

BILDERBERG PAPERS

NOT FOR QUOTATION

Introduction

The forty-seventh Bilderberg Meeting was held at the Caesar Park Hotel Penha Longa, Sintra, Portugal, from June 3rd-6th 1999. There were 111 participants from 24 countries. The participants represented government, diplomacy, politics, business, law, education, journalism and institutes specialising in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or employers. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference took place.

This booklet is an account of the 1999 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective participants of future conferences. It represents a summary of the panellists' opening remarks for each session, and of the comments and interventions in the subsequent discussion.

[Page 4]

Participants

HONORARY CHAIRMAN

Belgium **Etienne Davignon** Chairman, Société Générale de Belgique

HONORARY SECRETARY GENERAL

Netherlands **Victor Halberstadt** Professor of Economics, Leiden University

PARTICIPANTS

Italy **Umberto Agnelli** Chairman, IFIL-Finanziaria di Partecipazioni

Spain **Esperanza Aguirre y Gil de Biedma** President of the Spanish Senate

United States of America **Paul A. Allaire** Chairman, Xerox Corporation

Portugal **Joaquim F. do Amaral** Member of Parliament

Sweden **Anders Åslund** Senior Associate, Carnegie Endowment for International Peace

Portugal **Francisco Pinto Balsemão** Professor of Communication Science, New University, Lisbon; Chairman, IMPRESA

Sweden **Percy Barnevik** Chairman, Investor

United States of America **Evan Bayh** Senator (Democrat, Indiana)

Italy **Franco Bernabè** Managing Director and CEO, Telecom Italia

Sweden **Carl Bildt** Member of Parliament

Canada **Conrad M. Black** Chairman, Telegraph Group

United States of America **Charles G. Boyd** Executive Director, National Security Study Group

<i>Canada</i>	John A.D. de Chastelain Chairman, Independent International Commission on Decommissioning
<i>Great Britain</i>	Kenneth Clarke Member of Parliament
<i>Norway</i>	Kristin Clemet Deputy Director General, Confederation of Business and Industry
<i>France</i>	Bertrand Collomb Chairman and CEO, Lafarge
<i>United States of America</i>	Jon S. Corzine Retired Senior Partner, Goldman Sachs & Co.
<i>Portugal</i>	João Cardona G. Cravinho Minister for Infrastructure, Planning and Territorial Administration
<i>Greece</i>	George A. David Chairman of the Board, Hellenic Bottling Company
<i>United States of America</i>	Christopher J. Dodd Senator (Democrat, Connecticut)
[Page 5]	
<i>United States of America</i>	Thomas E. Donilon Attorney-at-Law, O'Melveney & Meyers
<i>Turkey</i>	Gazi Erçel Governor, Central Bank of Turkey
<i>Turkey</i>	Sedat Ergin Ankara Bureau Chief, <i>Hürriyet</i>
<i>United States of America</i>	Martin S. Feldstein President and CEO, National Bureau of Economic Research
<i>International</i>	Stanley Fischer First Deputy Managing Director, International Monetary Fund
<i>Italy</i>	Paolo Fresco Chairman, Fiat
<i>Italy</i>	Francesco Giavazzi Professor of Economics, Bocconi University, Milan
<i>Canada</i>	Peter Godsoe C. Chairman and CEO, Bank of Nova Scotia
<i>United States of America</i>	Donald E. Graham Publisher, <i>The Washington Post</i>
<i>Netherlands</i>	Frank H.G. de Grave Minister of Defence
<i>Portugal</i>	Eduardo C. Marçal Grilo Minister of Education
<i>United States of America</i>	Chuck Hagel Senator (Republican, Nebraska)
<i>Sweden</i>	Tom C. Hedelius Chairman, Svenska Handelsbanken
<i>Norway</i>	Per Egil Hegge Editor, <i>Aftenposten</i>
<i>Canada</i>	Peter A. Herrndorf Former Chairman and CEO, TVOntario; Senior Visiting Fellow, University of Toronto
<i>United States of America</i>	Jim Hoagland Associate Editor, The Washington Post
<i>Norway</i>	Westye Höegh Chairman of the Board, Leif Höegh & Co.; Former President, Norwegian Shipowners' Association
<i>United States of America</i>	Richard C. Holbrooke Ambassador to the UN designate
<i>Belgium</i>	Jan Huyghebaert Chairman, Almanij N.V.
<i>International</i>	Otmar Issing Member of the Executive Board, European Central Bank
<i>United States of America</i>	Vernon E. Jordan Jr. Senior Partner, Akin, Gump, Strauss, Hauer & Feld, LLP (Attorneys-at-Law)
<i>Bulgaria</i>	Nikolai Kamov Member of Parliament
<i>Turkey</i>	Suna Kiraç Vice-Chairman of the Board, Koç Holding
<i>United States of America</i>	Henry A. Kissinger Chairman, Kissinger Associates
<i>Germany</i>	Hilmar Kopper Chairman of the Supervisory Board, Deutsche Bank

[Page 6]

Greece **Yannos Kranidiotis** Alternate Minister for Foreign Affairs

United States of America **Marie-Josée Kravis** Senior Fellow, Hudson Institute

United States of America **Jan Leschly** CEO, SmithKline Beecham

International **Erkki Liikanen** Member of the European Commission

Canada **Roy MacLaren** High Commissioner for Canada in Britain

Canada **Margaret O. MacMillan** Editor, *International Journal*

Great Britain **Peter Mandelson** Member of Parliament

United States of America **Jessica T. Mathews** President, Carnegie Endowment for International Peace

United States of America **William J. McDonough** President, Federal Reserve Bank of New York

United States of America **Richard A. McGinn** Chairman and CEO, Lucent Technologies

Portugal **Vasco de Mello** Vice Chairman and CEO, Grupo José de Mello

Ukraine **Ihor Mityukov** Minister of Finance

France **Dominique Moisi** Deputy Director, IFRI

International **Mario Monti** Member of the European Commission

Portugal **Francisco Murteira Nabo** President and CEO, Portugal Telecom

Germany **Matthias Nass** Deputy Editor, *Die Zeit*

Netherlands **Her Majesty the Queen of the Netherlands**

Iceland **David Oddsson** Prime Minister

Poland **Andrzej Olechowski** Chairman, Central Europe Trust

Finland **Jorma Ollila** Chairman of the Board and CEO, Nokia Corporation

International **Tommaso Padoa-Schioppa** Member of the Executive Board, European Central Bank

Germany **Werner A. Perger** Political Correspondent, *Die Zeit*

Great Britain **Jonathon Porritt** Programme Director, Forum for the Future

Italy **Alessandro Profumo** CEO, Credito Italiano

Switzerland **David de Pury** Chairman, de Pury Pictet Turrettini & Co.

Austria **Gerhard Randa** CEO and Chairman, Bank Austria

United States of America **Steven Rattner** Deputy Chief Executive, Lazard Freres & Co.

United States of America **Bill Richardson** Secretary of Energy

[Page 7]

United States of America **David Rockefeller** Chairman, Chase Manhattan Bank International Advisory Committee

Spain **Matías Rodríguez Inciarte** Executive Vice Chairman, BSCH

Sweden **Mauricio Rojas** Associate Professor of Economic History, Lund University; Director of Timbro's Centre for Welfare Reform

Great Britain **Eric Roll** Senior Adviser, Warburg Dillon Read

Sweden **Björn Rosengren** Minister for Industry, Employment and Communication

Portugal **Ricardo E.S. Salgado** President and CEO, Grupo Espírito Santo

Portugal **Jorge Sampaio** President of Portugal

Portugal **Nicolau Santos** Editor-in-Chief, EXPRESSO

Netherlands **Ad J. Scheepbouwer** Chairman and CEO, TNT Post Group

<i>Austria</i>	Richard Schenz CEO and Chairman of the Board, OMV
<i>Austria</i>	Rudolf Scholten Member of the Board of Executive Directors, Oesterreichische Kontrollbank
<i>Germany</i>	Jürgen E. Schrempp Chairman of the Board of Management, DaimlerChrysler
<i>Denmark</i>	Tøger Seidenfaden Editor-in-Chief, <i>Politiken</i>
<i>United States of America</i>	Robert B. Shapiro Chairman and CEO, Monsanto Company
<i>Russia</i>	Lilia Shevtsova Carnegie Moscow Center
<i>Portugal</i>	Artur Santos Silva President and CEO, BPI Group
<i>Spain</i>	Pedro Solbes Mira Member of Parliament, Socialist Party
<i>Hungary</i>	György Surányi President, National Bank of Hungary
<i>Great Britain</i>	J. Martin Taylor Former Chief Executive, Barclays
<i>United States of America</i>	G. Richard Thoman President and CEO, Xerox Corporation
<i>United States of America</i>	John L. Thornton President and CO-COO, Goldman Sachs Group
<i>Russia</i>	Dmitri V. Trenin Deputy Director, Carnegie Moscow Center
<i>France</i>	Jean-Claude Trichet Governor, Banque de France
<i>United States of America</i>	Laura d'Andrea Tyson Dean, Haas School of Business, University of California at Berkeley
<i>Finland</i>	Matti Vanhala Chairman of the Board, Bank of Finland
<i>Finland</i>	Pentti Vartia Managing Director, Research Institute of the Finnish Economy (ETLA)
[Page 8]	
<i>Switzerland</i>	Daniel L Vasella Chairman and CEO, Novartis
<i>Greece</i>	Thanos M. Veremis Professor of Political History, University of Athens; President of Eliamep
<i>Austria</i>	Franz Vranitzky Former Federal Chancellor
<i>Netherlands</i>	Lodewijk J. de Waal Chairman, Dutch Confederation of Trade Unions (FNV)
<i>Great Britain</i>	Martin Wolf Associate Editor and Economics Commentator, <i>The Financial Times</i>
<i>International/</i>	
<i>United States of America</i>	James D. Wolfensohn President, The World Bank
<i>Germany</i>	Otto Wolff von Amerongen Chairman and CEO of Otto Wolff GmbH
<i>Turkey</i>	Erkut Yücaoglu Chairman, Tusiad
<i>Czechoslovakia</i>	Michael Zantovský Chairman of the Committee on Foreign Affairs, Defense and Security, Czech Senate
<i>Austria</i>	Norbert Zimmermann Chairman, Berndorf
RAPPORTEURS	
<i>Great Britain</i>	John Micklethwait New York Bureau Chief, <i>The Economist</i>
<i>Great Britain</i>	Adrian Wooldridge Foreign Correspondent, <i>The Economist</i>
IN ATTENDANCE	
<i>Netherlands</i>	Maja Banck Executive Secretary, Bilderberg Meetings
<i>Portugal</i>	João A. Estarreja Local Organiser 1999 Conference
<i>United States of America</i>	Michael J. Farren Adviser, American Friends of Bilderberg, Inc.
<i>Austria</i>	Diemut Kastner Local Organiser 2000 Conference

BILDERBERG MEETINGS

SINTRA

JUNE 3RD-6TH 1999

[Page 10]

Agenda

I: [Kosovo](#)

Moderator: Henry A. Kissinger

Speakers: Carl Bildt

Charles G. Boyd

Dominique Moïsi

Michael Zantovský

Page: [12](#)

II: [The US Political Scene](#)

Moderator: Jim Hoagland

Speakers: Evan Bayh

Christopher J. Dodd

Chuck Hagel

Page: [19](#)

III: [Current Controversies: Genetics and the Life Sciences](#)

Moderator: Jan Leschly

Speakers: Jonathon Porritt

Robert B. Shapiro

Page: [24](#)

IV: [Redesigning the International Financial Architecture](#)

Moderator: Kenneth Clarke

Speakers: Martin S. Feldstein

Stanley Fischer

Otmar Issing

Jean-Claude Trichet

Page: [29](#)

V: [The Social and Political Impacts on Emerging Markets of Recent Economic Events](#)

Moderator: Marie-Josée Kravis

Speakers : Stanley Fischer

William J. McDonough

James D. Wolfensohn

Page: [35](#)

[Page 11]

VI: NATO's Future

Moderator: Henry A. Kissinger

Speakers: Etienne Davignon
Richard C. Holbrooke
Yannos Kranidiotis
Peter Mandelson

Page: 41

VII: The Relationship between Information Technology and Economic Policy

Moderator: Jorma Ollila

Speakers: Richard A. McGinn
J. Martin Taylor
Laura d'Andrea Tyson

Page: 46

VIII: Current Events

Moderator: Jürgen E. Schrempp

Speakers: Bill Richardson

Page: 52

IX: Russia's Foreign Policy

Moderator :Jessica T. Mathews

Speakers: Lilia Shevtsova
Dmitri V. Trenin

Page: 56

X: How Durable is the Current Rosy Complexion of European Politics?

Moderator: Etienne Davignon

Speakers: Werner A. Perger
Mauricio Rojas
Martin Wolf

Page: 60

[Page 12]

Kosovo

THIS meeting took place as Slobodan Milosevic prepared to surrender to NATO. Given these auspicious circumstances, the mood in the meeting was surprisingly subdued. Some participants declared the war a success. Some even called it the first "post-nationalist war" -- one that has solidified the European Union and reconfigured foreign policy on the basis of universal values rather than national interests. But most of the speakers concentrated on the downside of the conflict. Kosovo has left the Balkans devastated; it has strained relations with both Russia and China; and it has raised the possibility that Milosevic will be succeeded by somebody who is even worse.

FIRST PANELLIST

The fundamental fact about Kosovo is that we won and Milosevic lost. The victory was far from ideal,

however. We went in the right direction for the right reason but with the wrong means. And it raises a troubling question: are there causes that are worth killing for but not worth dying for?

The war marks our entry into a new world in which national sovereignty is not the ultimate ratio of political life. It is highly significant that the war broke out on the same day in March that the House of Lords passed its verdict on General Pinochet. The war also gave a new meaning to the term Europe: much more so than the Euro which was launched three months before the conflict was started. Part of what it means to be a European is to refuse to accept ethnic cleansing.

The war raises questions about both the United States and Russia. What price is the United States willing to pay to remain the world's only hyper-power? The answer given by Kosovo is far from clear, with America willing to deploy its "soft power" but

[Page 13]

much more reluctant about its "hard power". America is strong in spite of what happens in Washington, not because of it. As for Russia, it is coming out of an age of interventionist imperialism at precisely the time when the rest of the world is entering a new age of interest in humanitarian causes. Russia is being told to exercise restraint at exactly the same time that the rest of the world is embracing intervention.

SECOND PANELLIST

Kosovo is a long-standing legacy of the Ottoman and Habsburg Empires and their failure to install a proper political system in the region. It will thus last for many years to come. In the nineteenth century the Great Powers devised the Concert of Europe to deal with the problem; now we have the Contact Group. A century ago people described it as a "powder keg"; now it has an awful tendency to explode.

The war was marred by three serious problems. NATO used force as a substitute for diplomacy rather than a support for it. It failed to understand the real nature of the conflict: this is not a matter of quick fixes but of long-term management and containment. And it used force in a way that minimised danger to itself but maximised danger to the people it was trying to protect.

Kosovo is now a wasteland, a humanitarian disaster comparable with Cambodia; the region around it has been profoundly destabilised; and Serbia is in danger of imploding. We cannot solve the Balkan problem without the help of Serbia, which overshadows the region in much the same way that Germany overshadows Europe. But Serbia's leaders have been indicted as war criminals, and the country is likely to be racked with social problems, fuelled by despair. We may be entering the twenty-first century in calendar terms. But in political terms we are much closer to the nineteenth.

THIRD PANELLIST

The war in Kosovo stems from the fact that the "solution" to the Bosnia problem was nothing of the sort. It failed to address the security concerns of the major players and left two of the three ethnic groups that make

[Page 14]

up the new country wishing they were somewhere else. If we remove troops from Bosnia, the conflict will

reignite immediately.

In Kosovo, the West used NATO in a way that the rest of the world thought was illegitimate: it intervened in an area that was not its prime responsibility; and it did not bother to get the endorsement of the United Nations. From a military commander's point of view, legitimacy is crucial: if you are going to ask people to sacrifice their lives the operation has to be thoroughly legitimate from the top down.

In the Gulf War, the president clearly defined both the objective and the strategy, and then gave commanders great freedom in controlling operations. In Kosovo there were nineteen masters rather than one, and commanders were hamstrung over operational details (something that war colleges and military staff will be studying for years).

The problems with the peacekeeping operation will be huge. The war is far from over in the minds of the participants. Disarming the KLA could be impossible. The Serbs will respond to any acts of terrorism. Building institutions that can govern this area will be a nightmare. There will inevitably be a conflict between military forces that have access to resources but no enthusiasm for getting involved in civic reconstruction and civil authorities that are desperately short of resources.

FOURTH PANELLIST

The new Europe is not being born in Brussels or Washington but in Kosovo. Kosovo may mark the end of the United Nations' involvement in Europe so far as security issues are concerned. The differences in priorities and values between Europe and other states is just too great -- and there is really no reason why China should have a veto over Europe's involvement in Kosovo.

Kosovo is leading to a strengthening of Europe's identity at the expense of that of its sovereign states. Central and Eastern Europe were not prepared for this development. They thought they were buying an insurance policy by joining NATO -- but just

[Page 15]

twelve days after they joined NATO started the bombing. Only a few years after they regained their sovereignty with the end of Communism, these states are being obliged to give it up again.

International law is of little help in making sense of the post-Kosovo world. Three fundamental principles are in conflict. The principle of self-determination that was established by Versailles; the principle of national sovereignty that flourished after the Second World War; and the principle of universal human rights. At the Congress of Berlin somebody pointed out that the new dividing line in Europe ran through Bulgaria. Bismarck replied that we are here for the peace of Europe rather than the happiness of Bulgarians. A hundred-and-thirty years later "the happiness of the Bulgarians" is still crucial to the peace of Europe.

MODERATOR

There are two ways to conduct foreign policy. The first takes the view of the prophet, who believes in fighting crusades for absolute values; the second that of the statesman, who believes that objectives

should be achieved in stages. More lives have been lost in crusades, with their excessive self-righteousness, than in statesman's wars. The notion of sovereignty was created in reaction to the Thirty Years War, which saw 30% of Europe's population killed with the most elementary weapons.

It was a mistake to let the war in Kosovo happen (though we had no choice but to win once war had been declared). We devastated the region that we were trying to save purely in order to avoid suffering casualties ourselves. We allowed the agenda to be set by domestic pressure groups, thus making it difficult to end the war. And we established a principle that the rest of the world does not accept. A war that leads to the destruction of the region that it was designed to save cannot be considered a triumph of diplomacy. It would have been better to build on last September's accord between the negotiators and Milosevic.

American politics fragmented on this issue. Kosovo could be this generation's equivalent of Vietnam -- a conflict that could

[Page 16]

split society and convulse us with self-righteousness. Meanwhile, the Balkans looks far from stable. Macedonia is combustible. The only thing that is preventing Bosnia from falling apart in our presence. NATO is in danger of replacing the Ottoman and Habsburg Empires in a series of permanent protectorates.

DISCUSSION

Several participants thought that the panel was too gloomy. A Dane pointed out that the operation was a major success by the Alliance's own criteria, and that it had also garnered considerable legitimacy in the eyes of the public. It seemed perverse to complain that its soldiers were not killed in sufficient quantities. A British politician also thought the victory was worth celebrating. It was right to take on people like Saddam Hussein and Milosevic in order to deter others. Kosovo involved questions of national interest as well as humanitarianism. And he insisted that getting rid of Milosevic should remain one of the clear aims of the alliance. The second panellist agreed with the idea of trying to force Milosevic to go to The Hague, but pointed out that other indicted war criminals from Bosnia remained at large.

Others thought that a little gloom was indeed in order. A Greek warned of the depopulation of the region. An Austrian urged the international community to step in to deal with the problem of refugees. More than two-thirds of the refugees were with host families in Albania. But a combination of "family fatigue" and lack of compensation could make this situation explosive. A Russian warned that, well meaning though it might have been, NATO's intervention would leave behind a huge number of long-term problems. These included resentment in Russia -- combined with a feeling that Russia now has a carte blanche to intervene in Chechnya -- and the possibility that the next regime in Serbia will be even worse. One panellist noted that, back in 1995, the American people had been promised that their troops would only stay in Bosnia for a year -- and they are still there five years later. They could easily be in Kosovo for a quarter of a century.

[Page 17]

The cost of rebuilding Kosovo and Serbia worried several people. One of the panellists pointed out that 70% of the targets had been infrastructure: that meant that the cost of reconstruction would be gigantic. Another panellist doubted whether stability could be restored to the region without considerable investment -- perhaps as much as \$50 billion. A British politician wondered whether the alliance could hang together

after the end of the war. He warned that there would be little popular enthusiasm for putting lots of resources into solving the region's gigantic problems

The idea that Kosovo had been the first "post-nationalist war" -- and one that gave a huge boost to the ideal of European unification -- came in for some heavy fire. A German argued that it was much too early to celebrate the birth of a new Europe: had the war gone on, the decision about whether to send in ground troops would have torn NATO apart. A Canadian pointed out that nothing would have been achieved without the United States. Is this a new sort of "soft left war", he wondered, one based neither on national interest nor on the safety of the people who are supposedly being saved? A Portuguese worried about "selective solidarity". There was little worry about outrages in East Timor, for example. A Russian argued that what we are witnessing is not so much the birth of the new world order as the collapse of the old one. What is emerging is a world without consistent standards. NATO will not bomb Moscow if Russia invades Chechnya.

The first panellist defended his position. He argued against the realpolitik school: that it is sometimes realistic to be moral and naive to be over-cynical. And he pointed out that, for all their complexities, the Balkans was an area of brutal simplicities. The moderator implied that this was an oversimplification. Everybody disapproved of massacres; the question was how to prevent them in the first place. The concept of strategic interest had been turned on its head when NATO was only prepared to bomb for three days in Iraq but 70 days in Kosovo. How did one

[Page 18]

persuade countries like China, Russia and India that NATO's new mandate was not just a new version of "the white man's burden" -- colonialism? There were, indeed, new dimensions to foreign policy but they had to be looked at in a traditional framework.

[Page 19]

The Political Scene in the United States

IN HIS introduction, the moderator argued that the years since the end of the Cold War have disproved the idea that America would retreat back into its shell. On a succession of issues -- the Gulf war, NATO expansion, Kosovo -- America has shown a desire to take part. On the other hand, the notion of a new Pax Americana also plainly does not hold. America has only intervened in coalitions. Foreign policy, he argued, is likely to remain an ad hoc affair, often influenced by domestic concerns, with the main danger being an indifferent America, rather than an isolationist one. This seemed to depress most of the subsequent speakers, who argued that on a variety of issues from free trade to China and Kosovo, American foreign policy seemed to lack leadership. And they looked for ways in which American politicians might be able to sell international issues to their constituents.

FIRST PANELLIST

The election is very important, most obviously because the prizes on offer include the White House. But the stakes are also high elsewhere. Control of the House of Representatives may switch. And although the Democrats are unlikely to win the Senate, they could narrow the gap considerably. Even the races for the

State legislatures are interesting, because of redistricting. In California alone, the Democrats could pick up six seats in the House just by getting the right to draw the map.

It will be a very close race. In the presidential race, the Republican base is 159 (the electoral college votes that Dole won in 1996). The Democrats start with 161 (which you get by adding California to the states Dukakis won in 1988). The election will be decided

[Page 20]

in 12-13 states, including New Jersey and Florida. Congress is also desperately close: the House of Representatives will be decided in around fifty races, the Senate in around thirteen. It will be a race where caution will be the watchword in both parties.

Inevitably, this implies that domestic issues, rather than foreign affairs, will be the main concern. Kosovo had seemed like a big potential negative for the Democrats: polls had been trending downwards on the issue. Now that fear seems to have disappeared. China could become an issue. And there will be protectionist pressures, particularly in the industrial states. The benefits of free trade are diffuse, but the losses are concentrated.

SECOND PANELLIST

On the face of it politics looks in pretty good shape. There is a small flotilla of presidential candidates, a lot of money is being raised and the media is already devoting a lot of space to the presidential race. If you go back to 1960, Kennedy did not even declare his candidacy until February of that year. This time, with eighteen months to go, the race is already in full swing. And things are even better if you are a Democrat because of the Republican Party's suicidal tendencies.

In fact American politics is in a pretty awful state. Voter turnout in 1998 was the lowest since 1942. Fewer people are linked to parties: only 29% claim to be Democrats, and 22% Republican. The American public is passive. The quality of people seeking political office has also declined.

The reasons for this have a lot to do with the way that politics consumes so much money and time. Twenty years ago, a congressional race cost \$73,000; now \$500,000 is the minimum. In 1976, a senate race might cost \$550,000; now the figure is \$3.3 million. Twenty years ago the first thing a candidate did was to look for good field managers. Now you need pollsters and media consultants. Four-fifths of the money goes on media spending -- often on negative campaigns

Depressingly this virus is spreading. American campaigning has cropped up in countries like Israel and South Africa. Yet all the signs are that the standard of debates on international affairs

[Page 21]

within America has declined sharply. Compare the gap between the debate over the Gulf war and the muddle over Kosovo. Will it improve? Only if there is serious campaign-finance reform and the media changes the way it covers politics.

THIRD PANELLIST

Politics has always been a bizarre business. In 1991, George Bush's re-election was considered a formality. Seventeen months later, he was out of a job, having been comfortably beaten. At the moment few people expect foreign policy to play a strong role next year. They could be wrong.

The last time foreign policy seemed significant was in the 1980 race. But problems like Kosovo, the Middle East and the India-Pakistan squabble are not going to go away. And on the Republican side in particular the expertise of the candidate may be judged on foreign policy. George W. Bush and John McCain look the two strongest candidates.

There will come a moment when each candidate will be asked to define the national interest: to say what America's role in the world should be, and then to say how they will protect that interest. As long as the outside world is difficult and dangerous, it will affect domestic politics. Many Americans are beginning to realise that their livelihoods rely on events far away. Without markets for its grain, it is not just Nebraska's farmers that suffer but also its tax revenues -- and by extension its schools and public services.

DISCUSSION

Most of the participants seemed to agree with the first two panellists, rather than the third: they thought that foreign policy would play a relatively small role in the upcoming campaign. Instead the focus would be on domestic issues, such as education, healthcare, welfare and so on. The third panellist still defended his position. Politics, he said, is about relevance, and globalisation is relevant. He also thought that trade could be one of the areas that divides Gore from Bush/McCain. And he got some indirect support from another

[Page 22]

American participant, who warned that politics could change quickly -- and front runners had a habit of running into difficulty. Ed Muskie had "wept" his way out of the race; Michael Dukakis had "tanked" away his lead. When Bill Clinton came to Bilderberg in 1991, few thought they were meeting the next president.

Several participants seemed particularly depressed about the relative unpopularity of free trade in American politics. One Canadian participant pointed to the failure to get fast track, and the lack of American leadership at the WTO. An American thought that something was missing from the debate. With low employment and rising wages, surely it should be easy to prove the argument for free trade. She thought that trade had got mixed up in other debates -- about labour rights for instance. A panellist sympathised: politicians had failed to show Americans where their long-term interests lay. Exports now support two out five manufacturing jobs and a third of those in agriculture. "We have allowed the demagogues to fill the vacuum", he complained, though he also stressed that politicians should do more to look after those who lost out because of free trade.

Although Russia did briefly enter the discussion (one panellist argued that history would judge America poorly in its treatment of its former adversary), the two places deemed most likely to impact American foreign policy were China and Kosovo. The former will be thrown into sharp relief by two coming debates in Congress -- one on China's MFN status, the other on its WTO membership. One panellist was particularly annoyed by the way that the Chinese government had allowed people to stone the American embassy (even worse than the spying in his book). But he still thought that China was a huge economic and political power -- a place that should be engaged rather than shunned. Another American was even more positive, pointing out that China had behaved pretty well over issues such as the transfer of power in Hong Kong and the Asian crisis.

Whatever the result of the war in Kosovo, argued one panellist, the struggle still represented something of a failure for Amer-

[Page 23]

ican foreign policy. It had never been properly explained to the American people. America had been given a second chance with Kosovo. It should not waste it. Several participants brought up the question of reconstruction. There would be no great appetite to rebuild Serbia as long as Milosevic was in power, argued one panellist. Another pointed to the recent difficulty in raising money for the earthquake victims in the United States' backyard.

One Swiss participant suggested democratising foreign policy, by for instance having a parliamentary consultative committee for the WTO. This appealed to one of the panellists, though he pointed out that it is extremely difficult just to get people in Congress to meet their Mexican equivalents -- let alone their peers further overseas. All the panellists thought that Business should be a lot clearer about its priorities. It should stop supporting candidates who attached things like opposition to abortion to trade treaties.

A repeated theme was the need for some sort of leadership -- over China, over Kosovo, over trade. America, argued one panel-list, has isolationist tendencies and it tends to revert to them, whenever there is no leadership. This not only applies to the presidency, but also to Congress. For instance, unions account for only around 8% of the workforce (if you exclude public employees). It is possible to be a free trading Democrat senator: to make the case to workers about the dangers of protectionism. The unions' political influence would also wain with campaign finance reform.

The discussion ended about domestic politics. One Democrat argued that the Republican revolution is as good as finished. The argument that "we'll burn the village to save it" no longer carries weight: people are not as concerned about big government. Another countered that all three of the main Republican candidates -- McCain, Dole and Bush -- were moderates. The winner of the next election, argued the first panellist, would be the most moderate. The main issue would be values. People are happy economically but they are not happy socially.

[Page 24]

Current Controversies: Genetics and the Life Sciences

THE moderator began by explaining that the world is in the middle of a revolution in our understanding of how genes work. This revolution will produce dramatic changes in the practice of medicine in the next decade -- and raise all sorts of ethical issues. But for the moment, the political debate has focused not on such "red", human biotechnology, but on its "green", agricultural peer -- and particularly on genetically modified food. The first panellist argued that GM food has the power to improve agricultural productivity radically, producing healthier food into the bargain. The second warned that GM food might disturb the ecological balance, widen inequalities and pose a risk to health. Some participants supported GM food, providing that labelling was clear and the regulatory bodies vigorous. But others were not so sure. Can you really separate modified from unmodified food? And are scientists really as objective as they claim?

FIRST PANELLIST

Ever since the discovery of DNA scientists have been exploring the fundamental structure of life -- at a molecular level and in the process creating a whole new set of tools to advance our mastery over nature. The practical application of this new science has been going on for at least the past twenty years, at an ever-accelerating pace.

Why does biotechnology create so much passion? Genomics is not just a matter of science. People have always worried that we lack the wisdom to intervene in the fundamental processes of life: remember the Tree in the Garden of Eden. All the same, there is plenty of strong evidence that GM food can produce huge benefits for humanity. It will improve agricultural productivity. The yield of the average hectare has more than doubled in the

[Page 25]

past forty years. By producing hardier crops, biotechnology offers the best chance of feeding the 1.5 billion people in the world who are seriously malnourished -- particularly as there is now so little unused land. And, it will produce better end-products -- such as foods that possess healthier cardiovascular properties or, potentially, polymers built around plants rather than petrochemicals.

But what about the risks? The fundamental safety questions are no different from those asked of previous forms of food technology. The United States is fortunate in that there is a lot of public confidence in regulatory agencies. In Europe that is not the case -- hence the mad cow scare and the current Belgian fracas about chickens. Another worry has to do with the industrialisation of agriculture. In fact, biotechnology is scale neutral: there is no reason why small farms should not gain as well as big ones. Other questions are more difficult to answer. It will not be easy to separate GM and non-GM foods, because they can easily get mixed up on the way to the table. There are also genuine environmental fears about how the new seeds will effect local ecosystems.

SECOND PANELLIST

The first speaker is right on some important things. The number of people on the planet is growing and the amount of additional land available to feed them is limited. He may even be right that many benefits will flow from GM food just as they have from GM healthcare. But those benefits are unlikely to flow without big changes in the behaviour of both companies and governments -- and an honest assessment of the risks.

There is no long-term safety test for foods in the way that there is for health. We need a tougher regulatory process. Companies should be the first to press for tighter regulations -- but instead they spend fortunes trying to persuade governments to impose the least demanding regulations. The second peril is environmental. Europeans put a much higher value on the agricultural environment than Americans: witness the gap between Gloucestershire and Iowa. The truth is that we do not know enough about

[Page 26]

the long-term impact of GM on the environment. GM is not merely a continuation of previous forms of selective breeding; it allows us to create combinations that could not possibly have occurred naturally.

Poor people are already worried that seeds will become more expensive. Of particular concern is the

so-called "terminator gene". Perhaps 1.4 billion people depend on re-using seeds. The idea that GM food will help feed the poor is something of a canard. A hundred thousand children under the age often die in Brazil every year because of lack of food. But Brazil is the fifth largest agricultural exporter in the world. Safer things such as sustainable agriculture and multi-cropping should be tried first.

The knock-on effect of getting it wrong could be huge. It could hit the promising pharmaceuticals side of biotechnology. It could further undermine faith in the authority of science. And it could seriously damage trade. There are many people who think that the unnatural reordering of the gene pool constitutes a grave form of human hubris. GM will be the lightning rod of all sorts of anxieties about the industrial world and man's arrogance.

DISCUSSION

The discussion began with two reminders of how important the subject has become. The moderator pointed out that America now wants to put biotechnology on the G7 Agenda. And a Swede described a recent shareholder meeting of a drug company with GM products, where the chairman was physically attacked by two women who had brought shares simply to protest. He argued that the situation with GM food is very similar to that with nuclear power twenty-five years ago -- a battle that business interests lost.

Some speakers argued that transparency is the best way to overcome the public's fears. A Swiss businessman argued that much of the solution lies in clear labelling. Provided labels clearly state the origin of food and consumers have a right to choose, then the issue will not be too explosive. In Switzerland's referendum on GM food, two-thirds of the population voted in favour. But the second

[Page 27]

panellist noted that up until a few years ago the food companies had fought hard against labelling. Labelling is also much harder than it sounds, he argued: GM and non-GM crops get mixed upon the way to market (because different farmers share the same grain elevators, for example) and even while they are growing (through cross-pollination).

Other speakers put their faith in science and regulation. A German businessman called for the creation of an objective panel, free from bias or vested interests, that would both calm the public's fears and make sure that science moves in the right direction. A Belgian supported the idea of a regulator, with the proviso that it should be as international and independent as possible. The first panellist thought there was some historical evidence to support this approach. The end of the nineteenth century was characterised by similar fears about food, and the response was to create expert bodies based on science. There are now regulatory bodies based on science in all the major regions of the world. But the second panellist was more sceptical. There is no such thing as perfectly objective science, he argued, and there is no way of avoiding making political judgements. Governments need to make sure that scientists are truly independent from vested interests like the GM companies; and they need to listen carefully to consumers. In the end, if consumers think that the regulatory process is inadequate, then it is inadequate.

An American financier wondered about the justification for a "terminator gene", particularly given that one of the arguments in favour of GM foods is that they will help to feed the world's poor. The first panellist pointed out that "terminator" genes are still five years down the road. He argued that the justification for these products is the same as the justification for any protection of intellectual property rights. Nobody will invest the money and effort that it takes to make a new gene unless they can get a return on their investment.

Another American participant wondered whether the GM companies were being as sensitive to the property rights of the

[Page 28]

developing world: the bulk of the science may be done in the rich world, but 95% of the genes that they work on come from the developing world. She also worried that the GM revolution will increase inequality, just as the green revolution did, because it rewards people who can afford higher quality crops. The first panellist responded that the GM revolution is not as capital intensive as the green revolution: the only thing that changes is what is in the seed not the way that it is farmed. He pointed out that GM foods could hugely decrease inequality by stopping crops from being destroyed by pests and pestilence.

[Page 29]

Redesigning the International Financial Architecture

THERE was a general sense that the global capital markets have run a little ahead of their regulators. Nobody disputed the idea that the recent crises in emerging markets should be blamed primarily on the countries concerned. But many people thought that the recent series of dramatic upsets also seemed to highlight failings within the international financial system. The regulators present insisted that these failings were now being addressed. But many of the other participants remained sceptical.

FIRST PANELLIST

The recent crises were different from previous ones. Capital flows are both bigger and quicker than before. The current crises tend to involve the Capital Account rather than the Current Account. Such crises do not happen in more developed markets. The basic response has thus been built around two ideas: to strengthen domestic regulation in the countries concerned; and to improve the monitoring of emerging markets.

In practice, that means six steps. The first is to create standards of international behaviour for countries: in most cases (accounting is the obvious exception) these standards are easy to create, but they have been hard to implement. The second Step is the G7's Financial Stability Forum which brings together all the main regulators and international institutions: it has set up committees to look at short-term capital flows, hedge funds and offshore banking centres. The third push is for greater transparency: more of the IMF's dealings are now being made public. The fourth is an attempt to "bail in" the private sector. The fifth is the establishment of contingency credit lines.

The sixth is less a step than an observation: the spread of flexi-

[Page 30]

ble exchange rate systems. Every crisis has involved a failed attempt to defend a pegged exchange rate. However, flexible countries have tended to do much better. Countries are now much more likely to let their exchange rates float freely -- though a few may follow Argentina down the road to extremely firm currency

board systems. Either way, artificial pegs seem to be out of fashion.

SECOND PANELLIST

It is worth noting that this is the first Bilderberg meeting where the Euro is a fact rather than the topic of a discussion. The redesign of the financial system, which is now under way, also needs to be set in context. From 1944-73, there was a system of fixed exchange rates. Since then, there has been only piecemeal reform. In the 1970s there was good deal of talk about whether the IMF should exist at all; in fact it has increased and changed its role. But the basic trend has been very unsystematic. Each crisis has called for a "special facility" of one set or another.

Why do we need to change? The globalisation of capital markets has happened much more quickly than the globalisation of their regulatory systems. The advances in electronic data processing combined with financial liberalisation have made capital flows much swifter and also more uniform: all the big investors are following the same benchmarks and being judged on the same quarterly performance, so they tend to act in an even more herd-like than usual.

The IMF should look at these flows, but it should be aware of its limitations. It is very difficult to be right in a world where money moves so quickly. The IMF should set standards for transparency. But perhaps it should leave the job of assessing them to the private sector. If the IMF says that a country is in good shape, it gets into trouble if that country crashes. But if it says that it the country is unhealthy, it gets accused of starting the crash.

THIRD PANELLIST

There are grounds for being cynical about financial reform. Fear, greed and ignorance remain as ever the main motors of markets. A leading cen-

[Page 31]

tral banker has dismissed the attempts to rebuild the financial architecture as a little interior decoration. There have always been crises -- and by many standards the 1980 debt crisis was much worse than what we now face. But globalisation and the advance of information technology have upset the balance in financial markets. What is needed is not so much one massive redesign as a process of permanent adaptation.

Co-operation is the key. The world's regulators are coming together in more ways than most people realise. The Financial Stability Forum is a good example. Transparency is also important as a way of limiting the herd instinct of investors. What we need to do is to encourage best practices on the regulatory side as well.

None of these things will happen without courage. The IMF has actually exhibited quite a lot of bravery in telling governments what to do. But we must find ways to introduce the private sector. We cannot suppress risks, but we should make sure that the balance between those risks and rewards is clear.

FOURTH PANELLIST

Most of the steps outlined so far make sense. But it is important to realise the limits. Throughout history, people have imagined that they have found the magic solution. But each system from the gold standard to

the ERM has run into trouble.

The existing system failed because it allowed enormous crises to take place in emerging markets; and also because the regulatory response to those crises was unsatisfactory. The main blame certainly lies with the emerging countries themselves. They adopted pegged exchange rate systems, they borrowed too much and they did not reform their financial systems. But the IMF also seems to have overstepped its responsibilities. It is not clear that financial decisions about lending money should be tied to causes like trying to reform corporate governance or trade union rules.

What should be the targets? First the IMF should not try to refashion economies. Its lending should be based on short-term, small packages, rather than big, long-term ones, tied to broad

[Page 32]

reform proposals. Next the emerging countries should bear the main responsibility for making their systems more transparent. And they should find a way of increasing their liquidity. Back-up lines of credit look good in theory; but may not pay out in practice. It is vital that the emerging world feels more secure; otherwise it will close off its markets.

DISCUSSION

The moderator began by throwing out a number of challenges that set the tone for much of the subsequent discussion. Given the IMF'S increased importance, is it a properly accountable body? What is the G7's role and is it the right shape? Given the introduction of the Euro, is it really necessary for so many European countries to attend G7 meetings? How can one begin to establish international regulators when there are such conspicuous rivalries between regulators within countries, especially America? And how do you design a system that bails in the private sector?

Several participants returned to the basic theme that the markets have globalised but the regulatory systems have not. Two European speakers thought the answer is to give a greater role to regional institutions, such as the European Union. One of the panellists was sure that if the Euro worked, more regional currencies would emerge. Others raised the question of dollarisation as a possible cure. One of the panellists disagreed. Argentina and Mexico both face a very difficult question. The only possible reason for surrendering control of your monetary policy to Washington (where nobody would ever make decisions on the basis of what mattered in Buenos Aires) is the fairly rotten financial records of the governments concerned. It would thus be a sign of defeat. Another American participant agreed. Mexico and Argentina both went through recessions just to hold onto their pegs. it is to be hoped that they can run their economies well enough themselves.

There was also a long discussion about how to give the private sector a greater role. One European panellist stressed that

[Page 33]

bail-outs should not just be based around public-sector money. An American participant said that there had been a clear progression between South Korea and Brazil. In the first instance, the private-sector banks

had effectively been strong-armed in; but with Brazil, they had come more willingly. An American economist pushed this point a little harder: what about changing bond contracts and introducing collective action clauses for sovereign debt?

Several private-sector bankers rose to defend their profession. One American banker pointed out that creditors have often been extremely flexible, not least in the bail-out of Long Term Capital Management. The public sector is simply behind: witness the delays in changing the rules about investment banking in the United States. A British banker believed that trust is key. Bankers will "stay in" as long as they can be sure that their rivals have been persuaded to do the same. Another European banker said that banks simply do whatever makes it more likely to get their money back. That is the point, agreed one panellist: co-operation is the obvious way for everybody to gain.

Several people looked at the political side of international regulation. An American participant pointed to the crucial position of the big western economies in most negotiations. For instance the recent rounds of discussion about bank supervision included 136 countries, but most of them were really backbenchers. One panellist returned to the moderator's questions about the composition of G7 meetings. Europe, he stressed, is not a superstate. It is thus correct for countries like France and Germany to keep their individual seats at the table.

Nobody questioned the need for the IMF, but several people questioned its abilities. One participant wanted to give a greater role to ratings agencies. Another pointed out that the IMF has no independent directors. A Briton accepted that there is a good case for a lender of last resort, but only if it lends money at a penal rate. Several people objected to the way that financial reform has been put to the people. One Turkish participant

[Page 34]

pointed out that nobody explains to voters how, say, reforming social security and taming inflation might be related.

One panellist reiterated his view that the IMF should become a much narrower institution. Another wondered if it really is the lender of last resort and not the subsidiser of last resort -- though he added that the tough medicine handed out to some Asian countries had been justified. The third panellist wanted to see the IMF become a catalyst for change; if not, capital controls will be more likely. The first panellist admitted that the IMF has not always explained its case well. But he argued that the question of the power of a lender of last resort is tied into that of how to bail in the private sector. Until a way is found to keep the private sector involved, it will be very difficult to have an effective lender of last resort.

[Page 35]

The Social and Political Impacts on Emerging Markets of Recent Economic Events

AS THE moderator argued in her introduction, the backlash against globalisation in many developing countries has been from some perspectives surprisingly muted. All the same the panellists argued that it was impossible to understand either the cause or the cures of the Asian contagion without taking into account non-financial factors, such as the quality of the government, the integrity of the legal system and the prevalence of corruption. Some participants thought that the West needed to put more effort into tackling these things before

lending money. Others thought the International Financial Institutions should stick to what they know about rather than engage in broad-ranging social engineering.

FIRST PANELLIST

There are plenty of important non-financial things that have contributed to the spread of the Asian crisis, and also must be part of any cure. These begin with the quality of government: a \$57 billion aid package is unlikely to be successful if the government is incompetent and corrupt. Another challenge is the legal system. Countries with property rights and good bankruptcy systems have a much better chance of surviving the storm than those that do not. Many countries sell jobs as judges to the highest bidder: in the Caucasus, for example, many of the wealthiest people are all judges. Then there is the regulatory framework, and finally, the social safety net.

The people who suffer most from economic dislocation are almost always the poor. In Russia as many as 50 million people live on less than \$4 a day. Two hundred thousand people have been thrown out of work in the coal mines, threatening social

[Page 36]

unrest. In South Korea, the poor are still suffering, and the biggest need there is for more structural reform. South Korea was enormously lucky that it elected a reforming president just before the financial system collapsed. Kim used his opportunities to push through structural reform and even set up a social safety net in Korea. Kim now faces an even more intractable problem: the fact that the economy has bounced back without the reform program being completed.

No reform program will be complete without the active participation of business. Seven years ago \$30 billion a year flowed into emerging markets. Last year the figure was \$300 billion. Engaging business is not just a matter for theoretical debate. It is crucial.

SECOND PANELLIST

The International Monetary Fund is controlled by 24 executive directors, eight from single countries, the rest from groups of countries. Countries vote in proportion to the number of shares they control in the organisation: the United States has 18% of the votes, the G7 has half, meaning that a united West cannot really lose a vote. Everything the IMF does is voted on. But contested votes are rare: decisions are by consensus, with the consensus usually put together outside the boardroom. The IMF's legitimacy results from the fact that it was established by international treaty with more or less universal membership. It sticks very close to its original articles of agreement.

Corruption is a huge problem in the Fund's work. In Kenya, for example, hundreds of millions of dollars worth of reserves have been paid out to businessmen and politicians. The IMF clearly cannot lend developing countries money if it is likely to be stolen; but without IMF loans their economies are likely to decline still further. Before giving a large loan to Indonesia the Fund had to deal with corruption, particularly the forestation fund, which represented 2% of GDP but had never been properly accounted for in the budget and provided the president's family with monopolies. Was the Fund's decision to fight corruption

[Page 37]

destabilising? Perhaps. But the real cause of instability was the system itself.

The International Financial Institutions are facing increasing pressure to use their might to democratise countries. They should not just consult with the government, they are being told, but with interest groups of all descriptions. They are increasingly responding to this pressure. But is it really their job to get countries to accept values and standards that are not rooted in economics? Pushing for the implementation of the International Declaration of Human Rights, for example, is very far from the traditional role of financial institutions.

THIRD PANELLIST

The best way to solve the economic and social problems associated with crises maybe to prevent boom-bust cycles from happening. In America, where these cycles have successfully been resisted, high school dropouts are extraordinary successful at getting new jobs. Boom-bust cycles are particularly bad for emerging markets. The poor are hardest hit. There is no safety net to catch them when they fall. And the middle class is devastated. We were very lucky that a highly capable, democratic leader came to power in South Korea when he did.

The countries that went under in the financial crisis all have one thing in common: very weak banking systems. As Schumpeter pointed out, the only institution that is really essential to a capitalist economy is a bank: banks act as shock absorbers and workout specialists during recessions. But in Asia's command economy the government simply told bankers what to do. In a meeting of bankers in South Korea in April, 1998, it rapidly became clear that none of the bankers in the room had any idea what a "workout loan" was: they had never made a credit judgement and had no idea how to work with a troubled customer.

Banking is a very difficult business to learn. The best way to learn it is to let foreign banks come into you country. Argentina was perhaps the first country to do this. Argentine banking fami-

[Page 38]

lies now send their children to foreign banks so that they can learn the latest banking methodologies before they return to the local bank. The other thing that is crucial is the rule of law: you need to be able to collect on your loans. In the United States you can take ownership of collateral property in three months; in Mexico it can take a minimum of three-and-half years -- and in that time your investment has probably deteriorated hopelessly.

DISCUSSION

An early theme to the discussion was the fate of globalisation as an ideology. A Swiss participant pointed out that the Uruguay Round had ended up in a very different -- and very much more pro-market -- climate than it had begun; now, he warned, the climate seemed to be changing again, with right-wing governments losing power around the world. He wondered what could be done to co-opt emerging countries into the system. A panellist replied that the reason why countries find the transition to the market economy difficult is not usually ideological -- anti-market ideology is dying out in much of the world, and has almost completely disappeared in Latin America -- but lack of competence, particularly in putting together a financial and legal system that works.

For one Swedish participant, confidence was the key. In most countries, there is plenty of private capital

available. But no one will invest their capital unless they have confidence in the institutional framework of the countries in which they are investing. Indeed, lack of confidence promotes capital flight: there is thirty times more Russian capital outside the country than inside the country.

Several other participants emphasised the importance of fighting corruption. An Italian pointed out that Europeans are often too shy about fighting corruption in their own backyards: in some European countries bribes are tax deductible. A Canadian thought it a little odd to make the International Financial Institutions the main vehicle for fighting corruption and imposing the rights of labour, when non-governmental organisations already have an

[Page 39]

impressive track record in fighting for these causes.

The problem of Russia aroused a good deal of comment. A French participant argued that the West bore a good deal of responsibility for Russia's situation. It had encouraged Russia to jump into a free-market system that it had taken forty years for Western Europe to embrace. Perhaps we should recognise that we do not need a perfect world in order to do business, he argued. But most participants were less sympathetic. A Swede pointed out that much of the money sent to Russia has been squandered. The state of the coal industry, for instance, is not primarily a social problem, he argued, but a problem of organised crime. An American asked whether there would ever come a point at which the West would decide to stop lending money to Russia. Yes, replied one of the panellists, the West has said enough is enough in August 1998; but the West has a continuing interest in tying Russia into the international financial system.

However, the main focus of the discussion was the degree to which outsiders -- particularly the international financial institutions -- could intervene in the non-financial affairs of borrowers. A Finnish banker pointed out that it has been standard practice in the academic community for years to take into account social and political factors. A Portuguese participant emphasised the importance of having a "social argument" with all the major partners in economic life.

But others were more sceptical. A Swedish banker pointed out that for his profession, the state of the legal system was simply part of credit risk. An American argued that it could be a huge mistake to interfere in political issues: the IMF should meddle only in areas where it has the expertise, such as banking. In South Korea, for instance, the struggle between the chaebol and the politicians has been a long-standing political issue, and the IMF interfered at its peril. A Canadian saw even more limitations in taking a "holistic" approach. Should the private sector really be involved with labour organisations and religious organisations? And should businesspeople try to double up as social missionar-

[Page 40]

ies? He worried that this policy would make the West enormously vulnerable to demagogues. It might even create a "matrix of colonialism".

In their conclusions, some of the panellists defended the idea that the West had the right to demand higher standards. The first panellist pointed out that in places like Azerbaijan, Armenia and Georgia the discussion has not been about the West imposing something: it had been asked to provide help and give the benefit of its experience. Fighting corruption had got huge domestic support in these countries: in Georgia, for example, the government had put the exams for judgeships on television to prove that the system was being cleaned up. The battle against corruption is not an overnight thing. And it needs to be

built around the traditions of the countries concerned. But, in his view, it was certainly not a matter of imposing foreign values.

[Page 41]

NATO's Future

THIS discussion was overshadowed by two events: the continuing peace talks in Kosovo; and the European Union's announcement that it wanted to set up a defence body of its own. The panellists tended to view both these developments as broadly positive for both NATO and the western alliance. But there were still plenty of doubts raised -- particularly about Europe's relative lack of technological clout and political unity.

FIRST PANELLIST

The European Union has always had a defensive component. The notion of politics and security was there at the beginning of the European enterprise; and there have been questions ever since about things like nuclear deterrence. As the European Union enlarges and becomes more integrated, its membership will become ever more similar to that of NATO, and the relationship between the two bodies will change.

The underlying issue is whether the aspirations correspond with the reality. The aspirations of the European Union are not clear. Indeed, the very fact that the European Union seems to be in the process of trying to define its identity shows that it does not have one. There are also neutral countries within the European Union. When the Berlin Wall came down, the first aspiration of many of the Eastern countries was to join the European Union; instead NATO expanded first.

There are two realities that matter. The first is that the European Union, as it becomes larger and more integrated, will become a military power, whether it wants that role or not. Indeed a common defence policy will correspond with the aims of the defence lobbies; budgets may only be justifiable if a country is contributing to a common EU force. The other reality is that

[Page 42]

America has to be involved in the Continent's defence. Once you accept those realities, you can look at issues such as what the new contract between NATO and the European Union ought to be. That debate should start now.

SECOND PANELLIST

In an earlier discussion, another panellist suggested that Slobodan Milosevic might be the father of European integration. Kosovo has crystallised thinking about defence. This is a good process for the European Union to go through -- even though it is not clear that it currently has the necessary political or technological ability.

Kosovo leaves us with various lessons: that American involvement is essential; that an integrated military structure is the only way to win a serious war; that, although NATO is a defensive organisation, it must still maintain an offensive threat. The question now is why we would want to change the roles of NATO and the

European Union. One of the main answers is that we need to do so in order to keep America involved: we cannot expect America to police our backyard.

The new force is not an attempt to duplicate NATO, but to give Europe the capacity to act in a more limited way, and to put in place a decision making structure. This will strengthen the European Union, but only if it has the means to reach these ends. Most of Europe's governments are weak. The convergence on the centre-left could help cohesion. But there still has to be more discipline. In terms of operating procedures, the new force should follow the same ones as NATO; it should intervene only after it has given peace a chance and when the military objectives are clear.

THIRD PANELLIST

There has been a predictable series of delays at the border in Kosovo. But some kind of treaty looks likely. The next phase is bound to be difficult. The KLA is likely to pose problems; the Serbs will inevitably play games. There is the moral dilemma for the West of what to do with the war criminals, and the financial one of how to pay for reconstruction: the lion's share of the reconstruction will come from

[Page 43]

Europe. This will count as a big achievement for NATO. Only a few years ago many people would have considered an operation like Kosovo impossible -- particularly with three new members.

NATO's first 50 years were about ensuring stability in northern and central Europe, and bringing together Germany and France. The next 50 years may well be about southern central Europe. The cold war succeeded only in hiding the nationalist impulses in the region. It will take a long time for the wounds to be healed.

The Clinton Administration was wrong to set time limits in Bosnia. Now it should recognise that Yugoslavia and the Balkans is NATO's new patch, and that the commitment there will be neither short-term nor cheap. And, needless to say, this environment will impact both the enlargement of NATO and how the organisation deals with the emerging EU defence force.

FOURTH PANELLIST

The Finnish president's peace mission has been a great success. The prospect of a peace agreement gives a new perspective to the war in Kosovo. We are now returning to a multilateral European foreign policy, with, hopefully, the United Nations playing a prominent role and Russia not being excluded.

The immediate problem is the Kosovar refugees. But the only long-term guarantee of stability in the region will be when all the countries concerned become members of the European Union. In the meantime we have to concentrate on bringing these countries into a series of proper contractual relationships with each other. There also needs to be a stability pact for south-east Europe. This should be built around things like a basic respect for human rights, democracy and a functioning economy.

One conclusion is that two roads stretch in front of NATO. One leads to a new division of Europe, where the continent returns to its ethnocentric ways. Under this scenario, the UN is fairly powerless, Russia and China are excluded, and NATO is little more than an enforcer. The second road is a little closer to nineteenth century Europe, with all the great powers -- not just America and the

[Page 44]

European Union but Russia, China and Japan co-operating. The first road leads to Clausewitz; the second to Jean Monnet.

DISCUSSION

A persistent theme throughout the discussion was a sceptical desire to know more -- both about the new European defence force and about the continuing repercussions of the war in Kosovo. The first speaker set the tone by asking how the new European force would fit into NATO'S command structure. Others followed with questions about where the force would operate and on what scale. One panellist insisted that the European Union and NATO should not be rival organisations. The current process was all about the European Union developing a force to deal with small, local crises in Europe before they became big ones. NATO had a much wider global parameter, in his view, and it concentrated on problems between countries, rather than ones inside them. But another panellist thought that NATO could never become a world-wide organisation. It was hard to imagine it intervening in Rwanda, even though the killing there had been on a much more savage scale.

Another set of questions were inspired by the apparent growing technological mismatch between the two continents. One speaker from the Netherlands explained that Europe's total defence budget is around \$290 billion against America's \$370 billion. But in terms of effectiveness, the gap is much larger. Europe's true spending is probably a third of America's. Like several other speakers, he argued that there must be more transatlantic integration both of defence forces and of defence companies. Some of the panellists though that much of the gap between America and Europe could be bridged by more effective spending.

One international participant argued that, on the evidence of Bosnia and Kosovo at least, the mismatch in hardware might be smaller than the software mismatch. America, he pointed out, wanted to use air power and also had the necessary offensive (as opposed to defensive) aircraft to do it. The Europeans seemed more comfortable with putting troops onto the ground. This mis-

[Page 45]

match he argued might help even out the hardware disadvantage. But an American participant was much less confident. He did not think that NATO had begun to work out how it needed to be restructured for the current world. There was no longer a clear enemy. Refugees were likely to be one big challenge; another was nuclear proliferation. It was not just a question of changing weapons, but also changing bureaucracies.

A few speakers worried about how these changes within NATO were going to rebound within the UN system. One panellist argued that the UN needed to be restructured, but he also argued that it was a vital piece of international architecture. The UN was the only place where global power could be legitimised. Another panellist agreed, though he immediately pointed out that one of the lessons of Kosovo and Bosnia was that the UN could not close deals, but NATO could.

An American participant echoed many other speakers when he asked precisely what precedent had been set in Kosovo. One panellist argued that the precedent in general was a positive one. It would be easier to do again. He also thought it marked the beginning of a new role for NATO, encapsulated in Vaclav Havel's claim that Kosovo was "the first human rights war". That was an exaggeration; there were security issues involved. But human rights had plainly become an issue too.

Several speakers worried about what the events in Kosovo meant for NATO and European enlargement. One panellist argued that enlargement should go ahead. The best guarantee of peace in Europe was the idea that all the region's countries could eventually become members of the European family. Another Frenchman argued that NATO's health should be judged by how closely Europe and America stayed together. The show of unity during the war was good, but NATO could not always rely on people like Slobodan Milosevic to unify it so perfectly. One of the panellists preferred to end on a more optimistic note. The European Union and the United States were together: with NATO, it was question of how, not whether.

[Page 46]

The Relationship between Information Technology and Economic Policy

THERE was considerable disagreement as to whether a "new economy" really exists or not, with economists generally being sceptical and businesspeople more enthusiastic. But there was general agreement that information technology is beginning to produce a pay-off in terms of higher productivity and lower inflation, and that policy-makers need to rethink economic policy in the light of this good news. A few participants warned that governments need to beware of the possible downside of the IT revolution, such as the creation of monopolies, the weakening of governments and the invasion of privacy.

FIRST PANELLIST

The debate about whether the new economy exists has occupied a huge amount of time. Most economists say absolutely not; Silicon Valley says absolutely yes; and the real answer remains unclear.

Some things are clearly new. Wherever you look -- at the share of investment going into technology or at the number of households with a computer or the number of people linked to the Internet -- you discover surging numbers. Technology is already giving us new ways to do all sorts of old things, from education to entertainment. On the other hand, the basic economic laws of supply and demand have not changed; nor has human nature. Boom-bust cycles will continue. People will continue to be carried away by greed and euphoria.

But the sensitivity of economic relationships is clearly changing. The fact that we can combine low unemployment with low inflation for a sustained period of time is partly the result of the

[Page 47]

way that IT has spread insecurity. Even when the tight labour market has driven wages up prices have not followed, thanks to higher productivity. Four years ago, conventional wisdom said that the economy could not grow at more than 2.5%. Today the growth rate is clearly faster than that. The trick is to guard against letting our guard slip (three years of excellent figures do not make a new world) whilst not putting our foot on the brake unnecessarily. The Federal Reserve has rightly adopted a flexible monetary policy. Politicians have also rightly begun to worry about the widening income gap between ordinary workers and people with advanced degrees.

SECOND PANELLIST

We are in the middle of a revolution so profound that it is changing everything (and even providing seedcorn for that other great revolution, genomics.) This revolution is proceeding by "creative destruction": yesterday's leaders are today's acquisition candidates, not because they have lost their way particularly badly, but because the rest of the world is changing so rapidly.

The rise of networks is producing huge changes, intended and unintended. Traditional distribution networks are going out of date. Supply chains are being strained. High-tech companies are engaging in an intense war for talent -- there are at least 100,000 high paying jobs going begging in the United States -- but at the same time service jobs are being destroyed and manufacturing jobs being exported abroad. The result is a two-tiered labour market.

Government statistics are almost certainly understating the improvement in productivity being created by IT. The American economy would be working at half its current level without the IT revolution. Businesses are investing huge amounts of money in new equipment -- and streamlining their back offices as a result. The ongoing IT revolution will continue to have a huge impact on the wealth of nations. But we need to train more IT professionals. And we need more investment in R&D. Govern-

[Page 48]

ment may be lousy at picking winners; but it can be very useful when investing in fundamental research.

THIRD PANELLIST

Businesspeople have gone through two stages in thinking about Information Technology. The first was to treat it as nothing more than a tool. The second was to realise that IT is subverting all the rules of business. Government is still stuck in the first stage; yet over the next twenty years IT will fundamentally change everything that government does, from tax to education -- so it deserves our attention.

Governments have started computerising tax collection -- but they have not come to terms with how easy it will be to evade tax. Governments have started worrying about short-term changes in education -- but they have not started asking themselves what schools are for. Teaching? Socialisation? Or imprisonment? Only the last of these functions will be unchanged by technology. Gathering statistics will increasingly be a problem. Patterns of consumption will shift. It will get increasingly hard to calculate a country's inflation or its GDP. Will the government be able to understand the shift from "hardware" to "software"? Will the government have the imagination to push for more competition?

The new economic paradigm requires new policy responses. Europe seems particularly far behind. The Euro will create a highly rigid policy framework. The penalty for having a highly inflexible labour market will only grow bigger as new technology takes hold. The case for reform gets more urgent everyday -- but if we do manage to reform the system the added growth will at least allow us to pay for the reconstruction of Serbia.

DISCUSSION

An American began the debate by asking whether it is possible to conduct monetary policy in conditions of such uncertainty. The important thing in public policy making, he argued, is to know what you do not know. Policy-makers do not know how long the current productivity boom will go on for; but they do not necessarily need to be able to predict exactly what will be going on in five years time to

[Page 49]

set monetary policy. They need to beware that as soon as the current productivity increase stops, then all the old rules come back. They also need to beware that, once it takes hold, inflation is extremely hard to stop. Fortunately, the country knows that the Federal Reserve has the guts to do whatever it takes to kill inflation: witness the way that it doubled interest rates in 1994.

Some businesspeople questioned whether economists have been too sceptical about the new economy. There is, argued one American, a real danger that economists have underestimated what is going on: that their tools have not changed fast enough to understand a radically new reality. Industrialists will tell you that they are achieving productivity increases that are twice the official rate -- or even more than that in Silicon Valley. The reasons for this do not just lie in technology, though technology is a crucial enabler. They also lie in the introduction of new processes in the workforce. For the past decade American companies have been mobilising the knowledge of their workers more efficiently and motivating them more effectively.

Another American, this time an economist, provided an alternative view. There has, he admitted, been an undeniable increase in productivity. This is having an important impact on policy -- allowing wages to rise in response to tight labour markets without giving rise to inflation, and allowing interest rates to stay lower. But it is still not clear why the United States is getting more out of IT than the rest of the world. He suspected that labour-market flexibility could be one important reason: European companies that cannot lay-off workers do not have much of an incentive to introduce new technology. Another reason is motivation. America's tax and compensation system gives managers an incentive to adopt new techniques.

Several people looked at the effect of IT on government. One European wondered whether there was a way of spreading best practices. A Swiss speculated that IT would speed up decision-making -- and perhaps lead to more direct democracy. A panellist was also intrigued by the possibility. The exorbitant cost of cam-

[Page 50]

paigns is largely being driven by the cost of television time. Perhaps the Internet will help to cut the cost of campaigning. But she pointed out that there is also a downside to a world of instantaneous response: rumours circulate faster than ever and financial markets become even more volatile. There may even be a case for short-term capital controls, in order to put sand in wheels that are moving too quickly.

This was only one of several reservations that some participants expressed about the benefits of new technology. An American politician asked what the public and private sectors were doing to prepare for the Y2K problem, and what differences there were between different countries. One panellist argued that in advanced countries the private sector is well-prepared for Y2K and the public sector is getting there; another panellist said that some smaller companies have done little and there is a lot of patchwork, particularly in the energy market. The moderator said that the only part of Europe that really gives cause for concern is Russia.

Some people worried about the impact of IT on privacy. An American pointed out that government, with its rigid rules and fixed hierarchies, will find it much harder to adapt to IT than either business or civil society. A Swede pointed out that IT is making it more difficult to raise all sorts of taxes -- from capital to expenditure to income -- and wondered how we are going to finance public services in the future.

There were also worries about the way in which the new economy brushes up against old politics, notably

anti-trust law. The problem, pointed out one participant, is that technology seems to concentrate power: thus Microsoft has a 90% market share, Intel an 85% share, and AT&T has jumped from nowhere to being a dominant player in the cable industry. Does this mean that there is an inherent tendency in network industries to create behemoths?

An Italian argued that there may be a downside to IT's ability to make markets and prices more transparent. Prices are falling

[Page 51]

more rapidly than costs, squeezing profits; companies that are worth billions on the stock exchange usually lose money. This raises the likelihood of long-term stagnation. A panellist disagreed. A lot of Internet stocks are competing in a commodity world on the basis of discounts, she argued; but in the long run they will adopt a branding strategy with price differentials. Even Internet companies are only worth the sum of their future earnings.

[Page 52]

Current Events

THIS session was devoted to a broad-ranging discussion of American foreign policy. It took in various issues, including Kosovo, Africa and the United Nations. But the main focus was America's attitude to China. Several participants regretted the recent course of events. China's inability to get into the WTO, the bombing of China's embassy in Belgrade and now the Cox report had all soured the mood between Washington and Beijing.

FIRST PANELLIST

There are four challenges for the Transatlantic Alliance. The first is Kosovo. As President Clinton has indicated, in some ways the best story to emerge from the recent success was the unity of NATO. Kosovo has brought together the leaders of the western world. NATO had also put on a remarkable display of strength, with some 40,000 sorties flown. Now the challenge is how to make the peacekeeping work.

The second problem is China. The Cox report is a thorough exposure of the lax standards of security at America's nuclear laboratories under administrations from both parties. On the other hand, there is no evidence that China has done anything with this information; and since it is a signatory to the test ban treaty, it cannot test its new stolen technology. More generally, the policy of engagement seems to be working. Governor Bush has already said that he supports the extension of MFN to China. There is also some general bipartisan support for China's eventual membership of the WTO. The immediate problem is to control the recent deterioration in the relationship. The bombing of their embassy in Belgrade led to protests in Beijing, which the government did little to control. Meanwhile the charges of espionage seem to have persuaded some in Congress to push for stricter limits on China.

[Page 53]

The third issue is non-proliferation. The conflict between India and Pakistan has become especially worrying now that those two countries possess nuclear weapons. Russia's nuclear arsenal is a permanent

source of concern, not least because it is tended by soldiers and scientists who have often not been paid.

And finally there is the great neglected continent of Africa. There are currently six wars in Africa, which receive scant attention in the West. Various leaders, notably Kabila, have proven disappointments. There are, however, some grounds for hope in two important countries. Nigeria, a country of enormous potential, has finally had a free election. And in South Africa, Mbeki has won a resounding victory, and may prove better at cleaning house than Mandela.

DISCUSSION

An American participant began the discussion with a brief overview of China. His central point was that politics and economics have proceeded along different tracks. Back in the 1970s, when Mao was in power, it seemed inconceivable that any form of liberalisation would happen without politics. Instead change came because of an underlying economic problem: China could not feed itself under communism. Since then, the Chinese have proved to be excellent entrepreneurs, but not particularly good manufacturers. One result is the problem of the highly inefficient state owned industries. The leadership seems committed to working this out, but will not tolerate more than 20 million unemployed. So whenever the number comes close to that level, there is likely to be some degree of political crackdown to keep things in order. On the other hand, the ongoing debate about whether China should devalue seems wrong. Thanks to the firewall around China's currency this is a purely internal issue.

Another American praised the general direction of the Administration's China policy. But he argued that it had been caught out by events. American Conservatives, needled by Taiwan, want China to replace the Soviet Union as an enemy. In

[Page 54]

fact, the Chinese Communist Party is more akin to the PRI in Mexico: it has no interest in exporting the faith. China is also surrounded by powerful countries. Indeed, Asia is like nineteenth century Europe. China does not want to help North Korea; it sees it as a buffer state. The Chinese were humiliated by Zhu's visit, when they thought that WTO membership was on offer. With only 20 long range nuclear weapons, they hardly present a threat. There is thus a need for statesmanship and reassurance. China was also mentioned by an international participant, who warned of a looming row over Tibet; and by a European who thought that it is vital that China begins to introduce a system of law. The panellist sympathised with the idea that a backlash against China seemed to be building. In America: he pointed out that there were moves afoot to stop exchanges of scientific information as well.

Two participants directed the panellist towards events in the Middle East. The panellist expressed cautious optimism about the transition of power in Israel, and also about the new government. The other issue raised was Iran. Here there had also been progress. But America is not going to let Iran into the tent of nations, until it renounces its support for terrorism. Iran also has to take a more responsible attitude towards both nuclear proliferation and the Middle-East peace process.

One participant asked about the United Nations. The panellist pointed out that the Security Council is still providing unsatisfactory leadership. Meanwhile America's ability to influence events and promote reform is severely limited by its refusal to pay its dues. The best hope might be if Europe and America, which together control more than 50% of the UN's budget, acted together more often.

An American participant expressed cautious optimism about the events in Kosovo. This did not convince

one Russian speaker. There is an ugly triumphalism in the West, he felt. Victory validated a policy that did not deserve that title. NATO unity may now have been preserved, but it had been threatened. Much the

[Page 55]

same, he thought, could be said for the West's relations with his own country. The panellist immediately agreed that the West should not gloat about its victory; and that Kosovo provided yet another lesson in how the West and Russia could gain by sticking together.

One international participant agreed with the idea that Africa might become a more central part of international diplomacy. One prompt would be the growth of Aids. Out of the 33 million cases world-wide, 22 million are in Africa -- and the number is growing quickly. He also predicted that the push to forgive the debt of the poorest countries would become a millennial issue. But this made others nervous. Another speaker warned that the West's creditable desire to forgive the poorest sinners their debts might also mean that it fails to reward those countries such as Mozambique that have reformed themselves.

[Page 56]

Russia's Foreign Policy

THE meeting took place at a time when relations between Russia and the West had been put under severe strain by the conflict in Kosovo. There was general agreement that dealing with Russia posed huge problems. Its foreign policy is erratic, reflecting its difficulties in adjusting to its loss of its Great Power status; indeed, there is arguably no such thing as Russian foreign policy anymore, only the policies of rival political groups and regional blocks. A handful of participants sounded an optimistic note, pointing out that some reforms are working and that relations with the European Union are better than those with the United States. But nobody thought that "the Russian problem" would be solved in the immediate future.

FIRST PANELLIST

Russia's foreign policy is extremely erratic. All the country's moods and phobias are reflected in its foreign policy: its recent humiliation; its persistent feeling of cultural superiority; and its nostalgia for its superpower status. This irrational and inconsistent behaviour creates the problem of "Russia fatigue" in the rest of the world. Russia is plagued by the failure of its transition from Communism -- a failure that some people refer to as the "dead hand of the beginning". It is also plagued by its lack of a national consensus. Russia is torn between two civilisations: 70% of the population say they support liberal democracy but 90% say that they are willing to sacrifice that principle for the sake of order. This pragmatism means that politics can change at any moment, and that Russian society is characterised by extreme fluidity.

What does the future hold? One possibility is the stagnation scenario. The system simply reproduces all its problems, whether Yeltsin or anyone else is in charge; and foreign policy zigzags

[Page 57]

between animosity, bargaining and restraint. Another possibility is the consolidation of state power. The one thing that we can rule out is the extension of democracy.

There is little that the West can do about any of this. The big task is to help Russia to help itself. The West should stop supporting personalities (such as Yeltsin). It should also reconsider its financial assistance, which postpones structural reform and raises the possibility of long-term dependency. The West will be better off with a strong Russia, which might be able to help it cope with things like Islamic fundamentalism. But Russia is going to remain weak for the next fifteen years -- and the West's task is to learn to cope with this weakness.

SECOND PANELLIST

Until a few months ago everyone said that they could not believe how friendly relations had become between the former Cold War antagonists. Now NATO's expansion to Russia's border has raised the fear in Moscow that the West is intent on strangling Russia. Kosovo is a symbol of this change, producing a collapse in confidence in Russia's foreign policy analogous to the collapse in confidence in its economy last August.

What went wrong? Russia has suffered from inflated expectations of a Russian-American condominium. Russia has been slow-to realise that its loss of status may be permanent. It is not just that the rouble has been devalued: Russia has been devalued. The challenge for the West is to manage not just Russia's weakness but also its own strength.

How far can the deterioration go? Russia is unlikely to go either Fascist or Communist. There is no such thing as Communism in today's Russia -- only a party that happens to bear that name. There will be no revival of the Cold War -- only a Cold Peace. Russia is not going to become part of an anti-western alliance. The biggest long-term security threat for Russia is not the West but China. Nor will Russia become a rogue state. It is too pragmatic -- too intent on adjusting to its new environment.

[Page 58]

What can be done? Kosovo could yet provide an area of co-operation. In the Russian mind there is a good West in the form of the European Union and a bad West in the form of the United States. The best way forward may be to strengthen relations with the European Union and thereby turn it into an anchor of stability.

DISCUSSION

Several speakers focused on Russia's strained relationship with NATO. A Swiss wanted a more precise definition of NATO. Is it an alliance against something (Russia perhaps) or a collective security agreement -- and, if it is a collective security agreement, will Russia be allowed to join it? A Czech pointed out that there is nothing new in Russia perceiving NATO as a problem. But a panellist insisted that Russia's feelings about NATO have changed. Russians are appalled that what they had always been told was a defensive alliance has become an offensive force -- and by how quickly the alliance's decision to bomb Serbia was implemented. The other panellist pointed out that it is the nationalists who want to join NATO -- in order to blow it up from inside -- and the liberals who are hesitant.

An American wondered how to put the substance back into talks with Russia. The arms control talks, which used to be a way of talking about common problems, have now become merely mechanical; and much of the relationship with Russia is about "psychiatry" rather than substantive issues. He agreed with

an earlier participant that the Ukraine was a particularly important issue. One of the panellists pointed out that one of the more positive things about Russia was its recent treaty with the Ukraine.

The issue of foreign aid for Russia provoked disagreement. One international participant strongly defended the aid program. The amount of money the international financial institutions have devoted to Russia is being reduced, and most of it will not even leave the United States, but will instead be used to pay off debts. The only new money that is going to Russia will be used exclusively for social purposes, strengthening the country's bank-

[Page 59]

ing and justice systems. But a Swede strongly argued that Russia's real problem is corruption -- ministerial jobs are sold for \$70m and parliamentary votes are being traded for \$4m -- and that the best way to stop this corruption is to reduce the state's resources.

The question of the "good West" and the "bad West" aroused a great deal of discussion. A Canadian wondered what "the West" means to Russians. Does the Russian elite distinguish between different bits of the West? A German pointed out that Russia's relationship with the EU is much better than that with the United States. And a Dane wondered whether it would be a positive move to strengthen the EU's relationship with the Baltic States. A panellist countered that the Baltic countries' membership in NATO had been one of the most important things in transforming the alliance in Russian eyes from a mere problem into a threat. But he agreed that Russia's feelings to Europe are much warmer than its feelings to the United States, partly because Europe is not fully integrated and partly because it lacks America's military might. The European Union seems the natural place to satisfy Russia's need to be attached to something larger than itself. But for that to happen we need to have a notion of Europe that is larger than "the West."

There were a few rays of optimism in the discussion. One of the speakers who decried Russia's corruption also pointed out that the economy is gradually improving and that the society has proved amazingly stable. Others pointed to Yeltsin's ability to escape from the various traps strewn in his path -- notably impeachment. But, as one of the panellists concluded, these events seemed to indicate stagnation as much as stability. Corruption is not the source of Russia's problems, but the consequence of them.

[Page 60]

How Durable is the Current Rosy Complexion of European Politics?

THE moderator wondered whether Europe's current paradigm of centre-left politics represents a new sort of rosy species, or just a genetically modified version of the old one. Most of the participants thought the latter. And many doubted that the continuation of consensus politics, albeit with a new-found respect for market economics, would be the way to solve the continent's structural problems.

FIRST PANELLIST

On the face of it, Europe has a rosy complexion. Most of its governments are led by Social Democrats. Nine out of the 20 European Union commissioners also come from the Left. Yet the difference between the

new Centre Left and the Centre Right is minimal. It is simply a rotation of power. The Right failed; now it is the Left's chance -- and in many cases the real power lies with central banks. The sort of policy the new Left follows is broadly the same old European model that stresses consensus and a large welfare state; the only difference this time is a new found appreciation for financial stability and the market economy.

The challenge these politicians face is fairly simple to sum up. In rough terms over the past 30 years, real labour costs have risen by 70% in Europe, and employment has grown by around a tenth. By contrast American wages have risen by a quarter and jobs have grown by 70%. The European Union has followed a specific path. Is it sustainable?

Unfortunately not. Thanks to Europe's labour-market rigidities, there has been a clear trend of rising unemployment in each successive cycle. The pressure of having to raise ever more taxes to support pensions and the unemployed will make Europe still less competitive and entrepreneurial. In America, 19 of the 25

[Page 61]

most valuable companies did not exist 30 years ago. In Europe, it is hard to think of one newcomer. The challenge that the European Union's politicians face -- to keep the level of social equality whilst finding some degree of growth -- is getting harder. This could well be the very last chance for the European model before it collapses completely.

SECOND PANELLIST

The degree to which Europe has pinkened can be exaggerated. Social Democrats only maintain clear majorities in two countries, Britain and Greece. The rest are coalitions. At the EU politics is often driven more by national interests than ideological ones. Many of these governments are actually trying to govern despite their parties: issues like privatisation and tight fiscal policies are not popular with left-wing interest groups. Worse, many of them have failed to prepare the ground. In Britain, Tony Blair hit the ground running. In Germany progress has been much slower.

What do these new policies amount to? Some of the words the Left now uses, such as responsibility and self-reliance, have been co-opted from the Right, which leads to trouble with people like the trade unions. But it is not just conservatism with a pink mask. There is a general attempt to rethink the welfare state so that it does not just cover traditional issues such as pensions and unemployment assistance but also modern, new-economy ones, such as how to help people deal with a much less stable world.

How durable will these New Left politicians be? Part of the answer to this new riddle undoubtedly lies with their Conservative opponents. So far the Right has not really begun to tackle issues like responsible business. That means that the main responsibility lies with the Social Democrats themselves. They have to be a broad church.

THIRD PANELLIST

Europe's problems stem from a mindset developed in the 1950s and 1960s. Those were marvellous decades of rapid growth and full employment; the time when ordinary people finally benefited from

[Page 62]

mass production. There were three main ingredients: a stress on being inclusive; an accent on consensus; and a desire to produce a regulated version of the market economy. This model worked till the 1970s.

Now technology and globalisation have upset these beliefs. Interestingly the reaction of Europe's leaders has been anything but Schumpeterian. There has been no creative destruction, just non-creative conservatism. This has been the objective of both the Left and the Right in Europe. America has created 50 million net new jobs since 1975; Europe practically none. Worse, the development model has begun to change. It is no longer inclusive, but exclusive.

Why is European politics so conservative? Ignorance is not the answer. Instead the political elites seem to be hostages to the structures that were set up in the 1950s and 1960s, and particularly to the illusion that those days can be recreated. There is no leadership, just pragmatic adaptation, telling the people what they want to hear.

DISCUSSION

A European politician began the debate by pointing out that national politics often mattered more than terms like "Left" and "Right". The new Left seemed to be better at co-ordinating policy at a European level; but there was no evidence yet that the Left was any better at implementing those ideas. Two tests will be the intergovernmental conference on structural reform, and the debate over tax harmonisation (which one leftist government -- Britain opposes but two others -- Germany and France -- support). The tax debate seems particularly important because, without some agreement, taxation might well end up falling almost completely on labour, rather than capital -- an odd result for the Left. However, another European noted that with taxes competition might be better than co-operation.

The biggest debate centred on just how much Europe needed to change. One Danish participant pointed out that a system that

[Page 63]

offered 90% of the population reasonable jobs and everybody a reasonable safety net had its advantages. Now that fiscal stability had been introduced, it might be durable. Who wants to be one of these hard working Americans? Another European participant objected to the idea that everything had to be compared to America. Europe should try to change its social model; but it did not have to adopt America's model. A Spanish businessman pointed out that Maastricht had helped change things. Public sector deficits had come down; so had inflation. But one of the panellists pointed out that there were a large number of Europeans who wanted to work harder -- in particular the unemployed. A Canadian agreed: the idea that America was a country of 160 million working drones was myth, just like the previous ones that it had only created McJobs.

But there was no shortage of people who thought that things had reached a fairly parlous state. Two participants from Central Europe worried that Europe's high social costs made enlargement of the European Union more difficult. It increased protectionism. Several participants brought up demographics. The number of 20-30 year olds in Europe is due to fall by a quarter. By 2025, one American argued, all the German government's budget would be spent on pensions. One European quoted the observation that Europeans are "interesting people: they will not be born and they do not know how to die." The panellists agreed. Europe would need a big labour force to pay for the elderly.

Several participants returned to the subject of fiscal incentives. It was not just a question of labour market rigidities, argued one American. Government spending was very high. In Europe a worker has to give 60% of each incremental dollar that he earns to the government -- double the proportion in America. Europe needed to move its social insurance from a tax-based system to one based around investment. Another participant described the liberating feeling of moving from a European country where he paid 73% tax to America where he paid only 33%. The first panellist argued that this was the inescapable trap.

[Page 64]

Steadily rising unemployment and the effect of demographics would push up spending, which would push up taxation, which would drive away entrepreneurs. Could this be changed? The New Left, argued one Briton, was consolidating the victories of the Right. The electoral failures of the Right had largely been self-inflicted; and the Left may well prove to be better at reforming the welfare state. With 17 million unemployed, it might be easier for somebody who claimed to be a socialist to impose change. Others disagreed. There was no evidence of guts in Germany, France or Italy, pointed out one panellist. Another said that the Greek government had not been rewarded for being brave. One Spanish participant cast doubt on whether European voters would ever accept, say, a Chilean pension system. A panellist pointed out that in Sweden most of the population depended on the public sector for their livelihood.

Several people argued that there was indeed a lack of what one Briton described as political competence. The failure to do things, he thought, could not be explained away as electoral self-preservation: after all the French had ejected just about every leader they had. The answer seemed to be a fear of social unrest. Things would only change when the cost of not doing anything really did seem larger than that of doing something. He thought that Spain seemed to have done the right thing by explicitly dividing the benefits for its old and young workers.

Whilst worrying that it would be another case of all talk and no action, a Swiss participant tried to push the argument towards possible solutions. The answer he thought was not to spend more, but to be much more efficient. A French participant agreed: governments had to think like business people. Yet the panel still seemed pessimistic. Welfare, one panellist thought, would be the Red man's burden. Another argued that root and branch welfare reform was the key, with the stress put on moving subsidies only to those who really needed it. But he was not optimistic. America appeared to have decisive advantages.

[ENDS]



Valid HTML 4.0
Transitional!