-86 on the side of nuclear arms negotiations. And even then it is uncertain whether the Soviet Union would be able (another succession crisis?) or willing (a bigger role for the military?) to respond constructively. Arm control, clearly, is not for today, only possible for tomorrow.

The first of these is the trend towards even shorter reaction times. The flight-times of intercontinental missiles at about ten minutes. The growing accuracy of delivery systems—towards the intermediate ballistic zero in the 1980's—means that reaction times, too, are being shortened drastically: if you want your nuclear applies to nuclear as well as non-nuclear conflict. The main arms race today is less about numbers but about speed, who can react faster.

The second trend is towards the interchangeability of military systems, particularly of non-nuclear and nuclear systems. The modern cruise-missile is a case in point: the same missile would be nuclear is only going to be conventional? Instead,

The third trend is towards dependence on highly sophisticated but also highly vulnerable non-nuclear weapons. In the American view, the increased vulnerability of strategic systems means that there is no need to worry about non-nuclear weapons. The reasons for this are likely to have important implications for the arms control negotiations. However, most of the proposals debated today, among governments, experts and the media, offer not much incentives to a more constructive search for arms control.

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readiness to accept a measure of on-site inspection. However, even if one or all of them should succeed in the near future, the effect will be measured more in terms of political symbolism than of a significant control of arms. However valuable it would be to be able to demonstrate, for the first time, that East and West can agree on certain measures of military detente, this would remain peripheral to the major problem of regulating the nuclear competition.

IV. The Priorities. The description of the state of East-West arms control presented here is not a cheerful one. The political will is absent for any major initiative, the dynamics of military technology threaten to reduce the window of opportunity over events in war, and the set of current proposals are either not promising or irrelevant to the new problems or both. What, in these circumstances, should be the Western priorities in arms control?

First, we should try to maintain the treaties and agreements that have been negotiated in the past. True, none of these agreements has been perfect. But each has been helpful—even the much-maligned SALT II. Treaty has served to provide a basis for holding arms accountable, so much so that the U.S., which refused to ratify the Treaty is now accusing the Soviet Union, which was willing to ratify, of having failed to observe some of its stipulations! The Anti-Ballistic Missile Treaty of 1972 remains in force although it is violated in particular, the U.S., are displaying signs of restlessness—and yet it provides the only available leverage for constraining the search for active missile defences.

But there is another, important reason why these agreements should not be disregarded: they constrain the dynamics of arms competition. International order will only develop through the respect of open commitments and treaties; it cannot build on broken contracts. And not even Soviet violations would justify an abrogation by the West unless these violations were of such magnitude as to deprive the whole agreement of any sense; this is not the case in any of the American claims made recently against the Soviet Union.

Second, the West must rethink the importance that it attributes to the verifiability of arms control agreements. The trend in Washington at the moment seems to go in the direction of making the ability to monitor properly the compliance by the other side the supreme criteria for even entering into arms control negotiations; witness the recent refusal to talk to the Russians about controlling military competition in space. This is a questionable approach for two reasons. For one, it tends to discourage the search for a mutually acceptable verification regime before negotiations even begin; if verifiability becomes the alibi for rejecting the search for something else, it becomes the first place. For another, there is the danger of confusing verification and the response to non-compliance: as the recent statements by the U.S. Defence Department about alleged Soviet violations have indicated, the problem has not been to identify violations so much as to decide how to respond if the explanation offered by the Soviets were deemed unsatisfactory.

The real questions about verification are different: what degree of uncertainty is tolerable? And what response to non-compliance is warranted?

Third, it will be necessary to halt the trend towards shorter and shorter reaction time: arms control must seek to regain time for crisis management. This can be done through agreed limitation on arms ceilings per missile, even through an agreed increase in the number of missiles permitted to each side provided they carry no more than one warhead. It would also be done through the agreement of certain crisis procedures between East and West: a more reliable hot-line as proposed by the Reagan Administration; nuclear risk reduction centers in Washington and Moscow, as suggested by a group of U.S. Senators; and permanent communication through Standing Commissions between the major powers as well as in Europe.

But both these steps have to wait until the political climate between East and West has improved to make such bilateral or multilateral agreements possible. In the meantime, there is no realistic reason why the West should not undertake unilaterally those steps that could lead to a more robust nuclear posture, and that can be described in terms of security. Indeed, unilateral arms control is probably the most promising approach that exists. For one thing, arms are designed and deployed by unilateral decision. It is easier to decide oneself that one can do away with some weapon systems or do without others, than to negotiate about weapons limits with a military rival!

To reintroduce time into the military decision unilaterally can mean a number of things. It can mean to strengthen conventional forces in Europe, capable of meeting but not conducting a surprise attack in order to weaken dependence on the early use of nuclear weapons. It can mean to display the lower cost of a few short-range delivery-systems for nuclear weapons in Europe—regardless of whether Soviets follow suit. An American decision to forego the MX programme of multi-warhead missiles would be a contribution to strategic stability even if the Soviets should persist in maintaining their present nuclear programmes.

Would effective ballistic missile defence help to gain time? This is doubtful for two reasons. For one, no such system can be "leakproof", and offensive weapons can still, at much lower cost, overcome the defences that are conceivable even in the more distant future (although some protection for command and control centers could be desirable). For another, ballistic missile defences, such as the currently much-discussed space-based variety, depend on themselves such short reaction time that they do not gain time for the defender but increase the pressure for ever faster and more automated responses.

Would a unilateral undertaking by the West not to use nuclear weapons first help to gain time? Probably not, because such a commitment is inherently incredible in the nuclear age. Nuclear weapons are weapons of last resort—and herein lies their deterrent value. Deterrence means precisely that you cannot be sure that the other side will not use nuclear weapons if pushed, and no formal undertaking will provide certainty to the contrary.

As these last two examples show, not every unilateral restraint helps to gain time. But there are three other reasons why Western effort to increase the margin of time for political control, evolution and crisis communication would, I believe, be a major contribution to arms control in the 1980's and one that does not have to wait until East-West agreements become possible again.

It would also contribute to rebuilding the much strained political consensus in the West over the reliance on nuclear weapons for security. One of the driving fears of the anti-nuclear movement which has been so affected many in our societies who used to be uncritical towards nuclear weapons is precisely that political control over nuclear decisions could be replaced by computer control, that the loss of time implied by modern technology leads to an abdication of politics in favour of automated programmes. If we do nothing to halt the current trend, we risk not only losing the time we need to deal responsibly with international crisis and nuclear deterrence, but also the public support we need in order to maintain the credibility of deterrence itself.

Working Paper Prepared by The Rt. Hon. Michael Heseltine, Secretary of State for Defence, Member of Parliament (UK)

I take as read the current position in the various arms control fora. Nor do I intend to state the obvious on the immense value of effective and verifiable measures of arms control, and preferably of arms reduction. Instead I wish to comment briefly on the context in which arms control negotiations take place.

A decade ago, the arms control process was seen both as a major element in a more constructive political process towards East and West and, at least in the public perception, as exercising a genuine restraint on the pace of weapons deployment and the scale of deployments on both sides. The DEABM (Anti-Ballistic Missile) and SALT I Treaties were the cornerstones of this edifice; but there were perceived successes elsewhere, particularly the NPT (Non-Proliferation Treaty). Ten years on and all is gloom. It is tempting to look back to an earlier golden age. But perhaps success was never always.
Ultimately, in this area as elsewhere, the counterbalancing pressure to the interests involved rests upon the exercise of political leadership. Within the Soviet Union, the evidence is of an obsessive concern for national security which dominates both the party and the armed forces; but the party leadership are not subordinate to the military interest. They will be ready to strike a bargain only if they believe that they cannot obtain an equally good or better result without giving anything away. Western unilateralist gestures will not be reciprocated. Perhaps because they have an unrealistic idea of the influence of Western “peace movements” the Russians seem to put their faith in the ability of these movements themselves to impose one-sided constraints. Maybe political developments in Western Europe and hopes for increased East-West contacts will lead them to put less faith in this. A major unanswered question is whether they will take the right lessons from the deployment of INF (Intermediate Force weapons) on time in Britain, the F.R.G, and Italy, and from the outcome of last year’s elections.

But we should not ignore the institutional pressures in the West and their implications. We rarely seek to analyse the world as it might be seen from Moscow. The need to engage in a public debate with vocal groups equally opposed to the needs of defense at all has its own over-simplifying and distorting effects—as in the quite disproportionate attention given to the narrow question of the S.S.P.O. war cruiser Peking II. We should not underestimate the significance of the turnover in the political leadership in the Western democracies and the “need” to take initiatives to retain public support. These processes generate changes in the Western negotiating stance at a pace which the slow-moving, ultra-cautious Soviet leadership find very difficult to assimilate. And the essential overwhelming human, financial and industrial resources involved in the defense commitment dwarf those devoted to the less tangible and definable quest for arms limitations.

Arms control is a seductive subject for “think tank” solutions which are technically elegant and would lead to a better and fairer world as we construct it. At this level it can be isolated from the wider “political” question of the underlying relationship between East and West. The underlying reality is that we have to seek agreements with the present political leadership in the Soviet Union on terms which they can comprehend and on the basis of mutual accommodation and acceptance. The crucial question of verification cannot be tackled without some basis of trust. A dialogue had to be developed across a front broad, within which arms control discussions can play a part. But we cannot put the cart before the horse.

**DISCUSSION**

**Moderator: Donald S. Macdonald**

Why arms control negotiations had become detailed, who was to blame, and what initiatives and proposals should be put forward to get talks back on track were the subjects of this discussion. Some participants deplored that the West had lost sight of what it wanted to achieve in arms control negotiations. Others felt that the challenges of arms control had become greater than ever because of the situations in the superpower developments in the arms race. All agreed that the Western interest lay in returning to the negotiating table. But there were varying degrees of both pessimism and optimism that this would happen any time soon.

A British participant observed that progress in arms control was difficult because there was no real momentum in that direction in the general procedures of government. The pressures on government leaders in the West—indeed, he supposed, in the Soviet Union—were to go in the opposite direction. Momentum was on the side of the “vast military apparatus that surrounds us.” Most decisions of government were directed toward enhancing the West's military capability, not cutting it back. Progress in arms control, the speaker lamented, had never gone beyond “limiting future expansion.” It had never brought about actual reductions, in spite of agreements like the INF Treaty, SALT I, and SALT II. The momentum of the arms race seemed to have slowed down. It was unlikely that a new conference would take place at the level of government.

An American participant agreed that the prospect for arms control progress in the near future was not good. This was largely due to Soviet disincentives to talks. First, they did not want to do anything that might help President Reagan in the November election; they viewed any “high-level dialogue” as potentially harmful to him. Second, there was an uncertainty in the decision-making process in the Soviet Union due to the succession of leaders in the past three years. And third, the Russians still hoped to divide the U.S. and Europe over the question of INF deployment.

This analysis, in one German's view, was not correct. The arms control problem was not only related to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a very low ebb, and to Soviet action, per se. Relations between the U.S. and the Soviet Union were at a

Another American argued that it was a mistake to think that arms control negotiations required as a precondition a better atmosphere. The U.S.S.R., after all, had negotiated SALT I while a hostile administration was in power. An American participant agreed that the prospect for arms control negotiations required a precondition of better atmosphere. The U.S.S.R., after all, had negotiated SALT I while a hostile administration was in power.
reductions in both the number of missiles and in megatonnage. Finally, the various proposals aimed at breaking the deadlock in the INF negotiations underscored the administration’s seriousness about arms control.

Of the various alternative arms control proposals that had emerged in the West, a German was concerned that none of them addressed the real challenge, which was, in his words, “the implosion of time.” The arms race was moving technologically to ever shorter reaction times. In ten years, political control over military events might no longer be possible. This was especially disturbing in view of the fact that future wars would not be likely to result from careful planning but from things going wrong. Such proposals as no first use, nuclear freeze, and nuclear-free zones were not useful, the speaker went on. The notion that nuclear weapons would only be used in the last resort was inherently incredible. The mere fact that such a concept had been talked about in the West had “tarnished the task of Soviet military planners.” The Russians had increasingly enhanced their capacity to deal with Western military implications by non-nuclear means. Nuclear-free zones had a minimal impact on reducing the chance of nuclear war. They were not nuclear-safe zones and would not change the military situation. Their only relevance was political. An American added that most arms control proposals today were significant only in their political or symbolic impact. They had lost their relationship to strategy and had become almost an end in themselves. We needed a “new intellectual framework” for arms control, which would enable us to judge whether a proposal made any sense beyond being acceptable to the Russians.

The German speaker thought that unilateral action offered the greatest hope for arms control in the near term. Given the absence of agreement and the worrisome technological trends, the West needed to “look more courageously in this direction.” We at least ought to put our own house in order. Had we exhausted the possibilities of restructuring our own military forces in a rational way? Our heavy reliance on short-range battlefield nuclear weapons suggested that we had not. Perhaps it was easier to make arms control progress without negotiating with the other side. Reciprocity in the end was not so important. What we did unilaterally, we could always undo unilaterally.

A Swede agreed that, given the present deadlock, the unilateral approach had some attraction. But we had to be careful how the Russians perceived unilateral actions on NATO’s part. What was intended in the West to be stabilizing might be perceived in the Soviet Union as threatening. As for the nuclear freeze, the speaker wondered if the NATO nuclear option was more credible. A pledge of first use coupled with force planning might build confidence, enhance stability, and reassure domestic constituencies.

A British speaker was reluctant to dismiss a nuclear freeze as an arms control option. The specter of nuclear winter, in which all life in the Northern hemisphere might be wiped out by a single 100-megaton blast, argued powerfully for a freeze. To contemplate using nuclear weapons was suicidal. A freeze would give both sides time to plan more stable systems. If we in the West failed to seize the initiative, public support for NATO would erode.

Two Germans endorsed the view that public support for the alliance depended on arms control progress. One speaker warned that, if the alliance paid only lip service to arms control, it would lose its political cohesion. We could rely on nuclear deterrence only if we made a “constant and credible” effort to reduce the chance that nuclear weapons might be used.

The other German pointed out that arms control was a subject that “concerned and agitated” millions of people. We needed to “brighten up the arms-control horizon.” If we expected to conduct the necessary debates about our security and defense problems, we were going to have to address the questions of force structures, weapons procurement, and changes and adjustments in our strategy—such as conventionalizing our defense—in the coming decade. This would be impossible unless a parallel effort in arms control was going on. The measures we needed to take were expensive and politically awkward and required public support. Arms control had a “legitimizing function” for our future security and defense programs. Public opinion would not support these programs unless we legitimized them with a “sustained, studied, and serious effort in arms control.”

Some participants were more optimistic about the prospects for a resumption of arms control negotiations. An American felt there was “too much gloom” being expressed. There were considerable pressures on the Russians to return to the conference table. They were concerned about Western defense efforts, their economy was “in a mess,” the technology gap with the West was increasing, and they faced serious problems in Afghanistan and in East Europe. They had seen the West stick together in the INF deployment and the election and re-election of conservative governments there. Regardless of what party won the U.S. election, the Russians would have to return to the negotiations in 1985. The only requisite on the West’s part was unity and an intelligent policy.
Ever since Hephaestus, God of the mechanical arts, created "two female statues of pure gold which assisted him and accompanied him wherever he went," the world has been going uphill or downhill depending on: whether you view a glass of wine as half-full or half-empty, whether you believe in R2D2 or Frankenstein's monster; or whether you study employment or unemployment statistics.

Unemployment and underemployment have become emotionally and politically charged words. A clinical treatment of the matter is likely to be misunderstood or misrepresented because it concerns ideological differences and voters with widely varying interests. For example, to assert that many people are voluntarily unemployed and subsidized by their deluded countrymen, will evoke a storm of protest from both injured parties; to contend that automation and robotization can, in the long run, create many more jobs than will be destroyed, surfaces waves of disbelief from everyone except the inventors of such technology.

In theory there is employment opportunity for everyone who wants to be employed. Theory and practice come apart because cultural and political barriers, imposed by society, retard or interrupt the natural employment process. If people are not employed—or are underemployed—the causal factors must be found in how society has trained, motivated, and priced labor; blaming advancing technology as the reason for unemployment avoids realities, injects a scapegoat, and diverts attention from what needs to be done.

The demand for work is infinite but the supply of workers is restricted—not the other way around. Workers are restricted, first, by natural and unavoidable constraints (i.e., age, health and sleep) and second, by individual and collective choice (education, mobility, retirement, subsidized non-participation, and leisure time preferences).

Consequently, if large numbers of people are involuntarily unemployed or underemployed, the constraints placed by society on the supply of workers must be studied, not the demand for work. The demand for work is always there but not always at the levels of compensation the unemployed have been persuaded to consider as either adequate or justified. Shoe-shine boys are hard to find in Scandinavia and the Benelux but the demand is certainly there. Similarly, there is always demand for skills that are not immediately available. Thus, the problem lies in the mismatch between changing but ever-present demand and supply that cannot or will not respond.

Focusing on half-empty glasses and unemployment levels is not likely to be as fruitful as eliminating or ameliorating the impediments and constraints on the employment process. Yet most elected officials (politicians, union and industry association leaders, members of representative bodies, elected members of boards of directors, and so forth) have pursued the paths of least resistance in trying to solve unemployment problems. The paths selected include such programs as overly generous unemployment benefits, financial aid for inefficient industries and obsolete plants, reductions in the number of hours worked each week (not as a way to raise the quality of life but to redistribute the work still available), trade restrictions, production quotas, and similar schemes.

Work is a negotiable commodity. The time people can make available to work—to be a worker—is measurable and finite: it is simply the population of a country (city or region) adjusted by the unavoidable constraints on work imposed as signalled above. Human behavior, when confronted with the choice of working or not working, is broadly predictable and can be influenced. The problem is not that someone has been thrown out of work, but that circumstances prevail prohibiting the immediate reemployment of that person. In a dynamic society, people will and should be "thrown out of work" continually—simply because the nature of the work performed must fundamentally change for standards of living to fundamentally improve.

FACTS AND FIGURES. Historical evidence for the assertions put forward above is quite persuasive. However, the evidence—taken in the aggregate—does not do justice to the seriousness of unemployment problems faced by many countries and particularly many cities like Liverpool, Detroit, and Rotterdam. There are currently 34.8 million people unemployed in the industrial democracies; there are likely to be 90 million people registered as looking for work by 1985.
The half-full glass is this: employment has been rising steadily among the industrialized democracies for at least the past 100 years—this is the period of history for which reasonably reliable statistics are available. Over this same period, employment as a percent of population has increased—which is what we have been doing for the past century in the job formation process—especially in some parts of Europe—but these have generally been followed by periods of rapid expansion in employment. The rate of increase in the number of jobs may have hesitated, causing elected officials to worry, as it sometimes has, but at no time did the employment process really suffer to the extent predicted.

Agriculture. Although data is obviously sketchy, marketable employment (paid-for work) has been increasing ever since 3000 BC. The practical maximum man is physically able to work is about 5,000 hours per year, or about 100 BC per week. Before the Industrial Revolution, this meant about 5,000 hours per year hunting, fishing, building shelters, weaving cloth, and harvesting rudimentary crops. Those who did not, or could not work did not survive unless they were provided for by some unusually productive and magnanimous benefactor.

The invention of the ox plough, somewhere in Mesopotamia around 3000 BC, fundamentally changed the prevailing concept of work; more could be produced than could be consumed by the individual or the family, with the result that excesses were either saved or traded. Saving introduced the first possibility of labor and trading encouraged a division of labor that favored efficiency and talent. The most rewarding form of work was farming and farmers quickly outnumbered hunters and producers of goods or services.

Farming remained the dominant form of employment until about 1880, when advancing agricultural technology began to significantly reduce the labor content of a ton of harvested produce. Today, less than five percent of the labor force in the industrialized democracies are able to produce 20 to 30 percent more agricultural products than can be consumed by these nations.

The critical lessons to be learned from the so-called agricultural revolution and the employment discontinuities it provoked, are these: First, it was a relatively gradual and unspecified change that started in the early 1800's and stabilized in the 1970's. Second, the retraining necessary for to factory jobs was clearly modest. Third, the Incentive to be mobile—to leave the farms and move to the cities or come from the grid—was apparently substantial. Fourth, it is somewhat effectively attracting many countries to import agricultural products from low-cost foreign suppliers. And most importantly—from the perspective of farmers—labor and capital remained together so that income could be derived both. In fact, income from farm work itself has probably remained relatively stable in constant dollars, while a farmer's income from land and capital together today exceeds national averages for all forms of work.

Industry. The industrial economy began in the early 1700's but did not attract large numbers of farmers, tradesmen, women and children until the mid-1800's. By the 1860's, industrial employment exceeded all other forms of registered employment in what were then the industrialized democracies.

Unlike farming, which underwent two fundamental changes (increasing farm size and increasing output per worker through mechanization) industry introduced three additional and more threatening changes: the separation of labor from capital; competition from foreign-made products; and the introduction of organizational forms that centralized, specialized, synchronized, functionalized, and institutionalized labor while concentrating, maximizing, and standardizing output.

Instead of largely self-sufficient families or communities, the overwhelming bulk of foods, goods, and services were made available for sale or exchange. Everyone became dependent on the production of someone else. But, in so doing, a division of labor dramatically increased productivity and, therefore, per capita income (Exhibit 3).

Despite frequent and widespread resistance, labor-saving technology has prevailed because, in the long run, the benefits to the individual of real advances in productivity will always outweigh the costs. Although evidence is somewhat inconclusive as to when resistance breaks down, a factor of 5 to 10 seems unreasonable. In other words, when a machine can replace at least five men, at an investment of no more than the lifetime wages of one man, technology will ineluctably surmount whatever forms of resistance may have been placed on its path.

Technology generally follows the same path of least resistance favored by elected officials. It takes the form of gadgets, toys, and other forms of registered employment in what were then the industrialized democracies.

The implication of the estimates put forward above is this: (1) The Gross Domestic Product of all stated; and (3) a larger percentage of the non-institutionalized population is currently working than employed and self-employed to return to the registered economy, without a fundamental change in the tax structure, is negligible.
The European steel industry, for example, has suffered seriously and probably permanent damage from what seems to be a singular lack of vision and resolve in the mid-1960's. At its peak in 1970, the European steel industry employed nearly 600,000 workers and operated through more than 100 very profitable corporations. By 1980, only one or two of these companies are able to make ends meet, the remnant are supported by the state and the EC is waging a heroic war to repair the damage.

The rise of the Japanese steel industry and the dramatic impact their unfinished and fabricated steel products (cars and ships) have had on the European steel industry, and Europe's traditional export markets have not been described again and need not be described. What is well known is that all could have been avoided for less money than will ultimately be invested in protecting jobs in obsolete plants and charging buyers of steel premiums above "fair market" prices.

Using a large and powerful computer-based steel industry simulation model, it was possible to determine the size and shape of a European steel industry that could not only satisfy European demand and compete on a cost basis with the Far Eastern imports (despite higher European wages), but could also provide an adequate return on invested capital.

In one particular configuration, the European steel industry would be structured around eight (instead of 38) integrated plants, producing eight to 10 million tons of steel, 20 (instead of 205) mini-mills for plates, profiles, bars, and wires. By using the most modern technology available today, the industry would employ 150,000 rather than 470,000 workers to produce between 35 million and 100 million tons of steel, competitively insulate Europe from imports, and provide lower-cost steel to the European metal fabricating industries than they can purchase abroad. The capital required is $70 billion and the arrangement promises $14 billion in annual cost improvements ($6 billion in labor and $8 billion in energy, supplies, and maintenance) over the current method of production.

The important point, however, is that all the European countries together have already invested roughly an equal sum simply trying to keep the current, largely obsolete, production configuration in operation. In view of the violent strikes organized in France, England, and Belgium to keep obsolete mills and the obsolete practices being taken by elected officials, the entire situation may be therefore understandable—but in the longer term severe damage will have been done to the shape of the industry.

The labor reduction opportunities in steel are pertinent, because various studies prepared by David Birch and others estimate that one out of every 200 job losses in the steel plant is due to steel, 20 (instead of 205) mini-mills for plates, profiles, bars, and wires. By using the most modern technology available today, the industry would employ 150,000 rather than 470,000 workers to produce between 35 million and 100 million tons of steel, competitively insulate Europe from imports, and provide lower-cost steel to the European metal fabricating industries than they can purchase abroad. The capital required is $70 billion and the arrangement promises $14 billion in annual cost improvements ($6 billion in labor and $8 billion in energy, supplies, and maintenance) over the current method of production.

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To date, however, displacement of knowledge workers by machines has been modest. A recent Austrian study estimated that while collar workers in all industrial and service sectors were only moderately affected by automation, mechanization, or computerization. With the exception of banks, insurance companies, and government agencies—where the percentage of jobs affected can be compared with what was predicted for blue collar workers—white collar positions potentially displaced by technology ranges between one and 22 per cent, depending on the industry (Exhibit 6).

Threats to be observed are these. First, unlike the agricultural labor force, industrial labor force—technology known today does not promise to massively displace information workers in the foreseeable future—thus employment growth rates should remain unabated until at least the year 2000. Second, in the informational sector capital and labor are coming somewhat together again, promising the information sector of the century. Third, the ability of the informational sector to quickly absorb displaced industrial workers is far less than factories were able to absorb farmers and, as a result, massive retraining programs will be needed by all the industrialized democracies.

In April of 1983, the National Commission of Excellence in Education prepared a report entitled A Nation at Risk and pointed out that the number of "functional illiterates" in the U.S., who will have difficulty finding employment, ranges between 18 and 64 million people. Comparable estimates have been prepared by various ministries of education. For example, various reports estimate that 70 per cent of all administrative jobs in 1985 should be performed with the help of a computer but no more than 25 per cent of the employees holding such jobs will be computer-literate.

Exhibit 7 illustrates the dramatic increase in gross wages per hour—actual and in constant 1980 dollars—in the Netherlands since 1895. While far more pronounced in the Netherlands, comparable trends have been experienced in all industrialized democracies. The unemployment rate in the Netherlands, for instance, while higher than that in the United States, is widely accepted as the price of labor—particularly the price of labor in many threatened industries—is far too high. Not only is the employer persuaded to avoid taking on new workers but transaction costs are added to the point demand falls. For example, if $100 per cent were imposed for oil dropped when prices escalated by 400 per cent, a comparable development can be detected with regard to labor.

The industrial revolution attracted farmers from the country, immigrants from agricultural societies in neighboring towns, and factories. The industrial revolution also exploited the immobility of labor. Today, more and more people are enjoying by employers to separate redundant, incompetent or unwilling labor. In this regard, the U.S. and Canada still enjoy a significant competitive advantage over the European democracies and the inevitable restructuring of the work force in Europe is likely to cost more, take longer, and culminate in a less economically attractive palette of jobs than, for example, Japan and the U.S.

There is a disturbing correlation between unemployment allowances and benefits and the length of time the unemployed remain inactive (Exhibit 8). Generous unemployment benefits permit the inactive members of society to be more particular and selective about accepting a new position—particularly if wages and job status are less attractive than in a previously-held position. In Europe, the job-seeker can remain a ward of the state for at least two years, and in some countries longer, before economic pressures become really serious.

Finally, disillusionment. The majority of displaced workers are re-employed within 12 months and cannot be classified as either disillusioned or disenchanted. But an increasing number of unemployed are becoming discouraged, hopeless, and have lost self-confidence and self-respect. Although there are many self-help arrangements and therapy centers, few long-term unemployed seek assistance or participate in community service projects just to avoid to-be-learned are these. First, the situation workers-white collar workers by machines has been modest. A recent report (Exhibit 6).

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Possibly the most useful contribution a paper such as this can make is to put forward uninhibited and unconventional thoughts that may stimulate further thinking and discussion with the expectation that practical policies and programs will ultimately be conceptualized and implemented by the industrialized democracies. The term "practical" is used in recognition of the fact that long periods of time are necessary to change direction and permit the adoption of what are fundamentally different ideas on how to manage society.

1. Tax raw materials and energy—not people. Rather than taxing the incomes of most workers, the idea would be to tax energy (fossil fuels), non-renewable raw materials (iron ore, bauxite, certain types of rare timber, and so forth), in addition to transaction values (sales taxes, value added taxes or other taxes on consumption), corporate profits, capital gains, high incomes (to redistribute income and wealth).

The advantages of the idea are obvious, but the implications are somewhat mind-boggling. The advantages would be a refocusing of technology on reducing raw material and energy content rather than labor content. In other words, potatoes could become a raw material for semi-synthetic fibers rather than petrochemicals. Tax avoidance and the administration of taxes would be significantly reduced, individual incentives would be enhanced (the incremental effort to work would not be taxed disproportionately), and many similar benefits.

The process of applying such an unconventional tax system is not too complicated—for example, property and tax application would start at possibly three times the existing national average wage level. Excise taxes would be applied to imported and domestically extracted raw material and fossil fuels; imported goods would be taxed on their raw material content, and exported products would be tax-reimbursed.

There would obviously be the same level of confusion in pricing products as when oil prices increased by 400 per cent and when European value added taxes of 10 to 25 per cent were imposed after the Second World War. In most countries, after-tax income would increase by 25 to 50 per cent, but the purchase price of goods would rise significantly while the price of services would remain almost stable. If the system works effectively, workers would neither come out ahead nor behind, but they would be given far greater freedom on whether to save or consume.

The U.S. government collects roughly $600 billion in taxes annually. Of that amount, $286 billion are derived from individual income taxes. The remainder is broken down as follows: $61 billion corporate taxes, $17 billion social security taxes, $21 billion excise taxes, and $29 billion in other taxes. Assuming that progressive taxation would only begin at $40,000 to $50,000 a year, roughly $200 billion in tax revenues would be foregone. Approximately $220-250 billion was paid in the U.S. for domestic imported fossil fuels, minerals and other non-renewable raw materials and the import/export of raw material content is in balance, the excise tax on raw materials and fossil fuels would amount to about 80 to 100 percent. This is obviously a significant increase, but in terms of the final price of the end product somewhat less about 40 per cent, because energy and raw materials average 40 per cent of the cost of goods sold.

To reduce the cost of a transaction by minimizing energy and raw materials, tax revenues will obviously decline. The same phenomenon occurred when labor prices increased; unemployment rose, but with the added burden that unemployment allowances had to be paid. Rather than continuing to increase taxes on raw materials and fossil fuels, the funds needed by national and local governments will have to be obtained through increases in value-added taxes. In the U.S., a 10 per cent sales tax would deliver between $100 billion and $150 billion, depending on what is included or excluded and subjected to taxation.

Excise taxes would not be imposed on regenerative raw materials such as agricultural or fishery products, harvested timber, and so forth. Neither would taxes need to be levied on the price of intermediates (electricity, synthetic fibers, and so forth).

In this way, all the tax reform bills in the U.S. (Bradley-Gephart, Hall-Rabuska, Kemp-Kasten, and so forth) are designed to stimulate the economy, few proposals are focused on reducing the relative cost of labor in the cost of goods sold. It is the labor part of the transaction, however, that requires urgent attention.

2. Institutions based on wage differences and operating subsidies to industry. A variety of factors have, over the years, determined the nature and amount of cuts imposed on imported goods. The primary factor has been to protect local industries, even though such industries might have been operated in an inefficient manner. Since the Tokyo Round of discussions aimed at reducing trade restrictions, the number of restrictions has increased by 500 per cent.

The business strategy of many nations has been to exploit low-cost labor and heavily subsidize certain industries to create export markets while at the same time insulate local consumption from foreign-made goods. While the primary defense plan is the sole prerogative of the nation that wishes to impose such a plan, it is questionable whether other nations are likely to contribute to the cost of such plans. In other words, an arrangement which results in the loss of jobs domestically through the
import of goods and services that are produced by significantly lower paid workers and subsidized by governments of a sponsoring country, will disrupt the employment process in a importing country. Sometimes import restrictions take that fact into consideration, but more often than not there is little relation between the labor content of a product imported and the duty imposed. Thus, current arrangements also restrict goods made in an economically sound manner—steel from Japan is a good example.

Consequently, a thorough review of the arrangements established under the GATT might be considered within the context of the ideas put forward in this paper.

3. **Restrict the availability of people under 25 years for employment purposes.** To directly combat the problem of unemployment among youth, the minimum school-leaving age should be raised to 15. Many countries are considering such a step already. But more importantly, upon graduating or dropping out of the education system, the youth should be given three options: (a) military service, (b) community service, or (c) post-secondary school education. While they would not be forced to accept one alternative or the other, the state would not be obliged to pay unemployment benefits if they do not make a selection.

All three forms of training would heavily accentuate the development of functional skills needed by society. Thus, post-secondary educational programs would need to be dramatically restructured to provide the practical skills and talents needed, particularly by the industrial section of the economy, and the more philosophical—job-unrelated—subjects provided in profusion by most universities in the industrialized democracies should be de-emphasized or at least not provided at the expense of the taxpayer.

The military could provide not only the classic skills needed for defense, civil order, health, and behavioral discipline, but should focus primarily on teaching the mechanical skills to maintain and operate equipment for the agricultural and industrial sectors of the economy. Community service could permit "apprenticing" young men and women to the construction companies, hospitals, police and security agencies, public utilities, local governments, and so forth. The purpose of such apprenticeships would be to learn the skills necessary to ultimately perform administrative and community tasks as well as tasks in the nonprofit sector.

The idea put forward above makes maximum use of existing institutions—the military, the service industries, and the universities. These institutions would need to be organized and funded to educate the youth, bring them through the difficult years of adolescent life, and prepare them for the prime employment years aged 25 to 45. Further, if implemented, the idea would introduce the more senior members of society who would be called upon to act as teachers. Finally, the three forms of employment provide an opportunity for the "disillusioned" workers who represent one and three per cent of the labor force. It is a way for them to get started again.

4. The incentives to work must generously exceed the incentive to withdraw from the labor force. While a dramatically changed individual income tax program could contribute to making work financially more attractive, unemployment allowances—which remain important in a civilized society—must be so structured that they do not form a viable alternative to work (Exhibit 8). Whether such a program includes a very rapid build-down of allowances, coupled with non-convertible arrangements such as food stamps (the U.S. approach), or far more rigorous policing of workers who habitually refuse to either accept certain types of employment or move to centers of entrepreneurial initiative where jobs are available needs analysis.

The problem has become very serious, in many places and policies in this regard must become far more effective than they have been. In certain countries, for example, there is little incentive to take on part-time work when part-time work pays no more than unemployment allowances. In such countries, income from part-time work must be deducted from unemployment allowances and the arrangement obviously dilutes the incentive to even seek part-time employment, much less accept it if offered.

Employers must obtain far greater freedom in their ability to restructure the labor force—although it seems only fair that employers primarily fund the cost of retraining technologically redundant personnel. In fact, taking on a new employee should place an obligation on the employer to immediately start a fund for the retraining that employees when the tasks performed are displaced by advancing technology.

Similarly, employers should be given greater freedom to deal with employees who may be cautiously classified as "unwilling" or "uncooperative." This should not be interpreted as a suggestion to reintroduce the intolerable and inhuman social arrangements that existed at the peak of the industrial Revolution. At the same time, it is far to point out that it will be difficult to regain momentum, worker enthusiasm and pride in work, if too large a proportion of the population misuses the law and avoids the spirit with which such laws were enacted in the first place.

5. The economic yield from labor and capital must be combined for the largest possible number of workers. Although Ned Ludd found it necessary to smash his machine—it did not belong to him—workers are not likely to destroy the robots they personally acquire to do their work. Certainly, housewives have not been known to smash their washing machines, mixers, and vacuum cleaners. They might be inclined to do so, however, if such labor-saving devices tend to threaten their livelihood.

The idea is to find a more acceptable way to compensate the employee directly for the incremental yield delivered from investments in new technology. Since 1930 per capita income has doubled, confirming that workers have benefited from the application of labor-saving devices. On the other hand, such indirect rewards are seldom as effective as "instant" compensation paid with the monthly paycheck.

The idea is to establish an arrangement to allow the employees of a corporation to become owners. Employers are encouraged to provide stock ownership options to their employees for the acquisition of the labor-saving devices needed to secure an optimum productivity. For example, paychecks could include a portion in cash and a portion in common stock issued to purchase labor-saving devices. The income and the dividends from the shares together should provide an adequate compensation level.

Through the ownership of substantial blocks of stock, employees should expect representation on the outside boards of directors. If this occurs, a community of interest would be formed encouraging the acquisition of the labor-saving devices needed to secure an optimum blend of wages and dividends. Interestingly enough, many of the 600,000 new enterprises popping up in the U.S. each year are providing stock ownership options to their "knowledge workers." And all over Europe, legislation is being proposed to increase employee representation on boards of directors. But few of these proposals provide for common ownership of new technology.

The introduction to the final section of this paper cautioned the reader about unconventional and uninhibited ideas and suggestions. It is, of course, impossible to put forward ideas about national economics that are really new or that have not been thought or written about by hundreds of economists and political theorists.

What may be new is the notion this paper puts forward that the systems of employment in the United States and Europe must change to provide for the "informational society." What may be new is the notion this paper puts forward that the systems of employment in the United States and Europe must change to provide for the "informational society."
Exhibit 1

U.S. LABOR POPULATION
1860-1983

No. of people (millions)

Source: Statistical Abstract of the United States, U.S. Department of Commerce

Exhibit 2

U.S. LABOR POPULATION
1820-1983

Percent of labor force

Source: The Mechanization of Work, by Eli Ginsberg

Exhibit 3

U.S. LABOR POPULATION

Gross domestic product per capita (constant dollars)

Source: Statistical Abstract of the United States, U.S. Department of Commerce

Exhibit 4

ENERGY PRICES

Source: The Next Economy, by Paul Hawken
**Exhibit 5**

**HOURS NEEDED TO PAY FOR A BARREL OF OIL**

<table>
<thead>
<tr>
<th>Hours/barrel</th>
<th>0</th>
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<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<td>2000</td>
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</tbody>
</table>

Source: *The Next Economy*, by Paul Hawken

**Exhibit 6**

**PROJECTED IMPACT OF MECHANIZATION ON AUSTRIAN ECONOMY**

**Percentage of jobs potentially affected**

<table>
<thead>
<tr>
<th>BLUE COLLAR</th>
<th>WHITE COLLAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textiles, clothing, paper, paper products</td>
<td>&gt;80</td>
</tr>
<tr>
<td>Basic metals, metal products, forest products, wood working</td>
<td>71-80</td>
</tr>
<tr>
<td>Mining machinery, electrical</td>
<td>61-70</td>
</tr>
<tr>
<td>Petroleum, glass, food processing, chemicals, trade</td>
<td>51-80</td>
</tr>
<tr>
<td>Transp. equipment, utilities, information industry</td>
<td>&lt;50</td>
</tr>
<tr>
<td>Utilities, banks, insurance, government</td>
<td>&gt;20</td>
</tr>
<tr>
<td>Petroleum, chemicals, trade</td>
<td>18-20</td>
</tr>
<tr>
<td>Glass, basic metals, machinery, metal products, electrical transp., equipment, paper, paper products, wood working</td>
<td>11-15</td>
</tr>
<tr>
<td>Mining, Food processing, textiles, forest products, wood working</td>
<td>10</td>
</tr>
<tr>
<td>Agriculture, clothing, construction, hotels, restaurants</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: *The Distribution of Work and Income*, by Wassily W. Leontief

**Exhibit 7**

**GROSS WAGES PER HOUR AND UNEMPLOYMENT RATES NETHERLANDS**

(Excluding social security premiums paid by employer)

Source: *Prijsindexcijfers: Nat. Rek. 1982 tab 61*

**Exhibit 8**

**RELATION OF UNEMPLOYMENT BENEFITS AND LONG-TERM UNEMPLOYMENT**

Percentage of working population unemployed after two years

Source: *OECD, Employment Outlook*, page 66; *Statistical Abstract of the United States*, U.S. Department of Commerce; CBS.
High deficits in the U.S. federal budget together with high interest rates are endangering the future growth of the U.S. economy and undermining the ability of American industry to compete in world markets. Change is needed. The federal deficit should be drastically reduced—indeed it should be eliminated by the end of the decade—and interest rates should be lowered. Reducing the deficit will increase the resources available for investment and improve the chances for healthy economic growth. The interest rates to come down, reduce the value of the dollar in foreign exchange markets and make American products more competitive with those of other countries.

Culling the federal deficit will be painful. Spending growth must be curtailed and the rate of inflation must be held in check. The need to reduce the deficit also creates an opportunity to reassess the priorities of federal spending. Defense objectives can be attained at substantially lower cost and a thorough overhaul of the federal tax system can make it both fairer and more favorable to economic growth than the present system. Resources must move from less productive to more productive pursuits. Public policy should make new jobs. It should foster innovation and help dislocated workers.

Factors Favorable to Growth

The rate of growth in real output in the U.S. is currently strong as the economy emerges from the deep recession of the early 1980's. Yet there are grave doubts that the economy could return to the weak growth and poor productivity that characterized the 1970's. Fortunately, there were several factors that contributed to poor economic performance in the past that seem unlikely to recur in the near future. One such strain on the economy was the rapid increase in GNP. By 1980, the U.S. economy had grown by about 50 percent between 1965 and 1980. Most of the new workers were untrained young people—the baby boom generation growing into the labor force. These workers were inexperienced and had relatively little job experience entering the work force in increasing numbers.

Two rounds of energy price increases in the 1970's raised costs and necessitated considerable passed on to consumers and workers higher wages to compensate for rising prices. The combination of rapid inflation and high interest rates impacted the ability of consumers and businesses to act in ways that further aggravated inflationary pressures and inflation proved extremely hard to control.

At the same time the economy was being absorbed an explosion of regulation designed to protect the health and safety of workers and consumers, to reduce environmental pollution, to conserve energy objectives, but at the cost of some slowing of industrial growth and some aggravation of inflation. One such strain on the economy was the rapid increase in GNP. By 1980, the U.S. economy had grown by about 50 percent between 1965 and 1980. Most of the new workers were untrained young people—the baby boom generation growing into the labor force. These workers were inexperienced and had relatively little job experience entering the work force in increasing numbers.

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At the same time the economy was being absorbed an explosion of regulation designed to protect the health and safety of workers and consumers, to reduce environmental pollution, to conserve energy objectives, but at the cost of some slowing of industrial growth and some aggravation of inflation. One such strain on the economy was the rapid increase in GNP. By 1980, the U.S. economy had grown by about 50 percent between 1965 and 1980. Most of the new workers were untrained young people—the baby boom generation growing into the labor force. These workers were inexperienced and had relatively little job experience entering the work force in increasing numbers.

Two rounds of energy price increases in the 1970's raised costs and necessitated considerable passed on to consumers and workers higher wages to compensate for rising prices. The combination of rapid inflation and high interest rates impacted the ability of consumers and businesses to act in ways that further aggravated inflationary pressures and inflation proved extremely hard to control.
of trade, and output and employment in industries facing foreign competition have suffered. Borrowing from abroad is also borrowing from the future for current consumption. High interest rates in the U.S. lead to high interest rates around the world and greatly aggravate the precarious international debt situation. As interest rates rise, the Third World countries find it increasingly difficult to meet the interest payments on their debts.

The Necessity for Political Compromise. The economy would greatly benefit from a major switch in monetary and fiscal policy in which low deficits and low interest rates would replace high deficits and high interest rates. Making the switch, however, will be a severe test of U.S. governmental institutions. The painful actions needed to cut the deficit will arouse strong political opposition. While concern about the deficits is widespread, specific proposals to raise taxes or cut domestic or defense programs are likely to encounter more vocal opposition than support. It will take political courage, ingenuity, and vision to fashion a deficit-reduction plan which will be widely regarded as fair and worthy of support even if specific elements are painful.

Moreover, making the policy switch will not only require compromise between the President and the Congress, it will necessitate an unusual degree of coordination between monetary and fiscal decision-makers. If the switch is to be made without changing the economy unduly as the deficit falls, the monetary authorities will have to allow a substantial reduction in interest rates and the exchange value of the dollar.

While a strong economic case can be made for reducing the deficit, the choices among ways to do it depend on value judgments about federal spending priorities and the desirable size and role of government. Moreover, the required changes are so large that approaching budget balance solely by increasing taxes would require unprecedented tax rate increases, while accomplishing the goal solely by cutting defense spending would threaten national security and attaining it solely by reducing domestic spending would gut basic government programs on which millions of people depend.

Hence, for political and practical reasons, reducing the deficit requires fashioning a compromise that involves three elements: cuts in domestic and defense spending and increases in revenues. The compromise should be seen as fair and even-handed, requiring sacrifices from the broad range of taxpayers and beneficiaries of government programs, but not bearing too heavily on any one group.

The necessity to cut the deficit should be an opportunity to reassess priorities and endeavor to make government programs more effective. The requirement to raise more revenue creates a strong impetus for reforming the federal tax system, since raising substantial additional revenue without reform would exacerbate the inequities and inefficiencies of the present system. Nevertheless, reform and reassessment take time, while action to reduce the deficit should be taken soon. Therefore, a two-stage plan seems in order: a set of simple even-handed measures should be taken quickly, followed by more_revisioned reform.

A Compromise Plan. The plan offered here is an attempt by a group of Brookings economists to lay out a blueprint for bringing the federal budget close to balance by 1989. It involves reduction in the growth of both domestic and defense spending and increases in revenue. The proposals for domestic spending and tax changes are in two stages. A short-run freeze on domestic spending to save money quickly would be followed by more lasting changes at the time action to reduce the deficit should be taken soon. Therefore, a two-stage plan seems in order: a set of simple even-handed measures should be taken quickly, followed by more revisioned reform.

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encouragement of research and development, training and retaining, profit-sharing, wider share ownership, etc.

The second task was that of coordinating the individual national policies—particularly among the larger countries—to stabilize global demand and promote investment activity. To accomplish this, we had to devote ourselves to the present economic recovery which made coordination unnecessary. Unless we were able to coordinate our policies, protectionist measures might be impossible to withstand in the next downturn. Cooperation was also essential between governments, central banks and other institutions.

This speaker concluded by describing Sweden's active labor market policy, which had been conducted along "employment lines" instead of "cash benefit lines," so as not to encourage the passive preservation of unemployed people. Feeling that it was disgraceful for a society to have teenagers on test dope, the Swedish government had recently radically restructured assistance to jobless youth. "Youth teams" had been created through local government authorities to offer people under 20 four hours of work a day, at a daily wage of 120 crowns vs. 100 crowns of unemployment benefits. Some 30,000 young people had joined these youth teams. Moreover, vocational training had been introduced as an experiment in the defense forces for those between 18 and 24. This reflected a growing recognition of the importance of education and training, especially in the light of new technology. With regard to work-sharing as a response to unemployment, a study had shown that every cut in the weekly work week in Sweden in this century had been preceded by years of marked rises in take-home pay; therefore working hours would not likely be cut soon again. (This did not mean, however, that workers were not choosing different schedules, including voluntary part-time work.) Instead of looking to work-sharing as a cure-all, we should seek to create greater resources to meet unsatisfied needs and improve social conditions.

An International participant, who agreed with the American author about the improved performance of the world economy, discussed the prospects for consolidating this recovery into durable, job-creating growth. The OECD countries in general had reduced the substantial structural budget deficits. In Europe, deficits were beginning to decline, but even so it was not clear that employment would pick up. Compared with the U.S. and Japan, Europe had had a poor record of job-creation in the 1970's, attributable in part to rigidity in labor markets. This was a complex and sensitive issue, which touched directly on potential conflicts between social policy (with its aims of stable incomes and employment) and economic policy (efficiency and innovation). Tackling the problem of labor market inflexibility would also be seen as wage cutting or as a dismantling of the social welfare system, but as seeking a better balance between social and economic policies, to generate more jobs through increased investment and productivity.

Labor market flexibility had three dimensions: (1) the macroeconomic (general wage levels, and their relative stability); (2) the microeconomic (wage determination for individual workers, as affected by inadequate minimum wage legislation); and (3) manpower flexibility (regulations inhibiting layoffs, obstructing the movement of labor from less to more productive sectors). There was a general agreement on the need to tackle these issues, but progress could only be made with a social consensus, and a political culture of dialogue could be achieved.

An American participant said that, as a labor leader, he had found his constituents much more interested in the "micro" than the "macro" numbers. During the past three years, 100,000 people were unemployed in his industry in the U.S. and Canada, and many plants had been closed or cut back. It was commonly held by trade unions that many of the reasons for unemployment were not attributable to budget deficits or high interest rates. Approaching problems such as those posed by a macroeconomic basis lacked the compassionate concern that ought to be the benchmark of our society. A national unemployment rate of 6-5.5 per cent did not appear "acceptable" to the 40 per cent of minority youths who were unemployed, nor to their mothers who were without jobs. We had to address the problems of structurally hurt industries on a sectoral basis through national industrial policies. That had been done, for example, in the case of U.S. agriculture, which had been transformed from a disaster in the 1930's to a "winner industry," through federal measures such as soil conservation, aid to land grant colleges, research, and continued multi-billion dollar annual subsidies.

Talk of free trade in today's world was self-delusion. Seventy per cent of the shoes worn in the U.S. were now imported, compared with 40 per cent a few years ago. Textile apparel imports had grown 25 per cent (to 105 million dollars in the first quarter of 1984) at an annual rate of around 20 per cent, or almost double the growth in the last thirty years. We needed a trade policy related to reality. In textile apparel, an internationally managed program, under the Multi-Fiber Arrangement, had proved successful for the developing world over the past two decades. It had given the LDCs a mushrooming industry, and for the developing world had provided a market for exportable manufactures, which in the past had competed with those of the developed countries, a disastrous trade war would have ensued. Internationally traded goods in a number of trades were therefore the most sensible approach. A Frenchman intervened at this point to say that...
debts with much more expensive dollars. Moreover, those who were currently supplying the U.S. with funds were worried about a sudden and abrupt fall of the dollar and a revival of inflationary pressures. That could lead to a cycle of still higher U.S. interest rates, with European countries defensively following suit. As the dollar mix, combined with payments imbalances, to the disadvantage of the Japanese export surplus, intensified protectionist pressures. This problem ought to be addressed by all the industrialized countries in some new approach in which the Japanese would be included.

A German participant agreed that unemployment was our most important domestic concern, but he suggested that the analysis of the problem was often not sufficiently penetrating. More jobs were available than had been suggested by the statistics, but not at official labor prices; a look at the “black” labor market in the Federal Republic demonstrated that. European unemployment had probably been exacerbated by the U.S. policy mix, notably high interest rates, which might lower the economic recovery would last, the speaker confessed that he expected a U.S. downturn in 1985-86. To defend against the effects of that, he had recommended an early tax reform in Germany. This should provide not merely tax incentives, but also lower the tax burden as a whole, so that large sectors of GNP. For the public sector to obtain an equal share of GNP as in the U.S., Sweden would be a “nightmare,”’ this speaker said. Sweden’s answer to its problems had been a 16 per cent reduction of its currency, a “beggar my neighbor” policy which would have resulted in severe international complications if pursued by a larger country such as the Federal Republic. The result had been lower import prices but higher real wages, a reference of the government in wage negotiations and agreements, price controls, and higher inflation. A Swedish response to the preceding problem was that the devaluation had been chosen at a time of acute currency crisis in preference to an extremely restrictive policy which would have created widespread unemployment. If such solutions were not available to larger countries, well then, “small is beautiful.”

The comparison of unemployment statistics between countries was not a sound basis for policy determination, according to a British observer. Different categories of unemployment, for instance, called for quite different remedies. Getting unemployed teenagers into the labor market was not comparable to getting adults who were working “underground” back into the tax net.

As far as Dutch governments were concerned, their way of life had already been determined by two-thirds of the nation’s labor force. The government’s deficit was well below the size of the total GDP. Perhaps this government’s deficits were less worrisome—being more cyclical than structural—but there was a degree of built-in inflexibility that bound the government. The Beveridge Report had been a recommendation, the second part of the society for social security for nations, or “hidden European protectionism.” This involved a thicket of regulations and preferences that hindered adaptation and integration.

What should be done? In the case of individual benefits, the speaker suggested focusing on the original social purpose of helping those who really needed it. If we do not go back to being selective, we would do as the Social Democratic countries in Sweden had done and give clear signals that industry opposed subsidies. (“We have swept our own before our own.”)

A Spanish intervention suggested that Europeans tended to overlook some positive aspects of the present U.S. policies, such as the ability it gave them to compete in American and world markets and the high rates of holding dollar assets. The willingness of foreigners to hold dollars gave the U.S. large advantages. If they were not used in the trade and budget deficits, it was not clear that this situation could be maintained indefinitely, and if a correction of the U.S. deficit was unavoidable. It was important that adjustment be achieved smoothly, to avoid speculative movements of capital and currencies that would disrupt world trade.

An Italian speaker remarked that the two working papers emphasized wide differences between Europe and the U.S. on the unemployment problem. The American author had prescribed a macroeconomic treatment, centered around a reduction of the budget deficit, from which the rest would follow automatically. In contrast, the Dutch author had stressed the need for a new social policy to stabilize labor markets. One implication was that an improved macroeconomic situation was, in the U.S., necessary and sufficient to solve the economic problem, and in Europe, necessary but not sufficient. With regard to the Dutch author’s proposal to alleviate unemployment by shifting the tax burden from labor and capital, the speaker wondered if this might not have a destabilizing effect on the labor markets and to the centralized export of the LDCs, with a dangerous feedback to the industrialized countries. A possible alternative was to alleviate the burden of social security contributions by bringing them into the general tax system. The Dutch author intervened here to say that, while his proposal would pose certain difficulties for the LDCs, it would result in much more careful use of raw materials. The American author then noted that, in her view, a macroeconomic solution was necessary but not quite sufficient to solve the special problems, like that of unemployed teenager blacks. Another American participant saw a major new source of unemployment in the overvaluation of the dollar resulting from the U.S. policy mix. His country’s trade imbalance would be $120 billion a year, and $150 billion next. If the dollar continued to be 25 per cent overpriced, as seemed likely with rising interest rates, it would still have a filtered dollar and an overvalued dollar had been a prime factor in the failure of the American economy. Despite sincere free trade professions, the Reagan Administration had taken more protectionist measures in the last three years than any other administration in the 1980s and appeared headed toward more trade controls. If other countries followed suit, we risked a major disruption in the world trading system, which in turn would hamper the ability of the Third World to service its debts. There was the essential that the U.S. and its allies take urgent action to stem the protectionist tides and to open new trade negotiations.

A Swedish participant observed that many of the conservative prescriptions to improve employment were already reflected in popular and structural changes in the economy, for instance, tax reduction, flexible labor mobility, the revival of the small firm, and the opening of export markets. It was pointed out that, in the context of the macroeconomic situation, the improved economic performance was due to the improved tax base and decreased competitiveness and a drop in industrial subsidies. All the negative effects of an expansionary policy pursued in isolation would be mitigated or voided in the case of joint action.

A German speaker discussed what he called some “trivial effects” behind the decision-making process in business. Under a rational economic policy, factors of production—land and labor—were chosen on the basis of at least two criteria: cost and convenience. Accordingly, when interest rates were lower, it would be easier to finance more investments. If the cost of capital was higher, or the price of oil was rising, then the risk of the price cycle would increase. If our country was less risk averse, it would have been a prime source of protectionist pressures. It was pointed out that, in the context of the macroeconomic situation, the improved economic performance was due to the improved tax base and decreased competitiveness and a drop in industrial subsidies. All the negative effects of an expansionary policy pursued in isolation would be mitigated or voided in the case of joint action.

A Spanish speaker pointed out that the so-called “third way” was far from being a panacea, and that it was not possible to calculate the short-run and long-run effects of such a policy. It was pointed out that, in the context of the macroeconomic situation, the improved economic performance was due to the improved tax base and decreased competitiveness and a drop in industrial subsidies. All the negative effects of an expansionary policy pursued in isolation would be mitigated or voided in the case of joint action.

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lower interest and exchange rates, foster growth, and stem protectionism. The speaker agreed that European unemployment was solidly embedded in European rigidities: restrictive fiscal policies, wage rises out of proportion to productivity gains, and the prohibitive cost of dismissing workers. The only comparative advantage left to Europe, he concluded, were "old museums and the ability to blame the U.S."

A Spaniard said that solving the unemployment problem without changing the essence of our societies posed a challenge to Western moral decency. Seeking solutions in the industrialized countries at the cost of higher unemployment in the LDCs, though, would be explosive in the middle term for all of us. The speaker perceived the lack of a feeling of generosity and responsibility among Europeans toward the Third World, which was cause for concern.

A Canadian participant pointed out that the U.S. enjoyed benefits which were counterparts of the costs of its present policy mix. The capital inflow from Europe and Canada was financing a measure of U.S. domestic consumption, as well as industrial and defense expenditures. This served to shelter the U.S. from spending constraints, and made it hard to change the policy mix.

A Belgian outlined three aspects of the unemployment problem. Our first priority had to be growth if we aimed to create more jobs. That meant increasing world trade, which in turn implied easing the Third World's debt by enabling them to sell more to us. To do that, the LDCs would have to improve their own management and encourage private international investment. For its part, the EEC ought to make a renewed effort to create a true common market. Secondly, we had to reduce the huge part of our GNPs used inefficiently by the public sector. In Belgium, for example, if the figure 10 represented the cost of labor to a firm, the gross income of the workers was only 5 and disposable net income was 1.5. So while workers complained that real wages were diminishing, employers felt forced by the high cost of labor to compress or reduce employment. Finally, while part-time work and flexible schedules were commendable, working more in the end meant more jobs. The Low Countries, where workers worked on average 1,500-1,600 hours a year, had the highest unemployment in the OECD. By comparison, unemployment was low or declining in countries like Japan (2,100 hours), Switzerland (1,910), and the U.S. and Canada (1,875). We all needed to emphasize education and training, and the speaker had been impressed by Sweden's achievements in that field.

At the conclusion of this session, the authors of the working papers offered some final reflections. They agreed that too little had been done to solve the problem of developing new skills in an information society. The active producer was at the same time an active consumer, and being concerned about the worker's employment was important in getting the unemployed back to work. The cost of labor of those employed was the most valuable part of our strength, and we ought to concentrate on that, either by reducing labor costs or raising the cost of other elements, so that labor's position would be less vulnerable. Moreover, we had to protect industry from unnecessarily "unnatural" competition, and to invest heavily in technology. The American author had welcomed the discussion of the additional disadvantages of the U.S. policy mix, notably the dangers of protectionism and difficulties with the Third World. Moreover, it was inappropriate for the U.S. to be a borrowing nation. She associated herself with all the interventions that had stressed the importance of training and retraining at every stage of life, and not just for the very young.

The final intervention from the floor was from a Swedish speaker who endorsed the notion of training people to adapt to new technology at any age. Only in that way could we achieve substantial productivity gains. We ought to rely mainly on the effectiveness of competition, but people needed the safety net of social security, so that they would not be left to battle the market alone.

IV. DISCUSSION OF CURRENT EVENTS

Moderator: Vernon Jordan

This session dealt with the topic "Continental Drift: Economic and Political." The discussion began with an American, a German, and an international panelist, who approached the subject from their particular points of view.

The American led off by quoting a European diplomat who had likened transatlantic relations to the weather conditions over that ocean. On the surface, there were occasional storms, involving high seas and discomfort, but with reasons to think that the overall weather pattern was likely to change. Below, the sometimes stormy surface there was a deep layer of still water, where very little was going on. Beneath that lay the ocean bed, where the slow, gradual movement of continental drift was occurring. What was the evidence of that drift?

In the U.S., important changes in the nature of the country and its society could be included in the realm of continental drift. The speaker alluded to the "Sun Belt," far from the Atlantic coast. If California were an independent nation, it would rank about tenth in the world in GNP. That state had 50 of the 435 members of the House of Representatives. Los Angeles had become the third largest, speaking city in the world, and the U.S. might soon become the second largest Spanish speaking nation in the world. By 1990, Hispanics would be the largest minority in the U.S. In 1978, U.S. Pacific trade had surpassed Atlantic trade for the first time; by 1982, the gap had widened to $3 billion. There was, too, a growing awareness of America's western border with the Soviet Union in Alaska.

Beyond these objective causes of continental drift, with all their political implications, there were subjective causes, including the deindustrialization of progress toward European unity, which had confused Americans; a certain disillusionment about the U.S. among some young Europeans; differing estimates about detente; and the latent American impulse towards isolationism, which had been affected in some measure by recent experience in Lebanon and Central America.

One thing which had not drifted, in the speaker's estimation, was the basic commitment to mutual defense. This was underscored by the continuing, low-key "Mansfield debate" in the U.S. Senate. Although that resolution was debated, the debate which it had inspired went on. It was conducted, thought the speaker, not as a test of how many troops the Americans would bring home from Europe, but how many they would leave there.

There would continue to be differences between Europe and America, notably about burden sharing and the gap. The speaker predicted that the way to handle the continental drift was not to deny the gap, but to extend the bridge.

The German speaker began by noting that there were in the Federal Republic of Germany ("FRG"), just as in any country, groups who were fundamentally opposed to their country's foreign policy. But there was no movement of any political significance in Germany flying the banner of neutrality. There was nothing more, for example, corresponding to the 15 to 20 per cent of Communist voters in France, supporting a party basically pro-Soviet and hostile to NATO. (That situation, the speaker said, only increased his respect for the firm stand of the French government on security matters, and the same could be said for Italy.) The overwhelming majority of Germans, he said, believed the opposition in the Bundestag—supported the Western alliance, and in particular the alliance with the U.S. Only extreme fringe groups were calling for withdrawal from NATO or its military organization.

This generally neutral consensus could readily be understood against the background of the FRG's geopolitical situation and global power developments. A position as intermediary between East and West, such as that occupied by the German Empire under Bismarck, was impossible for the FRG. As a consequence of the second World War—unleashed by the German National Socialists—the political balance in Europe had been completely and irreversibly transformed. The Soviet Union had become a superpower, ruling all of Eastern Europe and a good part of Central Europe. It would have been able to extend its reign over the entire continent had the U.S. not acted after 1945 to restore the balance of power and save at least the Western European nations from a Communist regime.

Under those circumstances, the German interest was clear: if it were left on its own, it would soon be drawn into the wake of Soviet hegemony after a brief transitional phase of self-isolation, or it would become the apple of discord between the superpowers. Only as a full partner in the Western community could it guarantee its security and pursue an active policy (not least of all the policy supporting genuine détente between East and West). Whatever weight the FRG possessed in the world derived from its membership in the Atlantic alliance and the European Community. The great majority of Germans instinctively understood that integration with the West provided the indispensable foundation of German security policy and of the FRG's foreign policy. The speaker therefore was at a loss to understand why the threat of a "new Rapallo" was served up to the public in the West year after year.
Against this background of broad consensus in the FRG, the few nationalists there took on the appearance of exotic creatures, and attracted public notice far in excess of their political importance. These small groups seemed to believe that the FRG, although it was in the heart of Europe, could resolve international economic and social problems by national economic and social policies. This remarkable inability to find a solution was irritating to all who believed that the Western Alliance embodied common values and interests, not just as interests, but it did not represent a political force capable of influencing German foreign policy.

Another current phenomenon involves the tendency to place the superpowers on the same plane as the third world in a moral and intellectual standard. This remarkable inability to find a solution was irritating to all who believed that the Western Alliance embodied common values and interests, not just as interests, but it did not represent a political force capable of influencing German foreign policy.

If this succeeded, it would be a crucial moment in the Cold War. The United States and the Soviet Union were at odds with each other. The United States, under the leadership of President John F. Kennedy, had taken a hard line against the Soviet Union. The Soviet Union, under the leadership of Premier Nikita Khrushchev, had taken a hard line against the United States. The United States had sought to isolate the Soviet Union from the rest of the world. The Soviet Union had sought to isolate the United States from the rest of the world. The United States had sought to contain the Soviet Union. The Soviet Union had sought to contain the United States. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world. The United States had sought to support the freedom of the people of the world. The Soviet Union had sought to support the freedom of the people of the world.

Europe was also concentrating on the importance of an enlarged market—which was one of the underpinnings of American dynamism. The Europeans had a market which was more or less as big as the American market, but they were not using it adequately. They would need to find the delicate balance between national and international regulation, and to draw lessons from the U.S. and Japan about the role of public procurement in stimulating activity, such as in the field of telecommunications. Improved mobility in training within Europe was also essential, not just for economic reasons but to produce a network of young people with common experience and knowledge, which was so important for the future of Europe.
impaired; it might be led to look increasingly toward the East as a market in which it could be more competitive, intensifying the strains in the area of technology transfer; and chronic unemployment would turn its governments toward parochial matters at the expense of wider concerns. It was only to be hoped that the right people in the right places had already awakened to these problems and were working on solutions.

A British respondent alluded to the European tendency, on policy issues, to want to eat one’s cake and have it, if the dollar were in fact lower, many European industries would be in even graver trouble than the U.S. were not so vigorously turning toward the Southwest and technological innovation. Europe would say that the New World was showing signs of growing old. If the U.S. were not turning its attention toward Asia and Latin America, Europe would be casting it for its ignorant inactivity. America had been overexposed in Lebanon, but had it refrained from intervening Europe would have blamed it for its neglect. Had the Reagan administration not insisted on AIP deployment, Europe would be bewailing its weakness. If the EEC were not fighting over its budget and other internal problems, its foreign policy would be even more bankrupt. In short, the U.S. was a maturing continent that was still young, while Europe was too old to display signs of youth. Nevertheless, the speaker expected that Europe would probably respond in a healthy fashion, and did not need to be too disturbed by the American challenge. There was indeed a sense of “Euro-sclerosis,” of no growth and stagnation, of loneliness and resentment. But democracies, unlike authoritarian regimes, could afford such periods of worry and fear, and should thrive on them. In entrepreneurship and innovation, there were encouraging signs in Europe. The EEC crisis was concentrating the minds of Europeans in good ways, and there was the start of a debate about a European Defense Force. Through painful debate the Europeans were struggling to a definition of their own responsibility and their attitudes to nuclear and other defense. In this way, the peace movements had been constructive in questioning our assumptions and forcing us to analyze and defend them openly. Above all, Europeans had been made to get used to patience and pain in place of the era of automatic growth.

All these things related to the battle for opinion in the 1980’s. Much of that battle was domestic, and would have gone some of it was some of it was Atlantic. It was something that it was a battle for its own battle. Although Europe was being forced to be more autonomous, one had to keep in mind that she was thereby made more dependent on the effects of the policies and public style of what happened in the U.S.

A French participant spoke of the uncertainty about security matters that was manifest throughout Europe, and especially in Germany, following the economic decline of recent years. Several million jobs had been lost in Europe since 1975, while the U.S. had created 15 million new jobs during that time, and Japan an equally high number. There was a similar gap in the fields of investment, industrial production, and technology (such as electronics, computers and pharmaceuticals in West Germany, two-thirds of which had a range of 25 kilometers. A German participant cautioned against interpreting closer relations between East and West Germany as a sign of neutralism or impending reunification. The division of Germany was unnatural, so that improving relations by small steps tended partially to normalize an abnormal situation. Such normalization was in the interest of the U.S. It lightened their burden of the security of the West Berlin and tended to damp the intensity of East-West conflicts. Beyond that, citizens of the Federal Republic felt a certain responsibility to ameliorate where possible the living conditions of their compatriots in the East. But the gradual strengthening of these fragile links between the two Germanies in no way involved a neutralist sentiment.

Two apparently incompatible trends were mentioned by an American. One was the increasing “nuclear allergy” among people in the U.S. as well as in Europe, a desire to decrease our reliance on nuclear weapons for deterrence. The other was the inability or unwillingness on the part of European governments to do substantially more for a conventional defense. In addition, several European opposition parties—notably in Britain, Germany and Denmark—seemed to be moving away from the security consensus of the postwar era. Since usually opposition parties eventually came into office, this trend would worsen implications.

On the latter point, two Germans observed that, in recent history, moving back toward a centrist position on security matters seemed to be a prerequisite for being returned to office. On the other hand, a Briton recalled that the left wing opposition parties, including the SDP in Germany, had required long and careful “handling” before joining the security consensus at all. The British Labour party had been extremely hostile to the notion of German rearmament.

Generally, the precondition for left wing parties’ support of the defense consensus had been the acceptance of detente as the other side of the pill. Whenever detente was attenuated, left wing support of the defense consensus declined accordingly. With the right wing parties, support of the alliance was a good thing because it was an indication of concentration and the start of a debate about a European Defense Force. Through painful debate the Europeans were struggling to define their own responsibility and their attitudes to nuclear and other defense. In this way, the peace movements had been constructive in questioning our assumptions and forcing us to analyze and defend them openly. Above all, Europeans had been made to get used to patience and pain in place of the era of automatic growth.

by discounting the measures erected over the years by individual countries which hampered the growth of industry. Otherwise, one might see the fulfillment of a Japanese prophecy that, at the end of this century, the U.S. would serve as the world’s breadbasket, Japan as its manufacturer, and Europe as its discotheque.

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A Canadian participant predicted that between now and the end of the century North America and Europe would grow at a much faster rate than the rest of the Pacific rim countries would, and the gap at a much faster rate than the rest of the Pacific rim countries would grow. The solution to this problem was in the Pacific rim countries would grow. Three factors would be instrumental in this, the First, the North American and European economies, which had been complementary in the last century, were now much more competitive, particularly in agriculture. There would be substantially less opportunities for those blocs to sell goods to each other. As a result, the U.S. and the EEC were both Pacific as well as Atlantic nations, and the logic of geography was turning their attention toward the fast-growing economies that rimmed the Pacific.

Finally, Immigration from Asia in the 1970's had produced in Canada, as in the U.S., strong social and personal links with the Pacific. We would continue to see a shift of economic and political power to the East. The consequences of the shift was that Atlantic relationship were not entirely clear, but the speaker hoped it was not a "zero-sum game." A Portuguese participant wondered whether it was wise for his country to continue seeking membership in the EEC, as it had been doing since 1976. Perhaps its strategic importance, as well as that of its Asiatic islands, combined with its experience in other parts of the world such as Africa, could open the way to a profitable and influential partnership with the U.S. The same must be true for other small European countries which were not members of the EEC. A German and an International participant responded to this by urging that Portugal persevere patiently in its discussions with the EEC. In the long run, it was bound to be disadvantageous for a small European country to remain outside the Community. Portugal's case exemplified a problem of adjustment which had its parallel in many other EEC problems.

A Norwegian speaker felt that equating "Europe" with the EEC countries risked overlooking an important segment of public opinion among the youth of the non-EEC countries of the alliance. Many of them were especially concerned about the moral aspects of public issues, and were more susceptible to the peace movement and the "rift," if they wanted their support for the defense consensus, would have to be seen to uphold certain moral and spiritual values.

An international participant felt that "Continental drift" was the wrong expression for the problem we faced. It should be defined as a "drying out" or "shrinking" of the international order and structure. We were up against, not nationalism of neutrality, but parochialism and provincialism, of which the signs were manifold. For example, one noticed increasing signs of moral righteousness. (As one Dutchman had recently observed ironically, the new Calvinist mores seemed to be "God in danger." Where our European attitudes toward Latin America were "conservative," we were "liberal and "conservative." There was a decline in the attraction of International structures and procedures, and protectionism was getting more popular. One heard about "Europeanization" and "small is beautiful." The "me generation" had been translated into societies and become respectable. The system had no strategy for dealing with these trends. Much depended on the European political leaders, but also on what happened in the U.S., which called the "think tank of the Western world." Unfortunately, the U.S. had not been interested in recent years in defining what could be the international order, but had tended to view world issues in a simplistic fashion, trying to force the French and the Germans to the frame of the "who are winners and who are losers?")

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1.000 sent home in 1980, and the number of warheads remaining would not exceed the ceilings prescribed.

The major challenge within the Alliance was to convince our people of the threat to their freedom, and to elicit from them a willingness to make some additional sacrifices.

The session concluded with remarks by the three panelists. The international speaker thought that any theoretical discussion about whether Europe was getting more or less parochial was a waste of time, but he had observed less dependency and more curiosity about industrial and technological innovation. The capacity to respond to this—whether in Europe, the U.S., or Japan—was a world problem, not a local one. With reference to the alleged complacency about long-range troubles, the speaker felt that we were unjustifiably smug about our ability to continue to "muddle through." Sometimes we were worse off after our muddling than before. Fundamental protectionist trends could explode at any moment, triggered by either the Japanese, the Americans or the Europeans. The economic summit meetings were a recognition of the link between political and economic questions and created an opportunity to overcome bureaucratic squabbles when forward movement was needed. A related problem was that we had not yet found a way to accommodate the growth of less-developed countries. As they grew in strength and found ways to repay their debt, the accompanying large excesses in their trade balances would create export pressures in the developed countries. But if trade overall was not growing, this would be a zero-sum game resulting only in a change in market shares. So the uncertainty in international financial institutions about the conditions for creating sensible overall growth was disturbing.

The German panelist frankly found the outcomes of the economic summits disappointing, but since all our economies were now doing better, perhaps the upcoming London meeting would produce something meaningful. As for detente, he had always supported it but he disagreed that it had worked more to the advantage of Europe than the U.S. In any case, the Japanese had missed it, leaving us all with serious problems. The speaker was optimistic about Europe, although he hoped to see it more open-minded, less protectionist, and more ready to accept worldwide competition. If it did not become so, it risked falling far behind in technology and industrial efficiency.

The American panelist contended that if detente had worked better for the Europeans than the Americans, it had at least worked differently, which pointed out the need for improved coordination of our approaches to the Soviet Union.

In both America and Europe, there were elements in the younger generation whose background had not necessarily made them sympathetic to the "Atlantic culture" or European concerns. So a great deal of education about our common experience and problems would be necessary on both sides of the Atlantic. Finally, he said, we had to deal with the problems underlying the U.S. trade deficit, which was assuming "nightmarish" dimensions.

6. V. THE SOVIET UNION, THE WEST AND THE THIRD WORLD

A CASE STUDY: CENTRAL AMERICA

Working Paper Prepared by Miguel Angel Martinez, Deputy Chairman of the Foreign Affairs Committee, Spanish Congress of Deputies (SPA)

1. When two blocs are competing with each other, as is the case in the world today, it may seem logical for the USSR to seek a foothold in what might, a priori, be considered to be within the adversary's zone of influence. The logic will, of course, be stronger if the zone in question has such strategic importance to the U.S. as Central America and the Caribbean.

2. Nevertheless, in recognising that the USSR has an interest in seeking influence in the region, we must not exaggerate its impact on the area up to the present. Nor should we view everything that happens there in terms of an obsession with the danger of a Soviet advance. Nor should we allow our actions to be basically guided—and even less justified—in the light of this danger. When all is said and done, the danger cannot be used to shield and mask a category of interests other than those that are openly for the USSR or Sovietism—or even Marxism-Leninism—in the region.

3. To begin with, it can hardly be disputed that neither the geography, nor the history nor the cultural tradition of the peoples and countries making up Central America contain anything that seriously favours, prepares or facilitates Soviet penetration or influence—or even Marxism-Leninism—in the region.

4. We must therefore analyse, if only cursorily, the characteristics of the current position in the Central American countries to see whether political, economic and social conditions there are such as to facilitate penetration by the USSR.

5. Underdevelopment is, of course, the salient characteristic of the societies of Central America and the Caribbean—with all that it means in terms of poverty, illiteracy, unemployment and disease. But it is also an underdevelopment which institutionalizes social injustice through systems in which exploitation, repression and corruption are dovetailed into each other, thus reducing an apparently stable and smoothly working status quo. In societies of this type, it is difficult to install regimes that respect human rights and fundamental freedoms. Their opposition to the interplay of democracy and the rule of law is equally great. The few cases in which such enterprises have succeeded therefore deserve all the more merit. Unfortunately, however, the tendency is for power to be in the hands of the oligarchies, which keep all the privileges to themselves while denying all the rights to their peoples. The facade shielding the exercise of this power is unimportant—personal dictatorship, dictatorship by the military establishment, or a parliamentary force in which some consciences are lulled into acquiescence, but which are often less dangerous than open dictatorships because at least they do not confuse the issue or compromise the future of genuine democracy.

Another significant feature of the recent past and the present in the majority of Central American countries is the dominance of economic interests centred on the U.S. These interests have joined forces with the ruling minorities in each society, thereby helping to keep them in power, while relying on them to extract the maximum profit margins. It was probably in defending such private economic interests—and long before other criteria came into current use—that the U.S. came to adopt its traditional policy of treating Central America as its own backyard.

6. Given the—admittedly simplified—situation of the peoples of Central America described above, it is not hard to list their ambitions. All that is necessary is to review their history in this century—beginning with Mexico, for example—long before even the name of the USSR had been heard in these latitudes. The demands of the Central American peoples closely match the shortcomings listed above, in fact what they are being denied: social progress and justice; freedom and democratic rights; and national dignity.

7. Can it be asserted that the claims being advanced in Central America and the Caribbean do not reflect objectively established priorities? Can the support for these claims be explained solely or fundamentally in terms of the possible—and indeed probable—agitation being carried out in the area by the USSR? Can these claims, as defined above, be identified with Communism, Marxism-Leninism or Sovietism? It would surely be more correct to state that there are deep-seated, genuine reasons why the peoples of Central America should refuse to accept the conditions they have endured hitherto, without any impulsion from the USSR or indeed from the devil himself. It would be more correct to recognize that the claims of the Central American peoples are inspired not by Leninism but from the principles derived from the history of mankind, such as those of the great American democracy of George Washington and Abraham Lincoln.
This biased approach to the current problem is even more apparent in the attempts to trace the crisis is once again diagnosed in terms of East-West rivalry, without any attempt to bring out the confined to lip service, without committing anybody to take any action. Every effort has been made to there has been an organised campaign to ensure that demonstrations of support for Contadora are of its substance. Pressures and even destabilising operations have been directed against appointed by the White House to devise a medium-and long-term policy for Central America based on Contadora of its sovereignty emergencies. Naturally, this initiative by the Contadora Group has had determined, powerful detractors, in the part of countries in the area with conservative governments, which are failing to display as much libertarians, nationalist demand emanating from Central America as a direct reflection of Soviet intervention.

On the contrary, Washington persists in interpreting-and therefore presenting-every U.S. national realist argument emanating from Central America as a direct reflection of Soviet penetration and therefore an immediate threat to the security of the area. This is backed up by the fact that, as superpowers, they have areas of interest which are vital to their security and in which they are entitled to control events as they think fit.

In particular, there has been a mobilisation and influx-as disproportionate as it is unwarranted—of U.S. military personnel of all kinds in Central America and the Caribbean, as part of an openly declared policy of intervention, taking the form of constant harassment of Nicaragua and, complete domination of Honduras (thereby weakening its institutions and undermining its sovereignty by turning it into an unconcealed base for anti-Sandinista operations), and increasingly compromising involvement in El Salvador (at this point, one wonders whether any lessons have been learned from the bitter mistakes committed in Vietnam). This policy has been highlighted by the invasion of the tiny island of Granada which, to put it mildly, recalled certainly episodes of bygone days that we naïvely, it would seem—thought were things of the past.

Neither the report of the Kissing Commission nor the other alternatives it puts forward offer much hope for a solution to the crisis in Central America. This bipartisan Commission, appointed by the White House to devise a medium- and long-term policy for Central America based on consensus, does not depart in essentials from the policy of the Reagan administration for the area. In short, although the report shows an understanding at least of certain factors that form the core of the zona's defects, either for defining the solutions, the crisis is once again diagnosed in terms of East-West rivalry, without any attempt to bring out the obvious relevance of the Central American situation to the North-South conflict.

This biased approach to the current problem is even more apparent in the attempts to trace the area's underdevelopment back to its early colonial history, ignoring the colonial-style exploitation which has taken place and is still taking place up to the present time. This persistence in interpreting the situation in terms of the East-West conflict distorts the approach of the Kissing report and leads it in predictions that are difficult to sustain. For example, the underdevelopment of the area has been regretted not so much because of the poverty and injustice it entails for the men, women and children of Central America and the Caribbean as—and above all—because it may provide a breeding-ground for Communist ideas and facilitate the growth of Soviet influence.

Moreover, in the same way that the area has been accused of lacking political stability, the area's history to its rethinking and the putting forward of realistic, reasonable and progressive alternatives leading to a process of Americanisation of Central America and the Caribbean, and the strengthening military governments which, in this part of the world, have always been distinguished by their anti-democratic character and proveness to counter-state. Moreover, the policies proposed for overcoming the area's underdevelopment are not only unilateral and politically discriminatory but appear to assume a process of Americanisation of Central America and the Caribbean, and the maintenance, in many cases, of interests and patterns which are at variance with the requirements of the rational, balanced development of the individual countries concerned. If the proposed solution is to consist of creating a number of Puerto Ricos in Central America and the Caribbean, it might be more honest to say openly that it is the best we can do for the peninsula of our time and the area's interest, rather than talk vaguely about making Central America into one of the main danger points of current world tension, a heavy responsibility lies on us all and our joint responsibility to safeguard peace.
Contadora project is still valid and is in fact the only reasonable one we have—and one which has aroused the necessary agreement and support to bring about a settlement of the grave crisis which is convulsing Central America and the Caribbean and endangering peace in the whole area and indeed the world.

17. Europe, as an essential part of the West, has a prominent part to play in all this, regardless of the contours, and at two different though complementary levels, while also coordinating its efforts with our Latin American counterparts, within the framework of the Contadora Group's proposals and strategies. In the first place, Europe must make it clear to its ally, the U.S., that this alliance entitles us to demand some consistency between the democratic principles we have in common and our deeds, especially with regard to Central America. The U.S. must be made aware that it is in the interest of all—the Central Americans, naturally, but also Europe and the U.S. itself—to establish a pattern of relationships based on friendship and trust instead of the current, and in the medium-term explosive, satellite relationship. Secondly, Europe, observing the priorities set by the countries concerned, should launch practical projects with the widest possible participation: prompt, imaginative, generous, properly-backed projects which can serve as models of cooperation in the kind of development that Central America and the Caribbean need, without any exclusions or discrimination: It is obvious that this development will not only promote progress for the Central Americans but will do much to ensure the genuine independence of these countries and peace throughout the area.

18. And probably, without directly meaning to do so and therefore without making it a policy objective, we would through these programmes, this display of solidarity and—by virtue of its consistency—the reaffirmation of our principles, be acting effectively to deprive the USSR and Marxism-Leninism of the (in our view, limited) influence they have managed to acquire in the area, mainly by taking advantage of the clumsiness and selfishness of their opponents.

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Information Sheet on the Report of the National Bipartisan Commission on Central America

MAJOR THEMES

— The crisis in Central America is acute. Its roots are indigenous—in poverty, injustice and closed political systems. But world economic recession and Cuban-Soviet-Nicaraguan intervention brought it to a head.
— The crisis will not wait. It must be addressed at once and simultaneously in all its aspects. Ultimate resolutions depend on economic progress, social and political reform. But insurmountable obstacles must be checked if lasting progress is to be made on these fronts.
— Indigenous reform, even indigenous revolution, is no threat to the U.S. But the intrusion of outside powers exploiting local grievances for political and strategic advantage is a serious threat. Objective of U.S. policy should be to reduce Central American conflicts to Central American dimensions.
— U.S. has fundamental interests at stake: Soviet-Cuban success and resulting collapse of Central America would compel substantial increase in our security burden or redeployment of forces to determment of vital interests elsewhere.
— As a nation we have deep and historic interest in promotion and preservation of democracy. Report concludes that pluralistic societies are what Central Americans want and are essential to lasting solutions. In this case our strategic interests and our ideals coincide.
— Central Americans desperately need our help and we have a moral obligation to provide it. The U.S. and other nations can make a difference. But in the end solutions will depend on the efforts of Central Americans themselves.
— Although there is urgent need for action, no quick solutions can be expected. U.S. must make a long-term commitment and stick to a coherent policy. That policy can and should be bipartisan. Commission found wide consensus on principles and objectives.

POLITICAL AND ECONOMIC DEVELOPMENT

— Central American economies grew substantially during the 60's and early 70's. But income distribution was highly inequitable, except in Costa Rica and Panama.
— Trend toward more pluralistic political systems in El Salvador, Guatemala and Nicaragua reversed in early 70's.
— World recession and rising political violence had catastrophic effect on region's economies in late 70's, early 80's. All have declined dramatically. El Salvador's gross domestic product is off 25% since 1978.
— Even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980.
— There must be substantial increase in outside assistance.
— Commission believes economic development cannot be separated from political and social reform. Objective must be parallel development of pluralistic societies and strong economies with far more equitable distribution of wealth.
— We propose a program of U.S. assistance designed to promote economic growth, democratization and greater social equity.
— We encourage the greatest possible involvement of the U.S. private sector in the stabilization effort. Recommend the formation of an emergency action committee of private sector personalities to provide advice on new private-public initiatives to spur growth and employment.

Recommendations: An Emergency Stabilization Program

— Leaders of U.S. and Central America should meet to initiate a comprehensive approach to economic development of the region and reinvigoration of the Central American Common Market.
— A $400 million supplemental in FY84 over and above the $477 million now in the budget for the seven countries. There is urgent need to stabilize economies now going downhill very fast.
— Focus this assistance on labor-intensive infrastructure projects and housing. Unemployment is a critical problem—politically and economically.
— Establish a program to provide U.S. government guarantees for short-term trade credits. External credit has dried up. Without it economies cannot be reactivated.
— Provide an emergency loan to the Central American Common Market to permit the reactivation of this vital organization. Lack of resources in the Market to settle trade accounts among the countries has stalled it.
— U.S. government should take an active role in the efforts to resolve the external debt problems of Central America and should encourage the countries that have not done so to seek multilateral rescheduling.
— Also encourage commercial banks to renegotiate at the lowest possible interest rates.

Recommendations: Medium and Long-Term

— Commission estimates $24 billion in net external exchange inflows needed to 1990 to foster a growth rate of three percent per capita, returning these countries to pre-recession levels of per capita wealth. About half—$12 billion—is expected to come from international institutions, other donor countries, and loans and investments from private sector sources.
— U.S. government will have to provide as much as $12 billion if these financing needs are to be met.
— We propose in this context a program of $8 billion over next five fiscal years (FY85-89) in USG assistance. This would be divided very roughly into about $6 billion in appropriated funds and about $2 billion in contingent liabilities covering guarantees, insurance and the like.
— Compared with current projections for FY85-89, these contributions would constitute an increase of about $2.8 billion in appropriated funds and $7.6 billion in contingent liabilities over the five-year period.
— Urge that Congress authorize multi-year funding of this program. Commission believes firm, long-term commitment is essential.
— To give form and structure to the development effort suggest establishment of the Central American Development Organization (CADO). Perhaps one-quarter of U.S. aid could be channeled through CADO.
— CADO would consist of the U.S. and those countries of the seven willing to commit themselves to internal democracy and reform. Continued membership would depend on demonstrated progress toward those goals. Adherence to regional security pact also required.
— Nicaragua could participate by meeting these conditions.
— CADO's principal body would be a Development Council with tripartite, ILO-style representation. Would assess program and progress toward economic growth, democratization, reform and preservation of human rights.
— Other democracies would be invited to join.
Additional Recommendations

- Expanded assistance from the U.S. government for democratic institutions and leadership training—neighborhood groups, cooperatives, binational centers and visitor programs for leaders of labor unions, local governments and other organizations.
- Require a new commitment by the Central Americans to economic policies, including reforms in tax systems, to encourage private enterprise and individual initiative, to create favorable investment climates, to curb corruption where it exists, and to spur balanced trade.
- Urgent extension of duty-free trade to Central America by other major trading nations.
- Review non-tariff barriers to imports from Central America with a view toward using whatever flexibility that exists within the framework of multilateral agreements, to favor Central American products.
- Establishment of the Central American Development Corporation—a privately owned venture-capital company which could initially be financed by a loan from the U.S. government.
- Recommend that the U.S. join the Central American Bank for Economic Integration.
- Technical and financial support for export promotion and a U.S. government review of non-tariff barriers to Central American imports.
- Increased availability of insurance guarantees for new investments from the U.S. government’s Overseas Private Investment Corporation.
- Increased focus in assistance programs on small business and accelerated agricultural development—particularly in production of food for domestic consumption.

Health and Education

- Democracy and prosperity in the region require accelerated human development. Hunger, disease and illiteracy sap a people’s vitality and impede the growth of viable democratic institutions. Literacy rates are unacceptably low in several counties (e.g., Guatemala 45%, El Salvador 63%, Honduras 60%), handicapping education efforts seriously.
- Widespread malnutrition also handicaps education by sending physically and mentally underdeveloped children to school.
- Goals should include a reduction of malnutrition, elimination of illiteracy, expanded education, health, and housing opportunities.
- Initial efforts must be to increase food assistance to Central America through the PL 480 programs.
- Commission calls for formation, under direction of the Peace Corps, of a Literacy Corps and a Central American Teachers Corps.
- To meet needs in higher education, U.S. government scholarships should be raised to approximately 10,000 over 4-6 years, a level comparable to Cuban and Soviet Union efforts.
- Educational reform can also be encouraged in the areas of technical and vocational education, through the expansion of the International Executive Service Corps, and through closer cooperation with Central American universities to improve the quality of education.
- Judicial systems in Central America can be strengthened by providing resources for training judges, judicial staff, and public prosecutors.
- Continuation and expansion of existing programs for disease control and eradication, as well as immunization and oral rehydration.
- Training of primary health workers, especially nurses, should be expanded and the means developed to integrate private and public financing of health services.
- Assistance programs should target the area’s severe housing shortage.
- Training of public administrators required to improve public service.
- U.S. government should provide more resources to meet critical problem of refugees and displaced persons—more than one million of them need help.

Security Issues

- In El Salvador there are two separate conflicts: (1) between those seeking democratic reform and those seeking to retain their privileges; (2) between Marxist-Leninist guerrillas and those who oppose Marxism-Leninism.
- In discussing the latter we identify three general propositions about such guerrilla movements:
  (1) They depend on external support. Without it they are unlikely to succeed.
  (2) They develop their own momentum which reform alone cannot stop.
  (3) Victorious, they create totalitarian regimes, even though they have enlisted support of democratic elements in order to project democratic, reformist image.

- External support comes from Soviet Union, Cuba and now Nicaragua. Cuba has developed into a leading military power through Soviet assistance. Since Sandinista victory, Soviets have come around to support Cuban strategy of armed road to power in Central America.
- There are serious strategic implications for the U.S. in Soviet-Cuban support for armed insurgency in the region.
- Triumph of hostile forces there could require us to devote large resources to defend our southern approaches.
- This could mean either substantially increased defense burden for the U.S., or a redeployment of forces to the detriment of our interests elsewhere.
- Threat to our shipping lanes in the Caribbean.
- Increased violence and dislocation in the area from which we could not isolate ourselves.
- Erosion of our power to influence events worldwide as we are perceived as unable to influence events close to home.

El Salvador

- The war is stalemated, a condition to the ultimate advantage of the guerrillas.
- U.S. military assistance is inadequate to permit modern, humane and successful counter-insurgency.
- Commission recommends that U.S. provide significantly increased levels of military assistance for greater mobility, more training, higher force levels and more equipment.
- Assistance is to be conditioned through legislation on terminating death squads, progress toward democracy and establishment of the rule of law.
- In Guatemala, such assistance should only be provided if the same terms are met.
- Increased military assistance also needed for Honduras to build a credible deterrent and to meet renewed efforts at insurgency.
- Commission concludes that U.S. security interests are importantly engaged in Central America. Larger program of military assistance needed, as well as expanded support for economic growth and social reform.
- Success will depend on an end to massive violations of human rights and the neutralization of external support for the insurgencies.

The Search for Peace

- A successful U.S. political strategy in Central America requires resources to promote economic growth, vigorous efforts to advance democracy and reform; other inducements and penalties.
- General strategic objective of U.S. diplomacy in Central America should be to reduce the civil wars, national conflicts and military preparations to Central American dimension. Specifically, we should seek to stop the war and killing in El Salvador. Create conditions under which Nicaragua becomes a peaceful and democratic member of the Central American community. And open the way for democratic development in all countries.
- Commission calls for negotiations in El Salvador between guerrillas and the government to be elected in March to establish conditions for later legislative and municipal elections in which all could participate: electoral commission with FMLN-FDR representation, cease-fire and end to all violence; international observation of elections.
- Adequate economic and military assistance from U.S. can help to achieve such a settlement.
- Commission believes military stalemate works against rather than for a political settlement based on the popular will.
- In Nicaragua, consolidation of a Marxist-Leninist regime would create a permanent security threat. Nicaragua’s main location makes it a crucial steppingstone to promote armed insurgency in Central America. Cuban personnel (2,000 military advisers and 9,000 civilian officials), several hundred Soviet, East European, Libyan and PLO advisers, extensive arms deliveries (13,000 tons in 1983) add an external dimension to the threat posed by Nicaragua to its neighbors.
- What gives the current situation its special urgency is the external threat posed by the Sandinista regime in Nicaragua, supported by Cuban military strength, backed by Soviet weapons and guidance and diplomacy, and integrated into the Cuban network of intelligence and subversion.
- Central American leaders believe pluralistic political orders are essential to long-term security.
- An alternative would be an attempt at containment. But that would threaten militarization of the states—the creation of garrison states. Democracy would wither. And the U.S. could find itself as surrogate policeman.
- Commission proposes comprehensive regional settlement based on:
  (1) Respect for sovereignty and non-intervention.
  (2) Verifiable commitments to non-aggression and an end to all attempts at subversion—covert or overt.

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The U.S. did not view Central America as an East-West conflict. The origins of the problems there - in Moscow or Havana - they had not many centuries. But the historical causes, including Latin American nationalism and more overt U.S. involvement, were today largely irrelevant. There were no legitimate social or economic causes of discontent that had to be dealt with. Yet these dissatisfactions had been translated into guerrilla insurgency, organized and led by outside experts. Such guerrilla movements tended to develop a momentum which posed a security problem. While it was true that poverty was a cause of discontent, it was not true that the upheaval would cease with the eradication of poverty. The problem was that the "time scale of reform was different from that of guerrilla warfare."

The first report of the commission's report was devoted to the economic, social, and political problems in Central America. The commission had undertaken a systematic analysis of the external financing requirements, necessary to alleviate "the current hopelessness." An average 30 per cent drop in per capita GDP since 1978, coupled with a rising birth rate, had made it impossible for governments to meet even their minimum aspirations of their people. The commission had determined that, to return the region to the 1978 level, it would require $20 billion, of which $8 billion would come from the U.S. and the remainder from Europe and from international institutions. Quite apart from protecting American economic interests, the commission's program sought to induce American companies to commit capital to the area, where currently there was very little flowing in. To accomplish this, the commission proposed to a Central American Development Organization which would include both private and public sectors.

With respect to El Salvador, the U.S. had imposed a very difficult assignment on the government: to conduct elections, carry out land reform, and end abuses by the security forces — all while fighting a guerrilla insurgency. There was no "negotiating gimmick" that would settle the war. Power sharing was not the answer; history told us that sooner or later one side in a coalition would throw the other out. The guerrillas in El Salvador had made unrealistic proposals — that a coalition be formed only after the army had been disbanded and the conservatives banned. Only the threat of military intervention, the structure and convictions of the Sandinista government, and the importation of arms. The Nicaragua army numbered 100,000 men — ten times the size of Somoza's. Cuba was sending in more arms than the U.S. was supplying to all of Central America. The result would be a military imbalance in the area which ultimately could lead either to a political military containment, or to a collapse of the whole area. The commission's objectives were to "return Central America to Central American dimensions." That meant:

1. Reduce arms on all sides to an agreed upon level.
2. Remove all foreign advisers and bases.
3. Set severe limits on importation of arms.
4. Require the commitment of all sides to peaceful processes.

Contrary to the belief of some critics, the U.S. did support the Contadora Initiative. But the Contadora countries — Mexico, Panama, Venezuela and Colombia — were an "unnatural grouping" with internal problems that made them weak. Their U.S. pursued a serious, enlightened policy that was not identical to the Contadora position but was one to which the Contadora nations could offer a compromise. A blanket endorsement of Contadora by the U.S. would be counterproductive.

U.S. policy was named by a "spirit of abdication" at home and in the West in general that considered American setbacks not only the deserved result of ill-conceived policies, but also as necessary to "break the spirit of arrogance and interventionism with which the U.S. had conducted its affairs." If this attitude led to a collapse of U.S. policy in Latin America, there could be an American reaction leading to military intervention and an obsession with the Western Hemisphere at the expense of the Atlantic and Pacific regions. What was needed was a "mature realization" that there was a security problem in Central America and the development of a negotiating position that realistically addressed it. But if results could not be achieved through negotiation, the U.S. had to be determined to defend its security interests but by means necessary, including force.

The preponderance of European commentary on U.S. policy in Central America was critical. A Spaniard said the many Europeans shared the U.S. view that had lost credibility and respect because of policies that "contradicted Western principles."

A British speaker felt that the Reagan Administration "completely misunderstood the reality" in Central America and that its policies there were "doomed to failure." Perhaps it would do well to be guided by Spain, which had had more experience in the region. Other participants argued that the administration wrongly placed the situation in Central America in the East-West context. The U.S. had said the Spanish speaker, exaggerated Soviet activity in the region. The demands of the people had nothing to do with Soviet or Cuban agitation. They were basic demands which deserved Western

DISCUSSION

Moderator: Walter Scheel

In addition to the Spanish Working Paper and the Information Statement on the Report of the Bipartisan Commission on Central America (Kissinger Commission), discussion of Central America was based upon introductory remarks by an American about the report and about U.S. policy in the region in general. This section begins with a summary of those remarks.

The commission consisted of twelve Americans with widely divergent views and personalities. It was perhaps an indication that public opinion in the U.S. was not at all divided that the commission came up with a unanimous report at a time when there were very real incentives to divide along partisan political lines. From the point of view of American national and global interests, the range of policy alternatives in Central America was not great. In the commission's report were embodied the major outlines of the direction in which American policy had to go if the next administration, whether Republican or Democratic, was to command a consensus.

Some basic questions about the situation in Central America had to be considered. These were:

1. Did the U.S. have vital interests in Central America?
2. Was the problem an economic, a social, or a security one?
3. What was the relationship between diplomacy and the use of pressure?
4. What role could be played by other groups, such as Contadora?
5. Was the Nicaraguan revolution "incipient Titoism," or a cause of real concern?
6. An area so close to America's borders, to the Panama Canal, and to major shipping lanes as was Central America had to be a major U.S. interest. No administration could afford to ignore the geopolitical implications of a hostile presence in the region. Military questions aside, the impact of a "Cubanized" Central America upon other nations in the area would be profoundly significant, particularly for such countries as Mexico and Colombia, which already had internal difficulties.

Throughout Latin America, the debt problem was becoming a "rallying point for political evolution," challenging free market economies and democratic values. The relationship of the U.S. to the Western Hemisphere was at stake.
issue was how to separate them. By dealing with Central America as an East-West problem, the U.S. was dangerously polarizing the situation into North and East and West and South versus East.

In one American speaker's opinion, his country's policy in Central America derived from the Reagan Administration's "obsessive hatred" of the Soviet Union. This attitude led to "ill-considered actions." The U.S. was "lowering itself to the standards of the Kremlin by imitating Soviet methods and practices." In its attack upon Nicaragua, the U.S. was forsaking its own values and instruments of influence—standards of freedom and justice and respect for the law. The inevitable result, warned the speaker, would be the alienation of future generations in the Third World.

It was a British participant's fear that the U.S. was "trying to contrive a pretext" for invading Nicaragua. He saw dire consequences of such an action. If the U.S. reserved the right to pursue its interests in Central America by military force, it would then legitimize a Soviet right to do the same thing in areas in its backyard. An American invasion of Nicaragua, furthermore, would place greater strain on the Western Alliance than any event since the Suez crisis. In Latin America, it would trigger a "tide of revolt" against what should be seen as a revival of Yankee imperialism. And that might lead to a militarization of international debts which in turn could bring down the whole Western financial system.

A Swedish speaker's opinion was that the tactics used by the U.S. against Nicaragua—mining harbors and aiding the contras—were in contradiction of international law. The U.S. tended to "create its own monsters." It had done that with the Sandinistas, who, in the speaker's view, had made mistakes, but were "uncorrupted and enthusiastic" and deserved to be given a chance. The contras, on the other hand, were "Somozist thugs."

Other participants expressed fundamental support for American objectives but questioned some of the policies used to achieve them. A Spaniard who was sympathetic to the U.S. aims but not to the means, condemned what he called "many tactless and thoughtless actions." In its attack upon Nicaragua, the U.S. was hampered by a poor record in the area. It was now in danger of making "another Cuba" out of Nicaragua. To avoid such a result, the U.S. should cease hostile acts, remove the Somozist elements opposing the Nicaraguan regime, and support the Contradora initiative.

The Western principles that the West should support, said a Greek participant, were that governments should depend on the support of the governed and that foreign invasions against the will of the governed should be opposed. Did not those principles argue for democrats around the world to support Duarte in El Salvador? And was it not in the West's interest that Nicaragua democratize and cease importing arms and supporting the insurgency in El Salvador? This, however, did not justify U.S. support of the contras, who were an undesirable element.

In defense of U.S. policy, an American pointed out that not all of the contras were Somozist. Many had fought on the side of the Sandinistas and had later joined a massive aid program, only to be "rewarded with intransigence." Other speakers had a dim view of the Sandinistas. Their record on human rights was not much better than Somosa's had been. An American supported this view, inasmuch as his contacts among trade union movement leaders in Nicaragua had told him of imprisonment and death threats.

In an International participant's opinion, the Sandinistas posed a threat to other countries in the region which ought to be resisted. He decried the "selective indignation" of those who criticized the U.S. while not mentioning Cuba and the Soviet Union. A German also saw hypocrisy in the fact that Europeans complained when the U.S. pursued its global interests but was quick to look to American help when its own interests were threatened.

An American said that too much time was being wasted in debating whether the causes of unrest in Central America justified one side or the other. We could all agree that conditions had been appalling in both Nicaragua and El Salvador, and that reform needed to continue. But it was also true that there had been considerable manipulation by both countries.

The question in Central America, the speaker went on, was not whether oppression justified taking up arms or whether outside manipulation justified opposition by force to those taking up arms. The coming together of internal protest and outside manipulation had created a dangerous situation. The issue was how to separate them.

In El Salvador, the U.S. goal was to provide sufficient military assistance to contain the insurgency while at the same time providing for land reform and democratization. The fact was that both efforts had made great progress. Some 23 per cent of the arable land had been redistributed and there had been three popular votes. In the case of Nicaragua, the American objective was to pressure the regime to remove its support of the insurgency and to encourage reform. The Central American crisis was solvable if the right policy mix of promoting reform and opposing outside manipulation was followed.

The Kissinger Commission, according to a speaker who had served on it, worked hard to address the social and economic concerns of the Central American peoples. It sought a wide diversity of opinions. It concluded that a military shield would crumble without social and economic progress. Another commission member said the report was not only based upon what the members thought, but also upon what they were told by Central Americans. He described it as "an attempt to rationalize our loftiest objectives with the messy realities of life."

But a Spanish speaker thought the report offered no effective solutions. While it contained some correct analyses, it was obsessed with Soviet and Communist influence in the region. The proposal for economic development was discriminatory, applying different standards to different countries. The economic development aspects were centered upon the U.S. in any event, economic development, as the report acknowledged, required peace and democratic governments. How could it occur when the U.S. was promoting military escalation and supporting military dictators opposed to democracy? The report was, he concluded "acceptable music, but when it was played, it would sound differently."

A Swede agreed that the report concentrated excessively on the East-West issue and relied too heavily on military solutions. It made no sense, he argued, to build a shield "to protect the people against themselves." A German warned that the report might be "a fig leaf" for a different policy, one of creeping militarization.

New initiatives were required to deal with the situation in Central America, many participants believed. The involvement and cooperation of the U.S. was essential, but there were important roles for Europe and the Contadora countries to play. The Contadora initiative, which the U.S. had been ignoring and trying to discredit, provided the best solution. The European role, he added, should be to "bring the U.S. back into compliance with Western principles."

An Austrian felt that one useful political initiative was to pay more attention to Costa Rica, the only functioning democracy in the area. The U.S. was wrong to pressure Costa Rica to give up its neutrality. "An American invasion of Nicaragua, furthermore, would place greater strain on the Western Alliance than any event since the Suez crisis. In Latin America, it would trigger a "tide of revolt" against what should be seen as a revival of Yankee imperialism. And that might lead to a militarization of international debts which in turn could bring down the whole Western financial system.

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the government if they would lay down their arms. In Nicaragua, the contras had said they would lay down their arms if they were brought into the government. A judgement had to be made as to who was right in each situation.

What, asked another American, did the critics of the U.S. want it to do? Should it agree to disarm those fighting against a totalitarian takeover? Why was it considered militarization to provide a shield long enough to pursue a negotiation that would lead to the disarming of all sides? True, the U.S. had made some mistakes in the region in the past. But the Reagan Administration’s rhetoric had been infinitely worse than its policies. It had strenuously opposed the death squads and had insisted on land reform and free elections. Negotiated settlements in both El Salvador and Nicaragua were possible. The U.S. did not want a Cuban or a Soviet solution, but nor was it seeking an American solution. What it wanted, and what Europe should support it in achieving, was a center solution, one that reflected the aspirations of the people of Central America.

At the end of the last session, the Chairman thanked all those whose generous and efficient efforts had contributed to the success and enjoyment of the conference. He especially mentioned the Swedish hosts, headed by Sten Gustafsson, supported by the professional conference staff; the authors of working papers and moderators of discussion sessions; the interpreters; the Secretaries-General and the Bilderberg secretariat; and the hotel and security personnel.