

BILDERBERG
MEETINGS

**GLEN COVE
CONFERENCE**

10-13 May 1990

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NOT FOR QUOTATION

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INTRODUCTION

The thirty-eighth Bilderberg Meeting was held at the Harrison Conference Center in Glen Cove, New York on May 10-13, 1990. There were 120 participants from 18 European countries, the United States, and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or their organizations. As is usual at Bilderberg Meetings, in order to permit frank and open discussions, no public reporting of the conference proceedings took place.

This booklet is an account of the 1990 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective future participants. Introductory remarks are reported essentially as they were presented, with only minor editing. Comments and interventions made in the discussion sessions, as well as panelists' closing remarks, are organized and reported according to subject matter and not necessarily in the order in which they were made, nor in their entirety.

PARTICIPANTS

Chairman

Lord Carrington*
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Former Secretary General, NATO

Honorary Secretary General for Europe and Canada

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Honorary Secretary General for the U.S.A.

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SWE	Anders Åslund	Professor and Director, Institute of Soviet and East European Economics, Stockholm School of Economics
USA	George W. Ball**	Former Under-Secretary of State
POR	Francisco Pinto Balsemão*	Professor of Mass Communication, New University, Lisbon; Chairman, SOJORNAL; Former Prime Minister
CAN	Thomas J. Bata	Chairman, Bata Limited
USA	Jack F. Bennett*	Former Director and Senior Vice President, Exxon Corporation; Former Under-Secretary of the Treasury for Monetary Affairs
FRG	Christoph Bertram*	Diplomatic Correspondent, "Die Zeit"
NETH	Ernst H. van der Beugel**	Emeritus Professor of International Relations, Leyden University; Director of Companies
TUR	Selahattin Beyazit*	Director of Companies
ICE	Björn Bjarnason	Assistant Editor-in-Chief, "Morgunbladid"
CAN	Conrad M. Black*	Chairman, Argus Corporation Ltd.

UK	Baroness Blackstone	Master, Birkbeck College, University of London; Opposition Spokesman on Education, House of Lords	USA	Katharine Graham	Chairman, The Washington Post Company
			USA	Maurice R. Greenberg	President, American International Group, Inc.
ITA	Enrico Braggiotti	Chairman of the Board, Banca Commerciale Italiana	SWE	Sten Gustafsson*	Chairman of the Board, SAAB-SCANIA AB
			POR	António Guterres	Member of Parliament; Chief Whip of the Socialist Party
USA	William P. Bundy**	Former Editor, "Foreign Affairs"	ICE	Geir Hallgrímsson*	Governor, Central Bank of Iceland; Former Prime Minister; Former Minister for Foreign Affairs
CAN	Derek H. Burney	Ambassador to the United States of America			
USA	Richard R. Burt	Head of the U.S. Delegation to the Negotiations on Nuclear and Space Arms with the Soviet Union	FRG	Helmut Haussmann	Minister of Economic Affairs
			NOR	Johan Jørgen Holst	Director, Norwegian Institute of International Affairs; Former Minister of Defence
GRE	Costa Carras*	Director of Companies	UK	Robert B. Horton	Chairman, BP Company plc
SPA	Jaime Carvajal Urquijo*	Chairman and General Manager, Iberfomento	FIN	Jaakko Iloniemi*	Member of the Management Board, Union Bank of Finland; Former Ambassador to the United States of America
SPA	Juan Luis Cebrian	Chief Executive Officer, PRISA (El Pais)			
FRA	Jean-Pierre Chevènement	Minister of Defence	TUR	Erdal İnönü	President, Social Democratic Populist Party (SHP)
GRE	Efthimios Christodoulou	Alternate Minister for Foreign Affairs	SWI	Klaus Jacobi	State Secretary for Foreign Affairs
USA	Gerald L. Curtis	Professor of Political Science and Director of the East Asian Institute, Columbia University	AUS	Peter Jankowitsch*	Chairman, Committee on Foreign Relations, Austrian National Assembly; Former Minister for Foreign Affairs
UK	Ralf Dahrendorf	Warden, St. Antony's College, Oxford			
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UK	Ian Hay Davison	Chairman, Laing & Cruickshank	FRA	Claude de Kémoularia	Senior Adviser, Groupe Paribas; Chairman, Paribas Nederland; Former Ambassador to The Netherlands and Chief Representative to the United Nations
USA	Robert A. Day	Chairman, Trust Company of the West			
DEN	Aage Deleuran*	Editor-in-Chief, "Berlingske Tidende"	USA	Henry A. Kissinger*	Former Secretary of State; Chairman, Kissinger Associates, Inc.
POR	João de Deus Pinheiro	Minister for Foreign Affairs	UK	Andrew Knight*	Executive Chairman, News International plc
NOR	Per Ditlev-Simonsen	Minister of Defence	SWI	Alex Krauer*	Chairman and Managing Director, Ciba-Geigy Limited
USA	James F. Dobbins	Principal Deputy Assistant Secretary, Bureau of European and Canadian Affairs, Department of State	FRA	Marc Ladreit de Lacharrière*	Director and First Executive Vice President, L'Oréal
CAN	Marie-Josée Drouin*	Executive Director, Hudson Institute of Canada	UK	Nigel Lawson	Member of Parliament; Former Chancellor of the Exchequer
CAN	Fredrik S. Eaton	Chairman, President and Chief Executive Officer, The T. Eaton Company Ltd.	BEL	Wilfried Martens	Prime Minister
USA	William T. Esrey	Chairman and CEO, U.S. Sprint; Chairman, President and CEO, United Telecommunications, Inc.	USA	Charles McC. Mathias*	Partner, Jones, Day, Reavis & Pogue; Former U.S. Senator (Republican, Maryland)
SPA	Oscar Fanjul	Chairman, Instituto Nacional de Hidrocarburos; Chairman, Repsol S.A.	FRG	Andreas Meyer-Landrut	State Secretary, Office of the Federal President
USA	Thomas S. Foley	Speaker of the House of Representatives	USA	Gertrude G. Michelson	Senior Vice President, External Affairs, R.H. Macy & Co., Inc.
CAN	R. Donald Fullerton	Chairman, Canadian Imperial Bank of Commerce	FRA	Thierry de Montbrial*	Director, French Institute of International Relations; Professor of Economics, Ecole Polytechnique
INT	John R. Galvin	Supreme Allied Commander Europe, SHAPE	ITA	Mario Monti*	Rector and Professor of Economics, Bocconi University, Milan
ITA	Raoul Gardini	Chairman, Ferruzzi Group			
FRG	Peter Glotz	Member of Parliament (SPD)			
USA	Marshall I. Goldman	Kathryn W. Davis Professor of Soviet Economics; Wellesley College; Associate Director, Russian Research Center, Harvard University			

IN ATTENDANCE

NETH Saskia ten Asbroek
FRG Günther F. W. Dicke

USA Charles W. Muller

Executive Secretary, Bilderberg Meetings
First Vice President, Deutsche Bank AG;
Organizer, 1991 Conference
President, Murden and Company; Adviser,
American Friends of Bilderberg, Inc.

List of Abbreviations

AUS	Austria	ITA	Italy
BEL	Belgium	NETH	Netherlands
CAN	Canada	NOR	Norway
DEN	Denmark	POR	Portugal
FIN	Finland	SPA	Spain
FRA	France	SWE	Sweden
FRG	Federal Republic of Germany	SWI	Switzerland
GRE	Greece	TUR	Turkey
ICE	Iceland	UK	United Kingdom
INT	International	USA	United States of America
IRE	Ireland		

AGENDA

I. THE NEW SOVIET (DIS)UNION

Moderator: Lord Carrington
Speakers: Marshall I. Goldman
Andreas Meyer-Landrut

II. STRATEGIC ISSUES

Moderator: Christoph Bertram
Speakers: Richard R. Burt
Pierre Morel

III. ECONOMIC RELATIONS WITH EASTERN EUROPE

Moderator: Thierry de Montbrial
Speakers: Helmut Haussmann
George Soros
Jeffrey Sachs

IV. CAN WESTERN VALUES BE APPLIED UNIVERSALLY?

Moderator: Vernon E. Jordan, Jr.
Speakers: Ralf Dahrendorf
Richard Schifter

V. GERMANY

Moderator: Henry A. Kissinger
Speakers: Horst Teltschik
Jean-Pierre Chevènement
William A. Waldegrave

VI. THE FUTURE OF NATO AND THE EUROPEAN COMMUNITY

Moderator: Charles McC. Mathias
Speakers: Henry A. Kissinger
Nigel Lawson
Theo Sommer

VII. JAPAN: POLITICAL CHANGES

Moderator: Conrad M. Black
Speakers: Gerald L. Curtis
Karel van Wolferen

OPENING

Lord Carrington, the Chairman of the Bilderberg Meetings, opened the Glen Cove Conference with a tribute to the late Alfred Herrhausen who, in addition to his leadership in the affairs of his country, Germany, and in world affairs, was also a stalwart supporter of Bilderberg as a participant and a member of the Steering Committee. At the Chairman's suggestion, the conference participants stood to observe a moment of silence in memory of Dr. Herrhausen.

The Chairman then extended a welcome to all those present. He reviewed the conference schedule and the ground rules and procedures for participating in the discussions. Lord Carrington concluded his opening remarks with the observation that no previous Bilderberg Meeting had taken place at a more interesting time in foreign affairs.

Introductory Remarks

I.

In order to understand Soviet policies of today, we must look back at what has happened in the past five years since Gorbachev came into office. The key to Soviet policy today is Gorbachev's insight into the fact that projection of military power is nowadays not sufficient to maintain the position of a world power. For the success of Communism and of the Soviet Union as a world power, a prosperous population and technological progress is needed. So Gorbachev's program when he first came to power was acceleration of economic performance without in any way touching the one-party system or the planned economy, except for the introduction of strongly controlled, small-scale private initiative.

The accompanying foreign policy followed two lines. The first was the arrangement of general non-confrontational relations with the United States, mainly via disarmament, to reduce the burden of military spending and to be able to tell the population that his policy was making a more stable peace. This was a psychologically important move because the Soviet people had always been told they were threatened by capitalist, imperialist aggression. The second line was close cooperation with the Comecon partners, whose role was seen as assisting Soviet economic modernization. All of this needed an atmosphere of peace and some adjustments in ideology, mainly in the third world. The main element of this policy was to reduce spending for overseas clients. The Brezhnev doctrine was given up. Shevardnadze revised the basic ideology, interpreting the notion of peaceful coexistence from enhanced worldwide class struggle to cooperation of nations to the benefit of mankind.

The second phase of Gorbachev's policy began about 1987, when he realized his reform policy was not succeeding, that neither the working people nor the party and the administration were motivated. He then embarked on glasnost—openness and democratization—in order to activate individual qualities with the help of personal political freedom and the granting of human rights. He outmanoeuvred the Party by demanding that political power be centered around the Soviets—the elected bodies—from the villages to the Supreme Soviet. This policy led to the Party Conference of 1988, the changes in the constitution, the election of the Congress of Deputies, and the Supreme Soviet with Gorbachev as its president and master, and later to the presidential system of today.

This phase of Gorbachev's policies had foreign policy consequences and implications. The disarmament policy was pursued and led to the INF Agreement, and envisaged further steps in strategic arms control, chemical warfare, and conventional arms control in the CSCE context. An improvement in the Soviet Union's image was sought by such things as paying U.N. debts; showing readiness to cooperate in peace-keeping activities; pressing on Cuba and Angolan communists to reach a solution to the conflict in Angola; cooperation with the West to get help to distressed areas like Ethiopia; pressing Ortega to accept elections in Nicaragua; engaging in diplomatic action in Southeast Asia to get the Vietnamese forces to leave Cambodia; and terminating the military engagement in Afghanistan.

The most important effect of glasnost and the political reform was the revolutionary process in Eastern Europe. It is true that Poland and Hungary had made efforts for more

independence from Moscow already. But this development exploded in 1989, with even the most stable Communist regimes in Eastern Europe wiped away by the people. These events not only ended Communist rule but also ended Gorbachev's plans for economic cooperation. These countries are still members of the Warsaw Pact and of Comecon, but the breakdown of Stalin's policy of politically and economically dependent states on the Soviet Union's western border is evident. The most serious of these developments from the Soviet point of view must be the developments in East Germany—the last big gain of World War II, and the only success story in the Communist world.

How to resolve the security issues on the western front is still open. The first Two-plus-Four foreign ministers meeting in Bonn made it very plain how difficult it is for the Soviet Union to understand that, ultimately, it not only will have to accept German NATO membership, but that this is also in its own interest in the long run. The biggest hurdle for the Soviet leadership seems to be the psychological aspect, relating to World War II. Soviet leadership has to take into consideration not only a general mood in the population, but also the attitudes of the military.

The military is not, for the time being, a politically dangerous factor among Gorbachev's critics. But it still is a huge and influential organization, even though its image since Gorbachev's reforms has decreased considerably. There is a great deal of frustration and insecurity in the military, and the government is not able to help. Soviet troops being repatriated from Hungary are staying with their families or in tents, with no housing and no jobs. The 380,000 men in East Germany alone present an even greater problem.

Another complex issue is the nationalistic wave in the republics of the Soviet Union itself. In a somewhat historically belated development, the last big colonial empire in the world is breaking apart. It may take some years or even a decade, but it seems inevitable. The cause is the collapse of the one party system, with its unlimited power as well as the nationalistic wave in Eastern Europe. The foreign policy implications of these developments are more a problem for the West than for the Kremlin. The case of Lithuania shows this clearly. The West needs a reformer in Moscow to gain time to stabilize the situation in Central and Southeastern Europe, and for the orderly transition of the status of East and West Germany into an internationally acceptable sovereign Germany. This cannot be achieved when there is civil war and turmoil in the Soviet Union—that is, when one player is paralyzed by domestic problems. On the other hand, the fight for freedom and independence in the republics, especially those which long for closer ties with the Western world, meets with friendly and sympathetic emotions. The strife and yearning for self-determination cannot be simply overlooked in Western policy.

Gorbachev's economic reform policies have been a failure. Perhaps success will come in a decade or two, but, for the foreseeable future, the Soviet Union will find itself in a politically and economically weak position. Gorbachev's reform policies in the political area have opened up the road for a new European order and more peaceful coexistence among the people of the world. Gorbachev's reform policies include dangerous elements of instability in the course of the inevitable restructuring of the Soviet Union, or what will be left of it. Gorbachev's failure could lead to the closing up of the Soviet Union as has happened in China, and a new confrontation between the Soviet Union and the Western Alliance, but on a different and probably less dangerous level than pre-1985. At least it could force the Soviet leadership to concentrate wholly on inner-Soviet affairs, trying to hold as much of the status quo intact as possible, but unable to play a constructive role in the reshaping of Europe. Gorbachev's room for manoeuvre could be reduced by the Party Congress in June of this year, although his Constitutional

position seems firm and his political determination undiminished. The US-Soviet summit will have an important influence here.

Finally, a question often raised in the West is whether we should help Gorbachev—in the economy, in disarmament, and in the nationalities issue. In the economic area, the question concerns the legal framework and the possibilities for assistance. These questions really have to be resolved in the Soviet Union. This is also true of disarmament. The Soviets have to make their own definition of what constitutes security. On the nationalities issue, we may be able to give them some advice on constitutional changes, such as embarking on a path toward a commonwealth of nations. But here also the decisions are with the Soviet government. As de Tocqueville said, "The most dangerous time for a bad government is when it starts to reform itself".

Introductory Remarks

II.

These remarks will focus particularly on the problems Gorbachev faces inside the Soviet Union, especially the economic difficulties. They will deal first with the current economic situation, looking at how it came about, and then deal with the prospects for the far-reaching reforms Gorbachev has been talking about.

Within the last quarter of this year, a number of things have happened in the Soviet economy. Gorbachev has taken a bad economic situation, that he inherited from Brezhnev, and made it worse. For the first quarter of 1990, official Soviet statistics report that industrial production is down. It is one of the few times in Soviet history that that has been reported. It is down by one to two percent, before taking inflation into consideration. If you take inflation into consideration, GNP is down by five to six percent, which is a recession. Specific industries are in deep trouble. Oil, coal, steel, and many other industries are significantly down. Inflation, hard to measure, is about 15 to 20 percent. What is more ominous is that it is growing. As a consequence of that, goods have disappeared from the shops, there is rationing, and there are shortages. The Soviets have had difficulty paying their bills to the international community. It is not necessarily a case of all the money disappearing, but it is a reflection of the fact that, because of decentralization, individual businesses inside the Soviet Union have now taken on some of their own obligations, and, as a consequence, there is confusion. (This happened in China; when they decentralized, some enterprises went out and made commitments that could not be honored by the state as a whole.) Even worse, in the country, the peasants have stopped delivering grain to the state, even though the harvest is up and the peasants are officially supposed to be paid in hard currency.

As a consequence of all these problems, there is in the Soviet Union a form of economic secession which is even more serious than the political secession, because the economic secession is spread throughout the country. One area refuses to deliver goods to another area. A domino effect results—it is not a very happy scene.

How did it happen? How did Gorbachev get himself into this situation? Initially he got off to a good start. Production was up. There was a return to discipline. A younger man had taken over. But Gorbachev had no road map. He did not know where to go, what route to follow. And he had some bad economic advice. He kept reversing himself. Ultimately, this caused some serious problems. For example, in 1986, he decided to crack down on all forms of private trade. But the following year, he reversed himself

and announced that private trade cooperatives would be legal. In 1989, however, the government again cracked down on some of the cooperatives and closed them down. This year, Gorbachev is talking about far-reaching economic reform, return to the market, and legitimization of private trade in all areas. He has been going from one extreme to the other. This is very confusing, and it is dangerous.

Equally important is that Gorbachev focused on the wrong sector of the economy to reform. When he began in 1985, he concentrated on the machine-tool industry. This is a traditional Russian pattern that began with Lenin. The Russians have a fetish with machine tools. As a consequence, Gorbachev increased budget expenditures on machine tools. But, when combined with the crackdown on the sale of vodka, this caused a budget crisis. It turned out that vodka revenues bring in 10 to 20 percent of the Soviet Union's budget. So there was an increase in expenditures and a drop in revenues. This was combined with the fact that Gorbachev also increased imports of machine tools. But he ran into a drop in oil prices. Oil, the Soviet Union's largest export earner, brought in a third less revenue than it had before Gorbachev came into office—a major drop in revenues.

To deal with his balance of trade problems, Gorbachev had to cut back some imports. He mistakenly decided to cut back on the imports of consumer goods. That caused two problems. One, it meant that there were shortages of goods that previously had been available. Two, it meant that sales taxes could not be collected on goods that were not there, so the size of the budget deficit increased even more. The budget deficit went from 18 billion rubles in 1985 to 48 billion rubles. Last year, the budget deficit was over 100 billion rubles—10 to 12 percent of Soviet GNP. So far in 1990, the deficit is even higher. There have been estimates that, to pay for that deficit, the Soviets have released as much as 500 billion rubles. People have begun to hoard, which explains the disappearance of goods from the shops. The ruble, as a consequence, has lost value. People don't want to sell to one another.

This in turn leads to strikes. The miners were out on strike because they wanted soap. This year, the oil workers have talked about striking. Each day, the Soviets are beset by strikes. On average, 100,000 workers are on strike at any one time. This is for ethnic reasons as well as economic reasons.

In the process of reform, Gorbachev has discredited the very solutions he needs to rely on. The private and cooperative forms of enterprise which he began to encourage are now viewed as a source of the high prices, the shortages, and the crime which is rampant in the Soviet Union. As the result of taking goods from areas where they were in relative abundance and moving them to where they were in short supply, shortages have occurred in both areas. Private trade is discredited. The joint ventures are having trouble. There are now only about 1500 joint ventures. There is no convertibility. Some have closed down, others never reached the actual operating stage. More ominously, inside the Soviet Union there are complaints about the joint ventures. They are viewed as being exploitive of Soviet workers and, more important, of Soviet raw materials, and a source of pollution. This year, the registration of joint ventures has been held down. There are now proposals before the Supreme Soviet to annul the legislation making joint ventures possible.

In agriculture, Gorbachev has tried to encourage the formation of private farms. But the peasants have reacted against this. There is resistance to the process. Gorbachev has to deal with the United Workers Front, which has declared that there should be no private trade, that prices should be frozen, and that there should be a return to central planning.

The prospects for far-reaching reforms seem to be very dim. The likely institutions for reform have been discredited, and there is now organized opposition to reforms. People don't trust Gorbachev. They view him as a poor economist, as someone who does not know what direction to go in. The Soviet people believe Gorbachev is trying one solution after another, and none of them are working.

Discussion

Gorbachev: the indispensable man? An American initiated the discussion with the observation that it was of critical importance to Gorbachev that he make real progress within the year in dealing with the two most formidable challenges facing him: the Soviet economy and the nationalities issue. It seemed likely that his failure to do so would cost him much of his power, or even his job. In the latter case, wondered the speaker, was there any real alternative to Gorbachev, from the Western point of view?

Continuing in this vein, a German participant asked rhetorically if the process of change, both domestically and in foreign policy, initiated by Gorbachev was reversible. Gorbachev had changed Soviet policy in three principal ways. First, he had given up the idea of international class struggle and had downgraded the role of ideology. Second, he appeared ready to give up his country's preponderance of arms. Third, he had given free reign to the countries of Eastern Europe and had allowed the process of German reunification to proceed. Would all of this be reversed if Gorbachev fell from power? Would a successor continue these policies, or overturn them? And was it in the West's interests to help Gorbachev, thereby helping to preserve the changes?

In response to these concerns, an American speaker expressed the view that Gorbachev was the West's best hope. Without him, there was little likelihood that the process of reform would continue. But things had gone badly for Gorbachev. His people were becoming disenchanted with him and were losing respect for him. They wondered if he knew where he was going. His base of support had become very narrow.

How should the West respond? Whether it was in the Western interest to help Gorbachev was a matter of some difference of opinion. Saying Gorbachev's "time was over," a Swedish participant felt that success was no longer an option for him. Nor was it desirable that he succeed. The economy, continued the speaker, was in a "hopeless mess" and the nationalities problem was insoluble. Gorbachev was making matters worse by gaining more formal power as his popularity declined. The best option from the Western point of view was a Czechoslovak-type revolution in which Soviet society "fell softly." The worst option was a Gorbachev "too strong to be ousted, but too weak to rule."

A Briton agreed with this thesis, saying that there was nothing the West could do about the "unimaginable mess" the Soviet Union was in. Gorbachev had totally failed, and it should not be an objective of Western policy to keep him in power. The West had to distinguish between the Soviet Union and Eastern Europe in giving aid. We had our work cut for us in helping the latter achieve functioning, efficient market economies.

Others felt help for Gorbachev should be forthcoming from the West. Several speakers pointed out that the Soviet Union remained a nuclear power, and its instability, with or without Gorbachev, was a serious threat to the West. Without Gorbachev, argued an Italian, the threat was all the more dangerous. The West, therefore, should help in two main ways: politically, by establishing a security context suitable for the West and

acceptable to the Soviet Union; and economically, by fostering trade and providing such things as vocational training.

The centrality of the Soviet economy to its overall situation was acknowledged by all the participants in the discussion. A British speaker said the key to security and stability was for the West to find ways to help the Soviet Union solve its economic difficulties. A countryman agreed, saying that the only reason for the West to support Gorbachev was that he acknowledged the need for liberalizing the economy. An American expressed the fear that Soviet economic problems could lead to rioting and "revolutionary activity." At the heart of the problem, he continued, was not so much an overall shortage of goods but "extreme maldistribution." Ceiling prices on consumer goods were too low and graft was so great that these goods had become unavailable in government stores but could be found in the black market at much higher prices. The shortages were due to hoarding.

What the West should do, in the view of another American, was to help Gorbachev completely change the system—by adopting price reform, breaking up the ministries, abolishing collective farms, and even implementing something like the food support programs of the 1930s and 1940s. Others called for a trade treaty between the U.S. and the Soviet Union and for the Federal Republic to establish a line of credit. An American pointed out that other countries—notably Yugoslavia and Poland—had experienced improvements in trade and inflation and reductions in shortages through shock stabilization. The extent of monetary destabilization was not as bad in the Soviet Union as it had been in other countries. What was needed was a serious commitment of Western financial support. Another speaker added that the West should take advantage of the opportunity to reduce the burden of military spending and thereby free up resources in our own economies.

The nationalities issue. With respect to the nationalities issue, a number of concerns were voiced. An American, noting that he "detected a degree of successive accommodation," wondered if there could be a stopping point at the Baltic republics. A German questioned whether Gorbachev "could afford to be soft on Germany and tough on Lithuania at the same time." Or would he have to be tough on Germany if he chose to "string the Lithuania problem along."

A speaker from Finland felt that there was no real policy on the Baltic question yet. Moscow was confused. A complicating factor was the perception of a retreat from the zone of security. It was hard for the Russian military leadership to accept being pulled back to the 1939 borders. The problem was likely to be unresolved for some time. A German agreed that, until the question of borders was resolved, the Soviets would not move on the issue of greater political independence for the Baltics. And the many ethnic Russians in the Baltic states exacerbated the problem.

The Soviet military. Several speakers pursued the matter of the role of the military in developments in the Soviet Union. Was there a threat of military intervention, asked a Greek. A Swede felt that this would be the ultimate result of what was presently going on in the Soviet Union. There were "too many men at arms to remain passive while the Communist Party fell apart." An American added that the past two or three years had been the most difficult for the Soviet military since the early days of World War II. It had been reviled for its role in Afghanistan, Azerbaijan, and the Baltics; it had been cut out from policy debates such as the arms control negotiations; and now officers and men recalled from Eastern Europe were being told to stay out of Moscow.

The implications of Soviet decline. A Briton saw in the Soviet situation clear aspects of imperial decline. He wondered if the decline of the Soviet empire mattered to the emerging balance of power in Europe and elsewhere. A Frenchman expressed concern about the possibility of civil war. What would be the effect from the security point of view? Would the Soviets be able to conduct a coherent foreign policy? And was the Soviet Union, wondered a German, in an evolutionary or pre-evolutionary phase?

Some speakers expressed concern about the awakening of nationalistic and anti-Semitic tendencies in the Soviet Union. Would this be a problem for Europe? A German said there were two types of conservative groups. One consisted of Russian nationalists concentrated around Pamyat. These people were anti-Semitic and posed a danger for the Soviet Union. The other group was made up of old party people trying to re-establish the old system and regain their privileges. So far, Gorbachev was still able to balance these forces.

Finally, on the subject of the possible ouster of Gorbachev, an American felt that the legality of such an eventuality had changed with the adoption of the Presidential system and the loss of power of the Communist Party and the Politburo. The earlier pattern of palace coups within the Communist Party was no longer operative. But another American observed that Gorbachev, not having run for President, had no national mandate. There was a risk that the Congress of Peoples' Deputies could ask him to step aside for "health reasons."

II. STRATEGIC ISSUES

Introductory Remarks

I.

A very perceptive remark was made in the late 1960s by Pierre Hassner about the role of NATO, defense strategy, nuclear deterrence and efforts to maintain the military balance in Europe. He said that these policies were not designed directly to change the status quo in Europe, but they permitted social and economic trends to do their work. Twenty years later, in 1989, Hassner was proved correct that the governments of the West, by preserving politico-military stability, were able to permit social and economic trends in Eastern Europe to do their work. Those trends are largely responsible for the revolutionary situation that we are in today.

The challenge facing us is how to manage this complex process of change with five fundamental strategic developments underway: Soviet decline and military retreat; Eastern European independence; German reunification; Western European politico-economic integration; and the changing role of the United States in Europe and the world. All these changes taken together highlight the observation that, in the coming decade, we will need to be able to distinguish between threats and risks. The classical military threat appears less compelling, but important new risks are emerging. Soviet instability is one such risk. In Eastern Europe we see new rivalries and new potential for conflicts. We see anxieties over German reunification and new pressures for U.S. withdrawal from Europe. In dealing with these and other risks, the approach that makes the most sense for the West is to adapt, but not to abandon, the military and arms control strategies that served us successfully in the post-war period.

With respect to the strategy of nuclear deterrence, the issue is not whether we can or should reduce numbers of nuclear weapons. In fact, we have been undertaking reductions for over a decade. The real question is whether we should denuclearize European defense, and, on the strategic level, adopt a strategy of so-called minimum nuclear deterrence. Despite the decline in the Soviet conventional threat, and despite traditional Soviet anti-nuclear diplomacy, there are strong reasons for resisting the trends toward denuclearization.

First, there is the general role of nuclear weapons. At a time of volatility, uncertainty, and unpredictability, nuclear weapons reinforce caution and prudence. This is a fundamental strategic imperative. More specifically, the U.S. strategy of extended deterrence and its nuclear guarantee to Germany is seen by many as a stabilizing feature in the current situation, particularly as a means of heading off possible German sentiment toward acquiring nuclear weapons. But the desire to maintain a strategy of extended deterrence does not require the same number and mix of nuclear weapons. The U.S. has begun to review this mix, to reduce numbers of land-based missiles, to withdraw nuclear artillery, and to place a greater reliance on a smaller number of air-delivered and sea-based systems.

Within this broad framework of nuclear policy, there are some questions that will have to be addressed in the years ahead. The first is whether we will be able to modernize nuclear weapons in Europe. There is a debate now emerging over the TASM air-delivered missile, whose deployment in Europe will clearly be resisted by the Soviets and opposed by many in Western Europe. The Bush Administration has not sought to

push a decision on this system in the near future. But it is important to avoid a debate in the U.S. which centers around the notion of "no nukes, no troops."

Secondly, Soviet attitudes towards nuclear weapons are in flux. Diplomatically, the Soviet Union seems now to be moving away from its strategy of complete denuclearization, recognizing that a small presence of nuclear weapons in Europe could be stabilizing. Within the Soviet Union there is a debate between those who favor minimum deterrence and those who believe that the Soviet conventional position may become so weakened that a greater emphasis will have to be put on nuclear forces.

Thirdly, there is the question of British and French nuclear forces. These are independent deterrents, but they have been held in trust for some possible future Europe-wide military entity. This has been underscored by recent discussions between Paris and London on plans for Anglo-French nuclear cooperation.

As to the role of conventional forces and the U.S. presence, a CFE agreement will substantially reduce NATO and Warsaw Pact forces. Public pressures could reduce those forces further. Thus it is clearly time for the West to think about its conventional strategy. One political requirement, in the view of the Bush Administration, is the maintenance of a U.S. presence as a necessary glue to hold together the U.S.-European alliance—both to keep Germany anchored in the West and to head off any re-emergence of intra-European rivalries. If a U.S. presence is to remain in Europe, then there has to be a stronger European component.

In terms of strategy, we will have to re-examine forward defense. NATO, for the first time in 40 years now has the luxury of space and time. Thus, some have begun to talk about a reconstitution strategy, focused on forces that could facilitate the introduction of larger forces in time of crisis, and that are more designed for mobility, surveillance, and crisis management.

In the area of arms control, it is now common to argue two things about START and CFE: first, that arms control has become irrelevant because structural arms control is taking place in the Soviet Union anyway; second, that arms control has been overtaken by events. Both these arguments are wrong. The situation in the Soviet Union could change in a very volatile way. Agreements in both the START and CFE areas will give us a base from which to move on.

But the role of arms control has changed. The negotiations in the 1990s will play less of a political role but probably a greater military role. For the first time we can achieve force restructuring in the nuclear and conventional areas that was impossible in the past. The real challenge, if we can restructure forces along more stable lines, is to decide for ourselves what will be a more stable force. In the area of START, clearly that means less reliance on missiles with multiple warheads, and more emphasis on systems that are less vulnerable to attack and that are not optimized for first-strike.

Finally, with respect to out-of-area contingencies, there are two disturbing trends. First, while there will perhaps be less Soviet-U.S. rivalry in some regions, like the Middle East, there could also be less superpower control and ability to manage conflicts in these areas. The Iran-Iraq conflict could be the forerunner of a new form of more dangerous conflicts in the future. Secondly, as the Iran-Iraq conflict demonstrates, we can see the spread of technology—nuclear, chemical, biological—which will make third-world conflicts much more dangerous.

We will need to focus in the 1990s even more on the link between the strategic factors and economic trends. In a way, there will be a reversal of priorities, with many governments giving greater precedence to economic issues than to strategic issues. This could mean that the ability to adapt a new, emerging security system will depend on

working out trade and investment problems better than we have in the past, both within Europe and between the U.S. and Europe.

Introductory Remarks

II.

The present strategic juncture and the re-evaluation of strategy is not following any uniform pattern. We need to recognize first that there has been a strengthening of the role of nuclear deterrence. Secondly, we also need to recognize that it is important to bring the countries of the south into this re-evaluation of our strategy—that is, the third world countries.

Regarding the strengthening of deterrence, this is the case because the continuation of the Soviet-American debate on strategic arms is going to have a very definite impact on any sustainable movement in that sense. This is a movement which generates its own rules and will bring in the other regions. Over the last 20 years, the criterion of stability and the putting together of the basic strategic lexicon has allowed us today to work within a relatively stable framework. Also, there has been, as of 1983, a re-evaluation of the situation, not of nuclear deterrence per se, but the idea was put forward that perhaps we should think in terms of a new system. After SDI, and with the Bush Administration coming in, there has been a reordering of priorities—a confirmation of the importance of deterrence and of the management of that strategic transition in which we find ourselves, but with a slightly different focus. For the Soviet Union, the ABM Treaty is square one, the basic platform from which they operate. For the United States, this is a phase that one needs to go beyond. There is a basic disagreement and approach here. But what is most important is that the dialogue continue.

The notion that there has been a strengthening of deterrence may seem paradoxical, but it is supported by the fact that the reductions in strategic forces we have seen brings deterrence into its proper role. Redundancy was causing people to question the purpose of deterrence. Now, we are thinking in terms of less being more. This has pared the issues down and has made us look squarely at the hard core of deterrence and defense, and at what the margin of redundancy is for the two major powers. There is an internal logic that is being examined anew. Certainly, nuclear deterrence remains unpopular in some quarters, but it is being strengthened through negotiation, and, in that sense, it is being consolidated.

Naturally, there are exogenous pressures. There has been an increase in the cost of research and development. There has been a strengthening of the command and control mechanisms. There is certainly political pressure for disarmament. But, at the end of the day, we are seeing a consolidation of the principle of deterrence itself which is going to give us three results. First, it will enable us to avoid being held hostage in terms of our own survival. Second, there will be a recourse to military solutions in the case of political crisis and, in the end, an escalation in the case of military action, but there is a consolidation at each one of these phases. Third, there will be a progressive, but limited, redistribution of roles. The Soviet Union will remain a major threat, because of its strengths as well as its weaknesses. A sense of commonality between it and the rest of Europe is very far off in the future. Thus a strategic balance must be kept in which the nuclear dimension will remain a determining force.

As to the role of the French and British nuclear forces, it is not to replace or become a substitute for U.S. strategic forces, but rather it is to complement them. There is a window of opportunity open now in that, for the first time at a technological level, the British and French are meeting on the same wavelength. The dialogue has gone from a political one to one that is being discussed in technical terms. In that sense, the opportunity will be exploited in the next few years to fashion a common European-American deterrence. This will be expanded and reorganized in the European context, understanding that the American presence must remain.

Another theme involves the contention that the search for global security is going necessarily to imply an active contribution on the part of the southern hemisphere countries. We have the conjunction of three major negotiations: the bilateral START negotiations, the more regional CFE negotiations, and the chemical dimension, which is global. These three major negotiations have similar timetables. Clearly, it will be impossible to come to any resolution in the chemical process if everyone is not brought in. And naturally, depending on what strategic and conventional reductions are agreed to, the relative forces will be altered. In the medium and longer term, if these are altered, the chemical will take a greater role.

We must do our utmost to avoid a transfer of tensions from East-West to North-South. To exclude the third-world countries from this transformation of the international system would lead us to a zero-sum game. We will have to go beyond the limits of our non-proliferation policies of the 1960s and 1970s which do not really gauge the two edges of the technological sword. The "good guys-bad guys" approach is not realistic because it leads inevitably to trying to get around the rules of the game and does not take into account the regional dimensions that need to be looked at on a case-by-case basis. Therefore, it will be very important to bring these countries in.

We have a great number of sectorial issues that need to be addressed, such as updating the biological warfare treaty of 1972. We need to be ready to go a step beyond arms control, thinking in terms of such issues as debt, development, energy, environment, population, drugs, and terrorism. It is no longer simply arms control or security that is at stake. It is civilization. We need to broaden the debate. If we do not, we are inevitably going to fuel fundamentalism and terrorism, and this cannot be limited just to Europe.

Discussion

The importance of NATO. While virtually all the participants in the discussion acknowledged that the security landscape in Europe was undergoing dramatic change, none advocated abandoning NATO as the centerpiece of Western strategy. It was a Norwegian's view that we had to preserve the coherence of the security system, created by the North Atlantic Alliance, which linked the north and south with central Europe. We should avoid de-linking, through arms control or through "political architecture centered around Germany," the framework that had been constructed after World War II.

An International participant agreed that a structure was needed to oversee a revised and updated Western strategy—to provide for verification of arms control agreements, for crisis management, and for decision-making. NATO was the appropriate structure. It was critical to have adequate forces to support the strategy, including nuclear forces.

The nuclear aspect. The role of nuclear forces in the changed security environment was widely discussed. Most speakers agreed that they were still an important part of Western strategy, but that maintaining political support for them was an increasing challenge. Western strategy had to have a nuclear component, said a speaker from Norway, because conventional forces were not sufficiently deterring. But we had to tailor the nuclear component to the new circumstances in Europe—so as not to recreate the confrontation. The nuclear element had to be politically sustainable in our societies and consistent with the overall strategy of deterrence.

Several speakers agreed that the West faced a major task in describing the contribution nuclear deterrence could make to European stability in a different fashion from what obtained in the past. We had to make clear that, in a potentially volatile, unpredictable, and unstable era, nuclear weapons caused people to act cautiously and prudently. In this regard, a Portuguese participant expressed concern about the possibility of a desperate Soviet leadership coming to power willing to exploit any remaining nuclear advantage. Such a scenario was not unthinkable, said an American. It suggested a new utility in locking the current Soviet leadership into arms reductions before they were tempted to adopt a primarily nuclear strategy to compensate for regional political losses in Europe.

Another American speaker was alarmed by what he saw as a return to the old debate about why nuclear weapons were necessary in Europe. Too many in the West were again saying that the nuclear defense of Europe could be conducted from the U.S. If NATO's nuclear weapons were based in the U.S., then the decoupling of the U.S. and Europe would have progressed quite far. It was critical to recognize that nuclear weapons should be in Europe because, in the medium term, it was possible that the only threat the Soviets could pose would be nuclear.

Sharing the burden. The issue of burden-sharing was raised by some participants as a critical element in refashioning the Western strategy. What were the Europeans prepared to do to help the Bush Administration convince the American people to support maintaining American forces in Europe, wondered a speaker from the U.S. Answering his own question, the speaker called for a stronger European pillar, which might involve re-integration of France into NATO's military structure and a greater role for the British and French nuclear deterrents.

Responding to these latter points, a Frenchman expressed confidence that his country, as well as the other European members of the Alliance, would emerge from the current process of re-thinking old concepts as a true complement to the U.S. presence. A Briton observed that much progress was being made in terms of Anglo-French cooperation as a result of American approval.

Arms control negotiations. An International speaker described the posture of the Western military establishment as being pleased with the ongoing arms control talks. The military had increasingly come to see arms control as a vital part of strategy. Long-term Western military thinking was that there should be a matrix of treaties as part of Western strategy. The Vienna negotiations should be concluded as quickly as possible, and then the next round should begin.

An American expressed worry about the long-term evolution of arms control negotiations. The original idea had been equal forces on both sides. But now the political dividing line had moved, and we were negotiating relationships that had no bearing on political realities. None of the countries of Eastern Europe wanted Soviet troops on their

soil. In talking about a new security system, removal of Soviet troops from East German soil had to be an imperative.

An International participant agreed, but said there was no viable alternative to the current negotiating framework. The changing numbers would be dealt with in the second phase of negotiations. Indeed, the future of arms control would change entirely. It would no longer be a continuation of the numbers game, but would have to do with the changed role of military forces and how to contain Soviet military power in the future in other ways.

A Briton said the West had to do what it could to "dignify the Soviet retreat." Within the CSCE framework, we had to provide some structure that gave a satisfactory role to the Soviet Union in European discussions. An American agreed that getting Soviet troops out of Europe had to be the central focus of the arms control efforts in Vienna, but that it would have to happen in stages. The Western interest was to create a context in which we could secure the "peaceful, orderly and complete Soviet withdrawal from East Germany."

The Soviet military. An International speaker observed that the Soviet military was increasingly worried about the pace and direction of events. They were suspicious of arms control arrangements because they felt that the loss of their allies was not being taken into account at the Vienna talks. They were unhappy about the destruction of military equipment, and they were having a difficult time finding a place in Soviet society. The problems of demobilization were indeed serious, according to an American. There were no pensions or benefit programs such as those provided in Western countries. Morale was exceedingly low, with draft-dodging, desertion, and vilification of officers all commonplace. Having been once the most honored calling in Soviet society, the military was now being blamed for many of the country's problems. In addition, the Soviet military was finding German reunification a very bitter pill to have to swallow.

A French speaker added that the Soviet military establishment was encountering significant popular opposition in its efforts to locate such facilities as nuclear and chemical weapons plants. And, said an American, with the nationalist trends and the economic problems, many components necessary to build military equipment were no longer forthcoming.

Yet, in spite of all these difficulties for the Soviet military, a coup, in the view of an International speaker, was not likely to happen. With such a narrow base of popular support, it would have little chance of success. In addition, there were divisions within the military between the younger and older generations of officers.

Another International participant expressed the opinion that the influence of the Soviet military was actually greater now than most people realized. Gorbachev needed the military now more than ever because he had destroyed the authority of the party, the one instrument by which he could hold the empire together. He needed the armed forces to hold together what was left. There were clear indications that he was paying attention to the positions, attitudes, and interests of the military.

An American agreed with this observation, pointing out that the Soviet military was playing a new and important role in the Soviet arms negotiating approach. In the past, the Soviet leadership had decided not to involve the military directly in arms negotiations. But recently, senior military officials were participating directly in the START talks at a high level.

Third World conflicts. Several speakers expressed concern about what effect the lessening of East-West tensions might have on North-South conflicts. A Briton agreed

with the notion that the lessening of the superpower confrontation would make Third World conflicts harder to control. He also worried that a decreased emphasis by the West on defense could narrow the technological gap between us and the leading Third World arms producers.

An American said that the West lacked a conceptual framework to deal with North-South conflicts. The only real solution, he felt, was in some kind of regional security approach in which the U.S. had to be engaged, but in which Europe and Japan would have to play a major role.

III. ECONOMIC RELATIONS WITH EASTERN EUROPE

Introductory Remarks

I.

The first CSCE conference on economic cooperation in Europe ended in Bonn just a few weeks ago. For the first time, European government and business people were brought together to organize a program of intensified economic cooperation. As the new Europe is being constructed, the U.S. and Canada are not onlookers, but are European powers in the best sense of the word. Historic changes in Central and Eastern Europe have given rise to optimism among Western companies, who can see new investment and sales opportunities in these markets. Replacing the planned economy with a market economy and integration into the world economy means a great boost for intensive East-West economic relations.

East Germany is in the best starting position. It has an old industrial tradition, young, qualified workers, a good market position in the East, and a strong partner in West Germany. Those in the GDR government are working energetically toward creating market economy conditions for enterprises. In just six weeks, there will be full freedom of trade. The difficult ownership questions are being clarified. The strong influence of the old trade unions and corporate structures will be replaced by a modern industrial constitution. Soon, the GDR will no longer be one of the declining planned economies, but will rise rapidly to prosperity. It will become a very attractive location not only for West Germany but for Western European, American, and Japanese industry. International businesses should take this new market seriously. It will grow more strongly in the 1990s than any other market in Europe.

The GDR enjoys the unique advantage of standing in the EC market with one leg and in the Eastern European market with the other. A shortage of capital and obsolete machinery may hinder economic recovery in the GDR only for a short time, but they will not prevent the second German economic miracle. Those who invest in the GDR will invest in a highly-motivated, young population. (40 percent is under 30 years old.) There is probably no more rewarding investment opportunity at the present time. This is why the West German government is ready to pre-finance the economic upswing in the GDR. It is important to note that, as of July, investment conditions in the GDR will be of the same quality as those in the Federal Republic.

Czechoslovakia is second to the GDR, in terms of a good industrial structure and a low debt level. Hungary and Poland follow, the latter with the handicap of a large debt burden. Radical changes are underway or imminent in all these countries. Free elections have brought total defeat to the old political forces. The new leaders are orienting themselves toward the West economically and politically. In the same way we speak of the dragons in the Asian-Pacific region, we will speak with respect of the little European bears.

We are very interested in the reform processes in these countries being made irreversible. The vital thing here is the future development of the great bear, the Soviet Union. Thanks to Gorbachev's policy of perestroika, the reform process got underway. He now faces a very difficult situation, with both economic and national problems at the same time. The economic situation has dramatically worsened. The debts are increasing, and West Germany is worried about the credit standing of its most important partner in

the East. All this means the reform process in the Soviet Union is endangered. Many promising approaches to reform have not been carried out properly. The long-needed price reforms are continually delayed, and the market mechanisms are weighed down. Furthermore, there is a complete lack of any democratic and market-based traditions. All the attempts at more radical economic reforms are blocked in the internal disagreement between reformers and conservatives. The new idea of a regulated market economy is doomed to failure. Experience shows that no planned market economy can work.

Destabilization in the Soviet Union worries West Germany in particular. Soviet attitudes toward the German unification process will have important consequences for it. There is also a European and Atlantic interest in the continuation of the Soviet reform policies. Therefore, Gorbachev's position merits Western assistance. No country can cope with such an historic task on its own. Europe and the U.S. must work together to support perestroika. But it is mainly up to the Soviet Union and the other East European governments to create the conditions in which Western help can work.

West Germany is currently considering the following measures. First, in the unification process, we want to protect the legitimate expectations in the traditional trade and cooperation links between East Germany and the Soviet Union. A single Germany can develop these relations further on a sound commercial basis. We offer the Soviet Union our consulting know-how to identify the bottlenecks in its economy and to help find solutions. We will expand our training programs for Soviet managers and experts. None of this will lead to short-term success, but there will be lasting effects. The administration of the Soviet economy will be modernized by the teaching of current management techniques. This will help solve the problem of the average man's inability to cope with modernization policies dictated from above. In this respect, the Soviet Union is different from East Germany, Hungary, and Poland.

More Western companies must invest in the Soviet Union. Both sides have a range of little-used possibilities. Communications, transport, science and technology, and environmental protection are examples of fields for closer cooperation. The West can buy valuable time by concrete and pragmatic economic support, such as food aid, more natural gas, and help in logistics/transportation systems. In the medium term, rapid economic successes in the Comecon states will strengthen the Soviet Union and not weaken it.

Introductory Remarks *II.*

To understand the position of the various East European countries today we must distinguish between those in which the breakdown of the system occurred internally and those in which it came about as a result of external influences. Poland, Hungary and Yugoslavia belong in the first group. East Germany, Czechoslovakia, Bulgaria, Romania and—still to come—Albania, belong to the second.

The process of internal disintegration was closely associated with economic reform. Looking at it from the point of view of a rigid, comprehensive, centralized system, reform itself *means* disintegration. At first, it may bring positive results. That is what the Chinese called the "golden period," where existing resources are redirected to satisfy existing demand. But, when it comes to the allocation of capital, it cannot be redirected without destroying the very foundations of the system. And it is on that point that reform is bound to fail. The failure exacerbates political pressures, and political pressures

accelerate disintegration. The whole process has a more than superficial similarity to the boom/bust phenomenon in financial markets.

Reform is also closely tied up with external indebtedness. Take the three factors together—economic reform, political disaffection and external indebtedness—and you have an insight into the shape of the first group of countries: declining living standards, declining capital formation, accelerating inflation, and a general desire to get as far as possible away from the central authority. On the positive side, people have gained some experience in functioning autonomously. Many of the institutions of a market economy have been established, and economic activity has been reoriented to a greater or lesser extent.

By contrast, the economies of the hard-line regimes have remained more intact. Prices are more stable and there is less external debt. On the other hand, the industrial structure remains totally misdirected, and both the institutions of a market economy and the ability of agents to function autonomously are largely lacking. Of course, within this broad framework, there are many variations.

Now that communism has collapsed, what will take its place? The alternatives are clear cut. Communism was a universal closed system. Either it falls apart and fragments into a number of small, closed societies along national lines, or the countries in question join a universal open system, symbolized by the word "Europe."

Nationalism can play a part in the creation of an open society. That was the case in 1848, with which 1989 has a lot of similarities. But it can also serve as the basis for closed societies. The most infamous example is Nazi Germany. But most of the countries of Eastern Europe in the interwar period, also qualify to a greater or lesser extent.

Now that communist dogma has been destroyed, the past is beginning to re-emerge. To some people, Communism was repugnant because it suppressed free thought; to others because it violated national feelings. This is the fault line along which political opinion tends to divide.

It is not surprising that the communist party apparatus, insofar as it survives, should adopt a nationalist posture. The nationalist forces are also receiving encouragement and financial support from emigres in Western countries, much as the I.R.A. in Ireland derives its sustenance from the United States. This influence is most noticeable in Slovakia and Croatia.

On the other hand, the fight against communism was led by people who believed passionately in an open society. These are the people who are in charge in Poland today, and they are also in temporary possession in Czechoslovakia in the person of Vaclav Havel. Moreover, in Hungary the chauvinistic element is likely to be shunted to the side now that the elections are over.

Which of these two tendencies will prevail depends on the Western response to a much greater extent than some Western governments, notably the U.S. and Great Britain, care to acknowledge. The prospect of joining Europe will act as a powerful brake on national conflicts and unacceptable behavior in internal politics. What is needed, above all, is economic progress. Here, too, Western involvement and assistance is indispensable.

The history of economic reform has shown that communism cannot be reformed; it must be transformed. Reform is a continuous process of disintegration. To reverse it, a radical break is needed. Paradoxically, the chances for such a break are best when the process is well advanced. That was the case in Poland. The three major conditions which made the break possible were as follows. First, the built-in disequilibrium in the economy has revealed itself in the form of runaway inflation. Second, there was a new government

which enjoyed the confidence of the people. And, third, the West was committed to help. Fortunately, the government opted for discontinuity.

The stabilization program has been successful. Unfortunately, the patient may die, because the program is creating unemployment; what is needed now is to create employment. This requires the large-scale entry of Western operating management, because only Western management has the ability to put cheap Polish labor to work in supplying Western markets. It is the task of governments, both in Poland and the West, to create the conditions which will attract Western businesses to Poland. I think this must be regarded as the highest priority for Western economic policy towards Eastern Europe.

It should be mentioned that Yugoslavia embarked on a stabilization program similar to Poland's at much the same time. Yugoslavia has been even more successful than Poland. The reason is that Yugoslavia has had the benefit of having been open to the West for more than twenty years, and it also had much more time to prepare the program.

The Yugoslav experiment is particularly significant because it has taken place against a background of rising nationalist tensions. These tensions have now culminated in the election of separatist presidents in the republics of Slovenia and Croatia. But, even as the country is being torn apart, the federal government of Ante Markovich is emerging as a new force for cohesion. It is in the ascendant over Milocevic, the Serbian who started the nationalist conflict. Yugoslavia demonstrates better than any other country the choice between economic progress and national conflict. It is heartening to see that, having passed through a phase of nationalist turbulence, Yugoslavia seems to be emerging on the other side.

The Polish and, even more, the Yugoslav programs indicate that a blueprint for successful transition is beginning to emerge. But it would be a mistake to apply the same recipe to the other countries.

An economic problem which affects the entire region is the dissolution of Comecon. When Comecon switches to dollar settlement in 1991, trade among the Comecon countries is going to collapse. Eastern Europe will have to buy its oil and other raw material needs either from the Soviet Union or from other sources in dollars. But the Soviet Union will not use its scarce dollars to buy what Eastern Europe can produce; it will prefer to shop elsewhere. The net result will be a sharp deterioration in the balance of trade of East European countries, which has been estimated as high as \$12-15 billion a year. This result can be mitigated, but not avoided, through bilateral agreements.

The only way this calamity could be avoided is by bringing into existence an East European Payments Union, hopefully with Soviet participation and certainly with Western backing. This is how it would work. In the first phase, the Western partners would provide credit to Eastern Europe to cover its anticipated deficit with the Soviet Union. The Soviet Union, in turn, would open its market for consumer goods from Eastern Europe. Given the hunger for consumer goods, the balance of trade would soon shift in favor of Eastern Europe. This would usher in the second phase, when the Western partners would recycle to the Soviet Union the credit they had extended to Eastern Europe.

Unless the Soviet Union succeeds in establishing a functioning monetary system during this period, Western credit would be exhausted and the scheme would fail. Thus the East European Payments Union leads logically to monetary reform in the USSR. Monetary reform, in turn, is intricately connected with the economic autonomy of the republics and the problem of the Baltic republics in particular. Fortunately, if you extend the East European Payments Union concept to trade between the republics, it could provide a solution to the Baltic problem, and a solution of the Baltic problem would

greatly enhance the willingness of the West to provide technical and financial assistance to the Soviet Union. Both the problems and their solution are interconnected, and the creation of an East European Payments Union could be the beginning of a dynamic process whose end result would be the successful restructuring of the Soviet Union.

Introductory Remarks

III.

There is a basic misapprehension about the whole issue of change in Eastern Europe. If you look at the economic divide of Europe right now, with Eastern Europe operating at living standards perhaps one-tenth of those in the West, we should be viewing this whole prospect of conversion to a market economy with enormous optimism, rather than a sense of pessimism. There is a rather well-defined problem for the Eastern European countries. It is to make the transition, in a politically stable manner, to a market framework with an adequate financial system and an adequate monetary system, and then to allow the natural market forces which will arise to rapidly lift living standards so that they gradually converge with those in the West.

There is little doubt that, if the legal, administrative, and financial transition can be undertaken in the next three to five years in these countries, the inflow of capital and of organizational and managerial talent will put them on a sustained, rapid path of growth—higher than growth in the West. The prospects are superb if the short-term crisis can be overcome.

The role of the West is to make the short-term liveable so that the long-term can be achieved. It is almost the opposite of the problem of a raw-material developing country in Africa or some of the countries in other parts of the developing world where there is a long-term problem. Here there is a well-defined, short-run problem. It comes down to the fact that many Western governments are quite laggard about rising to the occasion because events have moved so quickly.

For the GDR, the work is, in a sense, done. What is needed for the transition is a commercial legal system for private property and investment; a working monetary system; financial solvency; and active involvement of Western firms. All of these things are being provided as the reunification process progresses.

The blueprint is the same for the other Eastern European countries. Poland's strategy is to put in place a legal system as rapidly as possible, to create a convertible currency, to achieve financial solvency, and to get the active involvement of the West. This last means, in the short term, technical assistance missions at a much more extensive level than has so far occurred. In the medium term it means the accession of Poland (and the rest of Eastern Europe) to the institutions of Western Europe and ultimate membership in some expanded form of European Community.

It is easier for the GDR because they are importing these things all in one shot, but it can also be done by the other countries, less effectively, but with the same basic model. Fortunately the political leaders of the revolution of 1989 understand that their goal is a return to Europe. That means adopting these institutions as rapidly as possible. The West must be there to help them over this well-defined phase.

There are four pillars of successful transformation. The first is macro-economic stabilization, including creation of convertible currencies. Poland and Yugoslavia have achieved this. The second is dramatic liberalization of the economy, which means both

trade and private sector activity. The third is privatization, an extraordinarily difficult problem from a technical point of view. The fourth is Western assistance, which is absolutely fundamental.

Much of the depth of the crisis—the shortages, the disintegration of the delivery systems, as in the Soviet Union—are largely monetary phenomena which can be solved by monetary means. Since monetary policy was not high in the consciousness of Eastern European economists, the ability to use monetary instruments to solve the short-run crises has been neglected up until now. But Poland and Yugoslavia are showing that dramatic progress can be made in eliminating shortages, creating convertibility, creating monetary stability much faster than is commonly thought.

The Western role, which is fundamental and is not now being fulfilled, consists of four parts. The first is balance of payments support during this three to five year transition phase. It is shocking how little in the way of short-term balance of payment support the West has been willing to come up with. Western governments are more concerned with Hungary's ability to repay its debt than with how they can help organize a financial assistance package. Yugoslavia's appeal to the Paris Club to reschedule the principal portion of its debt has so far been rejected by the German and British governments. The West is not adequately facing the problem of short-term financial support. They ought to be forthcoming with large-scale balance of payments support so the debt crisis can be managed during the phase of transition.

The second aspect of the Western role is technical assistance, which is not being provided at adequate levels. The third is the role of helping to establish a framework by giving these countries some kind of assurance that they will be able to join an expanded Europe, with real membership in something like an expanded European Community at some point. This is essential to help guide the political process through the minefield of reform. The West has to give clearer signals about what is in store for countries that go through the hard process of reform.

Finally, the West has to deal with the debt burden. The debt burden is a fundamental barrier to the solution of Poland's crises, no matter what the Poles themselves do. It must be decisively reduced. Germany is the largest creditor, and German history teaches us about the need for fundamental debt reduction. The debt situation in the 1920s was a source of German instability. Germany's debts at the end of World War II were relieved for the explicit purpose of allowing Germany to rejoin the community of nations. The German government should lead the effort to make a serious approach to fundamentally reduce the debt, not just to roll it over.

With respect to the Soviet Union, it is a long-shot that things can be pulled off, but the damage that could occur if there is a collapse is profound for Western interests. Thus we must not be passive. Many of the most acute problems are a reflection of monetary instability, which does have practical solutions. But the West must be actively engaged if there is to be a chance of turning the Soviet situation around. It need not pour money in, but, if the fundamental reforms of establishing private property and demilitarization are accomplished, then the West should respond with large-scale support. If we don't at least explore the option of helping the Soviet Union, we will regret it.

Discussion

The role of the West. An Italian speaker viewed the situation in Eastern Europe with optimism, but prescribed certain preconditions for the establishment of a new

European architecture. First, the European Community had to be strengthened by the completion of the internal market on schedule. Progress had to be made toward political union as well, which meant a strengthening of the institutional aspect and development of a cohesive European security and foreign policy. The creation of a wider so-called European Economic Space, including the EFTA countries, had to be pursued. Also, there had to be developed a network of special associative agreements for the Eastern European countries, not just in the fields of trade and economics, but also concerning issues like science and the environment. It was necessary to develop a collective framework to give the Eastern European countries a sense that all Europe faced a common task. Finally, it was critical not to give the U.S. the sense that Europe was out to build a fortress. The special cooperation that had characterized the U.S.-European relationship should continue. And we needed a strong multilateral trading system to avoid the world's dividing up into regional trading blocs.

The collective element was extremely important, a German agreed, in terms of the stabilizing influence of a European perspective. But a concern voiced by several speakers was that membership in the EC and other European institutions should not be offered to the Eastern European countries too quickly. A Dutch participant said it would be unwise and unrealistic to offer full membership in the EC in this decade. Nor, in the view of a Greek, was it realistic for the EC to extend preferential treatment to Eastern Europe at present.

A Spaniard suggested that the path followed by his country to full membership in the Community was one that the countries of Eastern Europe could be expected to follow. Spain undertook a stabilization plan in 1959, and thereafter joined OECD and the IMF, and, some years later, GATT. It was not until much later that it entered into a preferential trade agreement with the EC. It then began negotiations for EC membership in 1979, but did not become a full member until 1986. Even now, it was still in the process of adapting to EC requirements and the single market. The point, concluded the speaker, was that the Eastern European countries would ultimately get there, but the process would take time. The idea that the doors of the EC would be open to them at any time should not be conveyed. The road to membership would be long and difficult, and membership in other institutions would be a precursor to EC membership.

Obstacles to economic reform in Eastern Europe. A Canadian's expression of doubt about how effective monetary reform could be without institutional and structural reform was one of a number of somewhat gloomy perspectives on the situation in Eastern Europe. From a Spanish speaker's point of view, the disadvantages outweighed the advantages of private investment in Eastern Europe, with the exception of the GDR. To be sure, there were attractions like the growth potential of the market and the relatively cheap and well-educated labor force. But there were also serious problems such as political and social instability, heavy foreign debt, lack of infrastructure, poor statistics, absence of management, low productivity of the labor force, and concern about what kind of industrial relations model would develop in those countries. Taking all this into consideration, it was quite likely that Eastern Europe might fail to attract the flow of outside investment so essential to its future.

An American was particularly concerned about the element of political stability which, in his view, was hard to achieve in Eastern Europe and in the Soviet Union because of the severity of the economic problems and because of political factors such as ethnic problems. He observed that monetary solutions sometimes did not work and tended to set off their own political upheavals. A Briton was troubled by the "implications of the

different time scales of political and economic reform." There was a gap between the introduction of new constitutional arrangements and the "valley of tears" that was almost inevitably the initial phase of economic reform. Another factor influencing stability, observed a Swede, was the legitimacy of governments. For example, the governments in Poland, Hungary, and Czechoslovakia had legitimacy, while those in Romania and Bulgaria, which were in a terrible political and economic mess, did not.

Several participants spoke of what they viewed as foot-dragging by Eastern European governments in reforming their economies. A Swiss participant opined that there was a lack of courage and willingness to make the process of changing from a planned economy to a market one as radical as it had to be. A market economy could not function in a semi-collective environment. There was little evidence that true structural changes were taking place that would make the expected wave of investment anything more than wishful thinking.

A crucial element missing in the changes in Eastern Europe, said a Swedish speaker, was large-scale privatization. The plans to sell businesses were unrealistic, given the absence of markets. A more sensible plan would be to distribute shares to all adult citizens, perhaps through the mechanism of a state lottery. In the short term, added an American, privatization could not progress fast enough. Therefore, it was necessary to impose a market discipline on state-owned companies. There could not be a properly functioning monetary system unless it applied to the state sector.

Doubts about the GDR. A number of participants expressed doubts about how quickly the second German economic miracle would come about. A German feared that there would first be a short-term crisis of three to five years' duration, and one to three million unemployed. In a Swede's view, the GDR was beset with short-term problems. Its wage level was 60 percent that of West Germany, while productivity was less than half. It was losing its energy base. Many industries were closing. It had a very poor infrastructure and an enormous pollution problem. It was more likely that there would be a massive migration to West Germany than massive investment in East Germany.

For there to be an East German economic miracle, said a Dutch speaker, the GDR had to overcome two problems. First, it had lacked a market-based tradition for 40 years and therefore had to undertake educational efforts, including vocational and management training. Second, the decision to convert the Ostmark at a one-to-one exchange rate would have serious consequences for the wage level in the GDR. Productivity could not be expected to rise very rapidly, and there would be a shakeout in East German industries and a rise in unemployment. This would have economic consequences for East and West Germany and for the EC as a whole, and could be destabilizing for the European political situation.

The Soviet situation. In response to the question of the difference between the economic problems of the Eastern European countries and those in the Soviet Union, a Swiss speaker said these boiled down to two factors, one of scale and one of time. In terms of scale, the Soviet economic problems were far greater and were not manageable, while those of the Eastern European countries could be managed. As to time, there had been no market economy for 70 years, while Eastern Europe had had a market economy 40 years ago.

An American observed that the Soviet Union and Eastern Europe were at different stages of political evolution. In Eastern Europe, there were, or soon would be, democratically elected governments. This might some day come to the Soviet Union as well. If so, there would be a window of opportunity which the West should be ready to

take advantage of. In the meantime, said another American, the West had to explore helping the Soviet Union because it was facing a great human tragedy and was drifting into political chaos. The Western offer of help had to be conditional, however. A speaker from Denmark agreed, adding that to leave the Soviet Union out of the scheme of economic aid would be dangerous. There could be no stability in Europe if there was instability in the Soviet Union.

IV. CAN WESTERN VALUES BE APPLIED UNIVERSALLY?

Introductory Remarks

I.

It would be easier to say that western values can be applied universally if the question was, "are there universal values which have long been applied in the West and are now adopted more widely?"

One of the irreversible consequences of the revolution of 1989 is what has been called the reunification of language. The same words now mean the same things. There is a special poignancy in the words of the Polish poet Zbigniew Herbert: "A bird is a bird, slavery means slavery; a knife is a knife, death means death." Adam Mischnick said, "When we realized we were slaves we knew we had become citizens." Language matters, and it makes an enormous difference that now, when we say the word democracy when we meet with our Eastern European friends, we actually mean democracy. When we say human rights, that is what we mean.

We have to use the concept of universal values with precision, and somewhat restrictively. There are two sets of universal values. The first is the values of the open society. Most people would call it democracy. It means simply that no one knows all the answers, that no one can tell if the answers given are right, and that, therefore, it must be possible to bring about change without revolution or bloodshed and to remove governments. It means we must be able to make institutional provisions for altering the direction in which we go. No ideology of dogma, no institutional monopoly is acceptable, whether it be the party, the state, or any other institution. This is true in both politics and economic affairs.

There are many ways of going about the creation of a world in which the open society prevails. Those who are trying to peddle particular solutions in Eastern Europe today are moving away from a restrictive understanding of what the open society is all about. Countries and cultures can find their own institutional arrangements, and these are likely to be very different in different places. But they are in line with universal values as long as they allow the removal of governments and change without revolution.

This concept is equally applicable to economies. The introduction of market conditions is a part of the open society, but the introduction of capitalism is not. There are ways of introducing market conditions that do not comply with the American and British understanding of capitalism, which features a mixture of property rights and other features. The key is that people have not left one system in order to embrace another. They have left all systems. They have left an all-embracing monopolistic world of systems, and they are therefore operating as we are, in a world where there are not just a few answers, but hundreds of answers, to the issues which arise.

The second major set of universal values has to do with the dignity of the individual, the inviolability of the person, freedom of expression, and all those things that require the most precious of human achievements—the rule of law in a civil society. In this regard, we have great responsibilities. It is important in talking about the rights of citizens and the rule of law in a civil society that we use the concept fairly restrictively. There are a number of social and economic rights which are not really justiciable, such as the right to work, and which, if introduced into constitutional texts, really detract from the dignity of the law itself. They are really not includable among the list of universal values.

There are two overriding risks which threaten these universal values. The first is fascism. The communist world is curiously exposed to this danger. Fascism is the ideology and practice embraced by groups that are dislocated, groups for which yesterday is no longer, and tomorrow has not yet come, which don't know where to go and fall therefore for a theory of reconstituting a no longer existing past and establishing dictatorship. The danger is great in many countries, even in the GDR and certainly in the Soviet Union.

The other great danger is fundamentalism. It is a notion which introduces religious values into everyday life and into politics. It undoes what took a long time in the Christian tradition to do—disentangling religion and politics. Many people in the modern world are lost and therefore tend to look for all-embracing ideologies. This is particularly true, as a matter of fact but not of necessity, for Islam. It is unacceptable when a religious leader asks his followers to kill a man for views which he has expressed in a book. This is what is meant by universal values—where we do not fall for false relativism which, in the end, would destroy our liberty.

Introductory Remarks

II.

We should view developments in Eastern Europe with humility about what we may and may not be able to prognosticate. It was only three and a half years ago that the Soviet Union celebrated the 69th anniversary of the Bolshevik Revolution. The speeches made then were recitations of Marxist-Leninist doctrine without any deviation. What has taken place in the interim is no less than a human rights revolution. The situation today bears no resemblance to the one back then. It can be fairly said that, in the Soviet Union and Eastern Europe today, Leninism, as both an intellectual and political challenge to the human rights philosophy of the enlightenment, is dead. It survives elsewhere, such as in Asia, but there are few believing Marxist-Leninists in Eastern Europe. The changes are not just a few straws in the wind, but a major shift.

In the Soviet Union, some basic decisions were made at the end of 1986 which were not fully aware of. The first inkling was the release of Sakharov. It looked at first like just another publicity stunt, but, it was clearly much more. Late in 1986 or early in 1987, the Soviets stopped prosecuting persons under the sections of the Russian criminal code which dealt with anti-Soviet behavior, defamation of the Soviet Union, and the exercise of religion. There was no announcement about this. Rather, it gradually became clear no one was being incarcerated under these sections. Then came the first early releases from the Gulag. Also during this period, there began a significant increase in emigration from the Soviet Union.

In May 1987, the Soviet Deputy Foreign Minister said, in response to a question about future emigration policies, that the Soviets intended to allow people to leave without any restriction based on ethnicity because they were trying to come into compliance with the Helsinki Final Act. It seemed unbelievable at the time, but there is ample evidence that basic change is going on. The change is that, whatever Gorbachev may say about Leninism, he has decided to leave it behind. Lenin is, at this point, merely a symbol whose statues appear around the Soviet Union.

The decision was made in 1988 to disengage from Leninist doctrine in the following major respects. First, when the Communist Party finally decided a few months ago to give up its position as the sole political party, the decision was made to shift power from the

Central Committee to the Supreme Soviet. This meant that, throughout the entire system, power was being transferred from the party to the state.

Within the state, power was given for the first time to those at the lowest level of the hierarchy—the voters. The average citizen could now influence the structure of government. This has happened mainly in the cities; in the countryside, the problems of old, autocratic rule continue. The question is whether the basic spirit now in evidence in the cities can be transferred into the countryside.

At this juncture in the Soviet Union there are two main political forces—those in favor of reform and restructuring, some of it radical, and those who constitute an essentially fascist grouping, consisting of monarchists, Stalinists, disgruntled military and party people, and disgruntled workers.

History suggests we can be cautiously optimistic. The kind of dissolution that took place in Russia in 1917 involved a Czar who was a total incompetent, surrounded by incompetents, in the middle of a world war. Kerensky fell under totally disastrous circumstances and was faced by an evil genius in the person of Lenin. This is not the kind of situation we see now. It is also worth noting that there have been five free elections in Russia/the Soviet Union in this century: the first and second Dumas in 1906 and 1907, the Constituent Convention in 1917, and the two elections of 1989 and 1990. In each of these elections, democratic forces won.

Discussion

Western values/universal values. What was meant by Western values, and could they be considered universal? An American believed that Western values clearly were universal. But it was perhaps not accurate in the context of current world events to speak of Western values. Marxism, after all was a Western value system. Perhaps a better definition of what we were talking about was the values of an open society.

In the view of a speaker from Portugal, if we could apply Western values universally, they became universal values and not just Western values. But to what extent we could apply our values was open to question. In this context, an American warned that the spread of democracy should not be viewed as automatic. Western values had roots in traditions not shared by other regions of the world. They had been shaped by such influences as the Catholic church, the periods of the Reformation and the Enlightenment, and, of course, the tradition of capitalism. Other societies, including the Soviet Union, had not shared these same influences. This was not to say, however, that democracy could not develop from other roots.

Another American put forth the view that the universality of Western values was based on the fact that they grew out of ideas that began to evolve centuries ago. As the Middle Ages came to a close, for example, the concept of limitations to the power of the sovereign had taken root.

The spread of Western values. It was a Turk's view that Western values became established because of success, both in the material and the spiritual sense. World War II was a good example of the success of Western values. An American agreed, saying that, though there was no historical inevitability that people would opt for Western values, Eastern Europeans had chosen democracy and free market economies not only because of the failure of Communism, but because they had seen how well Western values had succeeded.

Several speakers cited the important role of technology, especially the so-called information revolution, in the spread of Western values. They agreed that the events leading up to the Revolution of 1989 were much influenced by the media. An American wondered if those systems that were anathema to Western values—communism, fascism, and fundamentalism—could possibly survive for long in the information age. A Turkish participant added that technological and scientific developments had increased the interaction of people all over the world. On the other side of this issue, a Portuguese worried about the effects technology might have on the working of democratic institutions. How, for example, would governments deal with the capability for "instant referenda" made possible by the media, with the impact of technology on individual privacy, and with the effect of genetic engineering?

Some speakers wondered if the exportation of Western values could easily extend beyond Eastern Europe. The response of an American was that recent democratic revolutions in such countries as outer Mongolia, Nepal, and Benin, showed that Western values were being embraced around the world. A Greek cited the wide acceptance of the United Nations' great emphasis on human rights as further evidence of this.

On the issue of human rights, a Briton wondered how we ought to be dealing with countries that did not share our values. If we felt we could only have good relations with countries that shared our values, we would have a very difficult time with certain countries, especially the Islamic ones. A German agreed that too great a focus on conflicting values could have harmful effects on the normal conduct of foreign affairs. This could be a particular problem with Iran, Iraq, and China.

An American wondered what price we would be willing to pay if human rights objectives clashed with other objectives. Was human rights to be our only objective? The response of a countryman was that human rights had to be factored into foreign policy questions, but that it had to be recognized that security considerations were paramount. Yet an effective human rights policy could be supportive of security arrangements in the sense that the spread of democracy was a stabilizing factor.

In a British speaker's opinion, we naturally had to maintain relations with countries that violated universal values. But we would not have close relations with them, and we should not be hesitant about pointing out their violations. We certainly ought not to allow such countries into our most important organizations (NATO, EC), nor should we tolerate members of these bodies who violated universal values.

The Soviet problem. Many speakers expressed particular concern about developments in the Soviet Union in terms of universal values and the potential for fascism to arise. An American observed that the breakdown of a closed society like the Soviet Union did not necessarily lead to the creation of an open society. Open societies required certain infrastructure and certain historical developments that were lacking in the Soviet Union. Conditions in the Soviet Union were deteriorating into chaos and dislocation, and the emergence of a Russian nationalistic, socialistic regime was a distinct possibility. Thus, the West needed to make a strenuous effort to stop the decline into chaos.

The outlook of another American speaker on the Soviet situation was equally gloomy. In order to truly make progress toward democratization, institutions—courts, legislatures, a system of checks and balances—were needed. Not much of that was happening in the Soviet Union. Further, there was no tradition of democracy, no system of markets to fall back on. Even if Leninism disappeared, there were other forms of control that could take its place in reaction. A Frenchman agreed with this assessment,

saying that, though the orthodoxy appeared to have been eliminated in the Soviet Union, it was not necessarily going to be replaced by political liberalism and capitalism.

Political vs. economic considerations. A topic of considerable discussion was the linkage and relationship between democratization and the development of free market economies. The confusion on this subject was illustrated by the conflicting observations of a Turkish speaker, who said that, for Western values to take root, economic development was a determining factor, and an American who felt that, in Eastern Europe, political liberalization was preceding economic liberalization.

A Portuguese and an American participant both felt that the West was placing disproportionate emphasis on the economic side. The American observed that a market economy could function in a system that did not provide basic human rights, including the right of free association and the right to work, as distinct from the opportunity to work.

In an Italian's view, the Western response was complicated because changes seemed to be going on in the economic system and the political system simultaneously. There was no historical precedent to tell us which should occur first. Was the existence of a democratic society necessary to have a successful market economy, or vice-versa? Should the West insist on strengthening democracy or the economy first?

A Briton responded that there was no causal relationship between the two elements. Both had to be pursued simultaneously.

Some guidelines for the West. An American observed that democracies and market economies had been around for at least 200 years. But only in recent decades had these values been institutionalized internationally, in the form of organizations like GATT, NATO, and the EC. These institutions had been created under threat. If, because we perceived the threat no longer existed, we no longer maintained a high degree of international integration of our political, economic, and security efforts, then the attractiveness of our values would wane. Maintaining cohesion deserved a high priority.

The importance of the CSCE process in the spread of Western values was noted by a Swiss, who argued that exposure to Western thinking in the CSCE framework had greatly influenced Eastern Europe. The CSCE process should prepare new objectives, among them how to handle the problem of minorities and how to peacefully settle disputes within the nations.

A participant from Ireland underscored the vital role of trade in the development of democracy and free market economies. In talking about the development of societies based on the Western model, we had to look at our own record in terms of practicing what we preached. When idealism approached reality, the costs sometimes appeared prohibitive. In the trade area, the West had tended to preach free trade as long as it was in someone else's market. There was good reason to be apprehensive about the real will of the major trading nations in terms of their commitment to free and fair trade. We had an opportunity to address this concern and take meaningful action at the Uruguay Round of GATT negotiations. If we did not, concluded the speaker, the impact on the developing world's capacity to become functioning democratic states would be great.

A French speaker also urged self-examination, in terms of the values we were holding up to those striving for democracy. We had to be sure we were exporting the values and ideals we had always fought for. We might begin, added an American, by being sure we were applying universal values in our own countries. In this regard, a Spaniard commented upon what he saw as growing racism in the West with respect to illegal immigration from Africa and Latin America. How could we speak of open societies

when we were closing our borders to those immigrants and perhaps even to immigrants from Eastern Europe?

Several emphasized charity and sacrifice as basic Western values. A Spanish speaker urged that we address basic human needs, while a Canadian asked if we were willing to pay a price to uphold our values. The question, said an American, was to what extent the West believed in its own values and was willing to back them. It was not enough to give people freedom to pursue self-interest. We had to be devoted to the principles of an open society and be willing to make certain sacrifices to preserve them.

A British speaker concluded the discussion by urging that we be guided by the principles expounded in the Federalist Papers, particularly Hamilton on the rule of law, and Madison on checks and balances in a civil society.

V. GERMANY

Introductory Remarks

I.

For the first time in their history Germans have carried out a revolution which has been both successful and peaceful. Having lived through 12 years under Hitler and 40 years under Communist one-party rule, the people in the GDR have now overcome these dictatorships and gained their freedom after 56 years. As part of the German nation the great majority of them at the same time called for the unification of Germany. It is indeed understandable that in view of such revolutionary but peaceful changes the Germans were not only overjoyed, but also proud.

But soberness returned soon enough in the face of the problems to be solved. Many Germans were distressed at the immediate warnings from abroad, particularly the USA, warnings against the newly emerging Germany with 76 million people, conjuring up the terrible years of Nazi Germany. To some extent the nadir of this hurtful campaign was the caricature of Chancellor Kohl as Hitler in the Los Angeles Times. Such distrust of the Germans after 40 years of democracy, social peace and exemplary economic prosperity has not been helpful. Even President Gorbachev had told Chancellor Kohl in Moscow on February 9 that the peaceful policy pursued by the Germans during the last 40 years would have to be taken into account and that, therefore, no framework must be established for the Germans which "would degrade the German people."

Moreover the Germans have proved, during their over 30 years' membership of NATO and the European Community that they are reliable, calculable partners and friends. The painful recognition of how quickly the old distrust of the Germans can be reawakened and mobilized against us has been an important experience for us.

The Germans were aware from the start that the revolution in the GDR was possible only because the Solidarity movement initiated in Poland in 1980 had been led to success by Walesa in 1989, and because President Gorbachev had started the revolutionary change in the Soviet Union with his reform policy five years ago. Gorbachev's declared willingness not to become involved in the internal affairs of his allies was the prerequisite for the success of the opposition movement in central and south-eastern Europe, and it was Hungary that broke the first stone from the Berlin Wall by opening its border.

Chancellor Kohl, too, has repeatedly pointed out that a vital precondition for a successful policy of detente and disarmament was and must remain the cohesion of the Atlantic Alliance and the firm assertion of its joint security interests. The political and economic success and hence the attractiveness of the process of integration within the European Community proved to be an important factor for the process of change in Eastern Europe. Not only a number of our European partners, but also quite a few German politicians and theorists, were wrong in regarding German unification as absolutely incompatible with the aim of European integration.

Today it is already apparent that both aims are mutually dependent, and that the unification of Germany does not hinder the process of European integration, but accelerates it. During his eight years in office, Chancellor Kohl has emphasized this in many of his speeches. Nonetheless, a number of our European partners have begun during the last few months to question the Federal Government's commitment to the aim

of European unification. All I can say in their favor is that they perhaps wanted to use this mistrust of the Germans as a lever for better asserting their own interests.

Incidentally, the Federal Government's policy and the "Ten Point" speech by the Federal Chancellor can have come as a surprise only to those among our partners and friends who failed to take seriously the Chancellor's speeches and statements of the last eight years, as well as their own repeated declarations on German unity at NATO Summits or on similar occasions.

When the swift course of events continued in the GDR after November 9, 1989, a number of people at home and abroad accused Chancellor Kohl of wanting to bring about German unity in "steam-roller" fashion, in order to win a place in history. There is no doubt in my mind that Helmut Kohl has already won a place in history. And if there was any "steam-roller" effect—and I am sure that there will continue to be one—then that was and is produced by the people of the GDR, no one else.

The last six months are proof of this: the people in the GDR have demanded basic political and economic reform from the GDR leadership, and their desire for unity has become an instrument for achieving these aims as quickly as possible. This was a process of which Gorbachev said, "History has now suddenly started moving at great speed."

Today it is the wide-spread conviction in both West and East Germany that "the question of the unity of the German nation can only be decided by the Germans themselves, and that they themselves must choose in what political form, in what periods, at what pace and under what conditions they will accomplish their unity." President Gorbachev said precisely this to Chancellor Kohl as early as February 9 in Moscow, and went on to say that "all Germans, in both East and West, should be aware of the Soviet Union's position on this." Foreign Minister Shevardnadze expressly emphasized the Soviet view on Saturday, May 5, at the first "Two plus Four" meeting of foreign ministers in Bonn.

We Germans regard it as extremely fortunate that President Bush and his administration support the Federal Government's position without reservation. From the European Council in December 1989 in Strasbourg to the Special Summit in February 1990, we have, together with our EC partners, covered some part of the road, which has now led to the joint recognition that German unification is unstoppable, it involves more opportunities than risks for Europe as a whole and each individual, and it is therefore more sensible in view of these advantages to support the Germans on the difficult path towards unification.

We are now facing two tasks. The first is to complete the process of German unification, and the second is to solve the external aspects of German unification, i.e., within the framework of the "Two plus Four" talks. The agenda has already been agreed upon. The unification of the Federal Republic of Germany, the GDR and Berlin, is fully underway. When monetary, economic and social union have been achieved on July 2 this year, a major step will have been taken towards this goal. Who will be able to stop this process when it has got this far?

However, by no means all the problems attached to German unification will have been solved by then. On the contrary, many will be just beginning. Some of them we will be able to solve only by adopting a "learning by doing" approach. There is no historical precedent we can refer to, nor is there an alternative to the path we have embarked on if chaos is to be prevented.

This realization that German unification is unavoidable, as is the speed of its completion, led the Soviet leadership to state in Bonn on Saturday that, in their view, "the

settlement of the internal and the external aspects of German unification must not necessarily coincide and do not have to be achieved during the same transitional period."

Up until that point, the Soviet leaders had firmly taken the opposite stance, they seem to have recognized that in so doing, they had put themselves under pressure. They have now separated the two processes. It remains to be seen what would in the end have been the best approach for solving the external aspects. However, one thing is clear. This separation must not mean that when German unification is achieved, the four powers will retain rights and responsibilities because the external issues have not yet been finally settled.

Today the external aspects of German unification are concentrated on the question of whether a united Germany will be a member of NATO and on the establishment of cooperative security structures in Europe. The question of the Polish western border has been fundamentally settled.

In the field of security the positions taken by the two sides are clear. Both German states and all the NATO allies presume that a united Germany will be a member of NATO. More importantly for us, this is also the view firmly held by our neighbors: Poland, Czechoslovakia and Hungary. The Soviet Union has publicly objected to this, but has added—as Shevardnadze recently did in Bonn—that it was now a question of finding a compromise. Thus the last word has not yet been said on the subject.

These different stances can only be reconciled by a package deal, not a single answer, which takes account of Gorbachev's position. Gorbachev is confronted with the erosion of the USSR and with an increasingly urgent economic crisis. Gorbachev is accused that 45 years after the Second World War, he is losing the great patriotic war, which cost the Soviet Union more than 20 million lives. Gorbachev's answer to this can only be in the concept of a "common European house" or a pan-European order of peace which intensifies and creates new structures for cooperation. This requires the following basic conditions:

First, the CSCE process must create the political framework for increased political and security cooperation between all 35 states. The CSCE process could become a kind of security net for those states in central and southeast Europe which may potentially remain outside of any alliance. It is not in our interest that, should the Warsaw Pact and Comecon become defunct, old nationalisms and pre-war coalitions may raise their ugly heads again. The only acceptable alternative is a pan-European system. But it is undeniable that the CSCE process cannot replace NATO. The Federal Government has made a number of proposals for further expanding and institutionalizing this process. Foreign Minister Shevardnadze proposed initiatives on Saturday in Bonn which lead in the same direction.

Second, it remains vitally important to continue negotiations on disarmament and arms control in the conventional and nuclear fields, when the Vienna CFE negotiations are completed in the Autumn, the Soviet Union must reduce its 380,000 troops in the GDR by approximately 50%. All participants are already agreed that the CFE negotiations should be continued immediately. The NATO Special Summit due to take place in July is intended for the preparation of negotiating positions which will include a further reduction of US troops, but also of those of the other allies and the Bundeswehr, with a corresponding reduction in weapon systems, including new systems. In the nuclear field, negotiations are to begin on nuclear short-range systems immediately after the successful completion of the Vienna CFE Conference, with a view to achieving two further zero solutions on nuclear artillery and land-based SNF systems.

If air-launched nuclear systems are to be retained, this will require a joint decision by NATO members. It would be even better if such a decision were part of an agreement between both superpowers on a global concept of minimal deterrence, including the substrategic field.

In all these questions relating to disarmament, the Germans must not be singled out. Nor can these decisions be made in the context of the "Two Plus Four" talks. They must be dealt with in multilateral rounds of negotiations, mainly by Presidents Bush and Gorbachev during their forthcoming summit.

The Federal Government considers economic cooperation to be a key area which can also be of essential import in finding answers to security questions. This applies not only to the readiness of a united Germany to assume, as far and as generously as possible, the GDR's existing economic obligations to the Soviet Union. Economic relations between East and West in general must be consolidated and intensified.

As regards the future status of a united Germany and its relations with the Soviet Union, together we must make it clear that a united Germany will continue to renounce the possession, production and deployment of ABC weapons and will remain a signatory to the non-proliferation treaty.

We are willing to accept the continued presence of an agreed number of Soviet troops for a given period of time, although we fail to recognize in this a special Soviet interest. The Soviet Union aims to withdraw troops as soon as possible. We assume that, following the withdrawal of Soviet troops, a limited number of German units, with reduced equipment, which need not necessarily be NATO-assigned, will be stationed on the territory of what is today the GDR. From our point of view, it would be desirable if these could be multinational units. However, the Soviet Union seems to feel that this heightens the threat.

In the medium term there arises the basic question of a change in the Atlantic Alliance in the sense that the European Community countries jointly organize their defense while the Alliance provides the political framework for Euro-American cooperation and for linking Europe to America's nuclear shield. We are therefore gratified that the present American government is seeking close cooperation with the European Community, and that new structures are being created to this end.

All this does not release the Germans from the obligation to develop, even at this early stage, a concept for the future cooperation between a unified Germany and the Soviet Union. The Soviet Union wants to know, and has a right to know, what form Germany intends these relations to take in future. What needs to be done is to incorporate the substance of the Moscow Treaty, the longstanding agreement on economic cooperation, the joint declaration issued by Chancellor Kohl and President Gorbachev in June 1989 and the many different agreements and arrangements concluded during the past few years in a new form of cooperation and develop it further. Chancellor Kohl is ready to do so.

We are not trying at this stage to clarify matters right down to the last detail or to find definitive answers. The challenges facing us today are formidable enough. But they are also fascinating. They offer historic opportunities; but we can only take advantage of these if we all work together in a spirit of friendship.

Introductory Remarks

II.

The question of German reunification is both at the very heart of the ongoing European transformation we are witnessing, and the consequence of perestroika. The origin of these enormous transitions must be found in Moscow itself, at the heart of the Soviet Empire. The crumbling of the Berlin Wall in 1989 is the result of changes that were begun in the Soviet Union. The decision of the Soviet leadership not to intervene in Eastern Europe has allowed the developments to take place.

Furthermore, the German question and the European question are inextricably linked. Over the last 45 years, the division of Germany has been the division of Europe. They are one in the same. There is an interreaction between the process of German reunification and the course of Soviet events.

German reunification has a wellspring of autonomous dynamics. A great mass of the GDR's population departed. Then public opinion brought pressure in both East and West. It became all the more heightened because of the election processes going on. The process of German reunification is following a very quick course, certainly much faster than the process of disarmament or the construction of security and cooperation in Europe. We have, then, a risk of distortion.

It can be said that German reunification does pose a problem of balance, of equilibrium. Chancellor Kohl himself said that the question of Germany reunification cannot be separated from the overall question of the European security architecture. German security and European security are one in the same as well. This is the bedrock of the Two-plus-Four conference—to settle the question of German security, which is the keystone of European security.

Who in the future will insure German security? Germany within NATO is one proposal. It entails a special status for the GDR—no troops stationed there and, for some time, the acceptance of a certain level of Soviet troops. This of course cannot be sustained; it must be a provisional measure. The second scenario, put forward by the Soviets, is of a neutral Germany. But Germany is too important in the European context to be neutral. German neutrality would simply cause new disequilibria. It is important for us to understand the blocking of the Soviet position in Bonn.

In the last few months there has been a slowdown of the disarmament talks in Vienna. It seems obvious that the issue of German reunification is getting a step ahead of these negotiations. German reunification is indeed unstoppable, but the issue of security itself has not been solved. Soviet military leaders have said that there could be no united Germany in NATO. But, though stated publically, that position is probably not definitive. Of course there are legitimate security issues from the Soviet point of view, such as the army and the risk of implosion in the Soviet Union. One cannot exclude the possibility of confrontation out of hand.

There are two possible interpretations of the Soviet position. Either they want to use the presence of Soviet troops in Eastern Europe to insure that Western troops won't get out. Or, they are paralyzed; they honestly do not know what to do, and they are biding time. It might be quite difficult for them to accept German membership in NATO and a limited number of troops. Certainly, it is quite clear that, in a hostile environment, the Soviets could not keep 195,000 troops in Germany.

What would keeping Germany in NATO mean? It would mean the maintenance of a certain security apparatus, that there would be a serious resolve on the part of the

Alliance, especially those with nuclear weapons, to state publically that they would be willing to defend Germany were it to be attacked. That is the French position. It poses the problem of the doctrine of defense—the flexible response, the deterrence strategy.

The facts show that German reunification will not happen unless it is in the context of European security. It is a process from which the U.S. cannot be excluded. The Soviet Union will remain a superpower, nuclear and conventional. Therefore, there must be balance and equilibrium in the West. We must be prudent, vigilant, and realistic. The U.S. must remain in the equation. The impact of its presence will be as great as the U.S. is willing to keep making. The Europeans certainly must make their own efforts, and, indeed, increase them. This means increased responsibilities in a broader sense. And there are things the Europeans must do that the U.S. cannot do.

The issue of European security goes beyond the confines of the military concept. In terms of economics, the opportunity must be seized to integrate the East European countries and the Soviet Union in the as yet too restrictive club of Western economies. This will take time, and will have to be on the basis of universal values. We need to have a broad scope. What President Mitterand has called a federation, and Mrs. Thatcher has called an alliance for democracy, both point to a broader scope. We don't want a Soviet Weimar, because we know that a Hitler will follow.

There will certainly be further disarmament negotiations after the present round. These will have to be carried out slowly. Within the context of disarmament negotiations in a pan-European context, ceilings will be set. A deconcentration in the central part of Europe will be agreed to. This will ease certain Polish fears. The stationary troops must be reduced but not removed altogether, because they will be the proof of the Western values in Europe. There cannot be proper security without the nuclear presence. This leads us to consider the nature of such weapons. A ground-air strategy is one possible formula. The French and British nuclear arsenals are close to the minimal nuclear deterrence approach. And a certain level of conventional weapons must be kept in Europe in order to avoid any unpleasant surprises.

Perhaps there might be some contradictory conflicts among the Germans, the British, the French, the United States. But this is not something to worry about, because what appears to be contradictory is in fact complementary. This refers to graduated response, conventional weapons, nuclear deterrence. The goal is to set up a mode of deterrence in Europe that will be effective.

Frontiers must be guaranteed and untouchable. The charter of the Organization of African states is a good model in this regard. In Europe borders must be solemnly and resolutely guaranteed.

We must all work together. There are fora which enable us to continue discussing these issues. We must ensure that no country is relegated to a position of isolation, economic or political. Let us not forget European history. German nationalism was a response to Napoleon. Nor should we forget culture, as Jean Monet warned when he said we would have to start anew from the point of view of culture. The issue of German nationalism is, like all our nationalisms, something that has to be understood. It is not something we can disregard. What is important is that Germany create a pole of stability and equilibrium.

Germany can greatly contribute to stability in Europe. With the other powers, European and American, it must help the Eastern European countries to modernize. We are facing an enormous challenge. We must come up with the right choices and formulation with NATO and the CSCE process. NATO can help us tackle these complex issues. To go from one equilibrium to another will require care. These factors must be

juggled with a clear idea of where we want to go. In this context, Germany will find its equilibrium within Europe. This will insure that Europe will be a continent of peace and stability in which the universal values of democracy are enshrined.

Introductory Remarks *III.*

The issue of German reunification raises the issue of whether the change is welcome in itself in human and cultural terms and in terms of the stability and security of Europe. If handled correctly, German reunification can help produce a new, safer, and more permanent balance of power on the continent than that provided by the tense military confrontation that is now breaking up. The institutions exist or can be invented to establish a much more natural balance between Russia and its present imperial dependencies and Western Europe than was achieved either by the old system of Britain allying itself with the dominant power on the continent, or, in later years, the system of enormous American forces which always had a temporary and unstable look about them.

Russian retreat from this system and the resulting re-emergence of a German power would only be dangerous if, on the one hand, that German power had no role satisfactory to its aspirations, or if the Russians felt that, only by dividing Europe and returning to old-style balance of power politics, could they themselves be safe. If either of these were objectives of German or Russian policy, we could be back in an unstable Europe.

The EC and the wider liberal trading world provides the stage for legitimate expressions of German energy in commercial, cultural, and industrial terms. As the principal mission of the EC itself in the next 20 years is the huge task of reintegration of Eastern Europe into the mainstream, all our energies will be occupied. Institutional developments in this widening community must and will continue. But they must not be spoken of in terms of binding Germany in. The language should focus on rebuilding a unified Europe. The process itself will take care of concerns about an overbalancing of the Community in favor of Germany.

Russia is surely coming to see that this European entity cannot conceivably have military ambitions against her. She should welcome the fact that an internalized structure of stability in Western and Central Europe means she can avoid dangerous entanglements. To convince Russia she is safer, we should construct a harmless institutional St. Petersburg for her to play the European in, to engage her Westernizing element innocently. That institution is the CSCE. We must prevent the dying reflexes of old Russian policy from damaging our new, safer structure. In the Two-plus-Four, we must avoid Russian attempts to singularize Germany, because only a truly sovereign Germany will be free to commit herself wholeheartedly to the next stage of the European enterprise.

We should be willing to exchange something in terms of NATO military deployment in the former GDR for speed of Russian troop withdrawal. We should follow CFE 1 with steps aimed at getting Russians out, and keeping them out, of any residual presence in Eastern Europe so that the enterprise of the reintegration of Europe can begin. Only if we fall for the idea that Germany must trade something fundamental in relation to its own sovereignty in order to be allowed to reunify, are we or the Russians in any danger. One version of that mistake is the Russian attempt to separate the external and internal aspects of reunification.

Articles Five and Six of NATO must apply to all Germany. There should be no limits contractually, as opposed to unilaterally, placed on the size of the German Army, except possibly in exchange for limits on Russian manpower on Russian soil. We will need air defense, early warning, and verification in the GDR. We must escape from the dangers of U.S.-Russian equivalence set up by the 195,000 ceilings—a temporary measure only. Americans must stay because NATO will be the only conceivable collective defense organization to carry forward the minimum deterrence and the necessary verification and confidence-building measures. NATO will not work without American leadership, which means significant stationed American forces. Perhaps France in this vital period might reconsider her relationship with NATO.

All this can only go wrong if we do not press for and get proper military dispositions in East and West Germany and do press on with the social and economic reintegration with Eastern Europe. It could also go wrong if we view the process as being about tying down Germany. It is about the return of all Germany to its Enlightenment roots and about rebuilding a completed Europe. And it is about dealing on a unified basis with our big and primitive Eastern neighbor.

Discussion

The process of reunification. Participants in the discussion were unanimous in the opinion that any attempt to "singularize" Germany as it moved toward reunification would harm that process. It was a vital Western interest that unified Germany become, in the words of a Spaniard, "a normal European country." Normal meant full integration in the economic, political, and security structures of Europe.

Most speakers believed that some adjustments would be required in these structures to accommodate the new order that was emerging from the cold war era and of which a united Germany was a symbol. This was especially true in the security field. Creating the right political, economic, and security conditions for the full and proper realization of German reunification was not just a task for the Germans, said an Italian, but was a collective responsibility for the West as a whole.

A number of participants echoed the remarks made from the panel that the purpose of Western effort to shape the process and result of German reunification should not be to "bind Germany in." At the same time, said a German, it was only natural that memories of his country's past would influence some people's view of reunification. A Portuguese speaker's expression of concern about the dominance of German culture throughout Europe was not shared by other speakers. Said a Frenchman, Europe had plenty of room for a diversity of cultures. Speaking to the question of German reunification in terms of balance and equilibrium in Europe, two Germans agreed that these words had little relevance today. They were concepts left over from the era of nationalistic nation-states, an era that was long gone, and thus were concepts we ought to discard. A French speaker agreed that it was important to reject any resurgence of nationalism in the new Europe.

In creating the right climate for German reunification, there was, said an Italian, a strong collective European responsibility to quickly get on with the economic and political integration of Europe. Considerable progress had been made recently in this regard, added a Belgian speaker. Recent meetings in Paris, Strasbourg, and Dublin had forged "perfect unanimity" within the EC about German reunification, beginning with

monetary union as of July 1, 1990. It was of great importance that unified Germany be fully integrated into the community. In no way did this signify any dilution of the EC, as some feared. And the process of political union should be accelerated. As part of the process, agreements of association with Eastern European countries ought to be pursued. And the conduct of foreign affairs should become more a Community issue to be regulated by treaties at the European level.

The security aspect. The question of Germany's membership in NATO and the future role of the Alliance prompted considerable discussion. There was no disagreement that Germany must remain a member of NATO, but there were a variety of ideas about what sort of role the Alliance should play in the future.

In an extensive intervention on this subject, an American said the question of German membership in NATO was crucial for Germany and for the future of the Alliance. The Alliance would continue to be necessary not only to balance Soviet military power, but to anchor Germany in a larger system of Western collective defense, and to anchor the United States in Europe. Without NATO, there was a danger that the two largest members—Germany and the United States—might drift into isolated efforts to provide separately for their own security. Such a development would be harmful for all concerned, including the Soviet Union.

But, continued the speaker, because of the changed nature of the threat, there was room for NATO to change considerably. The loss of the Soviet Union's Warsaw Pact allies, the unilateral reductions in Soviet forces, and the Soviet withdrawal from Eastern Europe all made it possible for NATO to substantially reduce its forces, both conventional and nuclear. As a result, the alliance could achieve a more satisfactory balance of conventional forces and have much less need to contemplate the early use of nuclear weapons. Certain factors, however, should not change: the presence of American troops in Europe, including Germany; the continuation of NATO's integrated military command structure; and the continued presence of American nuclear weapons on European territory. German membership in NATO was crucial to all of these.

Concluding, the speaker opined that the Soviet position on German membership would become increasingly untenable. True, the Soviets could expect some Western concessions, such as limitations on theatre nuclear forces and on military forces in Central Europe. Perhaps there could be some economic compensation for the withdrawal of Soviet troops. But whether Germany stayed in NATO and American forces stayed in Germany was in the hands of the NATO countries, especially Germany and the United States. It also depended on the extent of neutralist and isolationist sentiments. Was Germany willing to keep American troops and nuclear weapons stationed on its soil? And could the U.S. mandate adequate force levels, especially at a time of budget cuts?

Most speakers concurred with the substance of these remarks, though some argued that NATO should be "reshaped" in terms of its doctrines of forward defense, flexible response and first-strike option. A French speaker called for closer consultations at the political level within the Alliance. Said a Spaniard, we had to advance new security concepts to provide an "umbrella over the process of German reunification." Such an umbrella was necessary, of course, because of the Soviet concerns about German reunification.

A German offered these remarks about the Soviet perspective. The Soviets had taken the position that they wanted to settle the whole agenda of the Two-plus-Four process before the CSCE summit in the autumn of 1990. They wanted a common document signed by all six foreign ministers. Until the settlement was reached, even if it

took years, they wanted to maintain the powers and responsibilities of the Four Powers. Under the Soviet plan, when the settlement was reached, the foreign ministers of the Four Powers would announce the termination of the rights and responsibilities. The German position, by contrast, was that there should not be an effort to obtain a common document. Rather, the rights and responsibilities of the Four Powers should be terminated. There should be a treaty between a sovereign German state and the Soviet Union under which Soviet troops would withdraw after a transition period. The Germans feared a continuation of the Four Power Agreement because the Soviet posture might change due to a change in government.

Explained by an American, the view of the United States was also that the Two-plus-Four group should make only one decision—to terminate the rights and responsibilities. But, at the same time, the U.S. wanted to use the group to meet legitimate Soviet concerns and to create a context in which the orderly and full departure of Soviet troops could be assured. The upcoming NATO summit would be particularly important in this context. There, the Allies should agree to accelerate negotiations on nuclear weapons, move to a second stage of conventional force negotiations, begin a process of modernizing NATO strategy, and schedule preparations for a CSCE summit.

The notion of giving the Soviet Union what a Briton called "geopolitical psychotherapy" was supported by a number of participants. As a German explained, much more was at stake for the Soviet Union than just the German question. Their main objective was to assure themselves an influence in the future security order of Europe. The Soviets, after all, had no ally any more, and they had lost what they had viewed as their great achievements in the "Great Patriotic War". Gorbachev, therefore, could be expected to play tough. The contest could come down to a war of nerves centered on the choice of German unity or membership in NATO. But, if we maintained Western cohesion, Gorbachev in the end would give in because he really had no option.

Continued the speaker, we could not give in on abandoning NATO's military integration, or its nuclear strategy, or stationing troops on German soil. What we could and should do was to develop a political structure of cooperation which gave the Soviets a role in Europe. That structure was the CSCE. Such a structure could complement, but never replace, NATO because it could not provide security in the case of a conflict. It could be expected to be no more effective than was the League of Nations in preventing conflict. But it could play a significant role in confidence building. A Frenchman agreed that we could not accept a Soviet veto over German reunification or over our security arrangements. But we could develop mechanisms of trust which allowed close communication.

The economic element. In the discussion of the security aspect, it was noted that the economic situation in the Soviet Union was an influence in the Soviet reluctance to withdraw all its troops from the GDR. A Norwegian, troubled by allowing these troops to stay during a transitional phase, suggested that the German government might be persuaded to bankroll the billeting of these troops back in the Soviet Union. His remark highlighted the relevance of the economic element in German reunification. Said a French speaker, the economic crisis in the Soviet Union made the idea of German reunification all the more unpalatable to the Soviets.

An American agreed that the issue of security was closely linked with that of economic aid. There seemed to be a general agreement in the West the Eastern European countries had to be helped, but not so in the case of the Soviet Union. Indeed, there seemed to be a division between the attitudes on the continent, which was more

disposed to providing the Soviets with economic aid, and those of the U.S. and the U.K. The speaker advocated four specific steps: create a payments union for Eastern Europe; create one with the Soviet Union; include trade with the Soviet republics; and assist the Soviet Union in creating a monetary system.

A German speaker, referring to the hard currency shortage in the Soviet Union, agreed that there was an opportunity to use financial measures in the Two-plus-Four negotiations. Some Soviet enterprises depended on close cooperation between the Soviet Union and the GDR, which could well be interrupted for technical reasons. Financial and economic cooperations were good cards to play.

Economic relations with the countries of Eastern Europe were also vital to Western security interests. Said an American, one of the West's greatest security concerns would be "to preserve the newly acquired independence of the Eastern European countries." For that, an economic dimension to Western strategy was crucial. Europe, said a Frenchman, must "grow and enfold" these countries.

An Austrian observed that there was an important interrelation between German reunification and the fate of the Eastern European countries. It was said that German reunification would be financed by the Federal Republic. But, insofar as the German capital market was international, the task would be faced by the international community of lenders. Thus, a policy of supporting sound economic reforms was an important complement to security policy. Economic measures such as those used in the postwar period should be undertaken. A number of speakers called for associate member status in the EC for the Eastern European countries.

A German argued that economic relations between his country and Eastern Europe and the Soviet Union were particularly important. A bilateral agreement between Germany and the Soviet Union, spelling out economic opportunities for the Soviet Union, was called for. Germany, said the speaker, could be the link between the Soviet Union and the European Community. An Italian disagreed that Germany should single out relations with the Soviet Union and Eastern European countries. The task should be for the EC to perform, including the United States.

VI. THE FUTURE OF NATO AND THE EUROPEAN COMMUNITY

In opening this section of the conference, the session chairman read the following excerpt from a speech that the late Alfred Herrhausen was to have delivered to the American Council on Germany on December 4, 1989:

"History . . . has not ended. On the contrary, I believe that precisely now we are on the threshold of a very significant phase in human history. Vast military pacts still confront each other, and we continue to think in the categories of national egoisms, defending 'spheres of interest,' conducting espionage and investing untold billions in armaments.

"But, and notwithstanding this somber scenario, is it really such an illusion to surmise that modern history, our history, probably needs a new vision, an entirely different program—one that is geared not to conflict and menacement, but, instead, to combating the real problems of this world, be it on the national level or within the context of international cooperation—real problems such as the North/South divide, the debt crisis, terrorism and crime, the scourge of drugs, AIDS, overpopulation and a potential ecological catastrophe! These are the issues we must address with a new sense of purpose and dedication."

Introductory Remarks

I.

There are a range of issues that are likely to be before us as we look to the future. The division that has been characteristic of discussions in the Atlantic area between military issues, which were in NATO, and economic issues, which were in the European Community, will not do for the period ahead.

The issues of strategy were easy as long as there was the clear-cut danger of a large number of Soviet divisions in the center of Europe. Strategy was a basically technical problem of allocating various military categories. Today, an assessment of the danger requires a political assessment of a likely historic evolution that is at least as important as the security component.

One of the dangers is a reversal of the historic situation—that is, an overwhelming conventional Soviet superiority to be balanced primarily by American nuclear strength. Now, for the immediate future, Soviet ethnic conflicts and domestic problems will make a large-scale conventional attack extremely unlikely. None of the Soviet domestic turmoil is likely to affect the Soviet control over nuclear weapons. Therefore the inequality in strength between Europe and the Soviet Union as far as nuclear power is concerned may provide, in the years ahead, a potential for nuclear blackmail in crisis situations. This can be dealt with on a purely technical level by saying the United States will be responsible for the nuclear threat, which it can handle from its own territory or from the sea. Or one can argue that this is not credible, and that, in order to couple the defense of Europe to the defense of the United States, there has to be some American nuclear presence in Europe.

The fundamental issue is a re-run of the real issue of the INF debate with different weapons. The reverse of it is that, if Europe, and Germany, take the position they do not want nuclear weapons on their territory, then many Americans will take the position the U.S. ought to get out of Europe.

Regarding symmetrical reductions on the central front, in order to get the Soviet Union down to a certain level, the first phase of the conventional arms negotiations is very important. But, beyond that level, keeping the reductions symmetrical runs the risk that, either we give the Soviets too many forces in relation to the political realities of Eastern Europe, or the U.S. too few forces in relation to the political realities of Western Europe. If the principle is established that the two forces have to be reduced symmetrically, the Soviets may gain a benefit out of the fact that they cannot keep forces in Eastern Europe indefinitely and insist that the U.S. go down to zero on the central front.

Thus, we are back at the question of what is the purpose of the military establishment in NATO and the relationship of the United States to Europe. It is not enough to assert that the U.S. will always remain a European power unless there is something the Americans and the Europeans do together on a regular basis and unless there are some institutions which express this common effort.

It is the nature of modern democratic politicians to pretend that, when there is a difference of view, there is none, and that all courses of action can be combined. We have a habit of saying that the CSCE and NATO are perfectly compatible. That may be true if they are properly defined. But it is also true that, if the common European house is defined in a certain manner, it will, in practice, exclude the United States and it will become a subterfuge for dismantling NATO.

Some have said that NATO should become a more political institution. But it is difficult to make a defensive alliance a political institution even in the best of circumstances. In NATO, the U.S. deals with 14 European nations on a national basis. The attempt to shift political issues into NATO will be construed by some Europeans as an attempt to undermine the strengthening of European political unity. On the other hand, the strengthening of European political and defense unity, which is essential, raises the problem that the EC makes its decisions almost always to the exclusion of the U.S., which is never present in EC deliberations. There is no normal consultative procedure. The U.S. is irrelevant after the decision is taken. There is danger, keenly felt in Washington, that the U.S. would be tied to Europe in NATO as a kind of semi-mercenary force without being able to participate in the political and economic process. It is therefore essential that some kind of consultative mechanism be found while European unity is also strengthened. It cannot be only in NATO.

One must ask how to use the existing institutions more creatively in the light of the complex issues before us. It is necessary to either create some kind of umbrella consultative machinery or to make it possible for the EC to participate in NATO as a community, or to allow the U.S. to participate in EC deliberations. Otherwise we will be in the situation where, in its weakest period, the Soviet Union will achieve the neutralization and denuclearization of Europe and the withdrawal of American forces.

Introductory Remarks *II.*

We have moved from a permanent potential pre-war situation to a peacetime situation. The task before the Alliance is to put its armies, weaponry and doctrines on a peacetime footing after 40 years of cold war. We should not drop our guard, but neither should we become prisoners of the past. We can afford to tailor our defense efforts and

our strategies to new givens which are much more propitious than anything we have seen before.

There is no longer a palpable threat—no clear and present danger. The threat has been reduced to a highly abstract risk of conflict. We must take out insurance commensurate to this risk, but we should not go beyond that. We should not look for new threats to justify the existence of our armies. Nor should we talk ourselves into the facile assumption that a Russian empire in collapse poses greater danger than the Soviet empire at its zenith. And we should not aim at job enrichment for our present security institutions. NATO is important, but it is basically a military institution, and it ought not to evolve into a political one.

NATO is not the hub of the Atlantic world. It is not the only venue where Europe and the U.S. meet. Nor is it the repository of Western values. It has a crucial job to do, but it cannot be the all-embracing mechanism for Western political decision-making. What we will have instead will be a number of complementary institutions. We ought to look more closely at forging a link between the EC and the United States. Such a link would have to be constructed with great care.

NATO is still necessary as insurance against miscarriage of the detente process, as an overseer, verifier and guarantor of the disarmament process, and as a building block for some future European security arrangement. But we need a different NATO. The Warsaw Pact is rapidly dissolving, its armies are crumbling, and the front line has disappeared. The time has come when we can afford to draw down our strength. It is inevitable that the Americans will withdraw a large part of their European garrison. This is not isolationism, but realism.

It is equally inevitable that the Europeans will reduce their defense efforts. There is no indication that Europe is ready to pick up the slack for American reductions. Instead, all want to claim their share of the peace dividend.

It is imperative for the Alliance to go on a peacetime footing. This means no high degree of readiness, a lower level of exercises, a slimmed down command structure, much lower Allied presence on German soil, and a much reduced German army. We will also have to reappraise our doctrine of forward defense, flexible response, and the first-use option. We need to think about how many soldiers and weapons, both conventional and nuclear, we need and what their roles are to be. For example, there is no longer any justification for ground-based nuclear weapons in Germany. Should we move to reservist concepts? What precautions in terms of stockpiling do we have to take? And how will the political guidance for SACEUR have to be changed to allow him to define a new and realistic defense concept?

As for the European Community, its primary role for the balance of this century will be economic and political—not military. In spite of talk about a European security dimension, not much is being done. The French are still frozen when it comes to reassociation with the Alliance. The Franco-German brigade is a piece of folklore. Britain has its own problems. The fact that there are two nuclear powers among non-nuclear powers in Europe does pose a problem. Germany will have to reconfirm its renunciation of nuclear, biological, and chemical weapons. The question of German association with nuclear weapons in a European context will be difficult.

The CSCE process will primarily play a role in all-European cooperation, dealing with conflict in Europe, right of minorities, and perhaps watching over contested borders, such as that between Hungary and Romania. CSCE has a role to play in the prevention of intra-European conflicts.

The conclusion is that we will have to live with untidy, overlapping, perhaps deficient, arrangements for some time.

Introductory Remarks

III.

There are two urgent and pressing needs facing the European Community. One is the completion of the single market—the full freedom of people, goods, services, and capital to move throughout the community. This must be achieved in a way that is open to the whole world; there cannot be any question of Fortress Europe.

This process is long overdue, but it is now going ahead quite well. But we are not there yet, nor will we be by the end of 1992 unless we give it high political priority. There are a number of very politically sensitive issues imbedded in the process. Many directives have not been agreed to and are being fought over. And, once directives have been agreed to, we have to insure that they are implemented. The single market is already imparting a very considerable new dynamic to the European economy which is widely recognized not only within Europe but by major nations and major firms outside Europe. But there is still a great deal to be done.

The second urgent task is the further enlargement of the Community to embrace those EFTA countries that wish to join and also, as soon as is practicable, to include those former Soviet satellites which have achieved political democracy. They are going to need as much practical assistance as we can give them to become properly functioning market economies. This will take time, and association with the EC might be sensible as some sort of interim stage. Full membership, however, must be the objective. We need to do all we can to help them achieve this.

The danger is that these two priorities will be elbowed aside by a wild goose chase, after economic and monetary union have been accomplished, for political union, the meaning of which is not clear. Indeed, the definition of economic union is open to some interpretation.

So the focus is very much on monetary union, which clearly means the replacement of individual national currencies by a single European currency managed by a single European central bank. In purely economic terms, there is nothing unsound about this concept, even though the technical problems of getting there are quite formidable. The problem is a political one. Monetary union and full political union are in practice inseparable. An example of this is Germany today. A single currency is seen as an essential attribute of nationhood. In practice, even with an independent central bank, good government requires a close working relationship between the governor of the central bank and the finance minister. But the Delors Report calls for a governor of the Eurofed but no single European finance minister. Thus the situation would be out of balance. There is also a question of democratic accountability to the national parliaments.

So monetary union as envisaged does not make sense unless there is going to be full-fledged political union—a single European government responsible to a single European parliament. This is not acceptable to the United Kingdom, nor to some other European governments.

There is also the question whether full-scale federation is consistent with inclusion of the Eastern European countries. Certainly the idea of forming an exclusive club of the existing members ought to be rejected.

There is a form of monetary union that does make sense. The EMS has been very successful in bringing about the benefit of monetary stability within Europe and in assisting member countries to get their inflation rates down. The EMS is something we can build on. If all the member states of the Community were to have independent central banks, which the majority do not at present have, this would greatly facilitate much closer monetary cooperation than is likely to occur between national governments. This is what we ought to be aiming for.

In short, we ought not to dissipate our energies on the divisive issue of monetary union, but concentrate on the successful completion and implementation of an open single market and on assisting the countries of Eastern Europe in the efforts to create a market economy and so qualify to join us as full members of the European Community, hard as the journey may be.

Discussion

A German speaker initiated the discussion with the gloomy observation that, even as the institutions of the Soviet bloc—the Warsaw Pact and Comecon—were no more, Western institutional arrangements were feeble, inadequate to the complex task of addressing the economic, political, and security challenges presented by the new European landscape.

This seemed to an American to be an excessively pessimistic view. After all, the West had won a great victory, with the EC and NATO having achieved substantially all that they set out to do. The problem was that the West had not yet decided what to do with its victory. It was still conducting business in institutions designed for a different set of circumstances. Now we had to set new goals and think about what institutions we needed to achieve them.

The future of NATO. NATO, in a Briton's view, had little time in which to decide what its future role was to be. Without vigorous leadership, the alliance faced the danger of individual countries responding to the new situation in Europe by making unilateral arrangements. It would be difficult for NATO to maintain its defense structure if public opinion did not perceive a credible Soviet threat. NATO had to evolve into something different.

An International participant agreed that NATO had to change, but he warned against believing that the Soviet threat had vanished. After all, the Soviets still had 500,000 troops in Eastern Europe, they had great reserves of manpower and material in a state of readiness, and they were still nuclear. On top of all this, the Soviet Union was in a state of instability.

A Norwegian endorsed this assessment, saying that the Soviets had not yet gone home, and, in any event, home for them was not far away. We still had no CFE agreement, and we faced real dangers in Soviet decline and Eastern European turmoil—dangers that CSCE was not up to dealing with. While the military situation in Central Europe had changed, it was still the same in Northern Europe. Soviet power still had to be contained and Soviet impulses constrained. There was a need for a new strategy and force posture in NATO, but these things would take time.

An American noted that history showed that the Russians were "never as strong nor as weak as they seemed." In the current period, they appeared to be quite weak. But they had rapidly recovered from periods of weakness in the past.

The EC's role. Several participants in the discussion advocated a role for the EC in security policy and foreign policy. Said a speaker from the UK, it was "absurd" to think that security would be the one issue the 12 members would not wish to address. An Irishman agreed that these issues were destined to become EC matters. Indeed, they were on the agenda for the forthcoming Intergovernmental Conference. It was not realistic for the EC to have an aid strategy for Eastern Europe without a political vision, continued the speaker. This necessitated direct involvement in security issues.

Concurring with the view that the EC was the appropriate institution to deal with economically- and politically-linked security issues, a Dutch speaker argued that, before it could take on such a role, the Community had to be strengthened democratically. At present, the European Parliament had only limited power and "questionable legitimacy." It had to have a stronger democratic structure.

It was precisely this aspect which led several speakers to be skeptical about an EC role in security issues. Such a role was, in a Briton's view, "quite impossible," given the nature of EC negotiations. The European Commissioner had no negotiating flexibility. Until and unless the EC became a single state, it could not fulfill any security role. Said an International speaker, it was the ability of the NATO structure to make decisions which made it the most appropriate institution to deal with security issues.

There was also disagreement about the EC's role in the economic sphere with respect to the countries of Eastern Europe. An Austrian and a Briton stressed the importance of holding out the promise of membership in the Community to those Eastern European countries that democratized and succeeded in establishing free market economies. Other speakers opposed any enlargement of the EC, except in the very long term. To do so now or in the near future, would disrupt what a British speaker called "an island of stability." A German argued that enlarging the EC would make it "incapable of functioning in the modern world."

Other institutions. Among other institutions that would play important roles in meeting future challenges, speakers mentioned such organizations as the World Bank, the IMF, the WEU, the Council of Europe, the CSCE, and the UN. The CSCE in particular was emphasized as a process that could help deal with conflicts within European countries and within Europe generally. In this regard, an American expressed the opinion that NATO and CSCE were complementary, the former dealing with collective defense and the latter with collective security.

The matter of out-of-area threats to security was a concern addressed by several speakers. A Swiss proposed that neutral countries could play a special role in the peaceful resolution of such conflicts. An American wondered if now was the time for the U.S. and Soviet Union to work together, within the framework of the UN Security Council, to achieve collective security.

It was a French speaker's view that all of the institutions played complementary roles, that we should not see them as being in conflict. The European institutions in particular, said a Portuguese, served to make Europe a stronger entity.

The European-American relationship. A Briton called for a careful examination of the relationship between the U.S. and Europe. It was important for the Europeans to make clear that a strong American role was wanted.

An American provided the following perspective on the American view of the current situation in Europe. Support of NATO had long been a matter of consensus in U.S. foreign policy, with American participation in the Alliance never seriously challenged. Today, however, there was much interest in the U.S. in the "peace dividend." The general

mood in Congress was in favor of a more rapid drawdown of U.S. forces in Europe than that called for by the Bush Administration, and in favor of a declining U.S. role in Europe generally. There was a popular sense that the U.S. had borne more than its share in providing for European security, and now the time had come to focus more on domestic concerns. The American attitude toward European economic and political integration was positive, despite some concern about "fortress Europe." The bottom line of all this was that, if the U.S. was to maintain a strong role in Europe, it would have to receive signals that it was welcome.

Another American added that, if the U.S. was to remain closely involved in European security, it was crucial that American political leaders be able to explain to the public what U.S. troops in Europe were supposed to be doing. This required some serious thinking in the West as a whole about what we meant by security, about East-West relations, and about what future architecture we envisioned for Europe. We could not escape the necessity of solving these problems. The question was whether we did it in response to a crisis, or in a well thought-out, creative manner.

VII. JAPAN: POLITICAL CHANGES

Introductory Remarks

I.

Since the end of the American occupation, Japan has pursued, with almost single-minded determination, a foreign policy that consists of three elements: alliance with the United States, economic diplomacy, and a low profile on political and security matters. This has been an extraordinarily successful policy, and the Japanese are very reluctant to part with it. They tend to view with alarm anything that is a departure from the post-war international order that brought them such success. Despite changes in the post-war system and in Japan's own position in the world, there is, if one looks at domestic Japanese policy, a real resistance to change.

Yet the external pressures on Japan to change are enormous, particularly on its trade policies and its economic policies generally. This asymmetry between the world that Japan would like to see and the role that the world expects Japan to play produces an enormous tension inside Japan and brings about a reactive diplomacy.

Japanese policy changes slowly and grudgingly and oftentimes in a too little, too late fashion. But there is policy change, and there are great resentments produced in the process—internal resentments that the external world, especially the U.S., is making unreasonable demands. And there are resentments abroad that Japan is so reluctant in supporting free trade and other international regimes. Japan and the outside world will have to live with these tensions for many years to come. We should not expect to see a basic shift in the Japanese orientation to international relations.

However, within this framework, there are several factors that will affect Japanese policy substantially in the coming years. First, how will Japanese policies be affected by the global strategies being pursued by Japanese industry and by Japan's financial clout in the world? It is important to distinguish between the policies pursued by the Japanese government and the behavior of the Japanese private sector. Notions of Japan, Inc. are very unhelpful. The Japanese economy is increasingly private sector driven. The government is in some ways reactive vis a vis its own private corporations. Managing the consequences of Japanese economic expansion abroad is the problem. Japan will run a trade surplus for some time and there will continue to be capital outflows.

What are the implications of this globalization of Japanese industry for Japanese foreign policy and for its relations with the United States and other countries? There is an inherent contradiction in Japanese foreign policy which is a problem for American policy. If one is to sum up what Japan is after in its foreign policy, it could be characterized as reinforcing U.S. hegemony. There is a division of labor in which Japan takes on more of the responsibilities for economic development assistance while the U.S. carries the political and security responsibilities in the world. This is not a tenable policy over the long run unless the U.S. remains economically competitive with Japan. At some point it becomes unsustainable if U.S. political and security policies are seen largely as a cover for Japanese economic expansion.

A second point is changing public attitudes in Japan. One of the consequences of the so-called Structural Impediments Initiative (SII) is how little of an anti-American reaction there was in Japan to it, and how much support there is for those policies being urged on Japan by the Bush Administration. There is a changing mood.

The policies pursued by the post-war Japanese government were not pursued in spite of public desires for something else. They were pursued because there was an enormous social consensus on the priority to be attached to rapid industrialization, the deferral of consumer spending for consumer saving, etc. That consensus is coming apart.

One of the most important political changes in Japan is the emergence of the new and potentially explosive issue of social inequality. The post-war stability of the Japanese government was based on policies that aimed at fairness and equality. Social inequality has emerged as a new issue that has not yet been channelled through the political party system.

A third point concerns the pluralism of Japanese decision-making structures and the role that Japanese political leaders play vis a vis the bureaucracy in policy-making. This is most important as regards policy towards the Soviet Union. Various Japanese politicians have focused on relations with the Soviet Union and other issues that are opposed by the Japanese bureaucracy.

The fourth factor, which will be key in Japanese foreign policy in the coming years, is U.S. policy towards Japan, the world, and itself. There is a roller-coaster quality to American attitudes toward Japan. At present, we are in a quiet period, but attitudes will heat up again. Over the longer term the question concerns the fact that, to maintain the alliance with Japan, the U.S. must remain competitive with Japan and remain the primary political and security factor in East Asia. These things are up in the air. This is important because it is in response to U.S. policy that Japanese policy will move. Japan is not likely to take its own initiatives.

Introductory Remarks

II.

The West will need to come up with new multilateral arrangements in order to avoid at worst a disaster in the form of severe political and economic dislocations, or, at best, a breakup of the world into trading blocs.

We need to develop conceptual tools to deal with the new type of economies pioneered by Japan and to understand the political practices of Japan. Political science and economics as practiced today cannot account for these important phenomena in the world.

The U.S.-Japan bilateral relationship is an intense one, and what happens in it is likely to help determine the future of the international trading system. The problems on the U.S. side can be summed up as wishful thinking, leading to an ostrich approach—a policy of not having a policy. Wishful thinking consists of a general premise that Japan was more or less remade after 1945 in the American image, and that the conflicts that exist will eventually disappear through mutual resolve and reliance on market mechanisms.

Several factors sustain this attitude. One is the fairly strong influence of a dogmatic strain of economists in the U.S. who cannot accept the possibility that an economy can be successful if it is not based on free-market principles.

The attitude of the U.S. is fairly rapidly leading to a situation in which the people running Japan are portrayed as moral reprobates who will always fall short of American expectations. In a fit of moral indignation, Congress at some point, under pressure of compounded frustration, is likely to pass the kind of legislation that will be considered anti-Japanese. This could cause a rupture in the U.S.-Japanese relationship, political

instability in Japan, and problems in Asia. There will be much incentive for forcing the issue of Japan because we are dealing with a fundamental incompatibility that is not yet recognized, but will cause shock waves of moralizing once it is recognized.

If spectacular in the realm of manufacturing and exports, Japan is becoming truly monumental in the financial area. Japanese financial institutions include the world's ten largest banks. Japanese security houses are the world's largest. Japanese insurance firms are enormous. These three groups are cartels operating under the wings of the finance minister. Their power derives from much more than trade surpluses and high savings rates. It is based on informal control over the economic processes in Japan that allows an insulation of the general economy from the absurd inflation in capital assets. That inflation is illustrated by the value of all Japanese land, which is worth about five times the value of all American land, up from 2.4 times in 1987. This kind of increase would have unhinged any other economy. It would have done so to the Japanese economy in the 1960s, but, in the mid-1980s the financial administrators in Japan discovered that they had so much informal control over economic processes that they could contain inflation.

The justification for industrial expansion in the West is that it improves life. Economies are expanded because it enables everyone to lead a better life. If these were the criteria in Japan, then the Japanese people, statistically among the richest in the world, would be living very comfortably compared with Europeans and Americans. All Japanese would laugh at the notion, because it is generally accepted that the wealth amassed by Japanese corporations has not been passed down to the consumers or the employees. The Japanese corporations are in the business of national security, not of profit-making. This puts them beyond the purview of classical economists.

There are goals that are shared with the United States. Until the demise of the Soviet Empire, containing communism was a shared goal. But it has disappeared. The maintenance of the internal free trade system is also a shared goal, but the Japanese type of competition undermines this system. With regard to values, it can be said that Japanese power holders believe in curbing arbitrary power, as in the West. But there is no correspondence between these curbs and the way they are applied. The American-designed Japanese constitution does not protect the political system in which laws prevail over authorities. There is no independent judiciary in Japan. Elections are held, but they do not influence broad lines of policy.

Complicating matters is the fact that Japanese officialdom wants to hold onto the status quo with the United States. Japanese public relations is directed at keeping Americans under the illusion that they do share values, and that Japan is changing rapidly. The media help the rapid change theory with "Japan-at-the-crossroads" stories. But these changes are not the ones that will bring about an essential change in the relationship of the various power centers in Japan that will cause a change in the way Japan faces the world.

The changes that do take place concern an increase in informal social controls. Examples of these are Rengo substituting for Sohyo as the large labor union center, the demise of the teachers' union, and new informal controls through the financial institutions. Gradually, Japan is moving toward institutional monopoly. Civility has declined as the old imagery of social harmony and consensus democracy, which substituted for genuine political debate, fades. The tradition of skeptical political scrutiny is embattled in Japan. Universal values are explicitly denied by strong intellectual currents. The notion abroad that the Japanese people are engaged in a discussion about their nation's purposes and future world role is totally erroneous. There is no forum for such a discussion and no way

to translate any misgivings people might have into social action. The elite in Japan has no intention to discuss with the rest of the world how it runs Japan.

In the conflict with the United States, there is a temporary respite now and then through minute bureaucratic compromises presented as major breakthroughs in Washington. We must see the problem in political terms, because we are dealing with a politically driven economic might. No one is served by vilification of Japan. We need to recognize that Japan is not a bad entity, but is motivated differently. The elites of Japan grew up in an environment where wars were not relied upon for protection. The special relationships are relied upon. The elites are obsessed with order and control. As they look outside at the hostile world where Japanese rules do not apply, they seek special relationships. They have one with the United States, and they see the U.S. as now wanting to change it.

Any new approach to Japan should also address the deep sense of insecurity the Japanese elites labor under. It is possible to take symbolic action to assure Japanese elites that the world is not against them. If we can convince them of this, and if the U.S. can wake up to the fact that there is an essential problem here, and if we can move toward a new international set-up, the Europeans will join in with the United States and, behind the scenes, many Japanese officials will help. What we need to move towards is an entirely new arrangement to assure that Japan is not turned into an enemy.

Discussion

Japanese economic versus political power. An American began the discussion with the comment that there was a "growing asymmetry" between the political posture of Japan and the reality of economic developments which affected not only the internal Japanese market but also its external posture. Japan's GNP was half that of the U.S., twice that of West Germany, and three times that of France or the UK. Its external assets as of the end of 1988 were in excess of \$290 billion—more than West Germany and the UK together. These impressive economic statistics had profound implications for Japanese political considerations. The private sector was changing the political context in which Japan, the U.S., and Europe operated.

A German was also troubled by what he saw as the discrepancy between an active, modernizing Japanese industrial sector and a political system that no longer reflected the power of the country. The Japanese economic machine was a mighty one to which the political system was incapable of responding. Another speaker from the U.S. worried about the disequilibrium between Japan's growing economic power and its absence of political and military power. Japan could not continue to function in this manner. The West should anticipate that Japan would insist on a greater role in the world in the future.

Several speakers voiced concern about this prospect. A French speaker pointed to Japan's inability to come to grips with its recent past. This was important in terms of international relations. China, in particular, was it troubling. It was a hidden problem with dangerous potential that needed to be recognized. A Portuguese participant worried that, if insecurity was the dominant feeling of the Japanese elites, and if Japanese social mechanisms were failing, then there could be a rebirth of nationalism and militarism.

Viewing Japan from the business perspective, a Canadian felt that Japanese banks and corporations were applying competitive tactics that were "extremely advanced and innovative." What Western businesses faced was not so much unfair competition as bold

initiatives backed up by public policy. Perhaps this was the wave of the future and deserved to be imitated in the U.S. and Europe.

An American put forth the view that companies in the U.S. were able to compete with Japanese firms in many industries, in terms of quality and other measures. But competition was constrained by the Yen-Dollar exchange rates. American companies could compete at 120 to 130 Yen to the dollar, but the Japanese were planning to compete at 100 to 110 Yen. Also, the cost of capital was a matter of great concern. While it was almost nothing for Japanese companies, it was quite considerable for U.S. and European firms. Another American argued that it was important for the West to recognize the effectiveness of the Japanese machine and how it functioned differently from the Western system.

Change in Japan. Other speakers saw signs of encouragement in patterns of change in Japan. In the view of an American speaker, contemporary Japanese leaders, in both government and business, unlike their forebears in the immediate post-war period, were active participants in the world councils in which they participated. They tended to be forward-looking, informed, have command of English, and generally be comfortable around Westerners.

Among other signs of change in Japan noted by participants was a new labor union posture. Japanese unions, said an American, were getting more aggressive about the goal of raising their members' living and working standards. Others saw the ongoing domestic debate about weaknesses in the political and electoral systems as a sign of change. A Greek saw Western values spreading to Japan as a result of Japanese economic involvement in Western countries.

An American speaker foresaw three specific elements of change as Japan entered the decade of the nineties. First, the Japanese government was bringing about structural changes that would increase consumption and reduce spending. Second, population demographics in Japan would mandate increased spending on medical and retirement benefits. And third, the trend to ever more overseas manufacturing of Japanese products, particularly cars, many of which in coming years would be exported back to Japan, which would have an effect on the trade balance.

A Briton pointed out that change was also being forced on the Japanese in the sense that their economy was experiencing a difficult period of weakness, characterized by such factors as the stock market decline and a softening of property values.

The West's response to Japan. How should the West react to Japan? In a Greek participant's view, many of our difficulties in relation to Japan were of our own making. The Japanese were results-oriented. They were more flexible than Westerners about the world. An American agreed with this thesis, pointing out that much of the Japanese penetration of world markets, and particularly the U.S. market, was due to such factors as competence in manufacturing which produced high quality goods, hard work, excellent public education, continuity, and a sense of individual responsibility on the part of workers. Another American, urging that the West should not fear Japanese foreign investment, said that many Japanese companies were investing for the long term, and were not out for a quick profit, as too many Western firms were.

There was agreement that, even with these changes, Japanese markets ought to open up more. A Briton suggested that the U.S. and Europe, by joining forces, could exert significant pressure on Japan to do so. In the view of an Irish participant, the right approach to opening Japan's market was a multilateral one. An American felt that the

Uruguay Round of GATT was the best hope to prevent unilateral action against Japanese goods.

Summarizing the various aspects of the discussion, a Dutchman made the following points. The Japanese political system did not reflect the country's power. Politicians had become less important in economic decision-making. Japan did not reveal itself politically in any one central body. Different bodies—MITI, the Finance Ministry, for example—had different policies. Both had great political power. Japan had no entities that maintained control in the Western sense. What they did have was great political control over the market. Western companies could not expect to compete with Japanese firms that could not go bankrupt. And while there may be changes beginning in Japan, as soon as formal controls were lifted, informal controls would do the job.

In an American view, Japan and the West shared many values. Most could be summarized under the term Protestant ethic. The Japanese elite wanted to be part of the modern, democratic world. Political change was occurring at a very rapid rate. Mechanisms of social control were getting weaker. It was not likely that Japan would become a military threat as long as their defense forces were integrated with the U.S. military and as long as the U.S. remained active in the region. The best approach to open up Japanese markets was not to encourage managed trade or to gang up on Japan at the Uruguay Round. It was to involve Japan increasingly in consultations and actions across the whole range of regional and international issues.

PERSPECTIVES ON THE U.S. BUDGET

Two American participants, one from the Administration, and one from Congress, offered the following perspectives on the budget situation in the United States:

The Administration's perspective. The U.S. economy in 1991 is a roughly \$6 trillion economy. The federal spending levels are at about \$1.2 trillion—around 20 percent of the total GNP. The deficit in the budget submitted by the President in January under the Gramm-Rudman guidelines was projected to be down to \$64 billion. The current revisions since then suggest that the budget as submitted would not have met that guideline. The problem was not in the growth of the economy, which was relatively on target, but in the failure of interest rates to fall as much as had been expected.

It is important to keep some critical numbers in mind when considering the problem of the U.S. budget deficit. The magnitude of the deficit appears to be in \$80 billion to \$100 billion range for fiscal 1991. The growth of revenues due to the growth of the economy is in the same range. This is worth noting particularly in the following respect. Quite often, when you draw the almost parallel lines of spending and revenue on a chart, the difference is looked at in terms of the vertical—the shortfall of revenue spending. The difference should also be looked at in the horizontal sense, at how much is the time lag between current revenues and at what point revenues would have to be shifted to catch up. There is a one-year lag in growth. If expenditures could be frozen for one year while the growth continued, the deficit numbers become relatively manageable.

It is critical in terms of the President's commitments that the growth of the economy continue. He is unwilling to sacrifice economic growth for a short-term solution to the deficit problem. He will insist that any compromise package include incentives that stimulate growth.

The section of the budget that represents automatic expenditures is a particular problem. Entitlement expenditures are built into the system and occur whether or not Congress takes action. They are roughly \$600 billion—half the budget. The annual inflation of that part of the budget is about \$30 billion.

Defense represents about \$300 billion. In Washington parlance, cuts are not real cuts. When the Chairman of the Joint Chiefs talks about a 25 percent cut over five years, he is talking about a 25 percent cut in the expected growth of defense spending. With the 25 percent cut, the five-year expenditure is about the same. All cuts are referenced to growth rather than to a particular number.

The hard part of the budget debate will concern the revenue side of the package. In rough terms, about a third of the solution to the problem is relegated to the revenue side. The package sent to Congress by the President has about \$13 billion to \$14 billion of revenue built into it. This means the rhetoric of the political debate on the budget will be centered around \$15 billion to \$16 billion, less than one-eighth of the total deficit.

The difficulty of this issue is illustrated by the President's request for \$700 million to \$800 million worth of funding for economic assistance for Panama and Nicaragua. Because members of Congress have attached various spending measures to this legislation, it is now worth more than \$3 billion. This is the inevitable result of the legislative structure and is very much part of the debate that will take place over the next few months.

In calling for the budget summit, the President understands the need to deal with the deficit. At the same time, he is very much aware of the realities of the fiscal and political aspects of the process and is resigned to the fact it will take much longer than desirable.

The Congressional leadership's perspective. The President's call for a budget summit recalls a similar effort made in 1987, after the stock market crash, by President Reagan. After 22 days, a quite disappointing plan came forth. A more aggressive and far-reaching proposal had been under consideration which included the concept of restraining cost of living allowances and providing for tax increases and spending restraints. The plan failed at the last minute because of an inability to reach a political compromise on getting not only tax increases but also a freeze on tax reductions. It was a missed opportunity which has exacerbated today's problems.

One of the concerns in 1987 was that the markets were considered so fragile that an announcement of a successful agreement followed by a failure to enact it would have probably caused the markets to collapse. There are similar concerns today. The country has not been prepared for the difficult consequence of raising taxes and reducing spending including possible restraint on social spending which might have to be part of any far-reaching budget summit.

The biggest task may be not to reach an agreement, but to persuade members of both parties in the House and Senate, in an election year, that difficult and political awkward actions on their part are necessary. The U.S. does not have traditions of party discipline, and it has a divided government. In the 1980s the Republican leadership in the Senate was very courageous in coming forward with some important and far-reaching budget recommendations. But House Republicans tend to have been in opposition for so long that their attitudes are those of an opposition party, even against an administration of their own party at times. House Republicans pride themselves on being the repository of the true faith that no taxes of any kind should be imposed.

Another problem is that the political extremes in the House and Senate have very different notions of what a fair agreement would entail. The Democrats want the President to be the one to propose new taxes, if there are to be any. The inclination of Democrats is to wait for Administration recommendations on the tax question. If those recommendations consist of proposals for excise taxes, such as on gasoline and cigarettes Democrats may respond by suggesting higher income taxes on the top brackets.

There is no doubt about what should be done. Action should be taken to raise excise taxes and the top marginal rate, to develop a multi-year budget strategy which attempts to save social security payments, and to achieve greater discipline in the budget process. This last should include looking at very large credit and insurance budgets that are not included in any of the budget processes and amount to about \$6 trillion in total liabilities. All this should be done in an atmosphere of trying to balance the burden.

For the last nine years, the Administration has had a generally relaxed attitude on the question of budget deficits. The country has not heard of any kind of univocal voice talking about the necessity of taking stern action. The public is now doubtful that stern measures are necessary.

The American system does not have the possibility of the sort of total bipartisanship or multipartisanship that is theoretically possible in Europe. Even if the incumbent members of both parties were to take a strong, unified position, their election challengers would be free to attack a plan and its supporters. Indeed, in the U.S., it is considered

ennobling to attack one's own party. When the major agreement was on the threshold of being reached in 1987, a plan was made to announce it in a strongly bipartisan fashion in order to minimize this problem.

If the U.S. fails to reach a meaningful agreement on the deficit, a problem will occur at the end of July when the debt ceiling will have been reached. Under the law, Congress has to authorize the continued issuance of U.S. securities to meet the federal government's debt obligations beyond a certain level. In the midst of political turmoil, it might not be done, and the U.S. would go into technical default for the first time in its history. Just before this date arrives, the Office of Management and Budget must give an estimate of the country's deficit levels. The figures that are thought to be forthcoming are much larger than those submitted by the Administration in February. The deficit was supposed to be \$100 billion, to be reduced next year to \$64 billion. It is now assumed that the reduction requirement to meet the existing targets of the law is somewhere between \$60 billion and \$116 billion, including about \$50 billion for the savings and loan disaster.

The problems are very serious. The country has not yet been prepared, and the political incentives for members of Congress to vote for difficult actions in an election year, without party discipline and without public understanding, are very few.

CLOSING

Lord Carrington closed the conference with an expression of thanks, on behalf of all the participants, to those who had made the conference possible: the American hosts on the Steering Committee and Advisory Group; the moderators and panelists; organizers Charles Muller and Ronnie Glattauer; the secretarial staff; the interpreters and technicians; the staff of the Harrison Conference Center; and those responsible for security. He also thanked all those present for their participation and the Honorary Secretaries General for their great contributions.