

**BILDERBERG MEETINGS**

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## INTRODUCTION

The forty-third Bilderberg Meeting was held at the Burgenstock Hotel in Burgenstock Switzerland, on June 8-11, 1995. There were 118 participants from 20 European countries, the United States and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or their organizations. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference proceedings took place.

This booklet is an account of the 1995 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 panelists' opening remarks for each session, and of the comments and interventions made in the subsequent discussions.

## PARTICIPANTS

### CHAIRMAN

PETER CARRINGTON

Chairman of the Board, Christie's International plc; Former Secretary General, NATO

### HONORARY SECRETARY GENERAL FOR EUROPE AND CANADA

VICTOR HALBERSTADT

Professor of Public Economics, Leiden University, Netherlands

### HONORARY SECRETARY GENERAL FOR U.S.A.

CASIMIR A. YOST

Director, Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University, Washington, D.C.

CH JOSEF ACKERMANN

President of the Executive Board, Credit Suisse

I GIOVANNI AGNELLI\*\*

Chairman, Fiat S.p.A.

I UMBERTO AGNELLI\*

Chairman, IFIL S.p.A.

FIN MARTTI AHTISAARI

President of the Republic of Finland

USA PAUL A. ALLAIRE\*

Chairman, Xerox Corporation

P LUIS MIRA AMARAL

Minister of Industry and Energy

USA DWAYNE O. ANDREAS

Chairman, Archer-Daniels-Midland Company, Inc.

P FRANCISCO PINTO BALSEMÃO\*

Professor of Communication Science, New University, Lisbon; Chairman, Sojornal sarl; Former Prime Minister

S PERCY BARNEVIK\*

President and C.E.O., ABB Asea Brown Boveri Ltd.

F CLAUDE BÉBÉAR

Chairman and CEO, AXA Group

USA LLOYD M. BENTSEN

Partner, Verner Liipfert Bernhard McPherson and Hand, Chartered; Former Secretary of the Treasury

D CHRISTOPH BERTRAM\*

Diplomatic Correspondent, *Die Zeit*; Former Director, International Institute for Strategic Studies

TR SELAHATTIN BEYAZIT\*

Director of Companies

ICE BJÖRN BJARNASON

Minister of Culture and Education

DK RITT BJERREGAARD

Commissioner, European Communities

CDN CONRAD M. BLACK\*

Chairman, The Telegraph plc

TR CEM BOYNER

Chairman, New Democracy Movement

INT HANS VAN DEN BROEK

Commissioner, European Communities

GB E. JOHN P. BROWNE

Chief Executive Officer, BP Exploration Company Ltd.

USA JOHN H. BRYAN

Chairman and CEO, Sara Lee Corporation

GR COSTA CARRAS\*

Director of Companies

P MARIA CARRILHO

Professor of Sociology

E JAIME CARVAJAL URQUIJO\*

Chairman and General Manager, Iberfomento

I ADRIANA CERRETELLI

Correspondent in Brussels, "IL SOLE/24 Ore"

TR HIKMET ÇETIN

Deputy Prime Minister; Former Minister for Foreign Affairs

INT WILLY CLAES

Secretary General of NATO

USA JON S. CORZINE  
Chairman and Senior Partner, Goldman Sachs & Co.

CH FLAVIO COTTI  
Minister for Foreign Affairs

GR THEODORE A. COULOUMBIS  
President, Greek Foreign Policy Institute

CDN DEVON G. CROSS  
Head of the Donner Canadian Foundation

INT JOSÉ CUTILEIRO  
Secretary General, Western European Union

USA KENNETH W. DAM\*  
Max Pam Professor of American and Foreign Law, University of Chicago Law School; Former Deputy Secretary of State

B ETIENNE DAVIGNON\*  
Executive Chairman, Société Générale de Belgique; Former Vice Chairman of the Commission of the European Communities

USA LYNN E. DAVIS  
Under Secretary for Arms Control and International Security Affairs, Department of State

CH JEAN-PASCAL DELAMURAZ  
Vice-President of the Federal Council; Minister of Economy

I MARIO DRAGHI  
Director General, Ministry of the Treasury

CDN MARIE-JOSÉE DROUIN\*  
Executive Director, Hudson Institute of Canada

DK UFFE ELLEMANN-JENSEN  
Chairman Liberal Party; Former Minister for Foreign Affairs

USA THOMAS S. FOLEY  
Partner, Akin, Gump, Strauss, Hauer & Feld; Former Speaker of the House of Representatives

CH WALTER FREHNER  
Chairman of the Board of Directors, Swiss Bank Corporation

USA THOMAS L. FRIEDMAN  
Foreign Affairs Columnist, *The New York Times*

CH FRITZ GERBER  
Chairman and CEO, F. Hoffmann-La Roche & Co., A.G.

USA DAVID R. GERGEN  
Visiting Professor, The Terry Sanford Institute of Public Policy, Duke University; Senior Fellow, The Aspen Institute

IRL DERMOT GLEESON  
Attorney General of Ireland

B JOHN J. GOOSSENS  
President and CEO, Belgacom

CDN ALLAN E. GOTLIEB  
Former Ambassador to the United States of America

GB DAVID HANNAY  
Permanent Representative, U.K. Mission to the United Nations

FIN JUKKA HÄRMÄLÄ  
President and CEO, Enso-Gutzeit Oy

CH HANS HECKMANN  
Vice Chairman of the Board of Directors, Union Bank of Switzerland

N WESTYE HÖEGH\*  
Chairman of the Board, Leif Höegh & Co. AS; President, Norwegian Shipowners' Association

USA RICHARD C. HOLBROOKE  
Assistant Secretary for European and Canadian Affairs, Department of State

SF JAAKKO ILONIEMI\*  
Managing Director, Centre for Finnish Business and Policy Studies; Former Ambassador to the United States of America

F PHILIPPE JAFFRÉ  
Chairman and CEO, Elf Aquitaine

B DANIEL E. JANSSEN  
Chairman of the Executive Committee, Solvay S.A.

USA PETER JENNINGS  
Anchor and Senior Editor, ABC News *World News Tonight*

USA VERNON E. JORDAN, JR.\*  
Senior Partner, Akin, Gump, Strauss, Hauer & Feld, (Attorneys-at-Law)

USA PETER R. KANN  
Chairman and Chief Executive Officer, Dow Jones & Company, Inc.; Publisher, *The Wall Street Journal*

D HANS-PETER KEITEL  
Chairman of the Board, Hochtief AG

USA ROBERT M. KIMMITT  
Managing Director, Lehman Brothers Inc.; Former Under-Secretary of State for Political Affairs

USA HENRY A. KISSINGER\*  
Former Secretary of State; Chairman, Kissinger Associates Inc.

CDN RALPH P. KLEIN  
Premier of Alberta

GB ANDREW KNIGHT\*  
Non Executive Director, News Corporation

INT MAX KOHNSTAMM\*\*  
Former Secretary General, Action Committee for Europe; Former President, European University Institute

D HILMAR KOPPER\*  
Spokesman of the Board of Managing Directors, DeutscheBank A.G.

NL PIETER KORTEWEG\*  
President and CEO, Robeco Group; Honorary Treasurer of Bilderberg Meetings

A MAX KOTHBAUER\*  
Deputy Chairman, Creditanstalt-Bankverein

CH ALEX KRAUER  
Chairman and Managing Director, Ciba-Geigy Limited

USA WILLIAM KRISTOL  
Chairman, Project for the Republican Future

D KARL F. LAMERS  
Member of Parliament (Spokesman for Foreign Affairs, CDU/CSU)

GB NORMAN LAMONT  
Member of Parliament; Former Chancellor of the Exchequer; Director of N.M. Rothschild

F ANDRÉ LÉVY-LANG\*  
Chairman of the Board of Management, Banque Paribas

E FRANCISCO LUZÓN LÓPEZ  
Chairman and CEO, Argentaria

A ALEXANDER R. MACULAN  
Chairman, Maculan Holding AG

TR SERIF MARDIN  
Chairman, Department Islamic Studies, American University, Washington, D.C.

FIN BJÖRN MATTSSON  
President and CEO, Cultor, Ltd.

CH HELMUT O. MAUCHER  
Chairman of the Board and CEO, Nestlé Ltd.

F THIERRY DE MONTBRIAL\*  
Director, French Institute of International Relations; Professor of Economics, Ecole Polytechnique

CDN J. FRASER MUSTARD  
President, Canadian Institute for Advanced Research

NL HER MAJESTY THE QUEEN OF THE NETHERLANDS

PL ANDRZEJ OLECHOWSKI  
Former Minister for Foreign Affairs

GR GEORGE A. PAPANDREOU  
Minister of Education

USA ARNO A. PENZIAS  
Vice President Research, AT&T Bell Laboratories

D HANS-FRIEDRICH VON PLOETZ  
State Secretary, Ministry for Foreign Affairs

CDN J. ROBERT PRICHARD  
President, University of Toronto

CH DAVID DE PURY\*  
Chairman, BBC Brown Boveri Ltd. and Co-Chairman, ABB Asea Brown Boveri Group

GB GILES H. RADICE  
Member of Parliament; Chairman of the European Movement

USA DAVID ROCKEFELLER\*\*  
Chairman, Chase Manhattan Bank International Advisory  
Committee

GB ERIC ROLL\*\*  
President, S.G. Warburg Group plc

GB EMMA ROTHSCHILD  
Director, Centre for History and Economics; Fellow, Kings  
College, Cambridge University

INT/I RENATO RUGGIERO\*  
Director General, World Trade Organization; Former  
Minister of Trade

F FRANÇOISE SAMPERMANS  
Chairman, Groupe Express

CH STEPHAN E. SCHMIDHEINY  
Chairman, ANOVA Holdings Ltd.

D JÜRGEN SCHREMPP  
Chairman, Daimler-Benz AG

CH WOLFGANG SCHÜRER  
Chairman, MS Management Service AG

INT KLAUS SCHWAB  
President, World Economic Forum

USA NANCY E. SODERBERG  
Deputy Assistant to the President for National Security  
Affairs

GB H. DENNIS STEVENSON  
Chairman of SRU Group and the Tate Gallery

N THORVALD STOLTENBERG  
Co-Chairman of the Steering Committee of the International  
Conference on the Former Yugoslavia

IRL PETER D. SUTHERLAND\*  
Former Director General, World Trade Organization;  
Former member, Commission of the European Communities

S HIS MAJESTY THE KING OF SWEDEN

GB J. MARTIN TAYLOR  
Chief Executive, Barclays Bank plc

F JEAN-CLAUDE TRICHET  
Governor, Banque de France

E FEDERICO TRILLO FIGUEROA  
Vice President and Member of Parliament (Partido Popular)

S INES J. UUSMANN  
Minister of Transport and Communication

D GÜNTER VERHEUGEN  
Secretary General, Social Democratic Party

FIN PERTTI VOUTILAINEN  
President, Merita Bank Ltd.

A FRANZ VRANITZKY  
Federal Chancellor

NL KAREL VUURSTEEN  
Chairman of the Board, Heineken N.V.

GB WILLIAM A. WALDEGRAVE  
Secretary of State, Ministry of Agriculture, Fisheries and  
Food

NL JACQUES WALLAGE  
Parliamentary Leader PvdA (Labour Party)

USA STANLEY A. WEISS  
Chairman, Business Executives for National Security, Inc.

USA JOHN C. WHITEHEAD\*  
Former Deputy Secretary of State

INT/USA JAMES D. WOLFENSOHN\*  
President, The World Bank; Former President and Chief  
Executive Officer, James D. Wolfensohn, Inc.

D OTTO WOLFF VON AMERONGEN\*\*  
Chairman and C.E.O. of Otto Wolff GmbH

USA PAUL WOLFOWITZ  
Former Under Secretary of Defense for Policy; Dean, Nitze  
School of Advanced International Studies

\*Member of the Steering Committee

\*\*Member of the Advisory Group

#### RAPPORTEURS

USA RUDOLPH S. RAUCH  
Managing Director, The Metropolitan Opera Guild

USA ALICE VICTOR  
Executive Assistant, Rockefeller Financial Services, Inc.

## AGENDA

### IN ATTENDANCE

NL MAJA BANCK  
Executive Secretary, Bilderberg Meetings  
CDN MARY ALICE CARROLL  
Local Organizer 1996  
CH MARGRIT MARKSTALLER  
Local Organizer 1995  
USA CHARLES MULLER  
President, Murden and Company; Adviser, American  
Friends of Bilderberg, Inc.

### LIST OF ABBREVIATIONS

A	Austria	I	Italy
B	Belgium	ICE	Iceland
CDN	Canada	INT	International
CH	Switzerland	IRL	Ireland
D	Germany	L	Luxemburg
DK	Denmark	N	Norway
E	Spain	NL	Netherlands
F	France	P	Portugal
FIN	Finland	PL	Poland
GB	Great Britain	S	Sweden
GR	Greece	TR	Turkey
		USA	United States of America

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Thierry de Montbrial

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Percy Barnevik  
Norman Lamont

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WHAT IS NATO SUPPOSED TO DO?

*"NATO was designed to keep the Russians out, the Americans in, and the Germans down." This statement, made by one of the participants during the discussion, succinctly summed up the role of NATO during the cold war. Another speaker suggested that the third goal, which is no longer relevant, should be replaced by "...and central Europe secure". The overall focus of this session was to what extent the participants agreed on enlargement of NATO, with the debate centering on the method of selecting new members, which countries should be selected and in what order and, finally, how quickly this should happen.*

*First Panelist*

We should never think that the time of NATO has passed. It continues to have a role to play, whether in crisis prevention, crisis management, peacekeeping or, if need be, peace enforcement. In order to sustain its effectiveness, NATO must be both strengthened and enlarged. The strengthening, both Europeans and Americans believe, must come from within Europe. This coincides with the determination within the European Union(EU) to give more substance to developing a more unified foreign policy which, in turn, may ultimately lead to a common defense. The enlargement of NATO, which is already in the early stages of planning, is of great interest to the members of the EU who are preparing for their own enlargement, towards Eastern Europe.

There are three options with respect to NATO enlargement. The first, strongly opposed by the Russians, is one of rapid enlargement by having the central and eastern European countries join as soon as possible. The second option is to wait and see whether the Russian attitude towards its western neighbors warrants the response of including those countries in NATO. And the third would be to take more time and concurrently work towards these countries' membership in NATO and the European Union. This method, perhaps the most logical, would underscore the validity of the Partnership for Peace(PFP) program, initiated by the Americans last year, where at this moment roughly twenty four countries have signed individual, bilateral PFP agreements with NATO. The implementation of these agreements, signed most recently by Russia, has just started. It provides for consultation, as well as military cooperation, and would seem to be a logical preparatory stage towards full NATO membership.

This last option runs the least risk of destabilizing the present situation in Russia. At the same time, it serves to prepare the countries of eastern and central Europe for the full spectrum of economic, political, financial, and cultural activities suitable for cooperation. And since security is more than the military component, this course strengthens the underpinning of strong relationships between the present and future members of the EU.

Finally, in terms of NATO's image - as illustrated by its role in the current situation in Yugoslavia - it is important that in the future NATO carefully weighs its role in any peacekeeping operation before agreeing to participate with another international organization such as the United Nations.

#### *Second Panelist*

When discussing NATO, it is important to remember that the United States is a European power, a part of the balance of power on the European continent. Americans want to encourage Europeans to extend the Europe of the institutions to meet the Europe of the map. Not just NATO, but the EU, the OECD -- which all central Europeans wish to join -- the Council of Europe, and other institutions. It is important to upgrade the CSCE, now the OSCE, and strengthen it but not make it an institution that substitutes for NATO. And we need to deal separately with the appropriate role for Russia in a stable security environment. From 1815 to 1914, Russia was a part of that structure; since 1917, that has not been the case.

The rationale for expanding NATO is simple. Just because it has been the most successful military alliance in history, it must adapt and change to extend its success and protection to central Europe which has been the site of the two worst wars in history, as well as the focus of the Cold War. It cannot be limited to the sixteen countries which forged the alliance in another political framework. Just because the Cold War is over, does not mean this area is stable.

The key is history. Central Europe cannot be imprisoned by its own history, exemplified by today's problems between Bratislava and Budapest, Budapest and Bucharest, Bucharest and Kyiv, Kyiv and Moscow, Athens and Skopje, even Rome and Lubiana. All these disputes stem from the unresolved legacies, from Versailles and Trianon, Yalta and Potsdam, and other historic events. We must not push central Europe back in history. The central Europeans must overcome these legacies or the US will be reluctant to pull countries into the alliance which have unresolved

ethnic, territorial, or internal political problems.

When to enlarge NATO is harder to determine; it is not a simple process. NATO is an integrated military alliance where membership requires certain obligations and commitments. The process includes legal confirmation by its present members who, by inviting a new member, make the solemn commitment to go to that member's defense from outside forces.

The process of expanding NATO is already underway. By the fall of this year, NATO will send teams to all of the 26 members of the Partnership for Peace who wish to receive such teams. These teams will present the same scenario to each potential member; how NATO will expand and what the post Cold War NATO will look like. The results of such discussions will be the substance of meetings in Brussels during 1996.

Russia will continue to object to NATO enlargement, but they understand that no outside country will have a veto over NATO membership. At the same time, the present members of NATO, as well as the central European countries who are so anxious to join, recognize that Russia has a legitimate security role in Europe and a special NATO dialogue with Russia has been instituted. It is hoped that in rough parallel with the expansion process of NATO, there will be a beginning of a Russia/NATO framework in place.

#### *Discussion*

Before beginning the discussion, the moderator called upon a former Secretary General of NATO, who summed up the purpose of NATO to date in one word: Russia. NATO has played a role in the security of Europe in many ways, but its primary purpose has been to protect the European countries from any territorial claims in the area between Russia and Germany, and Russia has always been aware of this. The end of the Cold War, said this participant, does not eliminate this role, or mean there won't be any changes in the future. Russia is still a major military power.

Assuming NATO will continue to exist, continued this participant, there is the question of enlargement; how far does NATO go? Remembering that Article 5 states NATO's agreement to defend any of its member states from invasion presents a great dilemma. If its enlargement were limited to countries in central and eastern Europe, this would send a signal to Russia that the Balkan countries are less important to Europe. Conversely, if NATO were to include the Balkans, would it be ready to

uphold Article 5 there as well?

The moderator addressed this concern by suggesting that as the European Union expands, this question will be partially answered because it is most likely that any member of the EU would go to the defense of another, whether or not either one of them is a member of NATO. NATO expansion is desirable, nevertheless, because it is unwise to leave a grey area between Russia and Germany; both countries have national policies which would make it difficult to hold back from taking over some of this territory. It is also important to move quickly on enlargement; enough study has already been done. The Partnership For Peace program, mentioned by one of the panelists, looks to be a compromise within the United States administration between those who favor expanding NATO and those who would rather test the waters through bilateral agreements between NATO and potential members. One should be concerned that a number of countries which have signed this agreement have no common denominator on many levels, making them, as a group, potentially difficult members of NATO.

The relationship of Russia and Europe is essential to peace. Whether this is accomplished by formal negotiations, or through other means is hard to determine. Russia's membership in the PFP, for example, could prove to be difficult, leading to unanticipated problems down the road. On the other hand, if the Russians were to state that they are willing to stay within their borders -- for the first time since Peter the Great -- and if Russia would concentrate on its economic difficulties, a constructive relationship between Russia, the EU and the United States would ensue.

A Frenchman disagreed about early expansion into eastern Europe, saying that would only provoke Russia into another Cold War by openly reaffirming NATO's role to date: protecting countries against a Russian threat. Rather, he felt, more efforts should be made to stabilize the relationship with Russia. Also, more attention should be focussed on the expansion of the European Union even though, due to economic institutional problems, this will be more difficult.

A participant asked if the expansion would extend to the Ukraine/Russia border, whether Ukraine would be included in NATO -- and if not, why not -- and whether the expansion of NATO would undermine the anticipated Russian ratification of the START II treaty. Two members of the panel responded, one stating that reaching out to any former member countries of the Soviet Union, including the Ukraine, would raise such profound issues, that such expansion should be more

dependent on the evolution of the basic relationship with Russia. The other panelist noted that the Ukraine does not wish to join NATO; a few years ago its government declared its unwillingness to join any alliance, thus obviating the need to consider how to handle an invitation from Russia to join an alliance with them. The Ukraine is in the process of making a choice, which is made difficult because it is entirely energy-dependent on Russia. It must decide whether to follow the Belarus model of becoming a wholly owned subsidiary of Russia, move towards the West, or assume a middle ground position. It is encouraging, said this panelist, that the Ukraine is the most active participant of the Partnership for Peace.

Another participant agreed with the Frenchman that adding only the Visegrad Countries to NATO would create new dividing lines, and he wondered how this would be perceived by the ten countries applying for EU membership who want to eliminate artificial divisions of the past. Those ten countries have valid reasons for wishing to join NATO, but when considering each of them for membership one must be aware of side ramifications which no one wants to confront.

Russia is much more concerned about the enlargement of NATO than that of the EU, which it perceives as an option for democracy and a market economy. The latter should be viewed as a mature attitude, said one speaker, and it remains NATO's responsibility to convince Russia that its stability and security will be enhanced by an enlarged NATO. Several participants supported this view, noting that should Russia decide not to remain within its borders, the inclusion of the countries of central Europe in NATO would inhibit any imperial tendencies. In point of fact, most likely, Russia would be relieved to have this issue resolved. In turn, by furthering an understanding between Russia, NATO, the EU, and the US, all of these entities will be better prepared to face the likely security issue of the next century -- China. For those who are more hesitant about rushing towards the inclusion of the Visegrad countries, speakers noted that it is important that NATO state its purpose clearly and firmly; delay would prolong the focus on potential threats, and the current ambiguity cannot help but increase instability. And for those who feel there is no current threat, there is; the instability of these countries makes them fair game for their larger neighbors, most particularly Germany and Russia. Yet another participant warned that if NATO does not draw new lines, lines will be drawn by others.

Several participants, including a German, although noting the importance of NATO as a means of keeping America in Europe, suggested that there is too much focus on NATO enlargement, and not enough on

strengthening the EU. A British speaker commented that if drawing new lines for NATO's borders is so difficult, or might challenge existing relationships, why not maintain its present format; a coherent group and a military force which is extremely large and competent. While remaining the same size, NATO could state that it will go to the aid of any country threatened by Russia, whether or not that country is a member of NATO.

There was sharp disagreement on the validity and effectiveness of the Partnership for Peace. Several participants, including one of the panelists, felt that it is a stalling mechanism for members of the United States administration who cannot agree on the future of NATO, their tactic being to use the PFP as a testing ground. Another speaker questioned Russia's recent signing of a PFP agreement; what will NATO do if Russia decides to take the next step -- which will surely be taken by other PFP members -- of asking for NATO membership? Such a move would dissolve the reason for NATO, as well as for continued United States participation. A panelist responded by defining PFP not as an organization but as twenty-six individual programs with three different kinds of memberships; preparation for NATO membership, an end in itself (Russia falls under this category) and, for all, a confidence-building mechanism.

The panelists' overall conclusion was that the future of NATO will be solid and secure only with strong leadership in its member governments, particularly the United States. It remains for those governments to educate their citizens to a point of understanding NATO's vital role in world peace, as well as their willingness to support its future.

## IS THERE WORK FOR ALL?

*Unemployment statistics suggest that the answer to this question is "No." This is an unacceptable response. We must at least try to offer work to as many as possible. A curious thing about the business cycles of the last two decades is that when there is a recession, unemployment has gone up, but when recovery comes, unemployment does not go down. And there is clearly important structural unemployment: many of those without work have been unemployed for a considerable period.*

*In the course of the discussion, participants returned repeatedly to a few themes. Most of the jobs created in the last decade have been in the service sector. There is a long-standing bias against these kinds of jobs, which some panelists attribute to Marx. This prejudice must disappear. Service jobs ought, also, to reflect social needs: governments ought to steer the jobless towards employment that is socially useful. This may lead to higher taxes; some were prepared to accept this, while others thought higher taxes were the worst possible solution and would only create greater unemployment.*

*Debate was sharp over the appropriateness of the US response to unemployment vs. the European. The US is more inclined to allow the market to work; Europeans believe that citizenship implies the right to employment, education and housing. The more brutal US approach has led to greater job creation, while the European attitude has led, over time, to greater job security but higher unemployment.*

*Participants agreed that unemployment in the third world is the greatest threat to world peace. Most believed that competition, free trade and rapid development of third world markets are the most promising paths to lower unemployment in the developing world; these policies would also help the OECD countries to resume steady growth. Finally, while re-training of workers ought to be a priority of both government and of private companies, most felt that a sound education was more important than any amount of re-training.*

### First Panelist

The underlying assumption is that technology and science create jobs, and the notion that jobs are limited in a world with an infinite need for services in health, leisure and education is peculiar. The politics of

unemployment is the subject. Few European or North American countries consider unemployment to be a very high priority. The two exceptions are Finland and France; most others are afraid to think about the politics of unemployment. Such diffidence was not characteristic of western European governments for much of this century. After World War I, the International Labor Organization was set up because the men at Versailles thought that unemployment led to social tension and war. There was similar concern during and after World War II. It is natural that unemployment should have political consequences when one considers the three elements of unemployment: you lose your job; you are rejected in your search for a new job; and your life is empty. Of course it affects society profoundly.

The best study of the effects of unemployment in Europe was of the Austrian town of Marienthal in the early 1930s. It reveals a terrifying process of apathy, decline of civic life and the growth of fantasy. Writing in a 1904 piece on "Full Employment for a Free Society," Sir William Beveridge said, "A person who has difficulty in buying the labor that he wants suffers inconvenience or the reduction of profits. The person who cannot sell his labor is in effect told that ...he is of no use. The first difficulty causes annoyance or loss. The second is a personal catastrophe."

What remedies are there? The most frequent solution at the beginning of the century was to reduce wages. In the mid-1930s, macro-economic management came into fashion. For Keynes, government expenditure and emphasis on the workers' own expenditure were the keys. In the 1980s, wage reduction reappeared. Now there is a more subtle form of wage reduction: structural reform and flexibility. And the newest orthodoxy is training. Experience suggests that all those remedies have major weaknesses.

So where are the new jobs? In the United States, over the last decade, 100% of the new jobs have been accounted for by private services and local government. It is often noted that many of these low-paid jobs are ghastly. That is no doubt true. But there is a strong trend towards new jobs in "soft services." These occupations are: therapists, kindergarten teachers, elementary school teachers, day care people, officials in local administration, lawyers, travel agents, prison officers, waitresses. These kinds of low-productivity service jobs are common in other countries that have approached full employment. In Japan it is the retail trade. In the EFTA countries, which had close to full employment in the 1980s, there were a lot of public service jobs.

To develop strategies to come to terms with this high percentage of employment in the service sector, much better statistics are needed.

Unemployment statistics are often misleading: who is discouraged? Who is in the labor force? And non-traditional considerations need to be measured, such as the contribution of a particular job to the degradation of the environment.

Second, we need strategies for valorizing services. The notion of a "social minimum" has been interpreted as meaning a minimum income. But for many thinkers, certainly for Beveridge, it meant a social minimum in terms of basic needs -- housing, health, education -- for every inhabitant in the society. Today, one might add environment to that list. The kinds of jobs required to provide that "social minimum" to all are highly labor intensive. Consider urban transport. A solution to this problem might be much better public transport, as well as improved communications, small electric buses and a lot of new technology. But there would be a shortage of bus drivers. Yet we have many young and middle-aged men who could be bus drivers. These jobs must be better jobs -- and better paid.

In looking at the role of government in providing incentives for minimum services -- whether private, semi-public or public -- it is important to think of these expenditures, not for macro-economic reasons, but to fill functions that are needed, thereby creating jobs. That might be costly, but tax rates have become too low. With such a policy, there would be a shift in government expenditure from transfer payments such as unemployment to payment of government employees. This would be a transformation of a bad sort of welfare state into another kind of welfare that would be more positive for society. To work politically, this change must be international. In the EU, this could mean high priority for coordinated expenditure, not so much on big roads programs, but on social minimums. Finally, on the "big politics" issue of free trade: during the first period of modern unemployment, at the beginning of the 19th century, there was intense pressure for protectionism. The same was true in the 1930s. Unless we engage in this effort, we will see a move towards protectionism. But Europe cannot be part of a world economy without doing something along the lines discussed. Nor, probably, can it be part of a world at peace.

#### *Second Panelist*

Unemployment is the major global problem of our time. It is a political problem and a security problem as well as an economic problem. Is there work for all? In principle, yes. There is no acceptable alternative to a positive answer. And we must do everything, step by step working

every day, to reach that positive answer.

Unemployment is already explosive in our western society and free market economy. Looked at globally, we have a time bomb of immeasurable magnitude. Unless we move aggressively, the western world will be faced with a wave of immigration on an unprecedented scale. The major security problem of the West could become immigration from the East. The worldwide level of underemployment is about 820 million people, twice the population of western Europe.

There are two interdependent economic problems. The western countries are wrestling with employment problems implicit in structural change. And the former communist countries and countries of the third world must be allowed to exploit markets that are appropriate to their competitive abilities. There are no perfect ways to eliminate unemployment, but there are areas that businessmen and politicians can address immediately.

There are also popular or ideological formulas that need to be disposed of. For example: total volume of work is a cake that must be shared among more and more participants by giving each a shorter slice of working time. This notion is especially popular in Germany. In 1995, the metal industry began to work a 35-hour week, a very unsatisfactory form of job creation, since the same amount of money is paid for less time worked. Another misconception is that one can redistribute wealth by shorter working hours. This is as unrealistic as the notion that the service sector can provide jobs for all those who lose them because of restructuring. And many economists have another "solution": income restraint and limits on wage increases. These approaches may have led to lower unemployment in the United States, but as a consequence of these policies, many Americans live close to the subsistence level. They are the "working poor."

Development of the emerging nations through high-tech transfer and rapid industrialization has also been a failure. The gap between rich and poor countries remains, with a few exceptions, as great as ever.

The most promising remedies for unemployment both in Europe and in the third world are technology, training, and capital. Technology in Germany is not really accepted, but it offers the only means of increasing the number of satisfying jobs. As for training, Europeans must stop focusing on job security and emphasize education that equips people for employment in a rapidly changing economy.

## Discussion

By asking the question: "Is there work for all?", we admit that the worm is already in the fruit -- that there is *not* enough work to go around. This is unacceptable. A solution must be found to unemployment. In the OECD today, practically no government really believes that competition is good; instead, they wonder whether unfettered competition is acceptable as we restructure our economies. This is dangerous because we are, possibly, coming to the end of regular business cycles at a time when three-fourths of the world's population is trying to join the global economy. If we want to create jobs in the future, we must support deregulation and liberalization. Once the three-quarters of humanity that are not in the OECD have joined the world economy, then we have a chance to create growth. Some of our companies show what can happen. They begin to invest in the underdeveloped world, and, rather than losing jobs at home, they actually add jobs at the higher end of the technological scale. Indeed, as another speaker noted, trade with the underdeveloped world greatly helps job creation in the OECD countries. In 1994, these countries had a positive trade balance with the developing world, and for Europe, the surplus was \$50 billion. Two-thirds of the increase in imports in the next few years will come from the developing countries. And in 1993, one of the worst recession years in recent memory, internal trade in the EU decreased by 10%, but exports to Asia went up by 16%, and to Latin America by 6%. The developing countries helped the OECD out of recession. We must fight the underlying ambivalence reflected in this question, an ambivalence we see replicated in the thinking of economic policy makers and governments. In Egypt, 500,000 people enter the labor market each year; 100,000 get a job; 400,000 join the unemployed. This is a dangerously destabilizing element for the entire region. The time has come for action, and, as has been suggested, the service sector ought to be the focus for this action.

Another participant said that the world needs a new "mind set," emphasizing wealth creation rather than redistribution. This is a leadership issue for both government and the private sector. But few countries have much of a track record. The welfare state seems to have run out of ideas. In the United States, there is a "fantastic" record on job creation, but a poor record on income distribution, with 1% at the top owning as much as 90% at the bottom. There are the eastern Europeans who used to guarantee employment but at a price that is known to all. Japan is interesting: there used to be 2.5% unemployment, and even as industrial

output declined, unemployment remained below 3%. This is because they took all the potentially unemployed people and kept them in a kind of "decent" employment, although it is not a very productive employment.

Several speakers spoke of the difficulty of making accurate comparisons between the situations prevailing in the US and in Europe. Statistics are one reason: in the US, there is a growing "informal" labor market and a growing tendency not to report income. This is proven by the widening discrepancy between income and spending data; indeed, spending figures are almost twice as high. Also, while it is true that Europe has a more "paternalistic" attitude towards the rights of citizenship than the US, wages have risen significantly in America. Some six million new jobs were created in the 1980s, and 60% of them paid above the median wage. And median income rose in between the 1979 peak in the economic cycle and the next significant peak, by 5%. Further, over the last ten years, wage increases in finance and wholesaling have risen much faster than wages in manufacturing. The US does offer a positive model of job creation, even though there was some slippage in the late '80s, which this participant attributed to tax increases in the same period and again, in the '90s when taxes were raised again. This slippage suggests that higher taxes will not lead to higher employment.

At the end of the session, the Chairman summed up: pessimism will not produce a solution. Nor will soft currency policies work. Unemployment cannot be limited by currency devaluations. And, finally, everyone agreed with the overall conclusion: there must be work for all.

## ATOMIZATION OF SOCIETY: IMPACT ON POLITICAL BEHAVIOR OF NEW TECHNOLOGY

"The problem with the future is that the future is not what it used to be."

--Paul Valéry

*The key difference between the current revolution in technology and the other epochal changes the world has undergone is speed. The information revolution has been here for a while in manufacturing: it is easy to tell the difference between a refrigerator of the 1970s and one of the '90s. It is hard, though, to tell the difference between an office of 1970 and one of 1990. But the change in the last five years could hardly be more dramatic. What has happened? We have had computers for over 50 years, telephones for over a hundred. What has happened is that the two have come together. The merger of computing and communication is the subject of this panel.*

### Panelist

The largest computer cannot replace a single human being, but it is disturbingly easy for a relatively small computer with a communications package to replace an entire office building of human beings. This merger has at least three important effects on society. First, huge numbers of people have direct access to information now stored on computer disks. The best example is the automatic teller machine. Imagine what would have happened had a job applicant gone to a bank a few years ago and said, when asked how to improve service, "let the customer write in our ledgers directly." Such a person might have been hired for his sense of humor. But that direct access has changed the way banking is done; it has also transformed the lives of tellers, messengers, order entry clerks and legions of others who used to have jobs. The second effect is, the lowering of transaction cost: the economies of scale, of mass purchasing. Look at a company like Walmart, which has 2,000 stores in the United States. Walmart used to buy disposable diapers from Proctor and Gamble by the carload. Now they buy them by the individual package; the diapers are only paid for as each package moves across the bar code reader. This has a profound impact on the way retail business is done and on employment.

Third, it is now possible for individuals to broadcast to the entire

world, without permission from the FCC or without spending any large amount of money. The Chiapas rebels in Mexico were on-line worldwide several days after their revolution started-- and at a cost lower than the price of a few rifles. Direct access has hollowed out many corporations and threatens to do more. The threat, incidentally, may be more important than the reality. Take the case of a person who sells fuel oil in the US. Twenty-five years ago, this person's drivers took oil from a distribution point to customers. When the truck was empty, they would get a set of forms. One set would be left with the clerk. The driver would carry the others to a distribution point. There, authorization forms would be added. He would bring the pile of forms to the pump, where a man with a clipboard would add some more forms, make some entries, and deliver the oil. Five sets of interactions were required before this driver returned to his own office with a report on what he had been doing. Today, there is just one employee left at this distribution point: the safety inspector. When a trucker requires more oil, he does not go to his office; there *is* no office. He drives to a pump and gets the oil himself. He takes a piece of plastic from his pocket and pushes it through a slot. He is connected to company headquarters by telephone, and the computer there prints the bill. Trivially simple technology; a bright engineering sophomore could have designed it. Yet across the United States, thousands of people lost their jobs. Adam Smith explained why it was better to have semi-skilled people make pins rather than master craftsmen. The craftsmen would want to do it all. It was far more efficient to have a group of people come together and assign each person responsibility for one step. Today, though, we find that these groups are threatened. We talked earlier about training. What kind of training can make jobs secure today? A fertility gynecologist working at one of the largest medical centers in New England has just taken a 5% pay cut; and his company must shed 10% of its workers. What happened? His particular group spends 20% of its time doing research. His hospital was doing fine. But it was impossible to bring in another gynecologist from the outside because of transaction costs. But with computers, those costs have sunk so far that the hospital can out-source those jobs. And the tie that held these sophisticated professionals together has disappeared. They are like longshoremen, who appear every morning at a shapeup to try to get work lifting bales of cotton. These jobs are auctioned off on a daily basis. Adam Smith's theory of the firm still holds, but the numbers in his equation have changed dramatically because of lower transaction costs. People of similar interests can band together. In some instances this a good thing: minorities can achieve group identity. In some cases it is bad:

militia men can find each other. No one need be ashamed anymore; people with similar views are just an "uplink" away. This is tribalization.

What does all this mean? Quality is cheaper than poor craftsmanship. A Swiss watch may cost \$1.50 to make. The cost of quality is negative. Making the same watch badly would cost \$30-\$50. At \$1.50, no supplier can be allowed to provide anything but perfect equipment. The line must work perfectly every time. Years ago quality differentiated successful companies from those that failed. No longer. Customer feedback used to be a determinant of success. No longer. Today, paying attention to customers is a nuisance because everything works. What's required is harmony: today's technology is at odds with itself, its users and with nature. We need ease of use, system integration and environmental renewal. New entrepreneurial businesses can be built around those values. They will replace these "hollow" corporations with institutions not concerned with paper shuffling. Jobs can only be created in an entrepreneurial infrastructure. It is shocking to find high quality companies in Europe that say they will move to the US when they get a little bigger. Their reason: the environment is better for a small company. Yet it is true that in the US, people can get together and make money more easily than they can anywhere else. Cysco systems is an example. A young couple working for a university. They had an idea. They applied for every credit card they could get. They put a second mortgage on their house. Three years later they had to give away so much of the equity in the fledgling business that the husband had to go back to work full time. They had lost control of the company. The woman was fired. The man left angrily. And between them, they took away \$320 million. Ten years after the company started doing business, it is worth over \$10 billion. The infrastructure that allows that kind of success could be built worldwide. Europe is wrong to use the recent upturn in the economy to keep people in jobs that ought to disappear. When the downturn comes, those employees will be out of work, and Europe's problems will be greater than ever. Governments cannot create jobs by talking to one another. What is needed is an environment where a Cysco systems can flourish.

#### *Discussion*

The information age is not just another evolutionary phase. It is qualitatively different, and it behooves us to think of our era in this way. In the service economy the computer made a rather limited difference. It was a personal tool that made individuals more productive, but it led to

little change in the process by which work is done. The knowledge economy, by combining personal computer and telecommunications, allows groups to be much more productive by sharing information to create knowledge. In the past, corporations were hierarchical, with considerable distances between those who did the work of billing, manufacturing or selling and the top. People in between were human information processors; now they are being replaced by technology. Coordinators were required; they are needed no longer.

This is as true in the service sector as it is in manufacturing. Information is now ubiquitous. The old flow from bottom to top is not necessary. Therefore, those who create value are the knowledge workers; they are no longer the people in between. The person on the line is the person using the information. We need fewer knowledge workers. They also can decide the best way to work. Training becomes information sharing, knowledge sharing, not something learned in a school or classroom.

Another participant noted that when a newspaper recently asked who were the most powerful people in the world, few statesmen were named. Most on the list, in fact, were those who dealt in information: Bill Gates, Rupert Murdoch, three or four managers of American pension funds. The hierarchy has changed. In part this is due to the inability of governments to control activities made possible by the new technology -- the satellite technology, for example, that allows speculators to speculate, the Mafia to internationalize its operations, or the drug cartels to move drugs worldwide. Society is no longer a pyramid; it is a network of temporary contracts with no more jobs for life, etc.

There are, however, some negative effects for individuals. We have so much information that we have no time to concentrate on any of it. Our culture becomes more superficial. The most successful politicians are "secondary illiterates." They know how to read, but we will not elect them if they are very well-read. There are other aspects that are quite positive, however. Interactivity allows us to argue. The final product is no longer determined exclusively by those who broadcast; the recipient has some input, too. There is also a right to be different; minorities are more equal than they used to be, thanks to the new technology. There is new globalization. We now have the same news, often in real time, all over the world. That gives us a sense of community. On the one hand there are more "tribes," but there is also more of a global community, though we often complain that there is an invasion of American culture. And it is possible that the information era will actually reduce the gap between have

and have nots, since it is easier to reduce that gulf between "info-rich" and "info-poor" than to narrow the gap between the materially rich and the materially poor.

Several participants noted that the far-reaching changes the world is experiencing in the information era are typical of the unforeseen changes caused by new technology. The automobile, for example, is destroying most American cities. And the new information technology is having a profound effect in areas one might not have considered. A speaker noted that when two dolphins died in captivity in Chicago, a worldwide protest developed almost overnight: the news media ran with the story. Internet communities formed. And civic leaders in Chicago were flooded with protests from New Zealand, Scandinavia, Germany. In diplomacy, we are seeing the mushrooming of non government organizations (NGOs), thanks to communications technology. Many huge international conferences are really meetings of these new NGOs. The Rio conference on the environment and the Cairo conference on women are two examples. Policy is increasingly made across national boundaries. One speaker noted that as Iceland prepared to revise its constitution, communications between a minister and Icelandic citizens over the Internet were monitored by people all over the world, and suggestions for constitutional improvements were forthcoming from many quarters.

The cost of food, another speaker noted, has been reduced by almost 15% in the last seven years thanks to information technology enabling better control of barges, rail cars and trucks. Creation of a global village of food cooperatives and shippers linked by computer networks has dramatically improved control; indeed, there has been 50% increase in business with half the inventory. Often, technology seems to be at odds with itself. In the area of health care, the ability to prolong human life has raised a whole skein of new ethical issues. Technology has led to the creation of new financial products like derivatives, which have, of course, posed micro-risks to individual institutions but which pose systemic risks to the world financial community. And the quantity of information is so overwhelming that the old formula, "garbage in, garbage out," has become "garbage in, gospel out."

Will the shifts in power relationships be democratic? Probably. Even fears of tribalization could lead to participation by many who would otherwise be excluded. Certainly it is better to have militants participate on the Internet than through violence. But what about technological illiteracy - the ability to critically assess the huge amount of data they can access? And who organizes the data? Also, while it is today quite cheap to access

data it may get more costly, and then there will be haves and have nots again. Since there are no barriers to information, need and curiosity allow people with tangential need to join in, which would not have been possible in the past. Are we creating a world in which people, freed from greed, are able to sit quietly at home playing with the gadgets that put them out of work? But individuals will still have conflict, and there will still be need for institutions to deal with them. We used to have churches, party systems, a market economy, to settle conflicts among groups. But with society made up of so many individuals, what will take the place of these institutions? We may already be in a post-information era. It is no longer that amount of knowledge one has or has access to, but one's ability to sort it and use it that counts, and in this society, the most valuable commodity is attention -- the ability to command it and the willingness to give it.

## LOOKING [BACK] AT WASHINGTON

*As the moderator pointed out at the beginning of this session, there has been a voter rebellion in American politics. The Republicans have gained a majority in the House of Representatives for the first time in forty years, they hold a majority in the Senate, they hold a majority of the governorships in the largest states in the union, and the mayoralty in the two largest cities -- traditionally Democratic strongholds -- New York City and Los Angeles. What are the consequences for American domestic policy, especially in the fiscal area, and what are the consequences for American foreign policy?*

### *First Panelist*

The recent election was not a vote for the Republican party, but a rejection of the Democrats. And although the Republicans claimed that it was their platform, known as the Contract for America, which won them the majority in the house, very few voters understood its contents prior to the election. In point of fact, the newly elected congress rejected the two linchpins of that contract; a balanced budget and term limits for members of congress. At the same time, however, the Republicans took it as their mandate, addressed all ten points of the Contract in the first few months of this year, and passed all but the two mentioned above.

There are a number of reasons for the sudden downturn of the Democratic party's popularity since President Clinton's election two years ago, many of which have been developing for a long time. In a poll taken in the late 1950s, 76% of Americans declared they could trust the American government all or most of the time to do the right thing. Last year this same poll produced a 19% level of trust, which some think would today be around 13%. Much of this can be explained by the end of the Cold War. The vast majority of both Republicans and Democrats felt that during the Cold War the federal government was performing an important role; resisting Soviet aggression and preventing nuclear war. Now Americans are looking inward; they are criticizing the government for too much regulation, and for spending too much money on programs that don't concern the American voter. Politicians today are envisioned as being motivated by ambition and greed, and sadly lacking in personal integrity.

This leads to a dichotomy between what most people who watch Washington believe is true and what the public thinks is true. For instance, preceding the election last year, polls were taken which indicated the country was still in recession. In point of fact, however, the Federal Reserve had raised short term interest rates five times to cool off the strength of the recovery. Most Americans thought their taxes had been raised. But the tax bill in 1993 didn't affect any individuals with a gross income under \$140,000, or \$180,000 for a married couple. In short, the Democrats didn't tell their story very well, whereas the Republicans' attacks on the Congress and the Administration were masterful.

#### *Second Panelist*

The 1994 election in Washington was the end of a political era which began with Roosevelt, an era with Democratic Party dominance which had lasted for sixty-two years. This is unlike European politics where there is more apt to be an oscillation between two major parties in a parliamentary system. In spite of the election of Republican presidents during this time, the Democrats were safely in the majority; they controlled Congress and held the majority of the state governorships. This began to fall apart in the last quarter century, with the victories of Presidents Nixon and Reagan, but it didn't end until November, 1994.

Although the American public didn't necessarily understand the details of the Contract with America, they had a sense that it did stand for less government, lower taxes, less regulation, tough welfare reform, as well as taking on the public sector interest groups, and the like. The degree of swing in 1994 should not be underestimated, and rather than viewing the election as just a rejection of the Democrats, we should see it as the dawn of a new political era. The 1994 election was not unlike the 1930 election, the off-year election which broke thirty-five years of Republican hegemony and brought the Democrats to parity in Congress. They became the majority party in the election of 1932, continuing in 1936 and afterward. It is not impossible that this same pattern could be repeated through the rest of the 1990s.

This new era is notable for several reasons: whereas the President has historically shaped the domestic policy agenda, this is not true any more. Congress will do so. Whereas people traditionally consider political parties to be weak, there has never been such cohesion as exists within the Republican members of congress today. Historically, voters have seen candidates who run bold campaigns, and then become more moderate when

in office; not true in today's Republican congress. If anything, the Republicans in Congress are taking their platform further than anticipated. If the voters ratify the performance of the current Republican congress and the Republicans maintain the majority in the 1996 elections, and if a Republican President is elected at that time, there will be a Roosevelt-type realignment in store.

#### *Discussion*

The discussion began with the moderator commenting on the changing face of the Republican party in the United States today. The heart of the party has often been an economic conservatism and an international approach to foreign affairs. Now, there is an additional element of social conservatism and populism which should not be overlooked. This could lead to a balanced budget sooner than might have been anticipated but also presents problems for American foreign policy. The NAFTA and GATT agreements, for example, might not have been passed by the current congress which is more focussed on internal fiscal responsibility to the possible detriment of international trade relations.

A Canadian commented on the division of power in the American government and asked the panelists to address the apparent necessity of making a "deal" in order to reach agreement between Congress and the President. This participant wondered whether any President, including a strong one, can lead effectively when so much power is given to the congress, especially a one which is so decentralized and where there is no focus of power or accountability. With the new direction of the recently elected Congress, will we see a greater ability to get things done? And what effect will this have on America's continuing relationships with Europe, as well as the rest of the world?

This concern was repeated by several participants, one of whom asked the panelists to comment on the extraordinary swings, not only in the United States, where the Republicans assumed the majority, but in Canada, where the Conservatives sustained major losses, and in the recent Presidential election in France, where the leader in the polls ended up losing in the first round of balloting. To this list of sudden changes in power, the first panelist added the instability which threatens governments in Germany, Spain, Italy, Japan and, even at this very moment, the United Kingdom. Therefore, it is misleading to highlight exclusively the shift to conservatism in the United States; established parties on both sides of the political spectrum around the world have been the victims of voter

disillusionment. A Canadian reenforced this view, noting that Bush had been defeated because the voters felt he did not have their interests in mind and Clinton offered change. But Clinton, in turn, has given the impression of not living up to his promises.

A Canadian underscored the importance of listening to the voters by describing the successful election of Premier of Ontario, a Conservative, the previous day. His election, based on a platform of reducing the debt, addressing welfare reform, and cutting back on other government programs of assistance, reflected the public's wish to reduce spending. The speaker noted that a platform no different from the Contract for America had been implemented in his own province, where the voters demanded that the government get its spending under control. With that mandate, his government embarked on a program which took a deficit of \$4 billion Canadian dollars to a surplus this year of \$1.2 billion Canadian dollars. The actual reform will not be sustained quietly, and this is where politicians usually fall down; they promise to reduce the debt but not in areas of special interests. Instead one must institute a strong program of reform and restructuring, placing the responsibility of implementing these programs on the individual organizations involved.

Several speakers asked the second panelist where foreign policy fits into the new conservatism. For example, in the election of 1992, President Bush asked the voters who they were going to trust, assuming they sought trust in foreign policy, whereas they really sought trust in strengthening the economy which, in turn, would lead them to a role of greater competitiveness in the world. Those voters felt they had been let down in this promise. which may explain their increasing lack of interest in foreign policy as a whole. They are not ready to support causes beyond the borders of the United States when their own standard of living has decreased. However, stated another speaker, the two leaders of Congress, Gingrich and Dole, are internationalists and, one hopes, will remember America's responsibility in world affairs while at the same time reducing government at home.

A speaker from Denmark did express concern that while the Republicans in the United States intended to get their own economic house in order, he feared the focus was out of proportion to the need for strengthening foreign relations. The Atlantic Alliance has a unique opportunity to create a period of stability, but if there is a surge of populism - which means abdication of leadership - where is American foreign policy and what would be the cost if none existed? A participant from Britain supported this concern, asking the panelists to what extent

they realize that many of the policies one sees coming out of the US Congress will have an isolationist effect. For instance, it is difficult to see international collective action on issues such as the environment, population, or peace and security effectively carried out without some American leadership, resources and, as a last resort, military force. A speaker from Portugal questioned where GATT and NAFTA would fit into the Republican's New Era. Did American intend to rely on regional trade or would it support international trade and live by the guidelines of the World Trade Organization

Several participants came to the defense of the current Democratic administration. One termed the 1994 election not as a swing to conservatism as much as a reflection of the fear, anxiety, and feelings of economic insecurity which are felt by the whole spectrum of the working public, many of whom know their jobs are constantly in jeopardy. Although their fear is as much the result of corporate downsizing, expanded technology, weakened unions, and global competitiveness, they blame the politicians for their troubles and turn to new voices for hope.

A member of the Administration supported the concern of several participants, noting that Congress is trying to force American leadership into a retreat. Examples include substantial cuts in international programs; cuts in Russian aid, hampering that country's ability to reform; cuts, if not elimination of peacekeeping bills, undermining America's ability to help the UN and NATO, not just presently in Bosnia but in any future area of international concern. The panelist representing the previous Congress concurred, noting that while the previous Republican administration was appropriately frustrated when the Democratic Congress tried to block some of its programs, some of the current proposals in Congress go a great deal further in hampering progress. And while the leadership in both houses is internationalist, it has occasionally been hampered when rank and file members have withheld support.

## CURRENT EVENTS: TURKEY AND THE ATLANTIC ALLIANCE

*During the Cold War, Turkey's strategic location was a familiar topic: the country was NATO's southern flank; the principal barrier to Soviet penetration of the Middle East; bulwark of NATO and the American presence in the Mediterranean. Now, with the Cold War over and the Soviet Union but a memory, Turkey remains strategically situated for a series of new reasons. It is critical to western policy in the Persian Gulf, particularly with respect to Iraq; it is a bridge between the West and former Soviet central Asia; it plays a significant role in the Middle East peace process and is influential in the Balkans and central Europe. But the most critical aspect of Turkey's strategic importance is not its geographic position but something more figurative: its position between the western democratic world and the nearly one billion Muslims. Bringing one of the largest Muslim countries in the world into the family of western democracies is a great opportunity; yet at this moment, Turkey's relations with Europe are troubled. The power vacuum that developed in northern Iraq has led Turkey to send troops across the border in pursuit of Turkish Kurdish separatists. This, in turn, has caused grave concern among European Union members who have only recently voted to admit Turkey into the customs union, a vote that has yet to be ratified. Human rights considerations and repressive constitutional remnants from the era of military rule create obstacles to further integration of Turkey into Europe. Finally, the unsettled question of Cyprus hinders efforts to win assistance for Turkey in both Europe and in the American Congress. Participants returned repeatedly to another question: will Turkey evolve domestically in a way that makes it part of the west, or will it turn towards fundamentalism?*

### *First Panelist*

The disintegration of the Soviet Union and the reunification of Germany transformed Europe in the late 1980s. In the resulting atmosphere of instability, a new order was required to address security needs of Euro-Asia.

NATO, a defense organization that had stood the test of time, had to adapt itself to wholly new conditions or become an anachronism. At the 1994 Brussels Summit, a decision was taken to study the enlargement of

NATO through admission of democratic countries to the East.

This is a complex and difficult undertaking. It is too early to predict the outcome -- either with respect to the members who may be admitted or the time frame. As NATO studies the issue, however, the interests of Russia must be taken into account. Russia's location, importance and history require this if stability is to be achieved. But Russia must not be given a veto on enlargement nor on NATO's activities. Rather, the scope of cooperation between Russia and the alliance should be commensurate with her weight and role in international politics. Russia's signature in May on the document about enhanced NATO-Russian cooperation must be viewed as a major step forward.

The ongoing clashes in the former Yugoslavia remain a major concern. NATO will be called upon increasingly to undertake missions different from its traditional function of guaranteeing the collective defense of its members. The alliance has offered to support peacekeeping operations on a case by case basis under the authority of the UN Security Council or the responsibility of the OSCE. Such operations include making available alliance resources and expertise, but, needless to say, the alliance should not be a sub-contractor for another organization. Full operational command should stay with the Allies. The humiliation of UNPROFOR in Bosnia should not be repeated. The strategic concept behind the alliance allows it to act in a flexible and timely manner. Adaptation of the alliance's command and force structure will make NATO more useful in the future, an important consideration, since, even though there is a new European order, there is no viable or reliable European security architecture. Only NATO with its integrated military structure can address the new security challenges: terrorism, fundamentalism, racism, and ultra-nationalism.

NATO can provide security and stability in a world that has become more unstable and can prevent Europe from backsliding into fragmentation and the destructive logic of counter-alliances. NATO can keep trans-Atlantic relationships working smoothly and effectively. NATO has ended centuries of balance of power politics in Europe and has assured a US presence on the continent; its dissolution and the disengagement of the United States would undermine Europe's drive toward further integration. Turkey has defended western values since its creation. It has joined western organizations and has played important roles in them. Turkey has been part of the process of European integration since 1964. It has developed its own model for development, one based on its economic, social and political choices. Following this model has brought Turkey face to face with challenges posed by its neighbors and others in

the region. Expansion of NATO must take place simultaneously with the expansion of other integration processes in Europe. Countries that have contributed to western defense for more than 40 years within the framework of NATO should be accorded full union. Turkey has shared western values since its foundation in 1920, and Turkey's request for full membership in the European Union continues that tradition. Turkey is situated in one of the most troubled regions of the world, and it is even more important now than it was during the Cold War because as a Muslim society, and a democratic, secular state, Turkey is a model for one billion people in the Islamic world. This is not an easy position, but the Turkish people are committed to this path, and they believe that their partnership with the west will help them as they follow it.

The history of the world is not the result of one cultural development. It is the result of mingling of cultures. The question is: will the West let cultures clash -- a clash that will lead to new, and probably more severe, conflicts than we experienced in the era of a the bi-polar world; or are we going to let cultures intermingle? Turkey is the only country that can serve as a guide along this difficult path.

#### *Second Panelist*

Turkey's strategic location subjects it to two very strong forces, the tug of American foreign policy and the attraction of Islamic fundamentalism. So strong are these contradictory pulls that Turkey offers one stop shopping for the problems of the post Cold War world, a 360 degree foreign policy nightmare. Since the end of the Cold War, Turkey has become the epicenter of the newest regional system of central Asian states, primarily ethnically Turkish, running from the Balkans through the Caucasus into central Asia. The United States and Europe have a fundamental interest in assuring that this region follows the Turkish, not the Iranian model. Turkey must be anchored in the European Union.

In recent years, the US has had two policies in Turkey: a European policy and an Iraq policy. The former has been relatively astute, and consists of using the US's leverage to tie Turkey to the EU. The latter has been brain dead: if a power vacuum in the Kurdish areas of northern Iraq is maintained, Turkey could fall out of the EU and into the abyss of northern Iraq.

Over the last two months, the world was given a case study of the impact these two countervailing forces can have. A vote was scheduled that would allow Turkey into the European customs union. At the same

time, some 30,000 Turkish soldiers invaded northern Iraq to attempt to break the back of the Kurdish separatist party, the PKK. The reaction from the European Union was swift and predictable. Essentially, it said, "If that's the real Turkey, the Turkey that attempts to stifle Kurdish nationalism, then that is not a country that we want in the customs union." There was a perfect example of the conflict between these two policies: the effort to anchor Turkey in Europe and the effort to bottle up Saddam Hussein in Baghdad by maintaining a power vacuum in northern Iraq.

There seem to be four options. First, a deal could be struck between Ankara and Baghdad that would allow Saddam to re-assert his authority over the Kurds in northern Iraq to fill the power vacuum. The second would be a collaboration among the US, Turks and the leading Kurdish families of northern Iraq to build a government structure that can assure Turkey that its border will not be violated. This assumes that an end can be put to internecine squabbling among the Kurds. Third, "the south Lebanon solution", where Turkey would go in and out of northern Iraq on a periodic basis just as Israel goes in and out of southern Lebanon. But it is an open question whether Turkey could pursue such a policy and still win admission to the EU. A fourth option would come into play if something were to happen to Saddam Hussein, and another dictator replaced him who would be allowed to move into northern Iraq to fill the power vacuum. Option two is the least bad option from the Americans' point of view, but they have not pursued it very strongly as yet. If it is to be pursued, then a very high level mission capable of getting the attention of the Kurds is required.

Islamic fundamentalism is essentially a secular phenomenon. It is about grievances and a protest against governments that do not function. It is about television -- about resisting the invasion of western values into traditional patriarchal societies. And it is about economics: all Islamic fundamentalist movements have failed on that front. People have bodies and souls, and feeding just one of them for too long will prove disastrous. That is the main flaw of all Islamic fundamentalist societies that have emerged since Ayatollah Khomeini went back to Iran.

#### *Discussion*

All participants believed strongly that Turkey is committed to remaining secular, democratic and free market. This will be easier to do, though, if Turkey is accorded full membership in the EU. Turks feel that Europeans and Americans confuse the "Kurdish problem" with "terrorism."

Turks live comfortably with Kurds; terrorists are bent on dividing Turkey. Finally, Greece does not wish a divided or demoralized Turkey, notwithstanding long-standing hostility between the two countries over Cyprus. Indeed, some Greeks see the two nations as being a potentially positive force for improving the situation in the Balkans: working together, Orthodox Greece and Muslim Turkey could be honest brokers for the populations of the former Yugoslavia.

A participant pointed out that Turkey's problems with Iraq resulted largely from forces over which Turkey had scant control: the Gulf War was not a Turkish project, although Turkey did support its allies. When the war ended, there was a power vacuum in northern Iraq that no country but Turkey dealt with. There are pipelines with a capacity of eighteen million tons of oil a year running between Iraq and Turkey. These are now idle and deteriorating. There is anarchy in northern Iraq. To whom could Turkey talk about the emerging menace? This spring, Turkey said that it would not occupy Iraq, and it was true to its word. Once its military operations were concluded, its forces returned to Turkey.

Whatever new problems have developed since the end of the Cold War, one from the past still clouds the outlook for stability in the area: Cyprus. Until this is settled -- until Greek and Turkish leaders do what Adenauer and de Gaulle did to bury the centuries-long hostility between Germany and France -- there will be little chance of lasting peace. The international community has been supportive of the effort to have Turkey join the EU. Even Greece has not used its veto to keep Turkey out of a customs union. The US has appointed a special task force to work on this problem. The EU listed Cyprus as a candidate member when it offered Turkey membership in the EU customs union in March. The decision to admit Turkey must be ratified by the European Parliament, and an American participant emphasized how critical ratification is: without admission of Turkey to the EU, it seems unlikely that there will be progress on Cyprus. A European emphasized that the Community understood the linkage: admitting Turkey, a non-member state -- into a customs union with the EU, is unprecedented and is not being undertaken lightly. Like the US, the EU knows that Cyprus is the key to stabilizing relations with Greece, but it was noted that certain elements in the Turkish constitution such as those limiting freedom of expression need to be rectified for political relations between the EU and Turkey to develop fully. The Turkish government has prepared a package of measures that addresses these problems, which it will submit to the Turkish parliament. Should the parliament reject this package, then Turkey's integration into the EU would

be endangered. But, this speaker stressed, matters between Turkey and the EU are much more satisfactory today than they were just a year ago, and there seems to be considerable hope that they will improve further once membership in the customs union is in place.

Another European speaker expressed sympathy with Turkey's position as a nation "in a waiting room," and he noted that Europe's carrot-and-stick policy towards Turkey is influenced by more than foreign policy. In a country like Germany, for instance, which has more than two million Turkish workers, policy towards Turkey has important domestic aspects. Many young people in Germany perceive movements like the PKK as liberation movements, not as the terrorist group that they are. And, as Turkey manages to control terrorism within its borders, the PKK becomes more active elsewhere. Returning to the idea of carrot-and-stick, would it be helpful to link improvement on Turkey's human rights record to customs union admission? Might this have a positive effect on domestic opinion in countries like Germany?

Islamic fundamentalism is a critical element in the tug of war over Turkey; yet, one speaker noted, few people, and perhaps least of all, the western diplomatic community, make much effort to understand what is at issue. Usually, the "solution" is rather reductionist. The questions are simple: "Who are these fundamentalists?" "What do they want?" "What do we do with them?" And the answers are little better: nuke them; cajole them; ignore them. The focus is usually on the pieces of the puzzle, but the entire picture needs to be reconstructed. Islamic fundamentalism is a universe, not a collage.

## IS THERE STILL A NORTH ATLANTIC COMMUNITY?

*Whereas a great deal of importance has been given to the relationships within the Atlantic Alliance on economic terms and trade issues, the more subjective feelings within and between the member countries merit closer attention and scrutiny. Each of the two panelists addressed the underlying currents in Europe and America which contribute to the tenuous nature of this relationship and how it affects the more concrete differences across the Atlantic.*

### *First Panelist*

A new political initiative for the North Atlantic area is essential and this is being debated within and between three different generations in America. The first generation, which developed its views on foreign policy during World War II and the post-war reconstruction, believes in an important geo-political role for America and that this role has been beneficial, constructive, and essential. The next generation, whose formative experience was during the Vietnam war, believes that American intervention abroad has not always been beneficial, has often reflected grave faults in the American society, and that these faults have to be remedied before Americans can consider themselves qualified to be active abroad. Such activity, they feel, should be more in the direction of human rights and other improvements than in the more political strategic orientation.

Then there is the post-Vietnam generation, today's young adults who, on the whole, are more conservative in their outlook but, at the same time, are clearer about domestic policy than foreign affairs. In America this generation has to be given some sense of direction and, as Americans, some cause for which they can commit themselves.

All this is happening at a time when all over the world every major country is facing an unprecedented era; a world of five or six more or less equal powers which have lost their capacity to affect events and who are without a strategic or a clear-cut ideological enemy. The United States, for example, can neither dominate the world, nor withdraw from it. America may be the only military super-power, but the events that can be affected by military force are shrinking and are very specialized, such as the former Yugoslavia. Experience in America forms no basis for operating in a world in which logic requires equilibrium. Theoretically, the US could

play the role of Britain in the nineteenth century; splendid isolation, backing the weaker against the stronger. But to do that on a global scale would run too contrary to basic American convictions.

Concurrently, Europe is in the process of forming itself. As a nation-state it is too small to be a global player and its make-up is yet to be determined. Russia finds itself within borders it has not known since Peter the Great. It is trying to form a democracy without the traditions that generated democratic principles in the western world, with a state church rather than a separation between church and state, with no enlightenment, with no capitalism and with no practical experience of democracy at a moment when it has to adjust to a loss of empire.

China will be a huge player in the next century. And the issue presented here today repeatedly is that one has to educate China and encourage it to be restrained. It is possible that the weight of China, whatever the formal intentions of the Chinese leadership, will be so great as to profoundly affect its attitude. And this will limit the degree to which the Chinese can afford to break with the West on most of the current issues we now face.

With all these enormous changes taking place -- including the huge changes in the Islamic world and the growth of India as a potential super power -- should the nations of the west deal with them individually or as a group? Any attempt to deal with them on a regional or national basis alone will lead to a continuation or to a resumption of the western civil war that started in 1914 and ended in 1945, and would exhaust western values and institutions. For instance, one cannot travel through China, or Southeast Asia, or India and see these huge industrial capacities being built there without at least asking the question whether at some point this will not lead, either to a substantial lowering of western standards of living or to a need to reorient our societies in a fundamental way to avoid a fundamental lowering. We keep talking about a Pacific community. In point of fact, the relation of the Asian nations to each other is most similar to that of the European nations in the nineteenth century. Japan, China, Korea, India, Southeast Asia do not look at each other as part of a community but as strategic opponents. Therefore, the West must address these problems in some community form, most logically by the expansion of NATO. This should not be viewed as a way by itself to hold the Atlantic Alliance together; rather, it is a way to avoid debacles. Another unifying method would be to form a North Atlantic Free Trade Zone. The most essential ingredient is strong leadership; our leaders should put before us some concept on which we can work now, which is not social reform

or some technical problem, but which will perform the most important function of the Marshall Plan; the purpose of which was not to transfer money but to set a common goal towards which Europe and America could work together.

### *Second Panelist*

The North Atlantic Community continues to exist for three reasons: a common civilization, history, and common interests - both economic and political. The first, civilization, will become more important as other powers, such as China and the Islamic world, surge. The concern is how to manage the transition as we enter a period of great disequilibrium.

How does one define "Atlantic", at a time when the limits of Europe are ill defined? During the Cold War, Europe was everything west of the Iron Curtain, but today there are no clear boundaries. As we look back in history, the divisions of Europe were defined by the Eastern and Western Roman Empire, the Western and Eastern church, and others, all very relevant today. So, today we don't need to invent new institutions; our present institutions are very good. The problem is to manage the transition, by adjusting present institutions to the new realities. Establishing a free trade zone is a good idea because it reinforces mutual interests. At the same time we need to identify and implement specific security needs in this increasingly unstable world. If we succeed in managing concrete problems such as Yugoslavia, we can be optimistic for the reshaping of a new transatlantic relationship through current institutions, such as NATO and the EU. But if we fail in the concrete problems, in favor of abstract solutions, we will court disaster.

Therefore the situation is very uncomfortable for all of us. We must try and navigate through blurred vision in an environment which has very little logic and requires a great deal of pragmatism. It might be useful to consider an Atlantic Charter which would define a renewed relationship in very broad terms.

### *Discussion*

The moderator began the discussion by noting that the Atlantic relationship has been affected in two ways; the common concern - fear of the Soviet Union - is no longer there and the organization which was set up to deal with Atlantic relations - NATO - is now becoming less central. Unless we remind ourselves that our common interests go beyond security

and our institutional needs go beyond NATO, we are unlikely to deal with the problem. A former Secretary General of NATO concurred, noting that with the unifying fear of the Soviet Union removed, Europe and America have drifted apart; Americans no longer consider the relationship with Europe as vital and Europeans feel the American nuclear umbrella to be no longer necessary, both views being extremely shortsighted. In response to a perceived decline of interest on the part of Americans towards Europe, an American noted that although Washington is trying to balance its budget, the defense budget will not be cut and America will continue to maintain the present level of troops in Europe.

However, a number of participants picked up on this theme, questioning whether Europeans and Americans felt, with the demise of the Soviet Union and the end of the Cold War, the same responsibility towards each other's well being or even if America would remain a member of the Atlantic Alliance. Some speakers suggested that it would be wise to develop new common interests to hold the Alliance together, such as environmental issues and a free trade zone, as two examples. This led to several people reminding the group that members of the Alliance needed to work more diligently on agreeing to a common approach to present situations, such as Bosnia, before looking for new areas on which to collaborate. In addition, noted one participant, there remain many threats beyond both Bosnia and the Soviet Union. Just because the Soviet Union no longer presents a threat, this does not totally eliminate security issues as a central concern to both Europeans and Americans: Iran, Iraq, the current situation in North Korea, the emergence of China all demand our watchful eye and joint focus.

There was some disagreement on the role free trade might play in cementing the Atlantic Alliance. Several participants felt that a free trade area would dilute the effectiveness of the recently concluded GATT agreement; some worried that the agriculture and textile interest groups would hamper any free trade movements, whereas others felt that a common interest in a free trade area could go far in replacing the threat of the Soviet Union as a binding force and reason for continuing dialogue.

A British participant noted that to date, even though some trade negotiations have been bitter, they have been handled well. But with other common interests disintegrating, most particularly the security threat, members of the alliance have been less determined to arrive at common solutions. Others underscored the importance of looking towards the industrial evolution of other countries - China, Singapore, Vietnam, for example - as opportunities for investment rather than threats against

American leadership.

A German agreed with the panel, commenting that all of the participants have grown up during the Cold War, with foreign policies based on defense and deterrence, rather than programs focussed on shaping the future. It is time to think more non-militarily, and to be more concerned with the future quality of life, which will mean convincing leaders and the public to pay the costs involved.

Addressing the statement that the current boundaries of Europe are ill-defined, the American panelist stated the necessity of drawing those boundaries now. It would be impossible to talk about expansion without having a clear-cut understanding of Europe's borders today. This same participant warned that the Atlantic Community won't succeed with questions like Yugoslavia unless there is more dialogue on the purpose of any of these goals. Several participants agreed with this speaker, noting that although Americans find that the constant changing of European leaders hampers continuing dialogues, more communication between Europe and America on common goals is essential.

## SHOULD THE EUROPEAN UNION INTEGRATE FURTHER, AND WHY?

*The Maastricht Treaty maps out further steps towards integration with its provisions for economic and monetary union. But the Treaty also states that Europe should develop its own defense policy and identity as well as increase cooperation across borders to fight crime, and harmonize policies on refugees and asylum. Finally, Maastricht calls on members to consider enlarging the European Union and to weigh what changes would be desirable to accommodate new members. It is unlikely that institutions designed for a union of six members thirty years ago will suit a Union that may eventually have as many as twenty five members.*

*During the discussion, considerable passion developed on several questions, but three topics dominated. First was the deepening vs. widening of the European Union. Many felt it important to develop the ties that bind the existing members together, while others felt it more important to bring new members, particularly in eastern Europe, into the Union. One felt that deepening was essential if widening was to be successful. The second main topic was monetary union. Most speakers felt it was the sine qua non for successful integration and future competitiveness. Others felt it was not necessary and was an obsession of Brussels-based Eurocrats. Finally, there was a sharp cleavage among those who felt that Great Britain would be unwise to join wholeheartedly with Europe, and those who felt that this view was, "negative, defeatist and unhelpful".*

### *First Panelist*

Integration is majority voting. It is a mechanism for decision-making. It sounds very technical; actually, it is very political. The decision-making system determines the legal character of the union. Majority voting gives the political union the features of a state. The decisions of the Council have direct legal consequences for the citizens of all member states. This means that democratic control cannot be exercised by national parliaments, but only by the European parliament. Why should integration go further? Reality has changed for Europe, whether one is talking about economics or crime. Europe needs common decisions because it is dealing with a common reality. This means that Europe needs

common institutions. Europe faces common challenges, and therefore, common interests. Without common interests, there would be no chance for European unification. Our point of view may differ quite substantially, but our vital interests are the same, and none of us can master them alone. Common institutions are both necessary and attainable.

There are three ways of making decisions, but only majority rule can work in a democratic system. Unanimous voting does not work. We must have majority voting in the European Union, if we are to have efficient decision-making. In a monetary union, central banks can only coordinate policy by majority rule. And monetary union is the key to further integration. Without currency stability there will be no possibility of job security or economic growth. Monetary union is the key issue, which is why it is so controversial in the United Kingdom. If a union is established, the UK will join, and this will change Britain's attitude towards the EU. The Act of Union of 1707 joined England with Scotland; it is hard to believe that at the end of the 20th century, we will not be able to join Britain with Europe.

#### *Second Panelist*

Economic integration has been an overwhelming success. Not only must it go ahead, it should be accelerated. Foot dragging in areas already agreed upon must stop. Next, state monopolies must be opened up. On physical integration, a happy medium must be found between Jacques Delors' European network and the practical reality of fifteen finance ministers who do not want to finance more than a fraction of the plans for such a network. Cut out those that do not pass the cost/benefit test, and get on with the others. A European company statute is needed. In the United States, a company incorporated in Delaware can do business anywhere. Building the network of subsidiaries required to do business in Europe is horrendously expensive: approximately \$40 billion. Finally, a monetary union would force weak political leaders to grapple with their deficits, and their interest and inflation rates in order to move towards convergence.

Big gains are in prospect if vertical integration is speeded up; even bigger gains loom if horizontal integration is accelerated. The European Union should extend to the East and to the South. Such expansion is not a threat to the EU but an opportunity. It is not a question of solidarity; nations rarely take serious steps in the pursuit of solidarity. But they do in pursuit of narrow national interest. Expansion is a narrow national

interest for western Europe. And it is a win/win situation. Expansion would bring huge new markets. In central Europe \$100 billion must be invested just in telecommunications; several times that much is needed further east. Transportation, energy, modernization of industry -- all offer opportunities for export-hungry western Europe. The Czech Republic and Poland have turned the corner, and they have money to pay for these exports. There are still many barriers; no matter what one hears from Brussels about free trade, tariffs of 50% to 100% are in place for textiles. Division of labor is terribly important, and it is much more difficult without integration. There are, further, great opportunities in direct foreign investment. The percentage of such investments going to eastern Europe is pitifully small. Direct investment brings more than just money. Compare Poland with Spain. Poland's GDP is seven times that of Spain. Since Spain joined the EU, it has received \$160 billion in foreign direct investment -- a major lift. Last year, Poland got \$1.3 billion. At that rate, it would take a century for Poland to receive as much as Spain. Eastern Europe is especially suited for foreign investment, since it is rich in human resources. Poland, for example, has an impressive number of highly qualified engineers.

Some prospective members of the EU have poor economic records: high inflation, high debt as a percentage of GDP, high levels of subsidy. But for every bad story one sees among candidate members, there is an equally bad -- or worse -- record for a country already a member of the EU. Other countries further east are not yet ready for membership. Perhaps they never will be, but they could be given associate status, or arrangements for cooperation could be worked out. Finally, on the southern flank, where there are 300 million people. Turkey should, of course, be admitted. But economic cooperation should be intensified with the others. Many of these Mediterranean countries have huge unemployment -- up to 50%. This is a ticking bomb. Europe cannot simply turn its back on these people even if these countries are not ready for membership.

#### *Third Panelist*

In spite of the importance of the unification of Europe, as well as the provisions of the Maastricht Treaty, we should be skeptical about the way Europe is developing. The question: "What is further integration for?" is asked, but it is not answered. Some people say, "More majority voting." But more majority voting is a means, not an end. It is necessary

for further integration but, except for monetary union, it is unclear what will be achieved. There is some talk of a "common reality," but the one common reality of European history in the last two centuries is the reality of the nation state.

Two things ought to happen. First, one ought to be frank about the intention to take power from national parliaments and give it to a centralized parliament that looks increasingly like the government of a nation state. Second, someone ought to attempt to show that this will improve the way people are governed.

What are the arguments for further integration? "Peace" is the usual answer. But integration did not keep the peace after World War II. NATO did. If integration did help, it does not follow that further integration of a bureaucratic kind will help more. The single market has been, in the main, realized already. Much of the good that will result from further trade liberalization will be the result of the work of the World Trade Organization or similar bodies. Much legislation designed to promote the single market is simply unnecessary. A single market does not necessarily require a single sales tax. In the United States, the fifty states regulate sales taxes.

Much social legislation being enacted in Europe is making Europe the high cost producer; the high unemployment--slow growth area. And Maastricht has done little to improve Europe's infrastructure: the Channel Tunnel was not built because of Maastricht.

The single currency is worrisome on both economic and political grounds. A single market does not require single currency, as NAFTA proves. Fixed exchange rates ended in 1972, yet world trade has expanded at ever increasing rates: what evidence is there that floating rates inhibit trade? A currency union will lead inexorably to a political union. More power for the European parliament makes sense only if the intent is to create a state called Europe. Yet there is no evidence that the people of Europe will be better governed if the changes that are proposed are implemented. As Europe assumes more of the characteristics of a nation state, the people of this new state ought to be told frankly that is happening and consulted as to whether they want it.

#### *Discussion*

The first participant to speak made a bold statement: Maastricht is a bad treaty that is also incomprehensible. When further steps are presented in referenda to the people of Europe, they must be presented in

clear terms; not to do so is a recipe for disaster. The constitutional objectives must be expressed simply, as constitutions are expressed. A participant in the Maastricht drafting process objected that the treaty itself was a major achievement. Those drafting it were required to produce a document on which twelve governments -- and later fifteen governments -- representing different cultures could agree. As a negotiator, however, this speaker agreed that it would have been desirable to produce a separate summing up of the treaty written in a more comprehensible manner.

One speaker noted that integration is not an end in itself. It is a way for a group of countries to develop policies related to that group's ambitions. It is not the ideological program of retarded bureaucrats, but rather a means for achieving efficiency and action necessary in a period of sweeping change. Why is monetary union important? Because in Europe there is a competitiveness issue that requires the convergence of European economies in order to achieve stability over time. The monetary union should be enacted by the Monnet method: no arm twisting, no military threats. If one country does not want to join, it does not have to. But union does have a magnetic effect. The pressure to join the EU is a consequence -- and evidence -- of that effect. If the European Union did not work, why would other countries wish to join?

A Scandinavian speaker returned to the question why further integration is desirable. The reason, he said, is embedded in the preamble of the Treaty of Rome: "to secure peace and freedom in Europe." To be sure, NATO saved the continent from the threat to the East. But European integration forced France and Germany to establish a relationship in which future wars are practically impossible. Integration is not a question of widening *or* deepening. Both are necessary: deepening is needed to make widening a success. It is clear why widening is a win/win situation. It must be equally clear why *not* widening is lose/lose. That has to do with the original idea behind European integration. Wise political leadership is needed when it comes to deciding how to make decisions. A citizen of a small country like Denmark has a vote that is six times more powerful than the average German when it comes to making decision about Europe. That must change, or a system will emerge in which the big countries do not wish to participate and will create their own directorates. That is not in the interest of the smaller countries.

A participant took issue with the claim that monetary union is unnecessary in a single market. Stable exchange rates in Europe are good for inflation. They are essential for a single market. The wild fluctuations of the lira in the past eighteen months could not be tolerated in a single

market system. Another feature of a single market is capital mobility: one cannot have independent monetary policies, fixed rates and capital mobility; one of them -- the independence of monetary policies -- has to go, which means one currency.

A further reason for monetary union was advanced: supplying capital for European growth. At present, trying to find capital for investment involves sixteen different currencies and use of "crutches," such as derivatives, that few feel are sound. One must still, however, reconvert these instruments into local currency. This cannot continue. It is misleading to compare this situation with NAFTA, which is built around the biggest national currency and capital market in the world. A market of similar size is required in Europe to create the magnet for further widening.

A German speaker sought to explain why Great Britain feels so differently about integration than the continental countries do. Perhaps, he said, it is because, never having suffered invasion, the British have not known the horror of living under a government that could not protect them from disaster. But would refusal to integrate into Europe be good enough for the British in the long run? Can Britain outside Europe be influential and prosperous? Can it be a great nation? As a practical matter, can Britain make money? To do that, a common currency is vital. Skepticism about Europe has grown more mainstream: in the old days, anti-Europe feeling was considered exotic; no longer. Today, those who are for Europe have to make the case. Making that case cannot take the form of explaining institutional issues to ordinary citizens. That is for experts. What citizens expect is that the European Union performs on three basic issues: jobs, peace, and internal security. Given these challenges, the debate about widening and deepening seems theological. The key question is: Are our nation states today successful on these three issues? Not so, responded one panelist: widening *before* deepening would be removing one of the EU's chief attractions for those now outside it: its inexorable, if slow, march towards political union. The same panelist defended the idea of a single European currency on the grounds that, in its absence, the D-Mark would continue to dominate in a way that citizens of less robust economies might well regard as hegemonic -- just what the EU has been created to avoid.

In response to a question about a common European defense structure, a panelist described it as a precondition for maintaining US interest in European security, as well as a means for protecting European security when the vital interests of the U.S. are not threatened. Another

panelist suggested that perhaps the most effective means for guaranteeing Europe's defense would be to increase membership in the EU -- to increase it by the year 2000 to the point where it included 25 members and another 25 to 30 countries with associate status, with a membership of 1.1 billion people, with the southern and eastern flanks protected. The challenges of Communist backlash and Islamic fundamentalism will be met successfully only by economic development, and the best way of containing these threats is by economic integration.

## OUR AGENDAS FOR THE WTO AND THE WORLD BANK

*Although the World Trade Organization came into existence only in the last year, whereas the World Bank was founded some fifty years ago, they are both international institutions and, as such, share some common issues. The most important, said one participant during the discussion, is the very nature of the two organizations. As the world becomes more global in focus, moving away from nationalism and regionalism, these institutions need to maintain their strength and work together as effective facilitators of world development.*

*The panel was led by the President of the newly formed World Trade Organization(WTO) and the recently appointed President of the World Bank. Each presented the importance of institutions which are in positions to remind the world population, during an increasingly unstable period in history, of the importance of focussing on issues which have an impact around the globe.*

### *First Panelist*

The Uruguay Round negotiations, after lasting seven years, can be viewed as an historical success because of the degree of liberalization achieved, and the expansion of the trading system into textiles, agriculture, services, and intellectual property. But the most important reason for its success has been the integration of many of the developing countries into the multilateral trading system. The liberalization of the multilateral system is perhaps the most successful story of the west since the end of World War II. When GATT was created, in 1948, only eleven developing countries participated. Now 100 developing countries are founding members of the World Trade Organization and 25 more are considering joining the club.

So a global system has been created, not just for liberalization, but also global rules and disciplines which apply to everyone, as do enforcement and dispute settlement systems. This is a revolutionary achievement, and it is our duty to do all we can to safeguard this achievement and to improve it. Although it is not difficult to state the agenda, the political implementation is more of a challenge.

First, the implementation of the Uruguay Round agreement will be more difficult than people realize. Already we have seen some difficulties

in the liberalization process in textiles and agriculture. We need the political will to implement what we have decided and this requires a great deal of attention. Second, we have an important built-in agenda of liberalization, beginning in a few weeks with the first liberalizing deadline of the financial services, as well as some improvements in the movements of people who are tied to service activities. This will be followed by a liberalization of basic telecommunication and maritime transport and, in 1999, we have to begin negotiation for the further liberalization in agriculture, services activities, intellectual property.

Third, we must focus on the expansion of the system because this is the institution where there are rules and disciplines applicable to everyone. Fourth, we have to expand the trading system into new areas where there are clear connections, starting with the environment. People had been concerned that the developing countries would resist discussions of environmental issues in terms of trade. But to date the developing countries have been active and enthusiastic participants in such discussions.

Other important fields are trade and investment, and rules of trade and competition, the need for which is demonstrated by the current conflict between the automobile industries of the United States and Japan.

The one issue which has not been resolved is whether to include labor standards as part of the WTO; this is currently being debated.

One of the greatest ambitions of the WTO has been to charge its director general with discussions with the leaders of the World Bank and the International Monetary Fund to enhance the global coherence of economic policy. There are three layers in this exercise. The first is that through the promotion of a global market we are encouraging better coordination of economic policies and an improved international monetary system. The second is to avoid contradictions of policy between the three institutions, and the third is to promote a coordinated effort to enhance the strengths of each of the three institutions.

There are obstacles to overcome: the tendency of the West to limit competition with developing countries, an inclination to prefer bilateralism to multilateralism, and a disproportionate relationship between regionalism and multilateralism. But at stake is a new vision of relations among nations following the fall of the Berlin Wall, and this attempt to establish, through a global system, a stronger interdependence between developed and developing nations is extremely important.

## *Second Panelist*

The World Bank, an essential institution at this time in world history, is really four institutions. The first, the IBRD, was set up for post-war reconstruction some fifty years ago. One part, the International Development Association, looks after 78 nations, representing 57% of the world population, of whom one billion earn less than \$1.00 a day.

The other three institutions in the World Bank are the International Finance Corporation, the Insurance Guarantee Corporation, and the Global Environment facility. The World Bank employs 11,000 people; it has offices around the world; it has distributed over 300 billion dollars in its lifetime; and has a current balance sheet of about 180 billion dollars. The bank is a self-financing entity, having been infused with capital at its outset by a number of governments. However, the International Development Association, which looks after the poorer countries by making concessionary loans, has to ask for assistance in relation to funding every three years; assistance amounting to about six billion dollars a year.

Poverty alleviation and sustainable development, wherever it takes place, impacts us all, which is why the World Bank is relevant to everyone, not just those who suffer. When a disease surfaces on one continent, it has the potential of infecting the entire world population unless it is addressed at the source.

Population and migration, war and famine, and the emergence of markets in the developing world are all issues which also need to be addressed. The World Bank is relevant because it is a world body and, as such, wields considerable opinion on the countries it helps. The bank does not just lend money; it helps countries learn to grow, learn to govern themselves, learn about infrastructure, learn about leadership, educational systems, health programs, and financial aid organizations. Because of its fifty-year history, it has tremendous influence on the governments with which it deals, far more than bilateral assistance.

The private sector's aid to the developing countries is increasingly vital and welcomed. But at the moment the private sector sends funds to roughly 25 countries, whereas the World Bank is helping 78 countries. The private sector is accountable only to itself, whereas the World Bank must be consistently supportive of the countries it helps, and creates a global structure where any country can approach it for assistance. The bank has to adapt to the changing world, not only with respect to the countries which receive its help but also to its shareholder countries which,

themselves, have changing administrations and priorities and must be convinced of the validity of the World Bank's continuing role in the world.

## *Discussion*

Although there was general agreement on the importance of the WTO and the World Bank, several concerns were raised quite early in the discussion. An American participant took issue with the importance of worldwide organizations, saying that regionalism and nationalism are also alive and well, and that while multilateral organizations can be very effective, they can also make mistakes. Sometimes problems are best addressed, economic growth is best fostered, and human rights are best protected by regional or unilateral efforts. We shouldn't be asked to pledge fealty, he continued, to a theology of multilateralism in order to identify ourselves as good citizens of the modern world. It might be worthwhile for the panelist from the World Bank, for instance, to address not only the successes but the failures of this institution over the years.

Another issue which was addressed in terms of both organizations, but with different conclusions, was the question of the environment; to what extent is the World Bank focussed on this problem and how soon should the WTO take it up?. Several speakers urged the World Bank panelist to place high priority on ecological concerns, which are of increasing interest and importance around the world. On the other hand, a participant urged the President of the WTO not to succumb to pressures from environmentalists at the outset; that it is considerably more important to consolidate the results of the recently completed Uruguay Round and to focus, instead, on additional members such as Russia and China, in order to make the organization truly global.

Several participants addressed concerns about the size of the World Bank, asking if it should be shrunk and, if so, to what extent and in which areas? One European commented that as governments try to shrink themselves and some of their programs are privatized, the World Bank can play an important role in helping those private organizations in areas which might be new to them. Several other speakers urged that the World Bank shift some of its programs, such as the International Finance Corporation, to the private sector. In Europe, particularly, there are private institutions which are capable of assuming this role. A Canadian added that the reliability of private sector capital, as well as an overall reputation for less corruption, might be two reasons for considering such a shift. Such moves

in the directions of downsizing and restructuring would also go a long way in restoring some of the bank's weakened credibility.

Responding to one participant's question on the role the WTO would play in the current United States/Japanese dispute on automobiles, the panelist representing the WTO said that already he had heard from representatives of both governments. Both of whom had stated their preparedness to present the issues and to abide by the WTO's conclusions. At the same time, the panelist expressed hope that the two sides will solve the issue between themselves before the WTO makes its ruling. Finally, he assured the participants of his commitment to implement the agreements of this new organization within the announced schedule, to establish credibility for the World Trade Organization and to solidify its place in the global structure.

Responding to the concerns expressed about the World Bank, the other panelist assured the participants that already he is aware of where the bank fails in its missions and within the next few months will visit all of the countries which have relationships with the bank. Through these visits, he plans to address issues such as drugs, crime and the way funds are distributed, as well as areas where savings could be achieved through cutbacks in staff or support. For instance, the bank will wind down the IFC once that organization has completed its mission.

On the subject of turning some of the bank's projects over to the private sector, the panelist reminded the group that although the private sector is extremely supportive and effective, sometimes a private sector organization, for whatever reason, decides to leave a country or discontinue a project. The country is still there and, on the whole, still needs the assistance.

Finally, in spite of the World Bank's weaknesses, the panelist asked that it be given this opportunity to improve its image and effectiveness. There are 11,000 people in the bank who have a dream for the world; they deserve the opportunity to reach for their goals.

## CURRENT EVENTS: FORMER YUGOSLAVIA

"The perfection of means and the confusion of goals seem to characterize our age."

Albert Einstein

*With that quote, one of the panelists summed up the feelings of a number of participants as they discussed, for the fourth time over the last five years of Bilderberg meetings, the continuing saga of what is now known as former Yugoslavia. Although the focus has varied from one year to the next, the themes have centered around differing views on whether Europe and America should even play a role in the conflict, to what extent the roles and responsibilities of NATO and the United Nations should overlap, to what extent sanctions or the use of force should be employed - all infused with a great deal of frustration on the part of the participants. The panelists this year included a representative of the United Nations, a member of the current American administration, and the Secretary General of NATO.*

### First Panelist

Although it is clear that the only chance for peace in this area is through negotiations, such a conclusion is more difficult to achieve now than ever before. With each passing year, in spite of the various peace agreements which have been drafted, there is more hatred, more violence, more ethnic cleansing. However, we must continue to negotiate and to that end, the most important event taking place now is in Belgrade, where Ambassador Fraser of the United States is trying to convince President Milosevic to recognize the Bosnia-Herzegovina borders in return for suspension of UN sanctions. If this fails, we could face an immediate negative effect, not only in Bosnia but in Croatia. Conversely, if these negotiations succeed, the resulting cease fire in Bosnia could have a contagious effect in Croatia. This, in turn, could lead to continued negotiations in Bosnia on the contact map and in Croatia on the economic agreement reached last December. However, although the military situation at this time is no worse than last year, the political mood is much more confrontational, making negotiations extremely difficult.

The credibility of the United Nations is at stake over its role in the

Bosnian situation. Some feel that NATO's stature is suffering as well, but this is hard to understand. NATO has performed all that has been required of it; the UN has had more difficulty. One reason is that all parties in the conflict expect the UN to support their individual conditions for negotiations and, as the UN negotiators refuse to take sides, all parties are attacking the UN. The people in the cities and towns do not want the UN to leave; they know the UN's continuing presence gives them some protection and stability; in Bosnia alone, 2.8 million people receive food and medical supplies, to the extent that such supplies reach those in need. The problem for the UN is the gap between the expectations and what the UN is actually able to do, between rhetoric and reality, between resources and the rules of engagement. The UN cannot wage peace and war at the same time. It welcomes the rapid reaction force which will not only mean stronger protection but, hopefully, more deterrence.

#### *Second Panelist*

As British Prime Minister John Major said yesterday, "In the years before 1914, and again in the 1930s, we paid a heavy price for the mistaken view that events hundreds of miles away had no importance for us. And by the time we learned that we could not turn our backs on the fate of Europeans, it was too late."

We have to admit that Yugoslavia represents the worst collective failure of the western security system since the 1930s. Although it is not a crisis for NATO and the reputation of NATO is not at risk, the Yugoslavia situation has undoubtedly strained the Alliance. At the same time, the United Nations has sustained much more reputational damage. Above all, the dual key arrangement, by which NATO and the UN were supposed to work together, has evolved, instead, into a dual veto. The two organizations have incompatible missions and mandates and one would hope this joint effort is never considered again.

However, the members of the Alliance should take this opportunity to learn from this experience. The countries of Central Europe must settle their historical disputes, which have the potential of creating a similar conflict; the Cyprus issue is no longer a local problem on a small island; all of southeastern Europe from Turkey to Iran and Iraq and Syria constitute a single area of crisis - including Ukrainian/Russian relations - and the enlargement of NATO is vitally important. It also reminds us how important it is that Russia, which has played an ambiguous role in the contact group, be brought into a proper role in the security structure of

Europe.

The war has not spread to Macedonia or Kosovo or Albania. Nor has it re-erupted in Croatia where the fragile peace still holds. Nonetheless, the situation is deteriorating rapidly and we are reaching another crossroads. This is critical for France, above all, because the new French government has taken the initiative in bringing forth a quick-reaction force to reinforce the UN by improving its ability to accomplish its mandate. The UN has been in an untenable position, leading some to believe it has to get stronger or get out.

Unfortunately, none of these actions will be decisive because the driving engine of this catastrophe remains in the hands of a faction of a faction of the Serbs. At the same time, although the American administration has refused to go along with the Russians and others who wish to lift UN sanctions against the Serbs, in exchange for their recognition of Bosnia within its boundaries, President Clinton has authorized a substantial suspension of those sanctions as an incentive and intends to work more closely with the UN negotiating team in working out a mutually agreeable approach.

As for the arms embargo in Bosnia, the American administration believes it is profoundly wrong, but does not have the votes in the Security Council to lift it and is not going to violate a Security Council resolution. Therefore, the goal of the United States is to continue to support the Federation, the Contact Group, the UN negotiators, to try and prevent the war from spreading, to achieve a new cease fire, and to reinvigorate the negotiations.

#### *Third Panelist*

It is clear we are entering a new phase in this conflict, although that is not to suggest that peace is on the horizon. Peace will only come to pass when all factions realize and accept the costs of this war as well as the prospective gains to be made from a negotiated settlement. That point has not been reached, but faced with the recent taking of the hostages and discussion of a rapid reaction force, the troop contributors have decided to remain and reinforce their presence, always under UN command.

From NATO's perspective, it is essential that we are clear about the goals of the next phase. We owe it to the military to be unambiguous about our goals; it is, after all, their lives which are at stake. The current mandate is dictated by a series of Security Council resolutions which combine elements of peace keeping and peace enforcement. This is

confusing. There is an uneasy balance between these two goals: providing aid to the population in general and providing protection for the safe areas in particular. The first requires consent of the parties. The second has frequently required the use of military force. It is difficult to see how both can be conducted at the same time unless the UN peacekeeping forces have a huge increase in their numbers and capabilities. For this new phase we should ensure that the international community is clear about what the UN peacekeeping forces should achieve, and that they have the means to do it.

NATO's role in the Bosnian crisis has been to implement goals set by UN Security Council resolutions. NATO has been active in the Adriatic Sea, and has been responsible for the no-fly zone, close air support and air strikes - both only at the request of the UN - and has prepared different scenarios for withdrawal, although NATO opposes this solution. The relationship, although difficult at times, has been good. At the same time, as others have said, what is referred to as the dual key system has not worked. When difficulties have occurred, they have resulted from confusion of goals and particularly when there has been a conflict over priorities.

However, we will be entering a new phase in this conflict if the French rapid reaction force is actually implemented and NATO will consider providing close air support if requested by the UN. Once the UN peace forces are capable of defending themselves, and once they demonstrate that they cannot be manipulated and intimidated, it is hoped that the Bosnian Serbs will realize the futility of their position and, as the Americans say, they will stop calling the shots. In those conditions, the UN negotiators will have a real chance of finding a peaceful and equitable solution.

Above all, we should be clear that as we enter this new phase, we cannot allow the United Nations and the will of the international community to continue to be flouted in regards to the fundamental principles of international conduct. International borders are being ignored and human rights violations are being perpetrated daily. If this can happen in Europe - the home of NATO, the European Union, and the OSCE, it can happen anywhere. The arguments are fully on the side of persistence, rather than withdrawal.

## *Discussion*

The questions and concerns raised by the participants reflected a continuing frustration over a situation which is not only dangerous in itself, but underscores the potential for similar dilemmas over conflicts in other areas around the world. Precedents are being set in Bosnia and lead one to ask to what extent Europe, America, the United Nations, NATO, or any combination of national and international organizations will respond to future crises, in Bosnia or anywhere else. Will it depend on whether countries belong to NATO, or whether there is a vested interest in a country in trouble - the most recent example being the Gulf War, where the United States dependence on oil was a deciding factor? Will members of NATO or the United Nations, if they have no vested interest in an area of conflict, feel obliged to support each other out of mutual loyalty and commitment? And if members of the Atlantic Alliance disagree on such goals, will fundamental relationships within the Alliance be damaged? These issues were under the surface of the more direct focus on Bosnia.

Several Americans questioned the relationship between the heroic goals towards peace in former Yugoslavia and the less than heroic means of achieving them. A European concurred, stating that as there was an unwillingness to commit heroic means, the goals should be brought into line with the means at hand.

In response to a panelist's conviction that the current negotiations with Milosevic are the key to success, several Europeans questioned whether Milosevic could be trusted to uphold his side of the agreement and, even if so, whether he has enough control over the Bosnian Serbs to assure their recognition of Bosnian borders.

The proposed rapid reaction force met with mixed reviews. Some saw it as a potential deterrent to further Serbian atrocities, but others felt that more hostages would be taken in retaliation.

On the subject of withdrawal, there was a general agreement, both among the panelists and most of the participants who spoke, that although the UN should never have become involved from the start and the extent of its effectiveness is strongly debated, to withdraw would have dire consequences. It's reputation as a peacekeeping organization would be severely compromised, sending a message of failure followed by desertion. Withdrawal would leave a bitterness among the extremely large Muslim population which would reverberate throughout the world's Muslim community. Another speaker underscored the difficulty of withdrawing troops safely, particularly the Dutch in Srebrenica.

The issue of the arms embargo was even more hotly debated. One group found it hard to believe that the United Nations is denying one of its members the means of self defense, while a second believed that a lift of the embargo would automatically bring in outside parties, some of whom would supply the Bosnians with arms and others who would arm the Croats and the Serbs. This, in turn, would lead to a confrontation which would not only accelerate but would have the potential of spreading beyond the borders of the former Yugoslavia into a wider conflict. On the other hand, by keeping the embargo in place, the war is being fought by outside forces who have minimal interest in the issues, rather than by those who are so anxious to defend their beliefs. Several suggested that the embargo be lifted temporarily, not requiring approval of the Security Council and, therefore, not subjecting the vote to a Russian veto.

All three panelists concluded that in spite of the ill-advised dual key approach of NATO and the UN, the partnership has worked remarkably well, to the great credit of all concerned. A unified front is increasingly important, not only to be as effective as possible in Bosnia, but to reassure the skeptics that it is possible for intentional organizations with such diverse memberships to agree on common goals and how to achieve them.

## PEACEKEEPING IN AN UNstable WORLD

*The collapse of the Soviet Union led many to believe that international problems would be easier to solve, and that the United Nations would be able to manage things in a way that was impossible in a world dominated by two confrontational superpowers. But in many ways, problems have become harder to resolve. And, ironically, a number have arisen that would probably not have were Brezhnev still alive. For example, would Yugoslavia have broken up? Would the Gulf War have taken place had the Soviet Union not disintegrated?*

*Peacekeeping in these conditions is a chancy game at best, and those responsible for peacekeeping missions need to have precise goals and an accurate reckoning of the resources required to achieve those goals before they dispatch troops. And, an important watchword: do not send peacekeepers if there is no peace to keep.*

### *First Panelist*

It is useful to look at the general concept from three standpoints: Why peacekeeping? What kind of peacekeeping? And what resources are appropriate?

Since the end of the Cold War, multilateral peacekeeping has become the international community's response to violence erupting within states and across borders provoked by ethnic and religious groups seeking power, autonomy or independence. Usually, these conflicts do not affect the vital interests of the major powers, but usually they do affect their interests -- in regional stability, in trade, in mitigating the suffering of those displaced by the conflicts, and in upholding international law. Further, public focus on these tragedies makes it more difficult for governments to stand aloof. Multilateral peacekeeping gives governments an alternative to standing aside or going it alone.

What is the best form of peacekeeping for conflicts of this kind? Often, it is very difficult even to conceive a possible political arrangement that might end the violence. The participants are often unwilling to consider peace absent a clear victory, and the prospect of outside intervention is often high, the likelihood of success quite low. Thus decision makers face hard choices as they consider what form peacekeeping should take.

The experience of the United States in Somalia and Bosnia has led

the Clinton Administration to formulate guidelines for choosing which peacekeeping efforts merit involvement and which means are most likely to lead to success.

In brief the guidelines are: goals and interests must be clear; there must be some evident commitment among the parties involved to come to a peaceful outcome; if there is no such prospect, and a peace-enforcing operation is required, the risks must be weighed and sufficient resources committed; and finally, the operation must be limited in time and scope to the achievement of the initial goals.

Since adoption of these guidelines, some operations that did not meet the guidelines have been closed down: El Salvador and Mozambique are two examples. Similarly, peacekeeping missions have not been sent to Afghanistan, the Sudan and Sierra Leone. Thanks to these guidelines, it is likely that peacekeeping missions will not multiply as rapidly as they did immediately after the end of the Cold War.

Even with adherence to these guidelines, there will still be cases where nations see that their own interests require intervention. This has led the United Nations to put together coalition peacekeeping operations in which the Security Council provides an overall mandate but turns to groups of countries to conduct them. This was done in Rwanda, Liberia and in Haiti. These coalitions stabilize the situation and, in some cases, turn it back to the United Nations as was done in Haiti following the return of Dr. Aristide.

The challenge in coalition peacekeeping is to avoid any assignment of spheres of influence to individual countries -- a particular consideration with respect to Russia. A number of conflicts have broken out in states that were part of the former Soviet Union, and the countries themselves have turned to Russia for help. But when the Russians have asked the United Nations or the OSCE for a mandate for these operations, they have faced unwillingness to give them one, primarily because the Russian troops are not seen as neutral; nor do they seem to have the kind of political discipline and control that ought to go with a United Nations mandate. So the approach has been not to provide a mandate but to help provide observers and monitoring forces. This is not an ideal solution, but it is a realistic one.

Providing resources for UN peacekeeping forces is very unpopular in the US Congress. As of October 1, the law will require that the US contribution to peacekeeping operations be no more than 25%; and the Administration's effort to find \$600 million in arrears owed to the UN has failed. This parsimony seems likely to continue, if not worsen, in view of

the strains occurring across the entire federal budget.

The new peacekeeping guidelines have not quieted the debate in the United States about this whole question. That debate is about peacekeeping, it is about Bosnia, but, fundamentally, it is about the role of the United States in the post Cold War world. Perhaps most important, the debate is about what the United States is prepared to do with its military forces to carry out its responsibilities. There is support in the US for coalition peacekeeping rather than traditional UN peacekeeping. That support comes from those who wish for less US engagement in the world and from those who wish for engagement but only on America's terms. The Clinton Administration is committed to peacekeeping and to the UN to contain regional conflicts; to promote democracy and protect human rights; to stem the flow of refugees; and to bring stability to regions where the US has strategic and economic interests.

#### *Second Panelist*

The world is a more unstable place than it was in the postwar era. It is also probably a slightly less dangerous place, although this safety may prove to be short term, particularly when one recalls how quickly after World War I, neglect -- whether benign or malign -- let a lot of wild beasts loose in the jungle. In the modern world, Islamic fundamentalism and proliferation of nuclear weapons, suggest that close attention is warranted. The instability we see will likely persist, since leaders in the West are increasingly obliged to give priority to domestic concerns, particularly, as is often the case with peacekeeping, when there is no truly vital national interest at stake.

Where are the main areas of instability now and in the near-term future? The Balkans; almost all of Africa; the southern fringe of the former Soviet Union; and, if the transition in China after Deng goes poorly, almost all of East Asia. With the end of the Cold War, the major organizations designed to provide "hard" security, NATO and the Warsaw Pact, were either swept away or saw their relevance drastically changed. The Brezhnev Doctrine, a brutal kind of peacekeeping, disappeared with the Warsaw Pact. NATO remains highly relevant to Europe's security, and it has a peacekeeping potential. But it cannot peacekeep worldwide. That really leaves only the United Nations, to which everybody turned after the Gulf War. The United Nations was overstretched between 1992 and 1994, and the disappointments that resulted have created the danger of the baby being thrown out with the bath water.

The UN cannot carry out major enforcement operations on a large scale. It has neither the military nor the command and control capability to take on in battle a Saddam Hussein or even a Savimbi, a Karadzic or an Aidid. So there will be these "coalitions of the willing," when important, but not necessarily vital interests of one or more countries are at stake. The Gulf War, Somalia and Haiti are three examples. But even with such *ad hoc* coalitions, the Security Council ought to authorize operations; otherwise, the law of the jungle will tend to rule.

At the other end of the scale, there will be more classic peacekeeping operations -- Cyprus, the Golan Heights, the Western Sahara and Georgia. This kind of operation remains valid: it is a low cost alternative to mayhem, but it tends to lead to consolidate the status quo. It is important, therefore, that these kinds of operations be accompanied by a political process that searches for a political solution. Between these two poles, are all the cases of failed states, civil wars and spreading regional cancers, often compounded by external meddling. Here the United Nations has had some successes in recent years: in Namibia, Cambodia, El Salvador, Mozambique, and, potentially in Haiti and, the second time around in Angola; perhaps, even in Tajikistan. The UN has a chance to play a crucial role in the transition from a war situation to one in which democratic institutions can be set up and respect for human rights established. The UN cannot work, however, without a minimum of cooperation and consent. Absent that minimum, as Liberia, Somalia and often Bosnia have shown, it is difficult for the UN to cope. Also, between the two ends of the spectrum there is the *sui generis* case of Yugoslavia, where the UN has taken a kind of hybrid action. The UN has been successful in achieving containment of the conflict; it has helped thousands of people; but it has not achieved peace. All one can say about that operation is that while it is not brilliant, the alternatives are not obvious.

The lessons one can draw are these: more resources and efforts should be devoted to preventive action, from diplomacy to deployments like that to Macedonia. The UN must learn to manage the CNN factor -- to respond to surges in popular demand for response to a humanitarian disaster without being propelled into a military action that it has neither the will nor the resources to make decisive. This is what the UN faced in Rwanda; it is likely to face it elsewhere, and the CNN factor is likely to become even more crucial. It sweeps you in at the beginning, and it sweeps out at the end just as quickly when you see the body of one of your troops being dragged through the streets. Third, the UN should strengthen regional groupings that have a potential preventive or peacekeeping

function. Fourth, the UN must be more careful about getting involved too deeply and too early before the necessary spirit of cooperation has developed. It may be better to hold back, as was done in Angola, where the infantry battalion was not deployed until the cease fire was properly observed. Fifth, the U.N. must be even better equipped to deal with peacekeeping. When the post-Gulf War wave of demands hit it, it was woefully ill-suited for those missions. Now, while running seventeen peacekeeping operations, it has undertaken a major reform, and it is getting better. Sixth, the UN's legal framework ought to be used wherever possible. It may be affected by vetoes, but those vetoes are rarely used, and their effects are often shortly reversed when they are used. The peacekeeping instrument that we are gradually evolving has an important future if we learn from mistakes.

#### Discussion

Participants agreed that conflicts are no longer clear cut; objectives are not precisely defined; interests are threatened that are not vital. And they wondered how peacekeepers can function against this background. Peacekeeping forces must be sufficiently powerful to carry out their mission; their commander must be empowered to act as necessary. If these two conditions are met, peacekeepers acquire a deterrent power; if they are challenged, they must take action. And the risks -- and appropriate response -- must be thought out before peacekeepers are dispatched.

Statesmen today struggle to develop a strategic vision in a world where it is often not worth sending a hundred thousand troops to achieve a decisive victory, but it is important to manage "gray areas." The challenge is to get beyond the need for a single, over-arching enemy to define a nation's foreign policy -- some unknown "ism." Such an enemy may arise, but it is important to avoid creating one in order to have a foreign policy.

We are making the world safer by dismantling the weapons of the former Soviet Union; we are building important regional trading blocs. This kind of achievement is not recognized for what it is: citizens are used to military victories or diplomatic coups. In 1994 the Clinton Administration got high marks in the press for standing up to Saddam Hussein. This was one of the easiest foreign policy issues the Administration has dealt with because the enemy was well defined and the issue clear cut. It was the first time that President Clinton was able to do what American presidents have traditionally done. But such classic foreign

policy crises will become rarer, and a new standard of judging a leader's performance is called for.

One participant suggested that the world seemed to be forming into a new type of bi-polarity: a stable North, and an unstable, fluid South and East. And the rules of the game in this world imply a form of *triage*. The stable North, acting with some form of consensus, divides the unstable part of the world into zones of vital interest, where coalitions of the willing, as in the Gulf, would be formed to achieve goals crucial to national interests. Then there would be zones of moderate interest, as in Bosnia, where rhetoric is not backed by resolve. Finally, there would be zones of indifference, of benign neglect, such as Sudan or Afghanistan. The lesson that emerges is that there should be a symmetry between rhetoric and resolve; that we ought not to lead people to expect support and then drop them when the action gets tough, as has been done with the Bosnian Muslims.

Two speakers suggested that not everything had gone wrong. For 40 years the US has maintained a UN peacekeeping group at the 38th parallel in Korea; for nearly 20 years, US soldiers have been stationed in the Sinai, and peace has been maintained. Another speaker noted that problems like Bosnia have deep historical roots and could not necessarily be resolved because public opinion inflamed by the CNN factor wanted them resolved speedily. This is particularly true when those demanding action are not prepared to make the requisite economic or military sacrifice. A questioner wondered whether a stand-by force drawn from members of the European Community might be created to be dispatched to apply force whenever the rules of the Paris Charter were violated. Such a force would be professional or volunteer, not composed of conscripts, and not operating under the UN but under European control. Another participant wondered whether Sir Brian Urquhart's suggestion for a UN standby force should be created that would not be under national control might be reconsidered.

Public support for UN peacekeeping is low; how to restore it? Perhaps the UN should not again invoke Chapter 7 of its charter. Peacekeeping must once more be the result of a decision by the warring parties to accept Blue Helmets and to stop fighting. When that is no longer so, the Blue Helmets should leave. Enforcement should be left to the UN mechanism that covers enforcement; peacekeeping must be kept separate from enforcement to restore its good name.

Given that the world faces decades of serious instability, and that the US is the only superpower, how can the US provide world leadership

if such deep-seated antipathy to the UN persists? An American responded by stressing that the antipathy was directed not so much at peacekeeping as at the organization itself. The UN had, after all, held for fifteen years that Zionism was a form of racism. Many Americans found that a morally objectionable position hurt the moral credibility of the UN. Not everything the UN does is bad, but Americans are not willing to cede the moral high ground to the UN on every occasion.

Another American disagreed with the notion that the UN is unpopular and cited a newspaper poll taken after the Gulf War that showed that support for the UN had never been higher. Another poll last autumn showed support for peacekeeping remained high. Americans take exception to missions like Somalia and, lately, Bosnia, that are not well thought-through. Support for the UN among Americans depends on good execution.

Responding to a question on better preparation for peacekeepers, a panelist noted that the situation in Rwanda turned out to be completely different from what had been expected. It is difficult to predict precisely what will develop in the course of an operation. Much could, however, be done about training peacekeepers better. He also noted that financing of peacekeeping operations is a "disaster" coming down the road. The United States has unilaterally determined not to pay its share of peacekeeping operations, deciding, alone among UN members, that peacekeeping is not the legal obligation that the Charter states it to be. And on the question of using force when the rules are not observed in Europe, this panelist noted that the rules of the OSCE make it more difficult to get a resolution authorizing the use of force through that organization than it is to get one through the United Nations. Brian Urquhart's standing force he thought was unlikely to be acceptable; he could not see member states allocating troops or permitting their use by the Security Council without their having a say. Besides, looking at the last five years, it was likely that such a standing force would have been in action 365 days a year for five years - - something no government could contemplate calmly.

Finally, with respect to Chapter 7, it would be a mistake for the Security Council to pledge that it would not use Chapter 7 again. Chapter 7 is necessary to impose sanctions. It is also needed for action in cases where there is no government to give consent. But this panelist did agree that the UN should not in the future be involved with the kind of enforcement operation often associated with Chapter 7. Peacekeeping has a better name in Latin America than in the Atlantic community. It has a better name in Africa, particularly now that a more effective deployment

is going forward in Angola where failure the first time discredited it.

Speaking about the US attitude towards the United Nations, a second panelist said that polls were unclear. The main job is convincing Americans that the UN can be effective in reaching the goals the US sets. Effective policies and sharply defined goals would make it easier to present the case to the American people. Finally, UN financial assessments are made according to a formula that no longer represents relative ability to pay. Making that system equitable again will go a long way towards changing Americans' attitude to the United Nations.

## LESSONS OF THE NEW CURRENCY CRISIS

*There is an anomalous situation in today's currency markets: while foreign currency movements may be in line with long-term trends, volatility of rates has increased tremendously, far more than current conditions of the world economy would seem to warrant. The link between fundamentals and currency movements has been loosened, and the volume of foreign currency transactions has exploded: one trillion dollars are traded each day in the global currency markets, and only 5% is related to trade and services. There is also a new element at work: international portfolio transactions, which are led by institutional investors, whose reshuffling of funds tends to reinforce one-way movements in the markets.*

*Several themes developed in the course of this session. On some there was consensus: cooperation among central bankers is preferable to "benign neglect;" discipline among policy makers is essential -- both in strengthening economic fundamentals and in maintaining a coherent public stance when intervening in currency markets; regulation or controls will not work; a credible alternative to the dollar as a reserve currency is desirable; and it is critical to increase savings levels in the US.*

### *First Panelist*

As recently as two days before this meeting, the President of the European Commission said that the United States needs to bring its budget under control in order to stabilize the dollar. This is hardly big news. It is a tradition that Americans come to Europe to tell the European nations how to govern themselves; and, showing equal regard for tradition, the Europeans say, "Don't lecture us until you get your house in order."

In the panelist's view, the Americans do have their house in order: they've locked in \$500 billion in deficit reduction; there is low inflation with steady growth; unemployment is 5.7%. Six million new jobs have been created in the last two years, 60% of which are over the median wage. According to the IMF, in 1995 the percentage of the government deficit to GDP will be 1.9% -- less than half the 1992 figure of 4.3%. In Europe, only Germany is anywhere near to that figure. The EU target for deficit reduction is 3%; only Germany and Luxembourg have met it. But, when a falling dollar and a rising yen and D-Mark threaten to stifle production in Europe and Japan, criticism arises about US economic policy. Interest revives in more managed exchange rate systems, and in taxes and

controls to limit volatility. Most G-7 monetary experts believe that the dollar should appreciate, and they are prepared to cooperate, as they demonstrated on May 31 when they intervened. But these same experts do not want to move towards fixed or closely-managed exchange rates or regulatory controls on capital movements. Many feel that the US really wants a cheaper dollar. The US has not, and will not, according to the panelist, use exchange rate as a trade tool. Indeed, there ought to be a fire wall between monetary and trade policy. The US government shares the Federal Reserve's goal of sustained growth and low inflation. As for taxes or controls, the panelist believes that they have very limited potential; Mexico substantiates this view. Further, given the amount of capital crossing borders today, it's easy to see why any effort to impose such controls only invites efforts to skirt them. In Mexico, for example, \$5 billion in reserves disappeared in five hours when a devaluation suddenly seemed likely.

On a trade-weighted basis, the dollar has declined by approximately 9%, 15% against the yen and 13% against the D-Mark. At the moment, thanks to the intervention of the G-7, it is approximately 4% above its low. Several factors affect its fall: deflation in Japan; the associated rise of real interest rates; and concern about Japan's external surplus; worry about low personal savings in the US; the US's large current account deficit; and the willingness of investors to continue to finance that deficit. But, even considering these factors, there is a consensus that the dollar is below where it ought to be. A stronger dollar is desirable from the US point of view. It would help restore confidence in US securities necessary to finance the current account deficit. It would stimulate investment. It would help check inflationary pressures in the US, thus helping to keep interest rates low. Appreciation would help the dollar's role as the principal reserve currency. The US is not eager for a recession in Europe and Japan; Europeans and Japanese are customers of the US.

What is being done? The US is pushing for greater cooperation among the G-7 countries to promote stability. On May 31, the G-7 intervened in concert, the dollar moved up, and it has been trading in a narrow range since. And there is now in the US Congress a competition between Republicans and Democrats to see who can cut the deficit more. Furthermore, the panelist predicted, by the end of 1995, politics will have been put aside to achieve the goal of balancing the budget. Determination to achieve this goal will mean smaller tax cuts. This would be far better for the economy. One example: the average mortgage on a home in the US

today is \$80,000. If it were widely believed that there would be a balanced budget, it seems likely that there would be a two percent drop in interest rates. A two percent reduction on an \$80,000 mortgage is a reduction of \$1,600 a year in mortgage payments. That's a much better contribution to the standard of living of middle income people than a \$500 tax credit.

Exchange rate variability among the major currencies is necessary and often constructive. Unanticipated events occur; fundamentals change. Changes in exchange rates may be a more effective response than changes in domestic growth or in inflation. Exchange rate intervention can be effective in some circumstances: but these are limited, and intervention must be used very judiciously. Manipulation of tax mechanisms to achieve greater exchange rate stability would, the panelist warned, have major costs in terms of other economic objectives.

#### *Second Panelist*

Recent fluctuations in the value of the dollar have a number of causes: the low level of savings in the US; the Japan-US trade quarrel; changes in strategy resulting from the end of the Cold War and the collapse of the Soviet Union; and the shifting of global portfolios towards the yen and the D-Mark. Nevertheless, in recent years, we have seen the dollar weak at times when the fundamentals did not suggest weakness and strong when they did not show strength. The market today does not respond so directly to changes in the fundamentals as it used to do.

In the postwar period, the dollar was the anchor currency, and all other currencies moved in relation to it. Fluctuations were extremely narrow. The result was great stability based on a unipolar system. The GDP of the US after World War II represented more than 50% of the global GDP, and the dollar dominated the entire world. The erratic fluctuations of the '20s and '30s, which were one of the main causes of World War II led to the idea that a stable global currency system was important to political stability.

The Bretton Woods system "exploded" at the beginning of the '70s for many reasons: new technology, massive capital moves and the Vietnam War. The US decision to finance the Vietnam War in an un-disciplined way helped create a weak dollar, and there were wide fluctuations all the way up to 1985, when a new phase began, which might be described as "benign neglect." A US Treasury Secretary of that time said, "I don't know what the value of the dollar is; the markets know better." Yet the

markets had shown that the dollar could be worth anywhere between 3 D-Mark and 1.3 D-Mark. The lesson is that the market, without guidance, will fix value only within a tremendously wide range.

Benign neglect led to the dollar being fixed very high at a time when the fundamentals were rather poor, which was bad for both the US and for the global economy. Since about 1987, a new attitude has developed. The US and the other G-7 countries care very much about the value of their currencies, even though they have had limited success in controlling fluctuations. This is not "benign neglect." The underlying idea is that policy has to be managed -- managed with great subtlety, but managed. Measures like those taken at the Plaza or at the Louvre are symptomatic of the difference between the era of benign neglect and current thinking.

Why is a more managed exchange rate system preferable to benign neglect? First, countries are protected from the effects of short term capital movements and speculation; you allow currencies to respond to trade imbalances and shocks; you preserve the freedom of international trade; and you assure the autonomy of monetary and macro-economic policy. Free floating currencies did not achieve these goals, particularly during the era of benign neglect. Currency speculation was intense. The hedging that is absolutely necessary in such a system contributes to the volatility of markets; excessive volatility and severe misalignments have had severely detrimental effects on the real economy. They produce nightmarish problems for international businessmen because *ex post* exchange variations will have a great impact on profitability; yet there is no way, *ex ante*, to circumvent exchange rate risks.

Two final points: savings levels and protectionism. There is some link between the explosion of the Bretton Woods system at the beginning of the '70s and the downward trend in the level of savings in the OECD countries. Exchange rate fluctuations have to compensate for the disciplines, particularly fiscal discipline, that are imposed by a system of fixed exchange rates. Lack of discipline leads to a new trade-off between the present and the future, with more weight given to short term satisfaction than to long term interests. You favor consumption to the detriment of investment. The early '70s were a very significant moment in the history of the West. And the US spread these values to the rest of the world. It's a striking fact that all the OECD countries have lost roughly 5-6% of GDP in savings since that time.

There is a complex relationship between protectionism and the lack of exchange rate discipline. Protectionist lobbies can take advantage of

erratic fluctuations, arguing that there is no need for further liberalization as long as invisible barriers can go up and down. These arguments may be wrong, but their advocates have a point. On the other hand, some might propose the use of floating exchange rates for the purpose of influencing trade. This would be an enormous mistake, as the current quarrel between the US and Japan will no doubt illustrate.

This does not mean we should go back to Bretton Woods. We live in a different world, in a multipolar rather than a unipolar one. Technology has totally changed the way business operates. The international monetary system is conducted in real time. We have free capital movements. Any system of taxation or rules that does not fit the global economy or take into account today's new technology will fail. We must reinforce discipline -- everywhere -- in the national macro economies and in structural terms. And here there is cause for optimism in the recent consensus developed in the G-7 that structural reforms are very important. Provided that fundamentals are in line, it is important to accept the idea of government and central bank guidance of the market. When there are misalignments, it is the duty of these authorities to signal their consensus to the market. This was done at the last G-7 meeting in Washington. The central bankers signalled that the dollar should rise. They issued a communiqué and they intervened in the market. This should be a model for future action.

#### Discussion

The incapacity of fixed exchange rates to absorb shocks suggests that what is often said of democracy can also be said of floating rates: it is the worst system possible -- except for all the others. There always will be exceptional events, and flexibility is essential. Another commentator felt that the reason for greater volatility in exchange rates was the changed nature of capital flows. In the '70s and early '80s banks managed the recycling of balance of payments deficits, while individual investors held government bonds to fund fiscal deficits. In the last fifteen years there has been a massive shift from bank loans to securities and from individual holdings to institutions. Thus, some few hundred banks no longer control loans to developing countries and handle negotiations when a problem arises. Instead, one must reckon with thousands, perhaps millions, of investors who hold securities they bought in the markets. Moreover, these securities have to be marked to market, and their value changes immediately when interest rates and exchange rates change. This isn't the

case for bank loans, which remain on the books at nominal value as long as the only change is the interest rate. When there are changes in interest or exchange rates, the message the markets receive has a major impact on the face value of the assets held by this multitude of investors with potentially serious economic or even political consequences. While it used to be the role of governments to monitor markets, now it's the reverse: markets monitor governments.

Another commentator noted the perception is that we live in a world of free currencies, which is an illusion: a person seeking currency diversification has only three choices: the D-Mark, the yen or the dollar. So, if one wants to be out of the dollar there are only two alternatives. When you choose one of them you often miscalculate. Finally, what has happened to the dollar is the fate of any reserve currency. There is always need for more currency. And there is no natural limit that makes reserve currency countries stop printing money. Non-reserve currencies find natural limits. If the EU is going to become a one-currency area, it should not become a reserve currency. If it does, it is lost.

Responding to this point, a panelist said that Europe does need a single currency and that it should have reserve status in order to offer some alternative to the dollar. Why should 70% of Europeans' wealth be locked up in one currency? Billions of dollars can disappear overnight because of a drop in the dollar. The D-Mark and the Yen are reserve currencies, but they aren't a true alternative to the dollar. What's needed is a liquid market where billions a day can be "liquidated," as is the case in the Treasury market. This prompted the observation that too much emphasis was being put on "speculators." It is natural that, as Europe moves towards a single currency, there should be much reorganizing of portfolios, that there should be excess dollars in the market and that it was wrong to attribute volatility to "speculators."

One questioner noted that prominent economists such as Paul Krugman and Milton Friedman believed that increased savings might actually lead to a weaker dollar. Most rejected this view and said that increased saving in the United States was critical. One American suggested that a consumption tax would be needed in the US. A panelist agreed, pointing out that Americans save half as much as Germans and third as much as Japanese. While a sound idea, imposing a consumption tax must not widen the gap between rich and poor in the US, already is wider than in any other OECD country.

To another panelist, the Friedman-Krugman view seemed "paradoxical." Increased savings would either be used for investment in

US business, making it more efficient, or they would go to reducing the current account deficit. Another panelist noted that other countries had poured some \$1.2 trillion dollars into covering that deficit in recent decades, and that these were dollars that "cannot be invested elsewhere."

With respect to monetary and trade policy, a participant noted that ministers responsible for these areas rarely talk to one another. "They are different animals," he noted. This has some positive effects, since it ensures that currency policy cannot be manipulated to achieve trade objectives. It makes it more unlikely that there would be "politically-motivated devaluations." But most participants felt that the gulf that exists between these two departments in most governments leads to uncoordinated policy. There was, too, a consensus that regulation or controls were the worst possible solutions. Markets are too big, they move too fast, and they are too sophisticated. They would, "innovate their way around controls or move to another jurisdiction."

In his concluding remarks, a panelist said that currency misalignments are inevitable when "benign neglect" is the policy. That policy is, in his view, no longer viable. We must insist on fiscal and monetary discipline; without it, serious turmoil could result. However, while such discipline is "a necessary condition, it is not a sufficient condition." We must employ another weapon: the consensus of central banks and governments and their capacity to send signals to the markets, whether by formal communiqué or by maintaining verbal discipline in general and particularly in cases where interventions seem necessary. The worst eventuality, he felt -- indeed, he termed it "absolutely abominable" -- is public quarrelling and a display of disagreement.

## PRACTICAL STEPS TOWARDS A BETTER GLOBAL GOVERNMENT AND RULES

*We have lived under the same institutions and rules in the economic area for fifty years. For the first 20-25 years those institutions served us well. But at the beginning of the '70s they began to erode; the exchange rate system collapsed, the GATT system began to erode as people discovered there were other ways to protect themselves than tariffs, and that had a negative effect on growth. Since then we have tried to redesign the monetary system, but with little success.*

*Addressing the radically transformed global economy, a transformation which continues at a rate beyond anyone's comprehension, the panelist spoke about the need to reform the existing institutions, formulate new policies which are more applicable to today's conditions, and to set rules through which the transition to the new world order might be as smooth as possible.*

### *Panelist*

Over the last few years, the world has had to address the impact of important changes which will affect us all; the collapse of the Iron Curtain, advancing technology, massive increases in trade flows, interdependence and change in global growth prospects, and the addition of 2.5 to 3 billion people to the free market system. That change, although equally as important as the others, has not been reflected in any institutional change. A G-7 summit is about to begin in Halifax, presenting an opportunity for its participants to review the institutions of global cooperation and how they relate to these changes, as well as the present and future global economy.

There are significant limitations on what can be done to ensure a smooth transition, but the potential for division between different areas of the world is so great that we must seize this opportunity to create structures which will enable the participants in the global economy to move forward together to agreed policy conclusions, and to the application of any rules which are developed.

In the direction of policy, such discussions have been held to date within organizations formed by the major powers; NATO, the G-7, the QUAD, or the OECD. The countries belonging to these organizations are disinclined to hold such debates under the auspices of the newly formed WTO, most likely because they feel more secure working within their homogeneous group of developed countries. However, as these major

powers reflect an increasingly smaller fraction of global trade, their attitude runs a great risk of alienating and isolating a large part of the new players in the evolving world economic system.

For example, the G-7 was created in 1975 to provide collective leadership. Today, however, many of the developing countries have a GDP larger than some of the G-7 countries, and the G-7 group should reflect the importance of these emerging major players in the world economy. In short, when one talks of global governments, one must first develop policies which are inclusive, bringing in those who presently feel, and rightly so, left out.

One must consider the application of the rules which are made. Even though the major powers repeatedly affirm their acceptance of and intention to abide by the rules established in multilateral fora, the evidence is otherwise. For instance, there is discussion as to who should serve on the dispute settlement body of the newly formed World Trade Organization. One needs only to recall the World Court: its sad fate reflects the difficulty which nationalistic tendencies introduce into a dispute settlement system.

Finally, the strengthening of the European Union is essential to create a balancing factor in the development of global economic policies. Equally important is a voice from the developing countries, which is lacking today. So the issues ahead in terms of global governments are related to the formulation of policy and the acceptance of the disciplines of multi-lateralism.

### *Discussion*

The discussion began with a speaker noting that although the Bilderberg participants recognize the importance of global interaction, the group represents an extremely small portion of the world population, the majority of which is either concerned with national interests or indifferent to global issues. It is important to overcome this apathy, and one method would be to incorporate non-governmental organizations [NGOs], such as international corporations, into discussions on how this can be done. This should be considerably facilitated by the explosion of new global information infrastructure, making it much easier to include the population at large in the discussion of these issues.

Another participant took this approach one step further, suggesting that apathy might be partly based on a feeling of those beyond the major powers that they are powerless to have a role in world decisions. It is no longer appropriate to create divisions between the haves and the have nots,

and as countries become more developed and capable of playing a role in world affairs, they should be included in such organizations as the G-7 - providing they have democratic governments. For example, whereas China should not be admitted, India and Brazil do qualify.

A number of speakers criticized the G-7 on several levels; not only because it is no longer representative of the world today but because it has become little more than a media circus or, as one participant phrased it, a mutual admiration society. A participant from Germany, a journalist, commented that any gathering which attracts 5,000 journalists must be somehow ill conceived and that perhaps the greatest beneficiaries at such summits are the local industries, such as hotels and restaurants. Another speaker noted that it seemed odd to invite Russia to attend these meetings, but to exclude it from the economic discussions. In response to the moderator's question to participants representing countries which are not members of the G-7, two speakers - one from Portugal and another from the Netherlands - noted that although the need for some form of leadership was clear, it was often difficult not to feel powerless as decisions were made on one's behalf without contributing any input.

This opinion was repeated by a number of participants; to support and strengthen organizations which are inclusive, rather than exclusive. Otherwise, those who continue to feel excluded will form their own groups, as was the case with the Group of 77 and the G-15, both formed by underdeveloped countries. However those groups, without the expertise of the OECD to provide them with informational support, have been at a severe disadvantage.

In spite of these criticisms, however, the majority expressed support of a G-7 type organization because, as one speaker noted, in any society decisions by some are made for the benefit of all. Otherwise there is no forum for the leadership required to chart a cohesive direction to world affairs.

Several participants supported the panelist on the importance of regionalism, not as a replacement for world wide groups such as the WTO but as a method of developing north-south cooperation, in addition to the relationships which currently exist between Europe and America, as well as America and Asia. In America 40% of all trade is inter-hemispheric, and has increased dramatically since the introduction of NAFTA. Similar regional explosions of trade are taking place in Europe and Asia; a very positive sign because, as one speaker noted, trade is the engine of growth.

Finally, several participants warned the group that several international organizations already exist that currently wield considerably

more influence and power than organizations mentioned above. One, organized crime, will not be eliminated without unprecedented world wide cooperation. Another, the Church, is often underrated as a forum for movements within and between world regions. Another, from a different angle, is the media, which can have both positive and negative effects on political trends, depending on whether the population and political leaders use it merely as a source of information or as a guideline for decisions - wise or not - which will be popularly received.

The panelist concluded by asking if global governance is beyond reach. He urged the continuing support of the G-7, or at least a similar forum, because, quoting Winston Churchill, "Jaw, jaw is better than war, war." Furthermore public opinion, if encouraged, can force the G-7 to make decisions and agreements, rather than merely performing for the media. This was the case several years ago, when the G-7 was asked, and agreed, to make a firm commitment to press for the conclusion of the Uruguay Round. It is also essential that areas of the world heretofore excluded from such discussions be brought in. An example would be a suggestion made at a G-7 meeting several years ago, when a member urged a dialogue with the G-15. If this doesn't happen, the world economy will transform itself in a dangerous and divisive way. If one looks at the East Asean area which had an output of 4% in 1960; today that output is 25%; and between 1992 and the year 2000, 40% of world output will come from this area; it cannot be excluded from world policy discussions. Finally, the panelist reiterated the importance of regionalism, with the caveat that it does not lead to creating spheres of influence, as an important method of encouraging peaceful coexistence throughout the world.