

PROTOCOL

Welcome

Voswinckel

This is the first time in the history of the Bergedorf Round Table - a period of more than 30 years - that we have met in the United Kingdom; we are very grateful to the Ditchley Foundation for enabling us to hold our conference in such a magnificent setting. We would also like to thank participants for the efforts they have made to get here - our American friends, in particular, who have travelled a very long way. Apart from the subject of our meeting, the charming atmosphere of this place may well have helped motivate people to come here.

I would like to extend special thanks to our keynote speakers - Senator Bradley, Dr van Eekelen and Dr Poettering - whose introductory papers will lay the foundations for our discussions and, I hope, provoke lively and controversial debate.

The relationship between the USA and Europe has been addressed by a previous Bergedorf Round Table meeting, held in Washington in 1981. The subject then was: "Europe and America facing the crises of the 80's - lasting foundations and new forms of cooperation". At the time, cooperation between Europe and America was anything but a bed of roses. There were lively disputes across the Atlantic on matters such as the level of defence effort needed.

In 1989, Georgi Arbatov, an influential adviser to many a master of the Kremlin, announced: "We will do something terrible to the West - we will deprive them of their enemy." Arbatov, incidentally, attended the Bergedorfer Gesprächskreis several times, on some occasions as a keynote speaker. His prophecy has now come true ... facing us with the question which is the subject of our meeting here today, namely whether the West will survive the collapse of the East. Will Europe and North America have to redefine themselves, and thus also have to redefine their relations with one another?

The cold war, nuclear bi-polarity, deterrence and détente - all of them concepts that dominated our foreign policy thinking for decades; and all of them now redundant. Were they the foundations of Western policies and Western cohesion? Do we in the West need new links today, in order to show people in our societies that we still have to move together? What are the new dangers and challenges coming up now and in the near future, requiring a common response if we are to have any real prospects of success? The ecological threat, for example, so eloquently and persuasively described by American Vice-Präsident Al Gore in his book "Earth in the Balance". And what about the struggle for Soviet succession, a process the outcome of which is still wholly unpredictable?

Is Yugoslavia a mere foretaste of disasters looming up on a quite different scale, that we can master only by working together? Are people in the West aware of this at the present time, or are the dictates of economic competition increasingly dominating our everyday relations? In other words, are incipient opposition and short-term gain increasingly ruling our relationships? What about the new world order proposed by President Bush following the Gulf War? A mere phantom, or a real hope for us to approach the great goal of a world order of peace? If we have the impression that the Atlantic has widened since the demise of the Soviet Union, is this just an illusion or is it really the case?

For forty years, the United States were protecting Western Europe against the Soviet threat, and at the same time guiding European integration. How do Americans perceive their relationship with Europe today, i.e. their relations with Europe as a whole, not just with Western Europe? What motivates the USA to continue their involvement in matters European? Or is European unity exclusively a concern for Europeans today?

Following the collapse of the Berlin Wall, the incarcerated countries of Eastern Europe are beginning to find their way back to Europe. Are we in the West really willing and able to give them vigorous and effective support on this steep and rugged pathway? What economic capabilities and financial scope can we in the West mobilize, in view of the massive signs of recession currently pressing in on us?

This question is directed not least to our American friends: how much scope do they have, with the current of political opinion in the USA, to continue shouldering global political responsibility as they did in the past?

For us in Germany, one of the main issues is naturally the role of our country following reunification - first feared as a great power, then criticized for faintheartedness - what role will Germany have to play in Europe without American backing? Europe is beset with a range of structural problems that cannot be resolved without America.

In 1991, US Secretary of State for Foreign Affairs Jim Baker proposed a "New Atlanticism". What he meant by this was a new American-European contract. How great is people's will and room for manoeuvre today, for a renewal of the strategic alliance and at the same time for reinforcement of our joint cultural basis and economic ties?

Finally, I must tell you how delighted and grateful we at the Bergedorf Round Table are to Sir Ralf Dahrendorf, who has agreed to chair this meeting. You, Sir Ralf, have demonstrated your commitment to the Bergedorf Round Table almost from its inception - as a speaker, chairman and participant. Your relations with Kurt Körber, the initiator of the Bergedorf Round Table and founder of the Körber Foundation, were not only those of a friend, but also of a key adviser in many of his non-profit activities. We are very grateful to you for continuing your commitment to the Körber Foundation even after Dr Körber's death last year.

You were also a participant at the 1981 Washington meeting. May I close by quoting something you said then, which hopefully still applies today: "The first thing I would like to say, is that I honestly believe that these much discussed differences and conflicts between Europe and the United States are nowhere near as serious as we are made to believe by those who like to talk about them."

Dahrendorf

That quote was from 1981 - and one can get rather worried about things one may have said in those very different days. Welcome to all of you.

For me, this is the first time that I have been involved in a Bergedorf Conference since the death of its founder and I very much hope that the spirit of the founder will be with us, his inventiveness, his curiosity, his slight impatience. He did not exactly disapprove of leisurely conversation but at a certain point he always started asking "What's the practical upshot of this? What will happen after this conversation?" I trust that some of this will remain with us.

The subject is "Will the West survive the disintegration of the East?" Last night at my college we had the recently deposed head of Hungarian television, Ellemer Hankiss, who gave a sort of social-psychological analysis of what happened in the last three or four years, and he said: "Four years ago we all felt good. We, that is the opposition in the East, felt good because we could tell ourselves that we are martyrs. And while that is an uncomfortable position to be in, it is also one which makes you feel that you are doing a good thing. And you in the West", so he said, "felt that you were missionaries. That may not always be a successful line to take but it is also one which makes you feel good." And today, what has happened? "Today", he said, "we in the East feel we are misfits who do not really know where they belong in the scheme of things - and you in the West, you are just confused."

That is perhaps as good a starting point for our conversation as any and one may hope that our conversation here will contribute to clearing up at least some of the confusions which we may carry with us.

Now we have the great privilege and pleasure to start with three outstanding politicians of the United States of America and also a person who has been a consistent internationalist throughout his career while not losing sight of the domestic problems of his country, and we are particularly pleased to have Senator Bill Bradley with us. Senator, would you start?

Bradley

I speak not as an academic nor someone who is experienced in international diplomacy, but as an American politician. The question that is posed is: "How will the West survive the disintegration of the East?" Let me begin by providing some historical context and making a few analyses.

In the summer of 1991, the fall of communism in the former Soviet Union, followed shortly thereafter by the end of the Soviet Union itself, was a remarkable watershed that I don't think the rest of the world has fully caught up with. It signified that the age of ideology was over, that the debate within the Western tradition since the early 20th century between Marxist-Leninism and liberal democracy had come to a conclusion, and that democratic liberalism had won the day decisively. That conflict characterized our Western society intensely since the end of World War II, and it shaped our institutions and our perceptions of our respective individual futures and our collective future to a degree that most of us had not realized until it was over.

The question, then, is how do we emerge from that conflict, and what is on the horizon? American academic Samuel Huntington postulates that the conflict of ideology will be replaced by the conflict of civilization. The conflict of civilizations is broadly divided among "Western" - meaning Judaic, Roman Catholic, Protestant - and "Eastern" - meaning Eastern Orthodox, Islamic, Confucian, Hindu and Buddhist. This civilization conflict school of thought asserts that in Europe the Iron Curtain has been replaced by a "velvet curtain", the "velvet curtain" being the furthest eastern extension of Western Christendom in the 16th century. Extending from Finland, through the Baltics, through Western Byelorussia, Western Ukraine, Transylvania, Slovenia, Croatia - everything north or west of that being "Western", Roman Catholic, Judaic, Protestant; everything east of that being "Orthodox"; everything south of that being Islamic.

If indeed the conflict of civilization will replace the conflict of ideology, it implies much deeper divisions in our body politics and in our international relations because the issue of civilization goes to the very identity of each person. A communist can become a democrat, a rich man can become poor, a poor woman can become rich, but an Azeri cannot become an Armenian and a Serb cannot become a Croat. It goes to the very essence of what we have believed, in the tradition of the Enlightenment, that an individual is more shaped by gender, personality, talent, and education than he or she is by ethnicity.

We see in Bosnia today the conflict of three civilizations : the Czarist, the Habsburg, and the Ottoman empires. We see in the solutions offered to the Bosnian crisis by the European Community, the Vance-Owen Accord, a kind of sanctioned apartheid in which pluralism is sacrificed and regions are divided according to ethnicity.

The United States has, since its inception, seen itself as a pluralistic democracy, as a place where people come from whatever background and from whatever religion and from whatever ethnicity and, by professing allegiance to a certain creed, become American. One of the potential sources of division between Europe and the United States in the years to come lies in the extent to which Europeans equate nationality with ethnicity. The more that occurs, the greater the prospect for division between the United States and Europe.

One of the other questions that flows from the end of communism in 1991 and one of the assumptions behind the question posed in this session, namely "How will the West survive the disintegration of the East?" is that we have only been able to find unity between Europe and the United States when we defined our unity in opposition to something else.

We knew we were against communism. We knew we had to defend ourselves against a military threat emanating from the Soviet Union. But the question really is, how do we define ourselves positively, not negatively? What are we for, not what are we against? The challenge to define what we are for and not what we are against seems to be one of the central elements in finding a new world order or finding even a common basis for policy-making.

But what we have in common does not always serve as a direct day-to-day guidance for policy-making. For example, in the broadest sense, values often provide context and a foundation but not always recommendations for action.

What Europe and the United States hold in common, is a commitment to democracy, a commitment to human rights, a belief in economic freedom moderated in its excesses by the state. But each of those does not always give the best guidance in formulating a common foreign policy that requires day-to-day decisions.

For example, if democracy is our value, how does democracy serve as a guide to policy-making? Clearly, the West is not urging that Saudi Arabia should be a democracy. We fought a war in the Persian Gulf, and yet the Emir still rules in Kuwait. There was indeed an election in Algeria that selected, by democratic means, a fundamentalist regime that we did not like, and, therefore, we condoned the overthrow of that regime by the military. In China, there is a whole series of problems associated with using democracy as the guide to our foreign policy. So, while it is a value enormously important to our own self-definition, it is not always a consistent guide in the formulation of day-to-day foreign policy.

Human rights. At the moment the question, of course, is Bosnia. But if one is to intervene militarily in order to prevent ethnic cleansing and the kind of atrocities that take place daily in the former Yugoslavia and to do so on a moral basis, what is the reason to do it in Yugoslavia but not to do it in Tajikistan, where as many people have been killed in the last year as have been killed in Yugoslavia? What about Azerbaijan and Armenia or the many other violent ethnic conflicts swirling around the world? Or where were we in the 1970s when hundreds of thousands were massacred in Cambodia? Or in the 1960s when the rivers of Indonesia flowed red with blood? So, human rights again serve as a very important value and a value of self-definition but they do not always serve as a guide to policy.

In terms of economic freedom moderated in its excesses by the state, we continue to espouse the importance of open economies, open trade, and the market as the best mechanism to allocate resources. And yet both Europe and Japan developed after World War II not from trade necessarily, but from protectionist measures meant to give destroyed industries a chance to be rebuilt - and China stares us in the face with quite a different model for economic development.

The point here is that there are certain values that I think we share, but don't always serve as guides to specific policy measures. We wait for a broader conceptual framework to give our policy-making some meaning. One might say, metaphorically, that what we need today is an architect and what we have are good masons who place brick on brick.

In the absence of the architecture today of the new world order, let us look at a few of the bricks that we, as good masons, might agree to place in the wall of our common security and stability.

The first is nuclear non-proliferation. It is the policy which is the most important policy for us to agree upon. The nuclear non-proliferation treaty is being violated even as we sit here by many of the countries who have signed it - Iraq, Iran, Libya, South Korea, Taiwan and Singapore.

Many other countries have not even signed the nuclear non-proliferation treaty. If we are to move from the relative stability, in terms of nuclear terrorism potential, that existed in a bi-polar world when two not "irrational" powers controlled nuclear weapons, into a world where many powers control nuclear weapons, we're moving into an area of incredible instability.

For example, this was brought home most clearly to me a few weeks ago when the bomb exploded in the World Trade Center in New York City. Apparently, the plot was planned and executed by a radical Islamic cell located in my home state of New Jersey. What if that bomb had been nuclear? The issue here is of absolute importance to all of us. It prevents reckless nuclear proliferation and requires very strict export controls, that are very strictly enforced by all parties. It requires a much more professional, thorough and aggressive functioning of the IAEA in its inspection and compliance roles.

A second brick in our wall of stability is trade liberalization. The economic well-being of all of us will be improved more by open trade than by closed trade. This is true even in a world where some players in the world economy don't play by all the rules.

In the United States, supporting open trade means approval of the North American Free Trade Agreement, the most significant foreign policy measure that will come across President Clinton's desk in his first four years in office. It implies a completion of the GATT round and it also implies looking for a broader framework to deal with more issues such as the environment and investment.

In the event that NAFTA succeeds but the GATT round doesn't succeed, it is quite probable that the United States will begin to look more and more to Asia and seek an expanded NAFTA by bringing in a number of Asian countries. Multilateral trade liberalism, however, is the preferred way to go. It brings the greatest good to the greatest number of citizens in the world.

The third brick in our new wall of stability is macroeconomic coordination. As democratic societies, we each have elections, and we each have our own internal needs, in terms of monetary and fiscal policy, so as to generate the highest level of prosperity for our country - especially before an election. But we cannot allow short-term political needs to control and constrain our long-term development. The objective should not be electoral deadlines. It should be worldwide growth. In particular, we need to look at exchange rates and monetary policy in the context of trade liberalization. All of the benefit of reduced tariffs or more open trade from a new GATT round could be lost in the morning after by depreciation in the value of currencies. There has to be an increased understanding of the inter-connection between exchange rate movements, monetary policy, and trade liberalization. And that inter-connection has to inform our policy-making.

The fourth brick of stability would be helping Russia and the East integrate into an international economy. That implies massive exchange of people. I was struck a few weeks ago when the deputy governor of Nizhny Novgorod was in my office. He is 31 years old and is a market-oriented democrat without question. And he said, "I am too old because I worked a few years in the old system. What we need are all of the young people to learn what democratic capitalism is all about." Exchanges need to involve tens of thousands of young people.

Just as after World War II there were massive German-French exchanges, exchanges of Germans to the United States, Japanese to the United States, so now there needs to be a massive exchange between the East, Russia, the former republics, Poland, the former Czechoslovakia, and Hungary with the West. And there must be a sense of urgency about this, for every person who returns home becomes a voice not only for a different way of looking at the economy, but a different way of handling their own potential circumstances.

We should also move to deal directly with what most threatens the West in the former Soviet Union today. It is not armies. It is nuclear weapons that are lost on rail sidings somewhere in Europe, or nuclear technology and materials that are sold to Middle East sources, and it is Chernobyl-style nuclear reactors that could explode tomorrow. It is astounding to me that years after Chernobyl, with the full knowledge that there are about 17 Chernobyl-style nuclear reactors within a short wind's blow from Western Europe, that the European Development Bank and European countries themselves have done nothing to replace them.

To help the East also implies expanding Europe and not simply perfecting Europe. We talk about open trade. In the East it appears that the West has said: "Well, we are open to trade in everything except those things which you could sell us." It makes much greater sense, if we are consistent with our values, to truly open up our markets with the East and allow them whatever little comparative advantage they could have. It also means, consistent with the earlier question, that when a country such as Saudi Arabia, Kuwait, Algeria, or China, wants to move to democracy or asserts the desire to have market-based economy, we simply must step forward at those moments with greater resources

and much greater energy to meet their request if our values are to mean anything. It is one thing to impose a system on a country that does not want it; it is another thing to deny to a country that wants to move to democratic capitalism the means, the knowledge, and the shared commitment to do so.

I would offer those four areas - nuclear non-proliferation, trade liberalization, economic coordination, and helping the East - as four bricks in this "wall of new stability".

With all of that said, what we are really faced with is the need for a new world order. We need a global institution to deal with increasingly global problems, problems of the economy, problems of the environment, problems of economic migration, and problems of regional conflict. As the world moved from the feudal state to a nation-state system, so now we are at a time where we have to move from a nation-state system, where states are increasingly unable to counter the problems that face our world, to a more global institution where some sovereignty is ceded in the full expectation of slightly diminished national powers but enhanced probability of a higher quality of living for the citizens of the states that do so.

This applies not only to the economy and the environment, but most urgently to peacekeeping and, therefore, to all of the questions that are asked in Europe today about what shall Europe do in a post-communist world with NATO, with the Western European Union, and with the sizable defence establishment that exists in each of our countries.

To meet global problems we need a global institution armed with new power, new resources, and a strong mandate to protect us from ourselves, even as we tap our human potential to solve our current problems. It may sound like a daunting task and it is. But it also is an invigorating opportunity - if we will only seize it.

Eekelen

I would like to approach the problem from the security and defence angle which, of course, is my daily "bread and butter". Collective defence is no longer the overriding priority of transatlantic relations, fortunately - because there is no longer a massive "surprise attack" scenario which would force us to move from a peace-time posture to war-fighting capabilities in a matter of days, if not a matter of hours. But that also means that security in transatlantic relations no longer is the blanket which used to dampen irritations in other fields.

My first thesis is that transatlantic relations require even more care in the future than they did in the past. And one of the questions I should like to pose is: "Is it possible to create a more global relationship, transcending the field of security?"

I was still a diplomat in 1973, when Kissinger tried to have the "Year of Europe" - which became the "Year of the Arabs" - but that was not his fault. It was very difficult to establish, at that time, a kind of global relationship precisely because the security and defence that I mentioned was so overriding. Also the Europeans had some doubts as to whether it was useful to include that into a relationship which would be a bit top-sided.

The question today is - is it possible to create that relationship as the defence dimension is diminishing somewhat in importance and as the United States' leadership is not so all-pervasive as it used to be? Can the G7 fulfill that role? I doubt it. As a European, I find it rather flawed in its structure - but it remains to be seen. I, personally, would be more in favour of a kind of tri-partite relationship between a European Union, the United States, and Japan as the prime movers in that context.

Second thesis: Europe, today, is potentially capable of providing a convergence between foreign policy, economic policy and security and defence. That's the idea underlying the European Union, the idea we are moving towards although it may still take some time to implement.

Although I appreciate Senator Bradley's comparison with architects and masons, I'd rather be the mason than the architect because I doubt whether this is the time for architecture. We are in such a fluid period that I would be happy to be able to look ahead five years. As it is, I have no idea how things might develop after that - neither in Russia nor in other parts of the world.

On the one hand, Europe has this potential capability to provide convergence, and, of course, it has a problem of leadership. After US leadership has declined somewhat, there is nobody else - or no institution - yet to take over that role or be willing to do so. In Europe, we'll have to develop collective leadership.

Third thesis: Clausewitz is back! Not that he ever left us completely but what I mean is that in a time of massive surprise attack there was not all that much diplomacy to be conducted. Today, everything we

do is shifting in a direction away from defence, in the proper sense of the word, and towards intervention. As people don't like that word very much, let's say "using our military capabilities to underpin political objectives". Any decision, today, to use military capabilities is very much a political decision; which is taken in different capitals and which will, therefore, also inevitably introduce different elements in the decision-making process.

Security - I realize that this is provocative - is no longer indivisible. Of course, we all talk like "medicine men" and say that it is - but it really isn't! The Norwegian and the Turkish situations today are quite different from what they used to be only four years ago. So, it is really our task to make security indivisible but that can only be done if there is a conscious effort to do so.

Fourth thesis: The North Atlantic Alliance has to be reformed. It has to be reformed into a two-pillar system - a European pillar and an American pillar. For two reasons, one European, one transatlantic.

The European reason is that I cannot imagine 350 million people already united in the European Union (and more to come) without a defence dimension. That dimension can be less, fortunately, than it has been in the past, but nevertheless, I think historically, it should be there.

For NATO I think a two-pillar system is essential. I often ask the question also of my American friends: under what circumstances can we expect United States forces to remain in Europe? Is it if Europe remains disorganized, as we have been for a long time in the past, or is it if we organize ourselves a bit better?

I ask that question in particular in view of 1994 when all the Russians will have left Germany and Poland and, hopefully, all the Baltic countries. Russia then will be further away from Western Europe than ever before since "Ivan the Terrible". We shall have many buffer zones between us - not only the smaller East European countries but also Byelorussia and Ukraine, which will become problems on their own but which will, nevertheless, separate Russia from us.

Is it, under those circumstances, very likely that the Americans will take European security more seriously than we are taking it ourselves - or, rather, than we are not taking it ourselves? So, what I am aiming for is a kind of transatlantic bargain - often discussed but never concluded (at least not formally) - in which we define more closely the responsibilities which we Europeans are able to carry out in the future and the responsibilities for which, we hope, the Americans will be able and willing to provide their support.

In other words, it's a move away from the "numbers" which have, to a certain extent, dominated the public debate. First 200,000, then 150,000, 100,000, now some are talking of 70,000 or even 50,000 men. This is a slippery slope which should be stopped.

Only if you talk about functions - and fairly concrete functions like nuclear protection, the augmentation role, the real-time intelligence function, strategic transport, the hi-tech aspects of command and control - you could if you add them all up, come to a realistic and justifiable number. But it would also include a new element of obligation and commitment in transatlantic relations.

The Americans could say in Congress: "Because we are doing this, we are helping the Europeans to stand up and assume larger responsibilities." The Europeans could say, in their parliaments, "This is part of a deal - and we have to stick to it." It's a resumption, to a certain extent, of the old challenge of an increase in defence budget in real terms, which is no longer necessary, but introduces another element of commitment.

If we have this two-pillar arrangement, my organization, the WEU, could, very gradually, assume the role of the European pillar because today we have all the European members of NATO and all the members of the European Community around our table - not all as full members, but some as associate members, and the Danes and Irish for the time being as observers - so now it is possible to try to build a consensus on the European side of some of these issues.

Fifth thesis: There should not be a hard-and-fast division of labour between NATO and the WEU. In the first place, I ask why do we continue to need NATO? In the future, first of all, we still need it for the collective defence aspect. Only American power can balance Russian power and we all feel a lot safer with an American presence on our territory than we do without it - and the same applies to the Hungarians and Poles and Czechs and other countries in Central Europe.

The second function as I see it for NATO is the transatlantic consultation process which is essential to deal with virtually any problem with security implications in the world. And the third new function is the outreach function towards former adversaries aimed at helping them along towards pluralistic

democracy - and the market economy to a certain extent - although that is not a NATO function as such.

I do not want to have a hard-and-fast division of labour between NATO and the WEU because the circumstances under which either NATO or the WEU will become active cannot be fully defined. In practice, it very much depends on whether America is prepared to participate substantially in a military activity, whether it's better done in NATO or whether the Europeans should take the lead.

Everybody now - even the French - accepts that if there is a substantial American participation, for example, in Yugoslavia, then the command arrangements are better done through NATO. That, in itself, is already a substantial improvement over the situation we had a few years ago. In that respect the French are really coming closer to NATO - especially as American influence diminishes a bit, it's more acceptable to France to come in. I think they take a fairly rational view that if the Americans are involved,

NATO can have the command responsibility - but otherwise there is no prima facie case to have a NATO command role outside of the NATO area.

But the important thing also is - and I don't know if all of our American friends are aware of this - that in the WEU we are not aiming for standing forces or a duplication of the NATO command structure. On the contrary, we are aiming for "double-hatting" of the forces available for NATO. If NATO takes the lead - primarily, collective defence, but maybe increasingly some peace-keeping functions or peacemaking functions, too, - it is fine with us. If, however, the situation is such that, in the process of consultation, also in NATO, it appears that the Europeans are better placed to take a lead and the Americans also are saying "we regard this more as a European responsibility than a transatlantic one", then, clearly, we could take a lead using the same forces and, to a large extent, using the same infrastructure, communications, etc.

So, we are not setting up standing forces but we are planning for force packages which are available for the three missions: the humanitarian and rescue function, the peacekeeping function, and the peace-making function, or to quote literally, the role of combat forces in crisis management including peace-making.

Sixth thesis: The concept of collective security, which we talk about as an ideal, is still an unfinished concept. It will need, in any case, the underpinning of a collective defence element - whether it is NATO or the WEU doesn't really matter very much. And that's also the reason why the Hungarians and the Poles today are so interested in joining either NATO or the WEU because they realise that the other organizations are not able to provide the same security guarantees they would like to have.

In that respect, of course, our terminology is a bit euphemistic. We are all talking about peace-keeping when there is no peace. If you look at the Agenda for Peace of Secretary-General Boutros-Ghali, which was certainly an interesting attempt to define new roles for the United Nations, the enforcement element is very much underplayed. The word "enforcement" is hardly used there - it's all "peace-keeping", "peace-making" and it's not really very clear under what circumstances you can resort to enforcement measures.

We have a similar problem in the CSCE, the Helsinki process. There, so far, our experience has been that it is better-suited for crisis prevention than for crisis management. Certainly, the creation of a High Commissioner for Minorities is useful because then the crisis prevention activities, hopefully, can become a bit more effective. As it is structured today, with "consensus-minus-one" in some areas and full consensus in some others, it is very doubtful whether the CSCE is really suitable for crisis management. It's good for mediation, fact-finding, conciliation, etc. But what do you do when a crisis nevertheless erupts?

Similarly, we have the question how the CSCE will relate to the North Atlantic Cooperation Council which now also includes all the former adversaries. Is the NACC really able to fulfill its rather ambitious target of bringing stability to the East? I think it's being a bit excessive in its claims.

Now I come to the United Nations where, fortunately, we see a new emphasis - and perhaps the beginnings of a new effectiveness. At the same time, however, we all ask ourselves the question "how long will the honeymoon last?" That is, how long will the former Soviet Union and China be able and willing to accept fairly far-reaching measures and where is the border-line between what is possible and what is not? There is the question as to what we will do if, in spite of all our efforts, the Chinese and the Russians say that certain enforcement measures are no longer acceptable?

Dahrendorf

Dr Poettering is described as coming from Strasbourg and I suppose in the legal and technical sense that is a correct description. I won't ask him where he spends most of his time as a member of the European Parliament. He is not only a member of the European Parliament but he is the Chairman of the Committee on Security and Disarmament and I have also detected an ominous document, much-read, which carries the name of a Dutch city, among his papers. I think, so far, the name has not been mentioned yet - which may be a good thing or not. He will tell us!

Poettering

Ten years ago, when we at the European Parliament started looking at foreign policy, security and even defence, there was no shortage of people complaining that "those idiots" in the European Parliament were now trying to encroach on these issues, too. Since then, Willem van Eekelen has frequently been a guest in our Security and Disarmament Commission; the impression I have is that the initial scepticism has died down, as it has now become clear that the European Parliament has a competent contribution to make on these matters.

First of all, let me thank our British friends for the clear majority obtained for the Maastricht Treaty in the House of Commons two days ago. Had it been otherwise, I would have had to completely rewrite what I am going to say.

Senator Bradley and Secretary-General van Eekelen have already referred to the tremendous challenges facing us Europeans together with the Americans. That is true in particular of the transition to market economies and democracy in Eastern Europe. In fact, our subject "Will the West survive the collapse of the East" could equally be reversed, to ask "Can the East survive the current difficult phase of political, economic and social transformations without the West?" Both of these questions show that there is urgent need for action.

The whole of Central and Eastern Europe is a collection of powder kegs. The challenges we have to face include the war in what was Yugoslavia, the steadily rising number of border conflicts (mostly due to ethnic problems) in the former Soviet Union, unresolved minority problems in various South-East European states, the virtually uncontrollable proliferation of materials and know-how for the production of weapons of mass destruction from the former Soviet Union, inadequate safety in nuclear reactors, and the environmental time bomb, which is ticking away with unrelenting vehemence throughout Central and Eastern Europe. I could add many more to this list.

Despite this sobering inventory, it would be quite wrong to sink into pessimism and nostalgia for the "good old times" of antagonism between opposed blocs. In fact, the new political situation in Europe offers an incomparable opportunity to establish

enduring co-existence between the nations and peoples of Europe in liberty, and to improve people's lives in East and West. These are tremendous opportunities; but in order for us to take them, Europe has to get closer together - and by that I mean the whole of Europe - just as Western Europe got closer together after the Second World War.

This process is exemplified by the integration of the Western part of Germany into postwar Europe following wartime defeat and destruction. The aspirations and aims held at the initiation of European unity were congruent with the major goals of German policies, and, in fact, gave them lasting support:

- Preservation of peace in liberty, and guarantees for security;
- Economic reconstruction and prosperity;
- Equal rights in political and legal terms, and the acquisition of international ability to act;
- A stable political order, a free democratic system, and the rule of law including a social element; and ultimately
- The re-establishment of German unity.

At this meeting in the United Kingdom, I would like to stress specifically that for us in Germany, our close partnership and friendship with France is the corner-stone of European unity. The integration of the Federal Republic of Germany into the European Community, NATO and the WEU meant that we became part of a community of freedom, peace and security, which was also an economic community and above all a community of values. This example is something we should bear in mind when defining our relations with our Central and Eastern European neighbours and with successors of the former Soviet Union.

The process of coordination of Western European states to form the European Community, in alliance with the USA, promoted the protection and maintenance of peace. The peaceful and non-violent cooperation established between EC member states deserves particular attention after so many years of enmity and never-ending disputes between Western European nations. This cooperation has created a genuine order of peace for the Western part of Europe - something that has yet to be achieved for the continent as a whole.

The European Parliament has repeatedly stressed the importance of common values and principles, and called for a right of self-determination for all Europeans. This has become apparent not least in the process of German unity, with the European Parliament providing clear support at a time when many high-ranking personalities in the capitals of Western Europe - including the UK - were a great deal more reticent.

Germany's close ties with the European Community continue to be a major element in any lasting peace. A Germany left to its own devices in the middle of Europe would have generated suspicion and uncertainty among its neighbours. Europe needed Germany in order to maintain peace and security, and, of course, Germany needs Europe, too.

Today, the commitments within the European Community have grown to such an extent that all its members have to rely on one another. Inevitably, commitments create dependencies, setting limits to what a nation can do purely at its own discretion. But that is something I regard as positive. That is why I feel it is immensely important - particularly with a view to our Central and Eastern European partners - to prevent Europe from regressing into national egoism of the kind that has driven Europe to the precipice twice in this century. I whole-heartedly welcome the decisions by Denmark and the United Kingdom in favour of the Maastricht Treaty. We need to define and established the concept of European public interest.

And that brings me back to my initial question: "Will the West survive the collapse of the East?" The West will survive the disintegration of the East if Europe and America take the right economic, political and security steps to integrate our partners in the North Atlantic Cooperation Council into our community of values, into our political and security framework, and also into our economic structures. I would like to make a few proposals to this end.

The situation in Europe at the beginning of the nineties calls for a number of things:

Firstly, immediate and dynamic reaction by the European Community to recent political changes and the growing demands made by non-EC European countries.

Secondly, a long-term strategy and a political concept aimed at reconciling the final goal of the EC treaties (namely the establishment of a European Union) with the new perspectives of closer cooperation with all the states of Europe (including Russia, the Ukraine, and other republics of the former Soviet Union), thus ultimately paving the way to a kind of Pan-European confederation.

The central issue here is to determine what kind of European Community or European Union this new Europe really needs. Basically, I believe there are four possible scenarios for the future:

- 1) Deepening of the integration process without any further widening, together with the establishment of closer relations with all neighbouring European states. This would involve a blanket agreement with EFTA, closer association with Turkey, and various types of association agreement with the countries of Central and Eastern Europe, under Article 238 of the EC Treaty.
- 2) Addition and expansion without deepening. This would mean that the European Community completes its internal market programme, but refrains from any further steps towards European Union. This would mean that membership would be open to interested EFTA states in the near future, and to Central and Eastern European states possibly in the medium term. The Community would also have to adopt a definitive position on the Turkish application without further delay.
- 3) Creation of a new Pan-European structure, which would mean departure from the goal of further Western European integration, and the establishment of confederate structures and inter-governmental bodies among the European states involved in the CSCE process. However, some EC members might be tempted to retain as much as possible of what the Community has achieved, and to build on that basis.
- 4) Deepening and (limited) widening of the Community. This scenario would aim at further expansion to create a European Union by the year 2000. Membership in the European Community would be open to those European states that are structurally and economically able to adapt rapidly to the

general Community standard, to meet the basic requirements for membership, and to identify politically with the goal of a largely supra-national, federal European Union.

Whichever scenario is ultimately adopted - and I personally would be very much in favour of the last alternative, i.e. deepening and a limited form of widening - the Community clearly has to make some decisions on how to organize its future relations with the other countries of Europe. Simply maintaining the status quo would hardly be a viable alternative, because the Community itself needs perspectives and because other European countries are bringing the Community under more and more pressure to scrap the waiting-list and open up prospects for their future relations with the European Community and their future position in an EC context.

However, I would stress one qualification that is essential for membership: applicants must identify with the goal of the supra-national European Union and be willing to transfer a considerable portion of national sovereignty to the Community.

The European Community needs to become more efficient. That means in particular that democratic control has to be strengthened. The Maastricht Treaty does a great deal in this direction, though most people are still quite unaware of this. They say that the European Parliament is virtually devoid of powers; that is incorrect even today, and even more so after Maastricht takes effect. But there is still a democratic deficit to make good. The European Parliament needs to be given genuine legislative powers as the Community is deepened, putting it on an equal footing with the Council of Ministers. But even with powers assigned as they are now, any expansion of the Community requires the consent of the European Parliament.

This is the context for future relations between the European Community and the new partners in Central and Eastern Europe. There is broad agreement in the European Parliament about the opportunities offered by Article 238 of the EEC Treaty for closer ties with the Community, and these have certainly not been exhausted in the association agreements made with countries such as Poland, Hungary, the Czech Republic, and Slovakia.

Dahrendorf

I am sure we all have reason to be grateful to the organizers for having attracted three introducers who present such a comprehensive map of the problems before us plus some directions within that map. With such a panorama of diverse and yet important issues I simply invite comments from the floor.

Bullard

I have been struck by the large number of references to multilateral organizations and institutions, both regional and especially global. The references to them have sometimes been congratulatory, but, more often, rather critical. NATO, CSCE, GATT, the G7, IAEA, the European Community and the UN: all these, by implication or directly, have been used as illustrations of what needs to be done. There are many more such references to the institutions and organizations in the world than would have been the case four or five years ago when we tended to assume that our institutions were, if not perfect, at any rate adequate for their tasks. Or, if they were inadequate, we were pretty sure that their inadequacy was not the worst of our troubles.

Today, it seems that we are conscious not just of lacking institutions we need, but of having and being encumbered by institutions that we don't need, at least in the form in which we have them. As an example: I wonder whether Europe might not have tackled the problem of nuclear safety in the Ukraine (which Senator Bradley drew particular attention to) if it were not for the existence of the IAEA in whose hands we had always supposed such problems belong.

It is not enough just to consider how existing institutions need to be or might be adapted or enlarged or reshaped a little bit with the addition of an extra member or two here and there or a high commissioner as a makeweight. This kind of thinking can lead to organizations seeking to play roles that don't really fit them, and I wonder about the NACC (but I have no experience of it).

A more serious question is whether any organization is capable of reforming itself sufficiently without some outside prompting or oversight. There is a need to tackle the question of international organizations as a problem or a set of problems in its own right; a need for a new phase of institution-building on the international plane - realistic but imaginative and creative - comparable in significance with the phase in the 1940s which saw the creation of the UN and the specialized agencies and NATO. Not starting from a list of the organizations we have and how they might be improved, but starting from a list of the problems that need to be handled on an international basis and drawing conclusions from that.

Is this asking for the moon? Perhaps it is! The clean slate which the end of the Second World War provided does not exist. A nuclear accident vastly more terrible than Chernobyl might serve as the necessary trigger but I hope we won't wait for that. The advent of the millennium might provide the occasion for a fresh start on these lines.

And who might take the initiative? I think there are various possibilities: perhaps a group of medium-sized states, of which Canada might be one. Canada after all contributed more than any other state, proportionally, to that earlier phase in the 40s that I mentioned. Or a group of individuals : super-wise men on the world scale. Or why not a group of think-tanks, a long and distinguished list, of which the Bergedorfer Gesprächskreis could not fail to be one?

Marsh

I think the title of today`s discussion is very well chosen: "Will the West survive the disintegration of the East?", because it does pose this question of interdependence between West and East in the most dramatic form. I would like to make some remarks on the political and economic events which we have seen in the last years which do change the agenda for the post-Maastricht era.

Clearly, everybody did make mistakes of judgement at the time when the systems in the East collapsed. We failed to see that the collapse in the East would also raise great challenges and pose great questions for our own system, particularly in Western Europe. The Wall if you like was a sort of mirror, at the time. We looked into the mirror and in Western Europe we were on the whole generally satisfied with what we saw of our own reflections. But now the waves of change which have crossed through the East have really rebounded back onto us. This makes us a great deal less self-satisfied than we were during the time when the Maastricht Treaty was being negotiated and drawn up.

If you look at the countries in Europe which have had to undergo changes, of course, the list does start with Germany. For a country which has been territorially and spiritually changed by unification, it's not surprising that there should be a period of soul-searching and also a certain amount of Angst about the future. This would have been less if there had been less misconceptions and mistakes about unification policy. But this period of uncertainty in Germany would have been there, anyway.

I thought all along, two or three years ago, it was a mistake of a great order to fear a larger united Germany. I agreed, when the late Willy Brandt said once: "Do not fear an economically prosperous Germany, fear an economically weakened Germany!" He was absolutely right. Also the fact that for the first time in Germany`s history, the country is next door to a low-wage "bloc" which produces goods with wages one tenth of those in Germany, has enormous repercussions on that country and will cause enormous structural changes.

One of the advantages of this beautiful house and this beautiful setting in which we are holding this conference is that it gives the impression to foreign visitors that Britain is a very settled, peaceful and tranquil country, whereas, of course, that is completely untrue. And would the loss of national self-confidence and also the spirit of national self-denigration through which we are now living in Britain, would that perhaps have been less, had this period of recession which we have had for the last two or three years not also coincided with a period in which Britain lost its post-war role as guardian and guarantor of a divided Europe?

In France, Spain, Italy (and I think particularly of Italy, since this was the country where symbiosis between the structures of the State and the structures of corporatism, in a sense, was a reflection of the "Cold War Order", which has come to an end) we are seeing huge changes and a sign of the appositeness of the question "Will we survive?".

I don't want to talk about Yugoslavia which, I am ashamed to admit, just completely beats me. I would just like to talk about the political and economic changes elsewhere in Europe. Maastricht, as a treaty, was founded on this general mood of self-satisfaction that our system could stand the test. One of the aims of Maastricht, to bind in the Germans into a new and wider Europe, was in fact a very legitimate and, perhaps, understandable objective. I think it was the wrong basis though, and it was also, of course, based on the premise that the problems of German unification would be dealt with relatively quickly and that we could get on to the new agenda of the single currency and an extended political integration in Europe. That time-table is no longer on the agenda, and we have got to get used to a more humble and a less ambitious agenda for the future.

Maastricht was not a mistake, but it was a miscalculation. We do have to take account of this. I am as pleased as anybody that it does seem as though ratification is now to go through because, had it not been ratified, we would have wasted more time in the next 12 months in addition to the time which we have already wasted. So I am pleased that we can actually get on now to a new set of priorities.

One of the miscalculations was to fail to see that by giving priority to deepening integration in the West, we would be failing in our duty to produce a wider and a better-integrated Europe across a wider scale. I have always been one of those who believe, unlike most Germans I have ever spoken to, that you can't really integrate on a wider basis and also deepen at the same time. You do have to set priorities here, and the priority has to be a wider Europe rather than a deeper Europe.

Of course, we also failed to see that by setting up a time-table for monetary union, we would add to a certain scepticism in Germany about the loss of the D-Mark - at a time when Germany already was going through great problems, we failed to see that this would actually be not so much a solution to the question of binding Germany into Europe, but perhaps even one of the obstacles.

What would my agenda now be? I do think we need to be more realistic and less ambitious about the direction that Europe is going to go in this century. I agree with all the words which are used about more transparency, more accountability for the way the Commission and the Council of Ministers work. One of the lessons which we have learned from the Danish experience has been the feeling that the ordinary people are not being consulted and not being taken account of enough by the forces who run the European Community.

For instance, I am a great supporter of enlarging the Community to take in the four EFTA states. But I do not see any reason at all why we need to enlarge the Commission and have 21 commissioners or something like that. In fact, I think that we should launch a campaign that commissioners and top civil servants also start to pay tax.

That, of course, is a relatively unimportant point compared with the very large point of growth in the Community.

It is no coincidence that we have now gone through this phase of soul-searching at a time when Europe, the European Community, will now probably contract economically this year for the first time since 1975. And we must not overlook the lessons of the period of great currency unrest in September. The people who made money there were banks and pension funds, insurance companies and speculators. The people who lost were people running factories who were trying to operate on a stable, rational basis to sell their products throughout the Community. We need a set of stable currency arrangements and we want to try to avoid the danger of competitive devaluations on the scale we now have. We do not need a rigid time-table for a single currency which I think is, anyway, no longer realistic.

Finally, we need to consolidate the very great gains that Europe has made already in freeing trade. We also need to approach the task of enlargement with great vigour and we also need to find ways of extending cooperation in trade and economic policy to Central and Eastern Europe. I fully agree with what Bill Bradley said in his opening on the importance of that.

These so-called "sensitive" imports from Eastern Europe in areas like agriculture and steel and chemicals, they may be of importance for individual factories and individual

areas but they make up only between 1 and 2 per cent of Europe's total imports of such sensitive goods. It is, in a macro-economic sense, a relatively small problem, and we should not be protectionist towards those countries.

The waves of capitalist market economy have actually crossed quite quickly to the East. Those countries have faced a fall in GDP of about 20% in the last three or four years. We now owe it to them to let their products cross to the West with the same sort of effortlessness and the same sort of momentum with which the ideas of a democratic market economy crossed to the East. If we made this one of our priorities, Europe would be well-served.

Livingston

Let me tell you how the vision of Europe that Mr van Eekelen and Mr Poettering put before us strikes an American. I'd like to follow Mr van Eekelen's very good example and try to be as provocative here as I can.

We should be very clear about the picture that emerges from Mr van Eekelen's and Mr Poettering's presentation. It is precisely one of the type of a civilization that Bill Bradley presented to us as being described nowadays by some academics as a successor to the structures that we dispensed with at the end of the Cold War. That is, it is a civilization where, if you come from a Catholic or you come from a Protestant background (not church-going, of course, a secularized Catholic or Protestant background) or from a Jewish background (though there are not very many Jews in Europe any more) you are in. If you come from an Orthodox or a Moslem civilization, you are out.

Now, leave aside the problems such a concept of Europe raises with regard to the borderlands (and the Germans discovered this when they prematurely recognized Croatia without worrying sufficiently about the guarantees that the Croats would give to their Serbian minority) meaning Bosnia-Herzegovina, where these religions live together, meaning the Baltics, meaning the Uniates in the Western Ukraine - all borderland problems. We still have to ask ourselves whether this concept of Europe does not really entail in the East a buffer zone, a cordon sanitaire approach. That is, because we are worried about what might happen east of Poland or south of Croatia, let us bring those countries in. I notice that Mr Poettering in speaking about the countries that we were going to bring in (or you were going to bring in) to the West, as defined by Mr Poettering and Mr van Eekelen, did not speak of Croatia and Slovenia, but I assume that they are part of the package.

Without worrying about these countries my question really is the question that emerged in Bill Bradley's very good introduction: "What conditions are you going to insist on as these countries come to you, as they all are doing, to join the European Community, the Western European Union, or NATO - to join the type of West that has been so successful? What sort of conditions would you ask of them? Are you going to ask of them that they be democracies? Are you going to ask of them that they observe human rights? Are you going to ask that they have (how did Bill Bradley phrase it?) a "free-market economy moderated by the state"? Are those going to be conditions that the West Europeans want so see in this new larger bloc that is emerging from a fundamentally successful European Community experience? Are you going to put conditions such as: "You"ve got to clean up your nuclear reactors before we will let you in?"

My question to both of our two European speakers is: Is this the type of Europe which you envisage? Is this the type of the new West which you want to see? That is, one fundamentally built up on Catholic, Protestant and Jewish civilization, and one which will impose conditions on those who want to accede to it?

Fröhlich

I would like to take up what Sir Julian and Mr Livingston have said. There are a number of common values - and we also have multilateral bodies that operate more or less effectively. The elements that are needed for the establishment of a future world order are not so very new - non-proliferation, for example, free trade, economic cooperation, a democratic standpoint, and finally construction aid to Eastern Europe. We are agreed that these have to be implemented to create the desired order. But what is the situation in practice?

We are still faced with a threefold dilemma:

Firstly, there is the credibility gap wherever the industrialized, highly developed world makes absolute claims for the establishment of these common values - a point already mentioned by Senator Bradley. We can only be sceptical about hopes for the creation of this kind of world order in societies where fundamentalists prevent any open debate and plurality of opinion; in countries where established and organized interests, together with the politicians, prevent the opening up of society, or marginalise essential issues; and in countries where lack of education precludes wider understanding of global inter-relationships and trends.

So perhaps we should consider tolerating different attitudes and mentalities more than in the past, as a function of different civilizations; perhaps we should accept inequalities in the political systems of society, especially in this current phase of transition from authoritarian, totalitarian regimes towards democratization - and this applies not only to Eastern Europe. Only by giving up this claim to the absolute truth can we legitimize any future selective decisions in our global commitment, which is what the USA are currently doing.

Secondly, there is the problem of allocation of responsibilities; and thirdly, directly bearing on that, there is the issue of leadership.

Let us consider the American presence in Europe. Both the Americans and the Europeans want it. In future, economic burden-sharing is likely to become the main issue, taking over from the previously dominant security aspects though by no means making them obsolete. The question is what contribution the USA are willing to make for the economic construction of Eastern Europe. So far, economic aid to Russia and other Central and Eastern European countries has largely been borne by Europe, and in particular by Germany. Germany alone has provided nearly 90% of all the foreign aid given to the Russian Federation.

The nature of Europe's future security system will depend chiefly on whether America remains willing to exercise leadership in the International Community and the Alliance, whereby leadership is not the

same thing as unilateral dominance or a post-hegemonial right to supremacy. This is graphically demonstrated by the case of Yugoslavia. The Clinton Administration's unilateral initiative in early June may have been somewhat over-hasty, and on meeting with little sympathy from the Europeans it was terminated with almost equal haste; but it did at least produce some movement within the Serbian leadership, even if this was short-lived. It showed that without Washington it is still virtually impossible to achieve security progress in Europe today. Yugoslavia may be seen as a kind of test case, showing up the inadequacies in European security policy coordination; it certainly illustrates Europe's painful learning process in its efforts to provide for its own security.

Let me also respond briefly to the two-pillar concept mentioned by Mr van Eekelen. The idea is not new. Ever since it was developed by the Kennedy Administration in the early sixties, it has been included in all ideas on European security architecture. But how is it to work, technically? Does it mean reduplication of bodies, command structures, applications and authority over Alliance forces? Even if the key posts are held by the same people, there may still be frictional losses, which will inevitably produce conflict. Things will not always proceed as in the joint NATO and WEU actions in the Adriatic in the case of the Yugoslavia conflict - there will not always be agreement as to whether a given decision is to be taken by the NATO Council or the WEU Council. If this is to be feasible at all, there must be a clear separation of roles, e.g. giving NATO authority for "out-of-area" operations, while giving the WEU responsibility within Europe, once it has developed into an effective tool.

For the time being, however, despite unflagging enthusiasm for the idea of collective security, there is still a long way to go before it is up and running. It will not work properly unless there is fairly good convergence of interests, and it will run into problems straight away if it is not possible to maintain a reasonable leadership structure and allocation of powers. The current position is like this: the United Nations issue the instructions - they have the political mandate, but lack the military means to enforce their decisions. NATO has the military means, including the capacity to lead coalition forces, but is not authorized to make decisions on the affairs of non-members. On the regional/European level, the situation is similar with the CSCE and the WEU: the CSCE has a mandate to speak for the whole of Europe, so it can inter alia provide political legitimacy for military actions. It, too, lacks military means of its own. But, at the end of the day, the WEU lacks a common political will. Whichever way you look at it, the intended parallel approach is liable to degenerate into chaos unless there is clear assignment of responsibilities, political will and clear leadership structures, which would require reforms at all levels.

Boyer

The first thing which seems to me to be interesting is why we worry about the risk of the "perishing of the West" once the East, which was the enemy, no longer exists. The Western countries will certainly survive in any case! We are concerned with the defence of the West because we feel that this international unit, so to speak, embodied more deep and more valuable and more lasting assets than a mere defence alliance and because we feel that, even if the East is no longer a menace as a military superpower, the problems we are facing are enormous from the economic and from the collective security point of view.

For instance, if I am not mistaken, the amounts transferred by the German government to the Eastern Länder last year were three times as great as the annual Marshall Aid help given during the span of the Marshall Aid Programme to Europe. That shows the dimension simply of "recovering" or unifying the two parts of Germany in actual prices.

The fall of communism has released centrifugal forces - which we can group under the heading of nationalism - in economies, in politics, in the cultural field - and this outcome of a very positive development is having harmful consequences. And one of the conclusions reached by a task force launched by an organization many of you certainly know, i.e. Center of European Policy Studies (CEPS), on exactly the same kind of topic we are concerned with, i.e. the relationships between the two main parts of the Western world, the United States and Europe, one of the main conclusions was that these centrifugal forces need to be counteracted by a very conscious and a very deliberate activism, or otherwise misunderstandings and points of conflict will develop between Europe and the United States, as they will develop between European countries.

As we have seen along the road to European Union, everything tends to aggravate and to cause difficulties between and to separate all these ancient allies once we no longer have the unifying effect of a common enemy in the East. Probably, and here I agree with Mr van Eekelen, we are not yet prepared for "architecture". We are not yet prepared for drawing the "Grand Design". However, it will

be enough, and it will certainly be fruitful, if we try to block all these centrifugal forces and all the distortions which have been developing in the relationships between the old allies.

Let me, for example, quote the case of the relations between France and Spain before 1982. For years and years our relations (and we are neighbours and share many interests in common) were deteriorating. Everything tended to worsen our relations with France. We had disagreements about Basque terrorism. We had conflicts because trucks transporting agricultural exports from Spain to other countries of Europe were attacked by French farmers. We had conflicts in the negotiations on the entry of Spain to the European Community. We had conflicts between the two socialist parties governing in the two countries since the French socialists were, from the beginning, on the side of the communist party, and the socialist party in Spain was against alliance with the communists. So, we had to make a deliberate effort to stop this deterioration in relations. And, indeed, after several years our conscious efforts did prove successful - they had to, otherwise barriers to Spain's entry into "Europe" would have grown up.

Now we have to take a similar approach towards the conflicts and potential conflicts presently developing within the Western world - within Europe and between Europe and the United States. I doubt that any new treaty, such as that proposed, for example, by Secretary-of-State James Baker, can by itself provide a solution. The GATT is, for example, a treaty (and it is also an institution) but it is not capable of solving all the conflicts existing between the participants to it.

I think the most fruitful approach toward achieving the maintenance of the "West" (which is an important goal in itself) must involve looking at all of the actual and potential fields of conflict, sector by sector, and must involve a conscious effort to understand each other's stance in order to eliminate each problem, item by item. In this morning's discussions we have been oscillating between a general approach and an approach which involves tackling specific areas of disagreement between the United States and Europe.

It is interesting that the CEPS task force to which I referred previously, enumerated almost exactly the same issues which Senator Bradley raised - namely, the provision of help to the East, the problem of Russia, the necessity of finding some way to deal with the energy problem in the former Soviet Union, economic coordination and so on. These are all problems where there are significant differences between the standpoints of the United States and Europe - and problems which came to light in this morning's discussions.

I cite the question of Bosnia-Herzegovina as an example. Our American friends said they were worried about the incapability of Europe to determine a scheme of collective action aimed at solving the problem. But that is exactly the same worry expressed by European commentators with regard to the wavering position of the American administration. I think there is a lot of misunderstanding on both parts.

Of course, the first conclusion to be drawn is that it is never very easy to intervene in a civil war, especially one where not only two but three camps are involved, and especially one which involves different religions, different cultures and different interests as in Bosnia-Herzegovina. That notwithstanding, Europe tends to reproach the United States and vice versa.

There are misunderstandings with regard to the trade problems the European Community has with the United States. And one of the proposals made by the task force CEPS was that a "cold" flux or flow of information should be maintained between both sides about the practices on both sides. After all, both sides are "upset" and politicians on both sides are under pressure from their constituents but, nevertheless, the practices on both sides of the Atlantic are not very different from each other and if we tackle that realization "coldly" and objectively, perhaps we shall be able to solve the problems.

If we don't resist the pleasures of nationalism and the pleasures of affirming our differences (which is a temptation when we no longer have a common enemy as in the "good old days"), if we don't resist the temptation to look for conflicts in order to curry favour with our electors, whether it be by defending the specific interests of French farmers in trade relations with the United States (or vice versa) or whether it be by defending the interests of the United States' fur trade against traditional European protectionism, - if we do not resist these temptations, the conflicts will escalate and, in my opinion, this represents the most significant factor which might eventually occasion a "perishing" of the West.

Pick

In particular I want to speak for a moment about the United Nations, which has been brought up peripherally. It is an institution to which we really must pay far more attention. There is a growing tendency to see the UN as a "fireman" to act in any crisis. Certainly, you only have to see the number

of resolutions that have been passed by the Security Council on the former Yugoslavia to realize what a burden is being put onto an institution which is not really organized to handle such a complex agenda.

I think we have to pay far more attention both to the internal reform of the United Nations and, indeed, the whole United Nations system, and at the same time to the resource problem. Not least amongst the reasons why the Security Council, why the International Community, has been so ineffective in dealing with Bosnia, etc., is the shortage of money. We don't talk about it very much. But in fact these peace-keeping operations cost billions and in the back of everybody's mind is the knowledge and the awareness that enough money simply is not available. The United Nations, at the moment, is deeply indepted. Dr Boutros-Ghali has already warned governments. The UN peace-keeping operations in Croatia and Bosnia are running out of funds.

If the United Nations is to be an instrument of collective security (and I would argue that it does indeed represent a forum where some of the East European countries, where Russia, etc., can come much more to the forefront and can become involved, not least, on the Security Council) we should think a great deal more about the "Agenda for Peace" that Boutros-Ghali has outlined. Even if he does not use the word "enforcement" very much, his recommendations about peace-making do, in fact, amount to involving the UN system in both crisis prevention and also enforcement. Governments have endorsed Boutros-Ghali's report. They have yet to follow it up in concrete terms.

There is a great overlap of multinational institutions. It is always easier to create mechanisms than to implement policies. We see this now in the post-Cold War period with the new North Atlantic Cooperation Council. It is supposed to associate the former Warsaw Pact countries with NATO. Yet the Council only meets once every three or four months for a morning.

I have watched some of these meetings. I don't really think that by messaging East European countries for an odd afternoon or the odd morning you give them any greater sense of security. These matters have to be thought through much more carefully. Even though I appreciate that if WEU manages to get the East Europeans there without the Russians or the Ukrainians being present, they will feel more comfortable. But again, I don't really think that is an answer to their problems.

Dare I say that the endless theological debate between WEU and NATO is superfluous, and that we should start looking at European security problems without bringing in concepts like "double-hatting" which are totally confusing even to an informed public and, in real life, create more problems than answers. I would even suggest that, if there had not been that absurd division of functions between WEU and NATO over the patrolling in the Adriatic, effective sanctions could have been imposed against Serbia much sooner than has been the case.

Let me address very briefly the issue of resources. Senator Bradley spoke of the conflict between domestic agendas versus the international agenda. But perhaps we still do not fully appreciate, when we talk about all these ambitious projects for the transformation of the former communist bloc, that domestic political pressure exerts enormous constraints. For the health services and the welfare state are at risk in our countries, as a result of our budget deficits. Public expenditure at home is having to undergo radical cuts. There is deep resistance to tax increase. Under those circumstances, can you really ask national electorates to pay taxes directed towards purposes that are far removed from their immediate concerns? President Clinton pointed to this dilemma during the election campaign. The same problems pertain everywhere in the West.

And finally I would like just to raise the issue of leadership. Not in the sense in which most of the other speakers have spoken about American leadership, but about the poverty of leadership in Western democracies today and the need to identify people who are capable of providing imaginative leadership. Think-tanks are useful. But they are no substitute for leaders, prepared for political battle in today's uncomfortable political climate. Senator Bradley illustrates my point. Here is an outstanding intellect and political talent. Yet he chose not to run for the presidency. We cannot afford to "lose" such leaders.

Stuth

Our subject today is "Will the West survive the collapse of the East?" What I regret is that, once again, the West is talking about the East but there are no participants here from Eastern Europe.

The most striking thing about the general political debate on this issue - I am not so much referring to this meeting - is a glaring discrepancy between rhetoric and action. Hella Pick asked, "Are the populations of Western countries willing to make financial sacrifices, or are the politicians who seriously wish to do so out on a limb?"

Take the political challenges. In security policy, we are still refusing Poland, Hungary, the Czech Republic and Slovakia membership of NATO; we are not even offering them a security guarantee. Our attitude clearly demonstrates that we are not willing to put our own security at risk for the sake of theirs.

One reason is no doubt that the situation in these countries has virtually no impact on our everyday lives, so we simply dismiss them from our minds. We may invite Polish officers to NATO cooperation seminars from time to time, and conduct some exercises with them; but that is no guarantee at all for these countries, which have a legitimate security interest just as we do. If we are not willing to contribute effectively to Poland's security, Poland has to look after her own security interests. That costs money, which is something these countries do not have. And nor are we willing to give them money for that.

We are also talking about economic challenges here, and we might be tempted to surmise that if the Eastern European countries spend what little money they have on security, at least that will stop them from modernizing their industry. Because in terms of the economy, today's subject would have to be reversed: "Can the West survive the economic revival of the East?" Perhaps I am exaggerating a little, but sometimes attitudes in the West give the impression that this is just what people are afraid of.

After all, what are EC member states doing to help facilitate trade for Eastern European countries? Our markets remain firmly closed to such eminently strategic goods as cherries. They are also closed to steel, ships and textiles. No doubt Hungary would be allowed to export pineapples to the EC without any quota whatsoever. And probably also wide-body aircraft - at least until such time as they actually start making them. There is only one word to describe Western European behaviour, and that is "cynical". And yet the German, British and French governments never tire of expounding the fact that after the collapse of the Berlin Wall we need "New Thinking" and that we all belong together, and that we will have to think in much larger dimensions.

The word "think" is used advisedly here, rather than "act"; such action, after all, would have far-reaching consequences for us. Just imagine a German government minister addressing steel workers in North-Rhine Westphalia and saying "Let's close it all down; let's give Poland a fair chance." That would be political suicide. But that means an economic upswing in Central and Eastern Europe is the last thing that many of us want. Which explains our behaviour.

Now we all know that, as Hans-Gert Poettering has said, we cannot just carry on the same as before. And it is also manifest that we can only master these challenges if we face them together. Individual states would be quite out of their depth; we can succeed only if we act together, in the framework of the European Community. This means we have to give the EC the political and economic means for action, in order to set the necessary structural change in motion.

I believe it is becoming vital to close the gap between words and action.

Kielinger

I would entirely agree with you, Mr Stuth, on the matter of discrepancy between great visions and their translation into reality. The impression I have is that the disintegration of the East has already started to infect the West. What we can see in our countries is a kind of Western style Perestroika. In fact it is practically inevitable, because the conditions that determined our politics and economies in the West have been totally and utterly transformed.

As Victor Hugo writes in *Les Misérables*, "revolution is reversion from the artificial to the real". The world of the Cold War was an artificial world, where the West could claim day by day that it was successfully defending freedom against totalitarianism. Now this world has slipped into chaos. There are new players who are demanding the right to have a say in affairs - a right that has so far been denied them.

The new challenge for us in the West is indeed the disintegration of the East. And, of course, Mr Stuth is quite right when he says that elections cannot be won here by promising new economic programmes for the East and neglecting the interests of our own population. But there is no denying that we have to take the danger of disintegration in the East extremely seriously; and as Senator Bradley has said, that means our politicians have to tell our people quite plainly about these dangers and convince them that something has to be done. Otherwise we will be guilty of dreadful hypocrisy - tightening up protectionism in the West while shedding crocodile tears over collapse in the East. That might be a way to win votes, but spoil our chances for the future at the same time.

David Marsh was quite right to warn against a new protectionism in the EC that would torpedo all our grand visions. And we do not need a new trade agreement with the USA, Mr Poettering. Article 2 of the North Atlantic Treaty already obliges signatories to work in harmony for their mutual economic development.

And what about the First Principles enshrined in the Treaty of Maastricht? Everyone knows that Germany is currently in the grips of a severe economic crisis, and is basically not in a position to qualify for Maastricht. The country that negotiated the most stringent criteria for Maastricht is currently infringing these criteria the most blatantly. A clear indication that the problems are beginning to get on top of us in Germany.

As for Eastern Europe, the argument here has always been that either the goods will come from Eastern Europe to us or, if we do not allow that to happen, the people will come instead; and then we will enact new asylum laws. A third possibility is for Western capital to go East, in search of cheap labour. The "Financial Times" wrote recently that in 1992 German capital created 300,000 new jobs - abroad! That would unquestionably help to stabilize the East - at the cost of weakening our own country; and it would likewise have disastrous consequences, e.g. for Maastricht Europe, in which Germany should be playing a central role. What Maastricht basically means is a massive capital transfer programme from North to South, based not least on the economic powerhouse Germany. But is Germany still in a position to play this part?

In summary, we have to make people in the West aware of the dangers of destabilization in the East, to enable us politically to do what is necessary. That means among other things that we have more important things to do at present than to carry on piling up wealth. It also means we have to stop this hypocrisy, serving up grand visions to our populations although we know full well that we will never be able to put them into practice.

Jochimsen

I agree with most of what Mr Kielinger has said, but I would disagree with him in one thing, when he says that the current economic crisis prevents Germany from meeting the Maastricht criteria. My impression is, in fact, that the Maastricht policy is so designed that it is simply not possible to meet the criteria.

When I read the subject of our meeting, I immediately applied it to Germany and asked myself whether the Western part of Germany would survive the collapse of the Eastern part. With us, this is not a question of ethnic differences of the kind rightly mentioned by Bill Bradley, but rather a question of the enormous economic and social disparities that have arisen between the two parts of Germany in the course of forty years. And we are only talking about some 17 million people here, whereas the number of people in Central and Eastern Europe is the same as in Western Europe. These are relations we have to bear in mind.

Senator Bradley stressed the fact that we would first have to draw breath and take stock of the dimensions of the problems. The Hungarian economic historian Janosz produced some figures from his researches, showing that in 1800 the standard of living in Central and Eastern Europe - excluding Russia, the Ukraine and Byelorussia - was about 80% of the levels in Western Europe. By 1914 it had dropped to about 60%, and by 1989 to 20%.

This suggests there are historical forces and influences at work which are much more powerful than just communism or ethnic and national circumstances.

There is a rule of thumb whereby a problem takes at least as long to solve as it does to develop. To take a concrete example, if someone has been unemployed for two years, it will likewise take at least two years to reintegrate that person into working life. Transferring this to the situation in Eastern Germany and other Eastern European countries that have lived for 40 years or more under a different regime, that would mean we have to think in terms of generations. And Eastern European historians also add that political and social conflicts tend to break out again exactly where they were artificially stopped sometime in the past, such as Amsfeld, Kosovo, or wherever. And that means we have to think in quite a different time-scale again.

That brings me to another question which relates not only to NATO and the WEU. How is the West to ensure that the level of integration and the standard of living attained in Europe and the USA really can be maintained? What kind of disruptions will there be in the Single European Market, for example, following liberalization of imports as advocated by Mr Stuth? Steel and textile quotas are set by the EC, which has been very inflexible about these things in the past. Steel imports from Central and

Eastern Europe would certainly exacerbate the steel crisis in Germany, and the situation is similar with textiles. There are very tangible problems on the horizon.

With the recent turbulence in the European currency system, I am really very worried about whether we can keep the European international market in its present form. And I would agree with David Marsh that we need to set new priorities. Because the single market is not yet established - we have just made a start, and there are still decisive issues to be resolved. Following 1989 we also found that there is nothing automatic about an integration process - it may falter or even fail.

But the collapse of the East is certainly something we should welcome. Nobody could be interested in maintaining a monolithic power bloc of the kind we had in the past. But the question is what will replace it? We have to bring influence to bear on that, and I can only agree whole-heartedly with the categories mentioned by Bill Bradley.

Let me add a few further comments on that. I feel the West is wrong to think that the main issue in Eastern Europe is macro-economic stabilization. That is certainly one of the issues, with matters such as beating inflation. But there are further problems behind that in quite different dimensions, and I feel the West would be making a grave mistake to rely solely on the IMF on the grounds that it has experience in developing countries that could now be applied to the East. What people fail to consider is that the circumstances in Eastern Europe are totally different - this is not the demise of a capitalist economic system, but of a system built on quite different principles, such as specialization within the socialist camp, based purely on power politics rather than on economic categories.

In other words, the efforts undertaken by G7 and similar coordinating bodies are not least aimed at structural questions of our market economies. Exchanges on these issues need to be increased, so that we can develop joint concepts for action.

Incidentally, I believe that we have so far failed to grasp the significance of events in the years following 1989. What is currently happening in Western Europe is not a part of the normal course of a business cycle, but a genuine structural crisis - based on factors which vary from one economy to another, but in many respects are very similar. This has now come to a head in our country, too, due to developments in the East. There are questions such as: Can Western Europe continue to be a production location in the long run, with the high wage levels that we want to maintain? How far do we need a re-orientation of the industrial and service society in the future? This is similar to the American economy, which is giving more attention to technological competitiveness and less to price competition - we in Germany likewise have to realise that we cannot compete in every domain.

But once we realise that we are faced with structural problems rather than cyclical ones, we cannot seek our salvation in tools that are designed to regulate the economic cycle - we have to operate longer-term stability policies.

This process is much more dramatic for Western Europe than it is for the USA, because the nation states here have not yet attained the same level of integration as in the United States. Western Europe has moved well beyond the stage of trading relations between countries - the links go right down into corporate structures, even in medium-sized companies, to think only of the direct investment levels that we currently have.

If we were to think only in terms of trade, this would lead to quite the wrong conclusions. Thus we do not have so very much freedom in exchange rate policies: exchange rate stability, desirable as it may be, is problematic. The Maastricht Treaty brings decisive progress here. It cannot just be a matter of exchange rate stability as such - we have to take account of underlying stability trends in the value of money and price levels.

The major economic issues in Europe are very much in the interrogative form. How can we boost employment? How can we carry out the necessary structural reforms? How can we get back to more growth, and what will be the role of issues such as fiscal and social reform? Of course there are no patent recipes for these problems, that we could simply produce out of a hat. And we have to realise that, regrettably, Germany will be very much preoccupied with itself for the next decade or more. The political leaders of our country are faced with the incredibly difficult task of redefining all these roles - internal policy, economic policy, security policy, within the framework of the United Nations, and so forth. At any rate, we will have to think seriously about the future role of the UN and not simply about an expansion of Western institutions.

Hacke

The impression I have from our discussion so far is that we are simply trying to tackle the symptoms but neglecting the causes. Mr Poettering has presented four possible scenarios for the future of the EC. There is a fifth variant which is perhaps even more realistic, namely that there will be neither a widening nor a deepening of the EC, but instead there will be standstill or even disintegration of what we have achieved so far, with a fatal relapse into nationalistic thinking in Western Europe, too.

I must admit I am rather at a loss in view of all the serious problems that have emerged in the past few years. I feel the crystallization point is the Yugoslavia crisis. What we in Germany failed to realise for a very long time is the relationship between military power and political will. Thomas Kielinger was quite right when he said that the world of the cold war was an artificial world, and that applies all the more to security policy. Our political will in this area was never really put to the test over the 40 years up to 1989; when it came to the exercise of military power, the formula of nuclear deterrence practically stifled any debate on this subject. In fact, the period we lived through was not a cold war, but rather a period of profound peace. That is something that is gradually dawning on us, now that we can no longer continue to be a free rider, simply enjoying the benefits of Western security policy.

This helps to explain why, over the past two years, Germany more than other countries has been sliding into a situation of foreign policy disorientation. I regret that Mr Poettering did not refer to this in his remarks. Indeed, we have now become a part of the foreign policy crisis, as Thomas Kielinger put it.

At the beginning of the Yugoslavia crisis, it looked just briefly as if things might go differently. You probably remember the hefty debates within the European Community as to what should be done about Yugoslavia. The idea of keeping Yugoslavia as a single state was linked with major historical interests - I do not propose to go into those now - so that possibly we were clinging to that concept for too long. I have to admit that at the time I welcomed the bold move of the Kohl/Genscher government, which risked going it alone and showing a kind of foreign policy leadership.

Mrs Pick asked how leadership could be exercised.

Pick

Certainly not the way Genscher tried to do it.

Hacke

I partly agree with you; though we might well ask ourselves what kind of personality we need for leadership today - maybe we need a de Gasperi, a Schuman, an Adenauer, or a Churchill calling for blood, sweat and tears.

My question is how we can achieve better attunement and coordination between the foreign policies of Western Europe and the United States. In the Gulf War, the Americans had the political will, and that solved the leadership problem. But in the Yugoslavia crisis evidently no one wants to take on leadership. Just for a moment, the Germans thought they could move forward with their demand for international recognition of Slovenia and Croatia. The trouble was that they failed to think through the consequences of their action right up to the deployment of military power. They would have had to demonstrate that they and Western Europe were really serious about helping these two new states.

What we are doing now is at most dealing with the symptoms, but not the root cause. I am entirely in favour of Germany being fully committed to humanitarian aid - perhaps among other things to allay our guilty conscience, because we were not entirely blameless in the way this crisis broke out.

I concede that the present generation of politicians in Germany never had to learn how to handle military might. We thought we could restrict ourselves to the civilizing function of a role model. And it was only natural that Germany should continue to help Eastern Europe with trading, economic and financial aid. But until such time as we can jointly put an end to the Yugoslavia crisis one way or another, there is no prospect of successfully tackling the long-term global problems - such as the environmental problems mentioned by Senator Bradley. But at least it looks like America is willing to enter into more commitment for the environment, and to take on some kind of leadership role in this field.

At present the Western world is undoubtedly in a profound leadership crisis, and it will not be enough just to reform the institutions a little in order to put things right again - though that was rather the impression that emerged from the keynote papers today. The Yugoslavia crisis has shown with abundant clarity that basically all the institutions are simply demonstrating their incapacity. That is true

of the UN, and even more so of the CSCE. Is there anything left of the Paris Charter of November, 1990, that is still quotable? It said, for example, that we would move things forward.

Richter

What I wonder about as a European living in the United States, is whether we really understand the nature of the challenge that is incumbent upon us. In my view we do not take enough note of the issue of domestic competitiveness. I am referring to the ability of our systems to adapt to change in a far broader sense than foreign policy or security policy. Remembering the US presidential campaign and worries about Clinton and the Democrats as being isolationist simply because they professed to focus on the economy, I think this is a focus that we Europeans would be very well-advised to adapt as well. Aside from the fact that the charge of the United States turning isolationist is a cheap shot, it obscures our need to react to the challenge coming not just from the East of Europe, but also from the East in East Asia. In that sense, we might even want to re-phrase our topic from "Will the West survive the disintegration of the East?" to "Will the integration of the East - both Easts - lead to the disintegration of the West?"

Along those lines, it strikes me very much that in the United States the much-maligned, very slow process of change has taken hold and that US society is quite a bit ahead of ours in adjusting to the economic pressures emanating from around the world. I am very concerned that in many ways our European structures are set up in a manner that does not allow us to take that change into account fast enough.

The whole US debate on NAFTA is a classic example because it has very little to do with Mexico. The underlying question is: "Are we as a nation ready to undertake the tremendous challenge of integrating the world economy in the most fundamental sense?"

In contrast, we in Europe are inclined to defend a level of social consciousness, often acting as social pacifiers, that has become indefensible. Europe faces tremendous problems not just with regard to low wage countries but even with regard to the United States. Reliable studies indicate that in terms of our price level we Europeans are a third less productive than the US. Anybody who runs a machine tools company in Europe - an area in which the Germans have always done very well - now sees that in third markets we hardly stand a chance - not just against cheap Japanese suppliers but against American competitors. Another major challenge laid on our doorsteps by the United States has to do with corporate structures: Here is the land that invented middle management - and has just moved decisively to eliminate much of it. Such a move certainly imposes a tremendous cost, but it is indicative of US willingness to take on structural adjustment in its own right, not trying to put any plasters and pacifiers.

If we lead all these economic considerations back to the political challenge of leadership, then clearly we Europeans have our work cut out for us.

First and foremost, we ought to abandon that constant refrain I hear in every political speech over here: "We must...! We must...! We must...!" I believe the era of declaration politics is over. The problems are far deeper than currently acknowledged and we must develop the political will to address them honestly and forthrightly. That, I believe, is the lesson European politicians can learn from the election of Bill Clinton.

Dahrendorf

We have had three highly constructive introductions and the subsequent discussion has identified a whole range of crisis points and has perhaps displayed something of the mood which is at present prevailing all over Europe and perhaps in the transatlantic dialogue as well.

One of the problems is Yugoslavia and I think we just can't avoid half an hour at some stage on Yugoslavia simply because even the analysis of the situation will display quite important differences which we have to be aware of if we want to identify ways of cooperating within Europe and between Europe and the United States.

A second problem which we may not wish to discuss explicitly but which is bound to be present as one of the subtexts of this discussion, is the German question which no doubt will appear and reappear in interventions around this table. And if you wish to, we might at some stage look at this more closely.

A third point, and here I think we should allow ourselves a little more time, is the economic agenda, where our introducers and also Prof. Jochimsen gave us rather important indications of a possible analysis and, with that, a possible way forward.

Since economic challenges are part of the title of our conference, we really have to set aside a bit of time to look at them more closely.

And then, of course, we will return to the institutional questions raised by many of the speakers. These will perhaps lead us to some sort of conclusion of these discussions although, from time to time, one wonders whether there are such conclusions, anyway.

Neville-Jones

I want to make two comments about the world in which we now live.

The first is that it seems to me that what has been described as instability is now really the norm. I think it was the rigidity of certainties, or at least the certainties in the seventies and eighties, which were really the exception in human history, and certainly in European history, and that the more uncertain, turbulent world in which we now live is the much more normal one.

And I, therefore, think that language about architecture and settled agendas and searching after a pattern on which we can rely for interpretation, is probably a vain search and that we should accept the fact that we are going to be living in something that is pretty muddled and pretty confusing. And I do not myself, therefore, use the word "architecture", which implies a degree of stability which I don't think is going to exist.

The second thing is that we are living now not only in an era when the international agendas change but also our domestic agendas are undergoing considerable transformation and there is, without question, a link between these two things. One can see in the United States that there is a considerable degree of overstretch that has to be dealt with and a degree of redundant military power that also has to be curbed (and the resources used elsewhere) - not an easy task! How redundant is redundant?

There is the education challenge and there is the challenge of competitiveness for the Americans. And Europe is not so different. We have a real problem about the relationship between resources available at public disposal and the amount of tax which our publics are willing to pay. In some countries more than others - but nevertheless true of all of us - is that we have a very high social wage which we have endowed ourselves with in the post-war period which is not going to be sustainable in the future. It is going to have to be cut back and that is going to be very painful. And that in turn is related to the competitiveness of Europe, which in the long run is in much more serious jeopardy than even the competitiveness of America.

So, we have some big agenda problems in Europe and the glue of ideology that held us together for a long time, the predominant social democracy of the post-war period, is very thin these days. The only new political idea to have come along since the 1940s and 1950s has been Thatcherism. That was, to some extent, a revolt against all of that and the limits of Thatcherism are beginning to be revealed now. And we don't have much to put in its place.

So, there isn't consensus inside our societies about where we are going or what it is we regard as being the values that we should try to work for. We do not even have agreement about what is a sustainable international agenda. We are rather feeling around in the dark and I think it is not a bit surprising therefore that our leaderships, which we criticize heavily for being inadequate to the task, are finding this very difficult. And it is not an overwhelming and clear challenge like a threat to our very survival.

So I think that we will have a long period of quite difficult redirection and I hope that it is one which we are going to be able to do together and not in a spirit of mutual carping, of which there is actually quite a lot around at the moment.

The problems of domestic reform tend to lead to introspection, while the challenges that we face on the international scene should drive us towards involvement. There is a definite tension between those two things. Are we going to be very introspective or are we going to allow ourselves to be involved? The common sense conclusion must be that the international agenda is going to be one which, in the end, seems durable, feasible, sustainable and realistic, and it is going to be shorn, it seems to me, of a lot of the high-flown ambition which has characterized a lot of international activity, particularly in Europe, recently. I think we are going to have to go in for a period of consolidation, and some of the institutional and structural building is, at the very least, going to mark time.

I agree with the agenda that Senator Bradley suggested to us; democracy, human rights, tempered economic liberalism. I would suggest that whereas in the past the task was to defend those values against attack and against subversion, our job now is to spread that message to those parts of the

world that were not lucky enough to have it, precisely because they were either occupied or had a bad idea.

And that's not an easy thing to do because the objective circumstances in which you are trying to perform that task are difficult in the countries which you are trying to help. Most of them do seem to be interested in doing so - other than China - and the resources needed are very great. And I do think that there is a real need for sharing that burden and the Europeans certainly ought to be willing to take their share.

I don't want to see us get so specialized that the United States has one task exclusive to it and the Europeans another - that seems to me a bad idea. I think there should be involvement all round. But clearly there are things which the Europeans are more fitted to do, more within their capabilities, more geographically appropriate, and there are other things which would perhaps be more appropriately the primary task of the US.

I take two very crudely and broadly defined areas, which are certainly not meant to be regarded as exclusive. One could say that it is the task of the East Europeans and West Europeans to undertake the promotion of this agenda in Central and Eastern Europe. When it comes to Russia, that is something which is too big a task for Europeans by themselves and the United States, in any case, has a big strategic interest - it seems to me - in a stable and cooperative Russia. So that is, at the very least, a joint task in which there is a strong need for American leadership because of the balance of military power that's involved, and of nuclear weapons.

But if we are to do this, we are going to have to try and do it at a sustainable pace. And when Gerald Livingston asks if the Europeans accept the agenda that Senator Bradley suggested as being relevant to the European Community or if we are going to try and have just a cosy club which is ethnically coherent, my clear answer is that, of course, that agenda is relevant. It is indeed the agenda for the relationship between the Community as it is now and its other European neighbours.

But that implies quite clearly that there is going to be further enlargement of the Community. It is not just a question of having client relationships or having dependent relationships with these countries. It does mean further extension of the membership of the organization. But I think it has to be done at a sustainable pace.

Membership of the European Community is not just membership of a free-trade area. It may seem so from outside, but the obligations imposed on all the parties are much more demanding than that. Basically, from the rich there is the obligation of resource transfers. And from those who are less well-equipped industrially they are nevertheless obliged to take industrial goods without "let-or-hindrance" from better-equipped countries, and they can very easily have their indigenous industries wiped out in the process.

Therefore, it is not sensible for either party, to take the pace of enlargement (and I mean enlargement as distinct from "association agreements") faster than either party can stand because, in the end, the voters of Western Europe will revolt against that and it won't be any kindness to the countries of Eastern Europe. So I do regard it as being a gradual process that will be done in stages and I don't think that one can put calendar time-tables to it. I do think, however, that membership should be a declared objective because that itself offers the prospect of hope and of partnership and is, in itself, a reassurance. It is a form of stabilization in Europe.

When it comes to Russia, the task goes wider than just the Europeans. It clearly has not just an economic element - though the economic element in Russia is very important. It seems to me that our minimal economic ambition in Russia must be that there is a sufficiently stable Russia domestically, politically that she is a cooperative member of the International Community and not an aggressive, nationalistic member of the Community, which is much more likely if there is great economic tension leading to domestic authoritarianism.

One of the keys to whether we are going to be able to cooperate with Russia (and this is a key task for all of us, and now I come to the ethnic issue) is what happens to the Russian minorities in the near abroad - those countries that are former parts of the Soviet empire. Senator Bradley is quite right to identify that issue as one of the big tasks in Europe as a whole. It's not at all easy. If you look at the whole notion of what constitutes a nationality, you will find that in Western Europe there is the idea of the territorium constituting the nation. Everybody living in it being a national. If you really go east of the Rhine it does change. A nationality has traditionally been identified through the ethnic group or the communal group. And that notion of what constitutes the group is very basic and is, therefore, not easily dealt with.

One of the fundamental challenges is whether we are going to deal with the issue of minority rights (and that is what I think it boils down to) through group rights or through individual rights. In a lot of these countries, it is going to be much easier to deal with it through group rights. And this is a political and intellectual problem of some magnitude that we are facing.

I don't pretend to know the answer to that question but I think that it is absolutely essential to European stability. The example of Czechoslovakia is reassuring, in one respect, in which two ethnic groups divided peacefully. It is not reassuring, in another respect, because it showed that two groups who had lived together for a long time decided they no longer wanted to share the same nationality.

I don't want to mark American prep on Yugoslavia and I would hope that the Americans are not going to mark ours because I don't actually think that the American contribution to policy on Yugoslavia, so far, has been so outstanding that the US is entitled to do so. But I do think that it's a sharp example of the ethnic issue, and that the Vance-Owen Plan is a worthier attempt at trying to deal with some of these issues than is widely understood in the United States. The ethnic problem is a matter of political handling and political institutions. It is not an issue which should be solved by the use of military force.

And I come to the last thing I want to say, which is "institutions". Do we need more institutions and do we need more treaties? My answer, I must say at the moment, is a pretty resounding "no".

I don't think institutions are more useful than the commitment of the members to them and the resources put into them. I don't think the problem is a lack of institutions. We are absolutely falling over ourselves in Europe with institutions and bodies to do this and bodies to do that which have overlapping competences. I don't think we need any more. The problem is how to make them work properly.

It seems to me that GATT will be fine for trade if we could only get it to work. Ditto the EC. I think NATO is a pretty good organization, too. We do not need another treaty over and above NATO. I am personally against a Euro-Atlantic treaty which subordinates NATO as a consultation mechanism and sets up the concept of a Western system which is composed of two separate parts on either side of the Atlantic. The beauty of NATO is that it is an organic means of cooperation and consultation.

The WEU is fine and there are certain things that the West Europeans need and ought to do (and burden-sharing is a very important part of that). But I don't think that we ought to give people the idea that the WEU actually represents additional resources or additional capabilities. It does not! "Double-hatting" is using the same lot of troops under a different label. And we should not suggest that it represents more than that or that it is going to represent an increase in capabilities - indeed, it can represent simply an increase in confusion.

I also don't think it is a good idea to suggest that the Europeans will deal with the easy problems in Europe, (that is, with those conflicts that don't get too big) but that when the bonfire really breaks out, then, of course, we will turn to NATO. The idea of NATO as an institution of last resort which will operate when main defence forces are necessary against an overwhelming threat, or when a regional conflict has got out of control (and then we might invite the Americans in)? I don't see an American commitment on that basis. Apart from which, if you look at the capabilities of which the Europeans actually dispose or are likely to dispose (or for which the taxpayers will pay) you will realise very quickly that we don't have the "lift".

We will need, even for a small operation in Yugoslavia, a big "lift". We haven't got it! We haven't got the independent means of target acquisition (or barely). We haven't got the intelligence that we need. All these capabilities are needed even for small operations and we need America for them.

I know of no commitment or will of any kind in the United Kingdom (and I don't know about other Europeans) to go in for peace-making. Peace-keeping, yes! But peace-making - the idea that you will enforce a scheme on people regardless of their wishes - is not on the agenda.

There are limits to what we Europeans are going to be able to do by ourselves or should try to do by ourselves. The agenda that is emerging on the peace-keeping front is one of containment. Senator Bradley was quite right. These regional instabilities horrify us, but they don't frighten us. They would frighten us if a Balkan war broke out. That is what we have to prevent and that is what our policy should be directed at. That is what we need to contain and that is where the military instruments that we have at our disposal are relevant. Up to that point, the primary task is political and, of course, Yugoslavia should not have been allowed to get into the mess that it has.

Vernet

I would like to get back to our initial question - "Will the West survive the collapse of the East?" What do "West" and "East" mean in this context? When we talk about the collapse of the East, what we evidently mean most of the time is the collapse of communism. That is no doubt correct - but the West does not define itself solely by its relationship with the East.

Is "West" more a geographical term, as suggested by Senator Bradley, that is by no means unequivocal in its historical perspectives? It is really just a coincidence that a country such as Czechoslovakia landed up in the East. If Czechoslovakia had been entitled in 1947 to benefit from the Marshall Plan, it would be a Western country today and nobody would have even thought of calling it an Eastern country. So this definition of West and East is linked to the legacy of communism, with the Iron Curtain as the dividing line.

Alternatively, we could look at membership of various institutions - anyone belonging to NATO and the European Community is automatically included in the West; that would make Turkey a Western country. Or you might say that any country with a market economy is in the West; that would include Japan. Then, there is another definition based on common values, such as democracy, human rights and development, with development understood to mean a certain distribution of resources. But it is difficult to operate politically with values such as these. France was not particularly successful in its recent efforts to justify an intervention right for international organizations, based on human rights.

As de Gaulle once said, "States have no friends, just interests". You could say something similar about values - states are not principally guided by values, but by their own interests. And these interests are often not only different but even opposed, both within the European Community and between the EC and the United States. That is apparent from the GATT negotiations, for example, where EC members pursue quite divergent interests, to say nothing of their differences vis-à-vis the United States. The economic recession has reinforced a trend that was already apparent, with countries looking more to their own interests in a situation where resource allocation in each country has been getting more and more difficult.

There are also divergences of interest with respect to Yugoslavia. The current agonizing in the European Community is, I believe, not due to lack of mechanisms for a common foreign policy. Much more to the point is that ideas and interests differ widely between the individual member states. Certainly, there are a number of common goals, as Mr van Eekelen has shown. But we have virtually no idea of how to proceed in Yugoslavia over the coming months and years, or what the states of former Yugoslavia should look like. And as I said, the defence of human rights is not a suitable basis for operating politically in Yugoslavia, especially as the situation is not unequivocal. You might advocate the right of peoples to self-determination - which is undoubtedly a human right - but this could conflict with the rights of individuals or minorities. How can this be a basis for consistent policy?

The USA do not have the same interests in Yugoslavia as Europe - and maybe they have no interests in Yugoslavia at all. How, then, can a functioning division of work be achieved between Europe and America? Europe can do little without America, and America does not want to do anything without Europe.

Maybe what we need are institutions in which these divergences of interest can be discussed and settled. All the existing institutions were created before 1989, and perhaps they are not capable of responding appropriately to the new global situation. Perhaps NATO would be a more suitable organization for this than France sometimes assumes. This would, undoubtedly, require a far-reaching reform of NATO and the Atlantic Alliance, if a new form of cooperation is to be achieved. But as far as I am aware, there are no suitable reform proposals on the table, either in Europe or America.

Quinlan

The point I want to make turns on what we mean by "the West" - a question to which Monsieur Vernet pointed us. For me at least, the defining operational characteristic of the West (however we may think it derived in cultural or philosophical terms) has been the transatlantic link, the transatlantic partnership, guiding policy by common outlook and looking wherever possible towards common action. The fading of the East-West defence issue, the security issue, has made the primacy and the essentiality of that particular dimension less evident than it was for forty years. And this raises questions about the relative primacy of "the West" in that sense as the key context of policy, as compared in particular with Europe-building.

Now whether there is any real antithesis in that regard depends, it seems to me, on what one's concept is of Europe. I do not myself think there has to be an antithesis. But there is at large in the European debate one vision of Europe which is antithetical. And that is the concept, the vision of a

Europe which will eventually become almost a "United States of Europe", defined largely by a preferred distancing from the United States. We deceive ourselves if we do not recognize that this concept exists and that it is actively real, however routinely it may be disguised by pious rhetoric about the continuing importance of the Atlantic Alliance.

If we want an illustration of the fact that the notion is alive, we need look no further than the business over ships in the Adriatic, to which Hella Pick referred earlier - the matter of WEU or NATO control. That was not an institutional turf fight; it was a problem of how to cope with the mind-set in one particular capital. In that sense it was precisely an illustration of the basic point I am making.

I think we have to face the fact that this mind-set is - sometimes deliberately, sometimes not - actually compelling choices; most familiarly on defence, but also over the question of Community widening versus deepening, and very probably on trade and where we all go on GATT.

Finally, I note that Germany is - uncomfortably, I have no doubt - at the heart of how we deal with this. Germany is the most important player, on this side of the Atlantic, in how the issue is to be handled. Germany, it seems to me, has for some years been trying to have things both ways in this debate. That is in itself a perfectly proper attempt; it is not only an object of diplomacy, I sometimes think it is the object of diplomacy, to have things as many ways as you can. But I suspect that it may not be possible much longer to continue to do this."

Light

Among the solutions that were suggested for dealing with the disintegration of the East, in connection with the European Community, there were proposals for broadening the Community, for deepening it, or for broadening and deepening it. If one takes broadening, for example, this in itself creates problems because the inclusion of some states, by definition, implies the exclusion of others. And I think that we need to be quite alive to the fact that it is not just an economic threat that is felt by the "excluded" now, but also a political and a security threat.

I was intrigued by the extent to which the proposals as to who might next be included, and the order in which those inclusions might occur, in fact, actually impose the "velvet curtain" that Senator Bradley suggested had replaced the Iron Curtain. This broadened Community, should it exist, will not have Moslem countries within it, and Turkey will remain in the queue, where it has already been for some time. It will have Greek Orthodox in it but it will not include Eastern Orthodox states or even Uniate countries. Of course, it also excludes the United States and Canada - not to mention the whole of the African continent.

If one turns to the idea of broadening as well as deepening, then it seems that the question of exclusion becomes even more serious. If we are moving towards that kind of union, I think we had better, perhaps, address whether it is not just the disintegration of the East which threatens the unity of the West, but also the integration of Western Europe which might begin to threaten the North Atlantic Alliance.

As far as regional organizations are concerned and the multiplicity of those organizations, I would argue that we already have an architecture. But it is an architecture that is so multiform, so cross-cutting and so overlapping that it is almost impossible to depict it diagrammatically. But it seems that this overlapping, cross-cutting nature of those organizations means that not all the institutions have defined purposes. Unless we begin to decide what the functional purposes are of each institution, and what authority each institution has, then they might be very useful in terms of extending contacts, perhaps even for transferring some of our values, but they are not really going to be very useful for all the other purposes that we feel they ought to serve. And the grave danger is that when you have overlapping institutions, the real problems fall between them. It is not just that there is "buck-passing". It may simply be that it is not clear whose function it is to deal with the problem.

I would argue, indeed, that overlapping institutions did not help the conflict in Yugoslavia and that they will not help future conflicts. In particular they will not help when rapid responses are required. And I would like to add my voice of criticism about the "double-hatting" of the North Atlantic Treaty Organization and the West European Union. It seems to me that the one question that is not addressed is who actually decides what is the business of the West European Union? Who decides when it must be a NATO function? Moreover, there is the danger that by deciding that a problem or conflict is not serious enough for NATO, the conditions are created for the escalation of the conflict, which will then become a situation serious enough for NATO.

On the question of funding, I certainly understand all the concern about the domestic agenda, and what we all need to pay at home. But I think that we shall not be able to choose our agenda, and that

we shall have to pay for it. The problems are going to impose themselves upon us and we shall have no option but to respond. And the one thing that we absolutely cannot afford to go on happening is that negotiations have to take place separately on each occasion about who pays, and how it is paid. I think that this would just inflame the already very difficult conditions we are facing.

The final thing that I would like to address is the following: One thing that worries me about all the various options that we have been offered and that have been suggested is that it is not enough to have policy measures. We require instruments as well. And, indeed, Senator Bradley put high up on his agenda the question of nuclear non-proliferation. It was a great deal easier before than it is now when we have this new kind of proliferation - proliferation by inheritance. So even the question of nuclear proliferation doesn't seem to be very easy to cure.

What I would like to add to the agenda, however, of things that we might try to do, even before we start integrating East Central Europe into Europe, is to encourage East Central Europe and the former Soviet Union to re-establish some of their old economic ties. In Eastern Europe now there seems to be a tremendous sense that the road into the Community is faster on your own than if you are encumbered with economic ties with other countries. It seems to me that we could, in fact, multiply massively the way in which we aid the former socialist states if we actually get them to re-establish some of those ties which were so active before the whole bloc broke down.

Stürmer

A call to accept the states of Eastern and Central Europe into NATO immediately may be appropriate for the toasts of Western politicians in Budapest, Warsaw or Prague, but such ideas are quite out of place for practical purposes at a moment when NATO itself has considerable internal problems to cope with. One of these problems is that Germany evidently does not know whether NATO is to have any significance over and above Article 6 of the NATO Treaty. This narrow interpretation, launched in the public debate in Germany and particularly in journalist circles, would put NATO right outside of the historical phase that is now beginning. And, incidentally, restricting NATO to Article 6 would be just as much of a fiction as the supposed requirements of the Basic Law preventing Germany from making her contribution to collective defence. A glance at the NATO Treaty and the Basic Law would be enough to refute these opinions - and this would be extremely welcome, for the debate both in Germany and internationally. At the moment, Germany is in the process of becoming a part of the problem rather than the solution.

So we should not keep on calling for some NATO guarantees or other in the East. What would such guarantees involve? I simply do not understand these speculations, and I would agree with Mrs Neville-Jones: we have to get back to hard facts, and ask ourselves what really is feasible. Until 1989/90 we could afford to indulge in rhetorical excursions. But since then, with the total turnaround in realities, we simply have to realise that this rhetorical posture is no longer tenable against the requirements of the real world.

Institutions such as the CSCE have been tested in Yugoslavia, and we all know the outcome. No further testing needed! NATO should undoubtedly stabilize and redefine its role in Europe. That means we need continued firm commitment by the USA, with appropriate support from Europe. We also have to be aware that NATO's main task in Europe can no longer be to protect Germany against the ex-Soviets. That means that, unless other missions become apparent, the United States Congress will hardly give its consent to American forces staying in Europe. Nobody should be under any delusions about that.

As for security in the Eastern and Central European States, Bush and Baker declared that there would be a need to "work together" with them on that issue. In other words, there is no security framework there at the present time. Creating that security involves the tremendously difficult job of helping to manage the dissolution of the Soviet empire with all its legacies so as to avoid any disaster, particularly in the sphere of nuclear proliferation. This is rather like trying to maintain stability in dough which has already started to rise - particularly as there are several categories of proliferation, and so far there is no effective form of deterrent against any of them.

We are entering a new age, which will be characterized by great uncertainties, ongoing crises and the absence of any status quo - quite unlike the preceding period, which was characterized by a more or less stable status quo in Europe. Clear-cut policies are needed to create good conditions. At the moment, European countries are hiding behind one another. Each one expects some kind of vigorous action, but - to its infinite regret - is unable to take such action itself, for historical or constitutional reasons or whatever.

We have to realise that we are faced with a global historical crisis of the kind described by Jacob Burckhardt. It is in no way less significant than the crisis following 1945, though the conditions for dealing with it are much better today than they were then - today there are no victors and no vanquished, not even in Eastern Europe. But so far no organizing force has materialized to provide leadership. This would require internal freedom of political action both in America and in Europe, and there is no sign of that at the moment.

I would primarily identify four mutually related crisis elements. The first is the disintegration that I have already mentioned of the former Soviet empire, and the struggle for succession. Secondly, the dangers from the Islamic crisis zone - what will happen, for example, if the military dictatorship in Algeria collapses? Thirdly, the dangers arising from nuclear proliferation. Fourthly, the immense population growth in the South, with the resulting migrations, which even today are virtually impossible to control. How can we achieve containment, or restriction? It must be plain to everyone that our European societies are not capable of infinite absorption. That is something the United Kingdom has long since realised, and it has drawn the necessary conclusions. France, too, has learnt some lessons in recent years. I do not think I have to go into the details of the debate currently going on in Germany; but unlimited immigration may have unforeseeable consequences on our country's political system as early as election year 1994.

Another question is how the European Community will proceed after Maastricht; how far the economic and currency union can be stabilized in view of the economic and social recession that has hit our countries; to say nothing of the political union. The danger is that the process of unification will not only slow down, but even go backwards, as has been suggested here. Work on concepts has to start as soon as possible; it cannot be postponed until 1996 or 1999.

Smyser

I would like to make some comments on our discussion to date and then to indicate what I believe lies before us.

First of all, I would like to say that I do not share what seems to be the wide-spread nostalgia for the Cold War. I was in Berlin during the "Wall" crisis; I was in Washington during the Cuban missile crisis; and I was in Vietnam for two years. Believe me, the Cold War was not fun. So those who say that it was a better order of things do not have my support.

I have never liked the term "the West". I agree with Monsieur Vernet in that regard. I think that we have had - and still have - a global alliance system that has run from the Sea of Japan to the Spree River. The supreme expression of that alliance system was and is the G-7.

The alliance includes Japan. Americans think that the relationship with Japan is as essential as the relationship with Europe for the success that we had in the Cold War. And I ask our European friends to imagine for five minutes what life would have been like if Japan had been under a communist government which would have threatened us in the Pacific. It would have changed the nature of our alliance very fundamentally. We should, therefore, keep in mind that we cannot think only in continental and ethnic terms.

NATO is an important part of the global alliance system for America and Europe. It is an alliance between maritime powers and continental powers. In the process of that relationship, the maritime powers (the United States and England) went further into a continent than had ever been done before - except for the British stretch into India.

Nobody should now expect the maritime powers to go further into the continent of Europe. Senator Bradley can interrupt me at any time if he believes that he could get, in the US Senate, a two-thirds vote for an amendment to the NATO treaty which would guarantee the security of Hungary, Poland, the Czech Republic and Slovakia. I do not believe that is possible. The American maritime power went as far into Europe as it could go when it went to Checkpoint Charlie. It should not be asked to do more.

I still believe, however, despite the many concerns expressed everywhere, that the United States and Europe have a good relationship. And it would be a great mistake for the continental Europeans to break the link to the maritime powers in the new post-Cold War order.

When this subject arises, I always remind Germans of what I term the great "Jahrhundertfehler" of William II. For it was he who declined the British offer to Germany for a relationship at the turn of the 20th century. He was not alone in that, for he had a few silly advisers in his Foreign Office.

This problem now arises again, and the Germans must be very careful. They are always more secure when they have a link with a maritime power. They should not listen to the siren song of Paris that they are better off without the British and the Americans. By the same token, the Americans need to be careful, for they are always better off when they have a link with a continental power and they should not abandon that link.

But the real problems before us now are economic. We need to decide how we will manage the domestic economic policy changes necessary for the conduct of a common international economic policy.

Military policy and diplomatic policy have one great advantage: while there is a price to be paid for success, much of the effect of the policy can be isolated beyond our borders. But that is not true with economic policy. Domestic and foreign policy are linked. Former Chancellor Helmut Schmidt used to say that monetary policy is foreign policy, and he was correct. Our foreign economic policy must shape our domestic economic policy, and vice versa.

The question now is the price we are prepared to pay in order to create a new economic world. And that is not easy. When I went jogging this morning and saw a small herd of cows, it occurred to me that each of those cows probably costs the Germans about DM 50 each year as part of the Common Agricultural Policy. But when I asked David Marsh and Christopher Tugendhat about it, they said that I had it wrong. They said that, although Margaret Thatcher was able to get the British out of the continental agricultural program to some extent, Britain is still paying for its own cows and is even paying for some continental cows. In America, we call them all "sacred cows". And I do not believe anybody, including Americans, should be receiving DM 50 or £ 50 or whatever for having cows.

We must begin designing a new economic world. But we face an ideological problem greater than any ideological problem between communism and capitalism: it is the pervasive influence of 19th century mercantilist thinking that goes absolutely through all our actions and our writings.

I was amazed to see all the books published during the 1980s which blamed the Japanese for destroying the American automobile industry by making Americans buy Japanese cars. But I have a Japanese car, and I do not have it because a Japanese man was standing in front of my door and pointing a gun at me. I bought it because the engine of my car would have fallen out in three months if I had bought an American car. Now that American manufacturers have built cars in which the engines do not fall out, I will buy an American car.

That is the way it should be, with cars or with scarves. If one can buy Hungarian scarves as good as Hermès scarves but for less money, the same principle should apply and one cannot blame the Hungarians for it.

The point of this is that we must overcome mercantilism. We must get agreement on the Uruguay Round in July of this year at the Tokyo G7 summit. I should tell you that in Washington there is a mood of genuine optimism about the possibilities for an agreement. The Americans believe that the European Community is serious for the first time (the Europeans, of course, say that the Americans are serious for the first time). But, be all that as it may, we must get the Uruguay Round out of the way in July and must then get to the real business at hand: to build a post-cold war economic structure which should be the G9. It should include the Russians and the Chinese and it should organize a world system that is fit for the latter part of the 20th century.

In the process, we shall have to tell our peoples that the old mercantilist ideology must be discarded. This will be incredibly difficult.

It is not right that everybody should produce and protect absolutely everything. Let all do what they do best. Michael Stürmer has pointed out that this will produce a tremendous amount of pain. There are ways of dealing with that. Most important, if we do not face the pain now, it will be greater in ten years when we will all have walls around our countries and our houses, which will be higher walls than any that the communists could ever have built. It is now our task to avoid having that happen.

Schlant-Bradley

My discipline is literature and so I see things from a different point of view. I am also a fervent admirer of American "ad hocism". When I listen to the conversations here, particularly as they deal with institutions, and the role and the power and the limits of institutions, I sense a desire for perfection which in my opinion is not present on the American side. I am not opposed to perfection or even perfectionism; but we don't have to have perfect systems that promise to work forever in order to achieve positive results.

There are only two brief points that I would like to make: all the problems discussed here are those of today couched in terms of yesterday and do not address those of tomorrow. By that I mean we discuss the problems, as they relate for example to NATO and other institutions, in the framework of what has been of service for the last 40 - 45 years, notably during the Cold War.

It seems to me that right now, as the East European disintegration impinges on the West, there is a future waiting which I have not heard mentioned. This future is not only that of Eastern Europe and Russia or the former Soviet Union; it is a future that includes among others also China and Iran. In the long run, Western Europe and eventually all of Europe has to be prepared to deal with these countries because this is where the problems will come from.

The second point I want to make, in a starkly simplified manner, sees many of the problem areas related to the question of ethnicities. Here, it seems to me that after the war, West European integration had to a large extent been driven by the West German desire for an integration into an entity larger than itself. The product has been beautiful and commendable; it is working and it has brought the highest standards of living to all involved. Yet we don't have a similarly motivated drive to integrate the Eastern European countries or people. The kind of interest that would bring this integration about does not exist, and so we talk about the economy and about a lot of rational procedures we can take, but what is lacking is a "gut drive" for integration, if I may call it that.

However, it is my deep conviction (and I hope I am allowed to speak about convictions rather than just facts), that Western Europe has no choice but to integrate the East. I do not think that in the long run you can build and maintain ethnic walls, nor can you simply extend Eurocentrism, push it a little bit further East, but still think in terms of a West-Eurocentric context.

In literature, we are concerned with multi-culturalism, and we talk about "the other". In the conversations here I have heard a continuous sub-text, yet no reference to its consequences: that it is "the other" that provides the criteria which determine how we conceive of the problems; for example, how far should Eastern Europe extend, where does it start, etc.

Undoubtedly, the larger context, which includes more than just Eastern Europe, has to be addressed. Compared with this larger context, the problems posed by the integration of Western- and Eastern Europe will pale, though the efforts closer to home will give a taste of things to come. This integration could become a kind of rallying force, and certainly is an ideal worth implementing. Whether this is at first done through education and then the economy, or whether Western-style economies realize their dependence on multi-cultural and ethnic propensities, all of this, I think, will have to be worked out.

Tugendhat

First of all I'd like to begin by invoking an image. One of the glories of London at the present time is the flowering of the wisteria and you see these magnificent trees covered in flowers, huge trunks as thick as one's own body, gnarled roots and every sign of permanence. But, of course, if you take down the wall against which the wisteria grows, the wisteria itself collapses. And that is because of a design fault in the wisteria.

Our situation as we confront the disintegration of the West is somewhat analagous to that. The collapse of communism, the collapse of social democracy within the West, do pose very new problems but there is a design fault in our own model. And here I do agree very much with what Reimut Jochimsen said when he talked about the structural crisis in the economy. And I'll address primarily Western Europe but I'll say something about the United States at the end.

The manifestations of the structural crisis are, of course, the loss of jobs, the loss of competitiveness, the inability to finance the Welfare State. And these are common, basically, to all our countries. But there is something deeper than that as well and it is something which is very difficult for somebody who is actually engaged in the capitalist process at the present time. And that is because one of the theories that underlay so much of our economic growth in recent years has itself perhaps reached a crisis point.

I refer to the drive for deregulation. This has taken several different forms. It has taken the form of breaking down trade barriers. It has also taken the form of opening up financial markets, of acting against cartels, of abolishing the sort of "domain reserve" that meant that banks operated in one area, insurance companies in another, etc.

The idea was, and these were all things to which I subscribe certainly, the idea was that the result would be more competitiveness on world markets, that prices would be kept down, that consumers would get a better deal. And all those things have happened. But just as we have seen, at a different time,

when people were introducing new forms of medication that they sometimes had unintended side effects. That has happened with the economic policy we have pursued. The result of the new challenges that confront companies that have been operating in established markets, the result of the new opportunities that face those companies as they try to expand into new markets, has been a drive to reduce costs at every possible turn. And, of course, the means to reduce costs at every possible turn, has been available to us through the introduction of technology.

So, it has not just been middle-management that has been wiped out, as somebody was talking about earlier. Middle-management is indeed being wiped out. If you look at the United Kingdom, the National Westminster Bank, Barclays Bank, companies that at one time offered lifetime employment, like the Public Service, have been laying off 5000 people a year, each. And other financial institutions have been doing so at the same rate. But it is not just middle-management.

And of course not only has new technology been introduced but investments have been conducted outside the countries concerned precisely in order to ensure that you maintain your profits. So the link between profits and prosperity within a society has been, if not broken, put under very, very considerable strain. The link between the profits of the individual economic units and the prosperity of society as a whole has been broken.

But at the same time and as a consequence of that, enormous uncertainty has spread throughout our society. It was a characteristic in the past of manual workers that they had to accept periodic unemployment. They knew it, it was part of life's rich pattern. Now, of course, the educated classes themselves are facing precisely the same kind of problems that steel workers and miners and car workers and other people used to face. Not only did people at one time aspire to education precisely in order to break out of the cycle of periodic unemployment, but when educated classes face crises of this kind, realize that they are no longer needed, realize that their skills no longer have a function, you do get a potentially dangerous political situation. And we have seen that in the successor states of the Austro-Hungarian Empire and also perhaps in Germany as well after the First World War.

Now, naturally, in these situations, society does indeed become very inward-looking, it becomes very selfish. That informs the attitudes to trade agreements, to migration. So the first priority obviously is to try to recover an economic dynamic that in turn will restore confidence to society. I don't have the solution for that either, but if we are addressing the question of disintegration, I am trying to focus on one of the key factors in that disintegration.

To conclude, I think that the contribution which Mr Richter gave when he said the United States is so much better at adapting than we in Europe are, is quite correct. But I would also like to turn back to what Bill Bradley said. When you look at African Americans fighting American Koreans in Los Angeles and African Americans fighting American Jews in New York, and all the ethnic disturbances which one sees in the inner cities of the United States, and the violence that attends them, one is driven to the conclusion that one of the consequences of the extraordinary economic adaptability of the United States is a degree of social tension which takes often, if not ethnic, then racial manifestations that would certainly be very difficult for us in Europe to understand. So I look to the United States for an example, but in doing that one also sees how difficult it is to achieve some of the objectives which we want to secure, that there is no model that is ready for us to follow.

I certainly agree with Bill Bradley that human rights tempered by economic liberalism should be the bed-rock of the program which we want to follow. The test which we face is to get our economies and our societies into a condition in which those touchstones can be the ones that guide us.

Ischinger

The way I see it, we have a threefold crisis here: firstly, an economic crisis; secondly, a unification crisis, which has reached not only Germany, but the whole of Europe, in particular the European institutions; and thirdly, the Balkans or Yugoslavia crisis, which is probably the greatest threat to European stability today. But these crises certainly do not justify disaster scenarios.

As far as the unification crisis goes, it would certainly be correct to say that the existing institutions were not prepared for it; but this does not mean that we should abandon them and look for new institutions. It means rather that we must adapt them to the new circumstances. It is up to the European Community to expand its area of stability, which goes far beyond purely economic issues, step by step further eastward - even if today we cannot say exactly where this Europe stops in the East. The steps I am thinking of are economic and political ones, and above all security issues.

As for the security options, I would agree with Mr Stürmer that there can be no question of opening up NATO to our Eastern European neighbours, especially as I do not consider our military position to be

as precarious as is sometimes suggested. At any rate, I cannot agree that the security position of, say, Poland, is under more threat today than that of Finland, for example. In the past, the Atlantic Alliance has always managed to make the right gestures to indicate that certain countries and regions were included in its protection, without talking about formal membership and thus risking an exacerbation of the situation. We should ensure that Europe's eastward expansion does not cause new trenches to be dug.

The NATO Cooperation Council in its present form is, of course, not a satisfactory solution for our Eastern European neighbours, especially as the countries represented in it include some that do not belong to Europe. Incidentally, there is a similar problem in the CSCE as well. This makes it essential to pursue further development of the existing institutions.

From the German viewpoint, I would note that it is in our specific interest to leave Article 5 of the North Atlantic Alliance unchanged. Germany still needs a credible nuclear guarantee in order to prevent any criticism from arising on this issue.

Just one comment on the Yugoslavia crisis, which impacts severely on the credibility of European policy. I hope that Yugoslavia will remain a special case, and not herald further and possibly even worse crises of this kind. I very much doubt whether German policies are in any way to blame for this development, as was suggested here. What is significant is that the Serbs could believe for so long that they had enough friends both in East and West.

Euro-American consultation on Yugoslavia policy is working better, by the way, than it sometimes seems. Serious attempts are being made to devise a joint policy, even if the procedures used have occasionally been rather inept.

Hoge Jr

Sir Michael Quinlan gave us a picture of the "West" in which an evolving United States of Europe would have a distinct preference for distancing itself from the United States of America. A preference for distancing, somewhat latent, is certainly existent in the USA as well. One of our challenges is to manage US-European relationships in such a fashion that the preference for distancing does not become too strong on either side.

Let me mention several factors to keep in mind when assessing a supposedly static "West" confronting a disintegrating "East".

The first is the post-cold war turning inward to address untended domestic problems. Within a certain proportion, it's a healthy development. Overdone, a turning inward can cramp US potential for global leadership, dealing with serious social economic problems, the nature of which and the solutions for which are widely debated, and makes it difficult for a political leader to develop a clear mandate and a strong leadership position. US social problems will take a long time to work out, no matter how effective private sector remedies or governmental programs prove to be.

Secondly, it is much discussed these days that Europe is facing unprecedented migration pressures. It is less mentioned that the United States is two thirds of the way through the largest flow of immigration in its history. And the current wave, which is expected to end some time in the first decade of the 21st century, will leave us with a profoundly changed demography since immigration has come from all points of the compass representing a mosaic of ethnicity, race and language the likes of which we have not seen before.

This immigration will change US mainstream culture while being absorbed into it, and this absorption process will take time. In the interim it distracts the US from being able to lead in the world as clearly as it did in the 1950s and 1960s.

Another competitor for US attention is our hemisphere. The US has, for most of our history, interacted, both hostilely and benignly, with our neighbours in a sporadic way. That may be changing fundamentally. NAFTA doesn't just address a set of domestic economic and social concerns. It also signals that our hemisphere has reached a certain level of development. For instance, even without NAFTA, Latin America is now the fastest growing market for US exports.

NAFTA, besides addressing long-term immigration problems and raising the economic environment of our neighbours, is going to have a tremendous psychological effect on the whole hemisphere. The US is more likely to assist Latin American countries by giving them the benefit of the doubt in trade terms as we have done to countries in Europe and Asia during the cold war.

In Asia, we are taking a tough stand concerning trade relations with Japan. I do not think this is just a phenomenon of the current administration. When President Clinton says that we are less willing to consider our economic relationship with Japan within terms of its security importance to the US, that is stating a widely-held feeling among Americans. So one way or another - whether this means a reasonably healthy relationship or not - it is going to be a preoccupying one. So also will be the other economic competition and opportunity we see building in Asia.

We also see in Asia our most important security concerns for the future. An arms buildup there is the biggest now going on in the world. There is interest in nuclear capabilities and territorial claims that are more vigorously pursued by East Asian and South Asian countries as they become richer. Lastly, East Asia, along with Latin America, has the markets that hold the most potential for us.

Looking to Europe, what do some Americans see? We see yet more problems but fewer prospects. We see a European Community which is delayed, if not stalled, on the road to unity. We feel our special relationship with the UK counts for less now and in the future than it did during the cold war. We feel that Germany is - for understandable reasons - self-absorbed for quite some time to come and is not as much of an emerging partner for us as we had expected. And France, while a reliable ally, is forever an irritable one.

We see the southern nations of Europe having large economic and political problems. When we look eastward, we see ethnic problems about which, in part, President George Bush was trying to say: "We want you to take care of them. They are problems you understand and we don't!"

We also think that the economic resurrection of Eastern Europe is essentially yours to do, and we are somewhat frustrated by the fact that your tariff barriers go on the very things that could be sold to you.

When we look eastward, we look with preoccupation to Russia. It is the number one foreign policy priority for the US, and anything being number two ranks far below it. I think it is because we see a stable and sensible Russia as being more important by far than anything else both in Europe and in Asia.

As for institutions, just a quick comment. I agree with those who say we are not in a period, nor is the U S in a mood, for institution-building. We would much rather modify the ones that are there, the G7, the UN and NATO. They are familiar to us, and we do not have the resources or the political will for new institution-building. Quite frankly, we also see them as ways of burden-sharing while maintaining, in a slowly receding way, our leadership position. It is easier to do that through the institutions we created than through brand-new ones.

The reason for raising these reflections about the US is to suggest that we have anything but a stable alliance at the cultural and attitudinal levels. Given the way circumstances could go, we might find a strong feeling within the US to be more detached and less intimate in its relationship with Europe than has been the case for the last fifty years.

McArdle Kelleher

I think, in the new definition of the West, the West is defined as the First World, vis-avis the Third World. There are sets of concerns that come from liberal democracy, industrial democracy, in fact, those of the "haves" as opposed to those who at least define themselves as the "have-nots". The questions of trade liberalization really do raise these issues, and in case we have not been watching, so do the questions of non-proliferation in a very vivid way.

I would reinforce what Mr Jochimsen and Sir Christopher Tugendhat said about the "structural crisis". I think we all were overtaken by the golden glow of nostalgia looking backward and thinking that - in terms of domestic politics - economic questions, particularly the structural dimension, were handled far better in the past. I would like to argue that we have been in a structural crisis for almost two decades. I am less sanguine than Dr Richter, that the US has found the right answer. I think all of us are facing the necessity of explaining to populations, in ways we really do not know how to do, that not only are they not going to have permanent jobs, a number of them are not going to have any jobs at all. At least, unless we come up with some radically different ways of organizing our economies. And what we then propose to do with that set of citizens is one of the great challenges to all of our democracies.

On the institutional question, may I just raise an irritating question? The problem with two pillars, if you remember from President Kennedy's time, was always how to ensure two solid pillars supporting a pediment of joint and co-operative action. And I fear that too much segmentation in terms of pillars will lead to weakness in the centre rather than to the kind of sturdy balance that I would hope you would support as well.

Dahrendorf

I wanted to make one point: the world in which we are living is a world of uncertainty and disorientation and in such a condition of disorientation there is a great temptation to look for false certainties. And this search is all over us.

I rather liked Prof. Schlant's intervention because I am sure the East Europeans with whom I spent the last few days would be more likely to find their own experience of where we are in what she said than in many of the other comments here. That is partly because Poles and Hungarians, Czechs, Slovaks, too, and some others, are quite impatient even with the distinction between East and West if it is turned into a geographical distinction. I have no difficulty with defining the West in non-geographical terms, in terms of values. But if one hypostasizes it and turns it into a geographical description, one is introducing almost a false certainty into a word which does not have this certainty at this particular moment. We should not pretend that we can simply use the old boundaries of the Cold War to create concepts which make any sense.

The differences both in East Central Europe and West Central Europe are enormous. Somebody said that we have no experience yet of reducing the real incomes of people. I wonder what he is talking about. He obviously does not know what has been going on in the US for the last twenty years, what has been going on in this country for the last six, seven or eight years, and what is quite likely to go on in other countries. Some countries find it more difficult to live with this reduction in standard of living than others. We have quite different experiences and that is certainly true for our neighbours in East Central Europe.

I also feel that the risk of tribalism is quite great all over the place and probably in almost the entire OECD world. That is, one hangs on to homogeneous groups in the absence of other coordinates of orientation in the world. One could give many an example, and there are people around this table who could give vivid illustrations of the risk of tribalism in West European countries, Spain, Belgium, but in fact everywhere if you look closely.

I, for one, am a great sceptic when it comes to that nice term "Europe of Regions", because I have a sneaking suspicion that many of those who use it with great enthusiasm will find that they end up with regions and without Europe and that they are, in fact, looking in one direction because it is so difficult to look in two directions at the same time.

I was glad when Mr Hoge raised an issue about the US. That is, the disuniting of America: the whole question of whether it is still true that the US is the model of heterogeneous ethnic, cultural, religious and other groups living under a common constitution and as citizens of a country, or whether there are problems there, too.

I count among the false certainties also - and it is quite closely related to tribalism - the creation of new enemies. The whole question of Islam is immensely important in that connection. We may yet find that the most significant and long-term effect of the Bosnian War is that the Islamic world has decided that if the Bosnian Muslims had been Catholics, Europe would have helped. Since they are Muslims, Europe does not. That tells them something about the attitude of Europe, or perhaps the West, to them. But it is a great and dangerous mistake to build up and create new enemies of this kind.

In this connection, the question of Germany is a very relevant and difficult and sensitive one, which one cannot easily discuss without making crude and unnecessarily offensive statements. But there is a risk in parts of Europe that Germany will play a strange role as half enemy - half ally.

I happen to believe that the notion of a European superstate, which almost in analogy to the classical "nation state" becomes a superpower on the world scene, is also one of these false certainties, a risky false certainty, one which has many implications for which we could pay a heavy price. And it is, therefore, of critical importance that we define European Union in a way which does justice to the uniqueness of that particular construction which cannot be compared with traditional nation state-like powers, let alone superpowers.

Finally, I am one of those who get very worried when people talk too easily about the emergence of three blocs in the world and a sort of notion that the "new" world is going to consist of three great power centres. For one thing, three is a bad number because it suggests coalitions of two against one. And, of course, there is a lot of talk about coalitions of two against one, both among business people and among politicians. But for another thing, a world of blocs is not likely to be a very peaceful world, and certainly not one in which I would particularly like to live.

So the great risk we are running in the uncertainties of the post-Cold War period is that false certainties will take the place of this open and semi-defined landscape, and for me this is the starting-point of my own thinking about multi-lateralism and about liberal societies.

Poettering

First of all I feel we should be glad this is 1993 and not 1983, because at that time the end of communism was in no way predictable. Mr Smyser is quite right when he says that things were not so pleasant during the Cold War, and the highly-prized stability that we had at the time was paid for dearly by lack of freedom in Eastern Europe - at any rate for those who had to live under communism.

For Germany, unification is certainly the task of the century, and faces us with tremendous problems. But looking across to France, the UK or Italy, the problems there are probably not much smaller than ours.

And let me come back in this context to the historic achievements of the German government, especially of Chancellor Kohl, and the way they grasped German unity. The accession of East Germany pursuant to Article 23 of our Basic Law automatically meant that Germany as a whole became a member of NATO and the European Community, while retaining all its international commitments.

If the other path had been pursued, namely under Article 146, this would have entailed a constitutional debate that might have gone on for years, and Germany might have become just a pawn in the East-West chess game. The federal government convinced the Soviet Union in a process of tough negotiations that it would not contemplate German unity at the price of abandoning NATO membership. And that is something that should not be forgotten by those who sometimes cast doubt on our loyalty to the Alliance.

What is the goal of European unity? I agree with Sir Ralf that we do not need a European superstate. But I would like to emphasize - and this is also directed to our British friends - that this Europe must be capable of integration and cannot be based purely on cooperation between different interests, i.e. inter-governmental cooperation between nations. Such a system would quickly produce the kind of alliance system with which we are all too familiar from previous centuries, with re-emergence of the old conflicts.

But European integration also means we have to acknowledge different identities - at local, regional, national and supra-national level. And one of the most important elements in the politics of European unity is to establish political channels for resolution of any conflicts that arise between the countries of Europe, applying European law. This means we have to proceed with the democratic development of European legislation; this, in its essence, is policy for peace. It is vital that not only the bureaucrats should have a voice in this, but also the European Parliament, which has a very special role to play.

Maastricht undoubtedly needs to be continued and improved. That will be one of the objectives, and not the least important, of the next government conference to be held not later than 1996. If Maastricht had failed now, this would have meant tremendous danger of backsliding into national state thinking. Such re-nationalization must be avoided at all costs; because the vital issues of foreign, economic and currency policy simply cannot be resolved without the European Community.

Who should belong to the European Community, or the European Union? I expect to see a pluralistic Europe, with room for a wide variety of different political identities and religious faiths. Geographically, I can well imagine that the European Union might one day include the states of Northern Europe, the Baltics and Poland, Hungary, the Czech Republic, Slovakia, and maybe Slovenia and Croatia. The time-scale for that to happen is an open question.

Now it has quite rightly been said by several speakers today that we do not need new institutions, but merely further development of the ones we already have. NATO, of course, will have to change, to take account of factors such as Eu

ropean Union. At any rate, even at the risk of contradiction by Mrs Neville-Jones, I find it hard to see why this European Union should be able to sign agreements with Russia, the Ukraine, China and a whole string of other countries, and yet not be able to do so with our closest partner, the United States of America. I would be all for an agreement of that kind - this is not a matter of competition with America. But I believe European Union is the only path for peaceful solutions to European problems.

Eekelen

Listening to our discussion, I was reminded of something we heard last Tuesday when somebody said: "If you are not confused you must be misinformed." I think there is a bit of that on all sides.

I want to make six points briefly.

Firstly: The question of enlargement versus deepening. An enlarged Community will necessarily be different from the one we have today. There is still much misunderstanding on that among our own members but also among the potential candidates for membership. I regret that in Lisbon the European Council did not approach that problem in a more constructive fashion. We really have to make up our minds about what a Community of twelve, fourteen, fifteen members would look like. Probably few people have an idea about that.

There will have to be a new decision-making process. That will be essential, otherwise the Community will come to a halt. That will involve some kind of majority voting. I do not mind being outvoted by the present twelve members although I have some doubts about one of them. But certainly, if I were going to be outvoted by some of the new candidates, I should expect a degree of maturity politically, as regards a pluralistic democracy and the market economy which might not yet be on the same level as the other members` but at least approaching it.

That also requires what we call, in GATT terms, a sort of level playing-field. There has to be some arrangement under which competition is at least based on the same facts and figures. It is all very well to say that East European products should be allowed in but if the cost of production is calculated in a completely different way, I am not so sure whether we could allow this without some restrictions. So, with regard to Mr Livingston, who asked this question, I think yes, there should be a certain conditionality on future members.

We do not want to keep the Muslims out because they are Muslims. On the contrary, in Yugoslavia the only thing we are trying to do now is to protect the Muslims there, maybe not sufficiently successfully. With regard to the problem of Turkey, which, of course, is there, I would say that this, too, is another special reason for my recipe to do many things for many countries, not necessarily the same thing. And do not insist so much on full membership because that is bound to create problems as we shall always keep some countries out, and what sort of justification shall we have for that?

Secondly: The Community unfortunately is moving towards variable geometry, which is something different from "two-speeds". "Two-speeds" meant that the slower could catch up. With what we did for the UK and for Denmark, we moved into the realm of variable geometry. More lasting, more permanent arrangements which are different for some as compared to the whole. The WEU, to a certain extent, is an example of variable geometry because the Danes and the Irish are not participating fully, but only as observers. Again, that is probably another reason to say: Different things for different countries, but not necessarily the same for all of them.

Thirdly: Enlargement of NATO is difficult indeed and would - in my view- be especially difficult if it were to precede membership of the European Community. Those countries have to go through membership of the Community, and then we could discuss to what extent NATO could match that, but not the other way round. Certainly, in terms of what happens with the Finns, and Swedes, and Austrians today, NATO would be seen as an obstacle if we were to put the condition of joining the Alliance as well.

More importantly, I feel that security guarantees are not really the first requirement of some of those countries. Poland, Hungary, Czechoslovakia, of course, talk about security guarantees, but the threat in terms of Russia is not very immediate to them. Their immediate neighbours are probably more of a threat to them than the traditional threats from the Cold War. So there again, we should be very careful in extending our commitments or guarantees and should, perhaps, take a little more account of Realpolitik by thinking of our own interests first before being too much influenced by the desires of some of the other countries.

In this context we have to pay more attention to the Ukraine - not in terms of joining or anything like that. But the problem of the Ukraine is - in my view-underestimated in Western Europe, maybe also in the US. But what happens in the Ukraine is the primary security concern for Russia. And as such we cannot escape that problem. I hope the Ukraine is evolving a bit. At least some of the ministers we met from Eastern Europe this week seemed to think so. Let us, therefore, hope for the best.

Fourthly: The UN. The problem with the UN Security Council is that anything it does is incremental. Little steps over a fairly long time. "Salami tactics" in reverse. There is, in fact, a need for quick action to deal with a crisis when it erupts.

I am certainly not against the "Agenda for Peace". I think Boutros-Ghali did a good job but it is not enough. It is original to the extent that it talks about preventive deployment, which is an interesting

notion. We are trying to implement that in Macedonia and maybe Kosovo now, but some of the terminology needs clarification.

Then let me come to peace-keeping. Peace-keeping in the traditional way, i.e. with the agreement of the parties, really is not very interesting any more. The UN has been doing that for a long time. You certainly do not need NATO to do peace-keeping in that context because it is not really a military task. On this point, I do not agree with Miss Neville-Jones. Here the question is what to do when there is no peace. Then it is not good enough to say containment will be sufficient, as even for containment we shall need certain military capabilities.

I am not advocating massive intervention but I am advocating the use of our military capabilities to underpin the credibility of our political objectives. And that may require some military force. NATO, to me, is fine and I want to maintain it. But I have a strong feeling that NATO will not be able to deal with all the new situations. In the future, we shall look more and more towards coalitions, ad hoc coalitions of countries willing and able to participate in the action. Certainly, as long as Germany has its constitutional problems, this will have to be the case even in NATO.

The Kuwait War was a masterful coalition put together under American leadership. I had hoped that in Yugoslavia we would have been able to do something similar. There are some missions we Europeans can perform. It is quite untrue to say that Europe would need help for all these missions. During the embargo in the Iraq case, we had thirty-nine ships enforcing the UN embargo against Iraq. Similarly, we are organising the embargo on the Danube now. In the Adriatic we could have done it on our own but NATO wanted to come in.

Let me then take up the question some of you put: Who will decide whether NATO or WEU can act? That is the wrong question because both of us will be consulting from the beginning on an emerging crisis. NATO already does so today, consults on everything, whether it is inside Europe or outside Europe. In the course of those consultations, it will emerge fairly naturally whether the U S are prepared to join or whether they think this is more a European responsibility, as they did in the context of Yugoslavia. So, it is not a question of one deciding that something is better dealt with by the other. I think it will emerge more or less naturally.

I find it peculiar that some of our British participants said they were against "double-hatting" because the UK was always in favour of being pragmatic and saying, "as we only have one set of forces, we do not want duplication. Let us use the same forces, the same arrangements, the same head-quarters, the same infrastructure, because the alternative to duplication would be doing it separately". And that would indeed be a waste of money and certainly present an enormous problem with regard to France which, today, is (thanks to the WEU) moving closer to the Alliance as well.

Finally, I agree with Miss Neville-Jones again, I am not in favour of a US - Europe treaty either. First of all, it would be very difficult for us to conclude. We would spend a great deal of time on it and in the meantime some countries would probably use it as an excuse for not doing anything in practical terms. But it is also difficult, conceptually, as we Europeans have promised ourselves a rendezvous in 1996 to look again at the state of European Union. So, we need more time for that. At the same time, I agree that we need to try to find a more comprehensive approach.

NATO is, of necessity, limited to the security dimension in spite of Article 2 (which is not being applied). So NATO will be the security dimension primarily, but the present interests are much wider.

Of course, institutions are not a purpose in themselves. Very often we take flight into institutions when we find the substance rather difficult - my own country is normally pretty good at that. It is, of course, a question of political will. At the same time, however, - and here I join Dr Poettering - the uniqueness of the European construction is that we have certain institutions without which European integration cannot manage.

Bradley

First, imagine a country - or a group of countries - "A", - next to a country - or group of countries - "B". The border between the two groups is not a military border, as there is no threat of "B" invading "A", or "A" invading "B". Imagine a country or group of countries "A" and a group of countries "B", in which in "B" there is an explosive population growth and very low income. The border separating the two is de facto open. There is no way to keep them out if they choose to come. Imagine in "B" there has been a political transformation in which democracy has begun to put down roots. The society is open; the economy is open as it has never been before. Imagine in "B" there is a slightly different ethnicity than in "A" - of the same tradition, but nonetheless resisted by some segments of "A"'s population. Imagine

the prospect of economic integration of the two adding to the long-term prospects of both but with some difficulty in the short run.

What I am describing is not Eastern Europe and Western Europe, but it is Mexico and the US. In fact, the purposes behind the NAFTA Treaty are directly relevant. The purpose is, on the one hand, to create a competitive unit internationally that will stand North America in strong stead. I am reminded of how successful that is likely to be every time Japanese visit my office to complain about the NAFTA Treaty. It is, however, an aim to consolidate the political developments in Mexico in the last eight years, which have involved a very significant turn-around in both attitude to the US in economic structure and in political reform.

In Mexico half of the population is under the age of nineteen - half the population of eighty million people! Jobs are not located in Mexico. There is only one place Mexicans are going to head - i.e. across the border to the US.

In Mexico they come from a "Latino" culture. Someone once said the difference between Mexico and the US is the difference between 18th century Britain and 15th century Spain. Integration will not be without problems, but it has the potential of enriching the culture in a western mode. I say that only because I think there should be some thought given to a wider expansion of Europe, to deal with the exact problems that threaten Europe today from the East and which cannot be dealt with if the Polish, Czech, Slovak, Hungarian states remain outside of what has come to be thought of as Western Europe.

Second point: In my presentation, I talked about shared values, meaning these are somewhat difficult specific policy guidelines. This is a reality we have not yet come to terms with. None of us wants to see Egypt fall into the hands of Islamic fundamentalists, although that possibility is one of the bigger threats of the next decade. Yet, to push Egypt toward democracy might indeed produce that result. In Saudi Arabia, we are interested in stability, not democracy. It is the same thing in Kuwait.

My point is simply that we can have values, but we also have interests - and sometimes they are in conflict. What is critical for us to do -1 mean Europe and the US - is to define clearly those interests that we share as well as continually to reaffirm the values that we share.

Third, I heard one person criticize the IMF today, and I would applaud that loudly, now that we are finally getting the Polish debt taken care of after the IMF dragged its feet for about ten years ! One might only say, "Is there another place where we might discount some of the IMF's theology?" And I would say, "Yes." The place is Russia, and the issue is oil.

It does not make a lot of sense, if what you want is political stability and democratic roots, to have the democratically elected leader be forced by the IMF to push the price of oil to world prices, thereby guaranteeing either rampant inflation domestically, as the rouble depreciates in value, or a catastrophic depression. The oil price should not be pushed to a world price as quickly as the IMF wants, but it should be done much more slowly over a much longer period of time to give the economy an opportunity to adjust.

Fourth point: ethnicity and race. MrHoge talked about the changes in the US, and that is true. It is a richer mosaic now than it was ten or fifteen years ago. In my state of New Jersey, high school students come from homes that speak 120 languages. The Asian American population doubled in the 1980s. The Latino American population increased 50 percent in the 1980s. On the West Coast, and now as far east as the front range of the Rocky Mountains, the orientation is persistently toward Asia. There are young people who think in terms of Asia - not Asian Americans - and young people who have grown up in a much more diverse environment, with much higher levels of Japanese investment, with much greater trade with China, with much greater ethnic diversity. That orientation is a reality any government in the US has to deal with.

Americans believe, contrary to many other countries, that immigration to the US is a source of dynamism, not a source of lethargy. In terms of new talents and in terms of age of population, immigration helps America. Older populations-Europe and Japan, increasingly, - will be consuming savings; younger populations will be accelerating savings. With the influx of immigrants, the population is much younger and much more dynamic.

One last point is on the question of Hermès ties. If you could buy a tie of equal quality that did not say "Hermès", would you buy it, or would you pay \$ 300 for the Hermès tie? I can only say that McDonald's hopes that you will always buy the label!

Dahrendorf

I think we shall try to explore the ground of the great divisions over Yugoslavia. Intervention - yes or no? If yes - how and by whom? If no - how do we explain it, how do we cope with the horror which we all feel every time we open a newspaper, or watch TV news?

Marsh

When the decision was taken not only to recognize Croatia and Slovenia but also to recognize Bosnia-Herzegovina later on, it did occur to me that once you make - as a community of states - a decision to recognize a country, you should, if you accept this country as a member of the "United States of the World", in a larger sense, you should also perhaps spring to its defence.

Now I know this is not only a matter of constitutional law, it is also a civil war at the same time. But I did feel then and I do feel now that many decisions were taken far too hastily without considering the very cruel patchwork into which we were actually sending this young state.

Pick

I do not share David Marsh's view that we should allow the Bosnians to rearm themselves, and I am against intervention. I do not say that with any pleasure at all but the situation has degenerated to a point where outside invention could do no good and would simply increase the killings. Unhappily, the West and indeed the Russians have always been one step behind each event as it unfolded, and we can all point to endless mistakes that have been made. We can disagree about individual mistakes in policy, but everyone will agree that a huge number of mistakes has been made of one sort or another.

We must be realistic. We should stop talking about the Vance-Owen Plan, as it is clear it is dead. Containment - which has now become the "buzzword" - probably is the only way for the International Community to tackle this both in terms of preventing the war from spreading beyond Bosnia, and hopefully bringing the killing inside Bosnia to an end.

At some point, clearly, there will be a negotiation, and we shall probably have to find a new forum. I do not think that by getting great conferences together again, which Germany wants to do, we would have solved anything either. We simply have to accept the unacceptable.

And my final point is that the media have played a huge role in the emotion and the passions that Yugoslavia and particularly Bosnia have evoked, and quite rightly it is so. But we should also remember that Bosnia is not the only place within reach of "our" Europe where terrible killings are taking place. There also many countries, outside Europe, like Afghanistan, and so on, where thousands of people are constantly being killed. And because the TV cameras are not there, because the media are not there, it does not evoke the emotions that Bosnia has done.

None of this gives me any pleasure to say. I myself have known Yugoslavia very well for many years and always believed that Yugoslavia would continue to exist as a country. That just shows how wrong you can be. But there are lots of others like me.

Stürmer

Yugoslavia cannot simply be described as a "regional issue". There are hundreds of thousands of refugees pouring out, chiefly into Hungary, Austria, Germany and Switzerland, while other countries are simply closing their borders and their eyes.

And another reason why this is not just a regional conflict is that international law and international order are being trodden underfoot. If one day we want to persuade the Ukraine to renounce nuclear weapons and put her trust in collective security, they will ask "What did you do in the case of Yugoslavia? Nothing!"

And finally, we should ask ourselves what we can learn from the Yugoslavia conflict. At any rate we can learn that bush fires tend to spread, that civil wars may become wars between nations, and that there is no clear dividing line between the two. A regional crisis may easily expand and become a more general crisis. There could be a full-scale war in the Balkans. All of these are things that you may be able to predict, but not to control - or at any rate only at a point in time when everyone says it is much too early for that kind of action.

Fröhlich

I have two points to raise. Firstly, we have heard quite a lot about failings in German foreign policy on the matter of recognition of Slovenia and Croatia. Let me point out that the International Community was for a long time unanimously in favour of the confined existence of a single Yugoslavian state. And

this backing of the Serbian leadership in Belgrade, with support from every side, is exactly what made their aggression against Slovenia and Croatia possible in the first place, or even encouraged it. Bonn's first steps towards recognition did not take place until nearly six months after the attack on Slovenia; France, the UK and the USA followed suit later, in December, 1991, and January, 1992, respectively, somewhat reluctantly.

There is much to suggest that recognition did not, in fact, come too early, but rather 12 months too late - looking at the sequence of events, it should have followed the referendum in Slovenia. However, the International Community should have linked recognition clearly with conditions relating to a re-organization of Yugoslavia, and if necessary with appropriate sanctions in the event of violent clashes between the conflicting parties.

Secondly, I would like to comment on the need for reforming NATO. We have heard a few rather gloomy predictions - which I'm afraid I have to share - about the success prospects for a common foreign and security policy by Europe, or rather its institutions. As yet there is no political will for joint action.

However, alongside its traditional mission of preventing attacks, mutual commitments for support and political coordination, it is taking on a completely new mission in the form of crisis management outside of NATO territory. The terms "in-area" and "out-of-area" have no basis whatsoever in the NATO Treaty, but they do need clarification despite, or even because of, the increasingly meaningless way in which people contrast them.

Another problem is that new conflicts are becoming more and more frequent and more and more complicated. Despite the existing facilities and crisis management tools, it is becoming increasingly difficult to arrive at joint communiqués with the unanimity that is still needed in NATO. The political impotence of the International Community and its institutions tends to be exacerbated by the attitude of the US administration, which is not interested in embroilment in a regional conflict - as long as it remains regional -, where it is easy to get in but not so easy to get out again in a hurry.

In general terms, work in what is admittedly still the most effective instrument we have for resolving conflicts has become more difficult since NATO started concerning itself with matters beyond the security of its own members.

Hacke

I would like to throw some light on the Yugoslavia issue from a different angle. I believe everyone would agree that the notion of integration into Western Europe has always exercised tremendous fascination for the peoples of Eastern Europe - it is something they have pinned their hopes on for a change in their own situation. And this attractiveness of the West is something that has always been a source of pride to me. The danger I see today is that Eastern Europe's hopes are more and more liable to be dashed, turning to disappointment, as they realise that Western Europe seems neither ready nor able truly to open itself to them and to include Eastern Europe in the integration process. Plainly, the only thing Western Europeans are interested in is bolstering up their own prosperity, and not helping others faced with grave problems - both material and security problems.

Yugoslavia is clearly a case in point. I would agree that military intervention is no longer feasible at this stage. We should have taken a clearer stance right at the beginning, combining skilful diplomacy with military options - an opportunity that was definitely missed.

Hoge Jr

I do not see the grounds for military intervention in Bosnia and if we were to do so, the moral consequences could be as great or greater as those some see in refraining from using force. The nature of the terrain and the combatants virtually guarantees moral problems of civilian deaths and so forth from an external military intervention.

Secondly, I have yet to hear what the objectives would be of such an intervention. If it is to roll back the Serbs to where they once were, I think this is a most unrealistic objective, at least an unrealistic one in terms of what the publics either in Europe or in the US would support. If it is simply to punish the Serbs, there are other ways to accomplish that.

We sometimes put this issue in black-and-white. If we do not intervene, we have done nothing and must be pilloried for being totally without effort or concern. It is an overdrawn picture. However flawed they may have been diplomatic, political and economic efforts are underway. Whatever solutions they provide may turn out better than what, at this time, could be achieved by military intervention.

We can coordinate economic and diplomatic pressure and seek out those political forces within Serbia who want a different deal than the one we are looking at.

If there is a lesson, it is to take action early. We have heard there is a likelihood of the Bosnian conflict expanding southward. And yet, as far as I can see, very little has been done to anticipate it. There are some things that could be done.

Finally, as we move toward "Vance-Owen" or some other political solution, we should also continue sanctions and go ahead with war crimes trials. The latter at least make a moral statement if, indeed, we cannot get individual sentences. Eventually, we must also find the opportunities to provide incentives for the réintégration of the Balkans into Europe.

McArdle Kelleher

On Yugoslavia I should like to make four short points.

First, as to the origin. It seems to me we have here a set of tragedies perhaps not recognized at the time. But I would like to argue that it is a mis-statement to say that this war began as an ethnic conflict. It very much rather began with a set of determined leaders who wanted to hold on to their power base, and who used ethnic symbols and mobilization over a five-year period, - while most of us paid no attention, - to achieve that end.

They were then joined, at least in some areas of the former Yugoslavia, by those who thought they would be left behind by Europe. That is, those who thought a Serbian group would never be welcomed within the Community, even as an associated state. Croatia and Slovenia (at least in the ideas of many of the business and industrial leaders there) had but one choice: to join Europe and, thus, to split themselves off from the Serbs before that rejection could be forced on them.

I do not think the Yugoslavian crisis is going to be the model for other crises that we shall face in the future. It is - it seems to me - the kind of test that has a great deal more to do with the transformation of former communist societies, than it does with what would necessarily be a series of ethnic conflicts, each fought to the end, and each having no bearing on one another. I think we may already be seeing serial shifts of power, not ethnic conflicts per se, in the Caucasus, in Afghanistan, if you will - in the areas that have traditionally been peripheral areas, places where civilizations clash, or power has never been held in very stable hands (except under repressive regimes).

The major part of what we now call ethnic conflict are questions in which ethnic symbols can be manipulated to bring about political support but are not really in themselves, at least at the beginning, the major source of conflict. At issue, rather, are fights about political control, especially in times of political vacuum and weak states.

Looking at the lessons to be learnt, the principal question to ask ourselves now is: what shall we do when the fighting stops? This is especially true if we expect or are perhaps led to wish that Yugoslavia in its former state (or some of those republics) remain associated with the West as opposed to what - I guess - is to be called "the unwashed". It seems to me we have done very little thinking about how that will happen.

Last and not least simply on the military side. Even if military intervention, or even the enforcement of the Vance-Owen Plan had been something which we were about to do, all of us realized very quickly that we do not have the capabilities either in terms of trained units, or indeed the numbers offerees that would have been necessary, within the West itself. We would have had, of necessity, to bring in other states, Russia and the Ukraine, perhaps other contingents as well, and that might not have been such a bad thing in terms of future multilateral peace-keeping operations.

Eekelen

What are our objectives in Bosnia?

First, to prevent enlargement of territory by force by the Serbians. Second, to prevent escalation into a European war in the Balkans. If it spreads to Kosovo it will spread into Macedonia and further. Third, to maintain the CSCE principles. Fourth, to reduce human suffering. Fifth, to maintain western cohesion in a very important activity - not very successful so far. Sixth, to make the Serbians accept a peace plan allowing for an independent Bosnia.

Is the Vance-Owen Plan dead? I do not think so. Even if it is dying, we need to maintain it as a political objective because without it all our means of exerting pressure on the Serbs (such as holding Milosevic to his promise to pressurize the Bosnian Serbs) would become suspended in mid-air.

I regard the protected areas as a first step toward the Vance-Owen Peace Plan. If we present it like that, it would be useful. If the Serbs continue their aggression, we should indeed use American and other air power to attack them in a limited way. The longer we wait, the more the cost of intervention will increase. Whether it is only peacekeeping, or any other kind of activity, it will be a kind of Cyprus situation in which we shall be involved for a long time.

One word on the flotillas. Just to remind you. On 4th June, last year, NATO said at a ministerial meeting in Oslo : "We will make our resources and expertise available to the CSCE." On 19th June, the WEU said: "We will make our resources and expertise available to the CSCE and the United Nations." So, I thought when this embargo was declared by the UN it would be the WEU rather than NATO which would do "the necessary". But then - as you know - in early July, during the summit in Helsinki, first the WEU took a decision to form a flotilla, and then immediately afterwards NATO did so. But it did not matter all that much because we had the Italians who provided an admiral for us and an admiral for NATO, and coordinated things rather well.

Today, as the embargo is turning into a blockade, we shall have a jointcommand, but there`s not only NATO and the WEU, there are three other flotillas: America, UK, France, for other purposes.

Kielinger

I am less optimistic than Mr van Eekelen about what we can still do in Yugoslavia. I would agree with Mr Hacke that Germany`s recognition of Slovenia and Croatia was ill-considered and mistaken. And this was followed by a second mistake. Since mid-1991, the international system has had a new goal - to consider intervention wherever there is blatant violation of human rights in a country. In such cases, it was announced, the principles of inviolability of borders and non-intervention in the affairs of other states would no longer have sole validity.

Now, it is always harmful if politicians announce a goal without having the means to work towards fulfilment of that goal. Such announcements, not followed by appropriate action, can only lead to disillusionment with politics, as indeed we can see in Germany at the present time.

Let me just add a remark on ethnic conflicts. Senator Bradley rightly referred to self-determination, and also to the protection of ethnic minorities. In the case of Bosnia, this would have meant that, instead of devising the unenforceable Vance-Owen Plan, proposals should have been made for splitting Bosnian territory into three and allocating appropriate territories to the Moslem, Croat and Serbian population groups. This would naturally have involved exchanges of population - but perhaps that is not asking too much in a country where ethnic minorities are no longer prepared to tolerate one another.

Stuth

Mr Hacke and Mr Kielinger have rightly stressed the fact that in politics we must not promise more than we can deliver; especially in foreign policy, where those who have to bear the consequences are usually not the same as those who made the promises - that might be different in domestic politics.

In the case of Yugoslavia, this includes the simple admission that this conflict cannot be resolved from the outside - not by the UN, not by NATO, and not by anyone else either. So we should stop constantly creating the impression that such a solution is possible. At most we can help to contain the conflict. In addition, we have practically no knowledge of what the various groups in former Yugoslavia actually want themselves. How many of our political decision-makers actually talked to all the ethnic groups in due time in order to get a realistic picture of what each of them wanted?

My view is that we need fewer statements at summit meetings, unless we are ready to follow up each of these statements in a consistent manner.

David Marsh said we should recognize only those countries whose security we can also guarantee. I feel that is too radical a standpoint. That would mean, for example, that we could not have recognized Nepal - after all, none of us would be in a position to guarantee the independence of Nepal if, say, it were to be threatened by India.

Neville-Jones

When I was head of the planning staff at the Foreign Office, I wrote a paper in 1984 which was about Yugoslavia, in which I said - among other things - that the only thing keeping the populations of the Yugoslav republics from having a go at each other was the fear of Soviet intervention. And that was regarded by my superiors as a blinding flash of the obvious. I did not get many marks for this perception.

One could say two things about that.

First, one could see the conflict coming. And, second, that it would be very hard to prevent. The conflict has deep historical roots and there are deep hatreds there. So it is not surprising that it is difficult to deal with.

The outside world has made a series of quite big blunders in handling the Yugoslav situation over the last two or three years. The first of which was unwillingness to recognize that Yugoslavia was going to break up. Why is that? Because we wanted to keep the Soviet Union together. We, therefore, clung to the Yugoslav federation too.

Having finally accepted that Yugoslavia was going to break up, we then failed to carry out a sensible policy on recognition of its constituent parts. There were deep divisions inside the Community, but, collectively, we made some foolish errors of which the unconditional recognition of Croatia - without insisting on minority rights, on protection of minority rights, - was a very important catalyst of conflict throughout the region and in Bosnia in particular. So our own action certainly did help to catalyze the situation but was certainly not the source of it.

Having done all that, the Western Community then failed to get its act together, and failed to come up with a shared analysis, or a shared policy. This is the first time that this has been the case, and it has been a very alarming experience. The US has been absent from Yugoslavia for a variety of reasons including an election campaign, and an extraordinary European idea that the Americans were not needed. In fact the Europeans have found Yugoslavia extraordinarily difficult to handle. And it is very late in the day that the two sides of the Atlantic have come together again to realise that this is something they should have been talking about all the time. And had they been talking about it, it might have been as bad as it is now.

All the time we have been arguing about the objective of policy - whether there was a basis for intervention, what the mission of the intervenors would be, what the solution should be - the fighting has gone on. And the only thing that has been going on is the humanitarian operation, which undoubtedly has saved lives, but of course has not solved the problem.

I agree with those who say that the Vance-Owen Plan is not going to be the complete solution. I am puzzled, however, by American criticism of it. Senator Bradley said that it constituted "sanctioned apartheid". I do wonder whether those who say that have actually looked at it because it was an attempt precisely to avoid just that.

It has two principles behind it: a unitary Bosnia and, secondly, the minimum movement of people consistent with trying to establish a stable situation in which they could live together. And that is why you get a complex pattern of ten cantons.

The other American criticism is that the plan is not feasible. And I do not disagree with that. But that it is "undesirable" seems to me to be an odd criticism. Because it was precisely designed to bring about the minimum amount of apartheid by keeping the maximum amount of mixing of people possible.

We are now in a situation clearly where the Vance-Owen Plan is not going to be the solution. I do not believe that it is totally dead in that it has guiding principles that will help us. But we are now liable to face a much more undesirable solution, much less to the liking of those whose object it is to protect the Moslems. And that is why we probably are going to move towards three consolidated areas, we are going to have, in effect, conditions which might eventually lead to the partition of Bosnia with - if we are lucky - one area which will be (one hopes) big enough for the Moslems. But we are not going to have anything like the old pattern in Bosnia.

And I think what this shows is the absolute indispensability of transatlantic dialogue, and of shared policy and agreement on the resources. Otherwise this is the mess you end up in. We are not, I believe, going to go for a long sustained intervention. It is quite clear that the will to put on the ground 100,000 (a hundred thousand) men for peacekeeping - which the Vance-Owen Plan would require to keep the peace - is not there. We shall be putting in very much smaller numbers to freeze the cease-fire lines and to try and prevent overspill outside Bosnia. And we shall - I hope - go into a negotiating process with an outcome different from the Vance-Owen Plan. It is going to be much more modest and it is going to be much less good for the Moslems than we might have been able to achieve had all the parties agreed on something earlier.

Livingston

I must give you fair warning that I will inject some emotionalism into this discussion. As Mrs Thatcher has said, that is not misplaced. I spent six wonderful years of my youth in Belgrade, Zagreb and everywhere in what was once Yugoslavia. Therefore, this is all very painful.

Americans obviously are divided on this - divided between the fear of a Vietnam quagmire and the prevention of a second holocaust, as it was expressed at the opening of the Holocaust Memorial Museum about a month ago. I find the media reaction in the United States interesting. Both liberal and conservative columnists have been strong advocates of intervention and American TV has given Bosnia a great deal of coverage, the type of coverage that brought us to act in the case of the Kurds but which does not seem to be having the same effect now.

This is obviously a very difficult situation because it is both a civil war and a war of aggression with the Serbs of Serbia, and the Croats of Croatia helping their countrymen in a form of aggression that is not very concealed. It seems to me what is happening is that we are all slowly being sucked into this, somewhat reluctantly and maybe even not with any clear idea of what we are doing, whether it is the Adriatic patrols, the no-fly zones, the idea of putting monitors on the border between Serbia and Bosnia, or the President's proposal to put American troops on the ground in Macedonia (not a large number but some).

My case rests on the balance that Senator Bradley described between values and interests. I am in favour of intervening. If we could mount such a large operation in the Persian Gulf, I would argue, we certainly can do it. We have the capacity, and it could be applied. The will is obviously not there. If, in a post-Cold War world we have a chance to give greater emphasis to values, to human rights as compared to cruder political interests, we should take it.

Ms Kelleher is, of course, right that the Yugoslav crisis is not necessarily a model for others. But we have to ask ourselves what signal is being sent if the Americans and the Europeans, for the virtues and values they hold supreme in their own systems, are not willing to make an effort to stop this killing and to validate human rights as a value in our foreign policies. If that is the case, if we are not willing, I feel that we will have missed a great chance to turn the post-Cold War foreign policies of our countries in a different direction, one that attaches greater emphasis to human values. Obviously, we cannot do this everywhere but here, in Yugoslavia, is a chance where we can do it.

Lindemann

I am somewhat surprised that, when we speak of Eastern Europe, we mention Poland, the Czech and Slovak Republics, Hungary, Rumania and Bulgaria, but not the three Baltic States. In his introduction, Mr van Eekelen only listed the Baltic States, and Mr Poettering referred to them in terms of an enlarged Europe. If the statement was made here that no immediate danger from the Russian side exists for Poland, the Czech Republic and so on, then I must counter that this statement does not apply to the Baltic States.

A short time ago, we held a German-American conference in Riga with the goal of raising consciousness for the special responsibility that America and Germany, for different reasons, share in the fate of the Baltic States. For all of the Americans and Germans taking part, it became clear just how much the Baltic States, and especially Latvia and Estonia, fear the loss of their independence and security. The main reason for this feeling is the high percentage of Russian nationals: over 50% in Latvia and 35% in Estonia. NATO helps the Baltic states in the formation of troops and counsels them in the examination of their borders. But we are not prepared to grant the real wish of the Baltic States, namely security guarantees.

The behavior of the western nations in the Yugoslav war is of great importance for the future of the Baltic States, or at least they see it that way. They believe that if the West refuses military intervention in Yugoslavia, then Russia, in its confidence that the West will remain calm, will see it as an invitation to one day annex the Baltic States. In this case, however, as opposed to that of Yugoslavia, the strong and active Baltic minorities in the United States should not be underestimated.

Dahrendorf

We may all have similar emotions but we clearly do not even have the same analysis of the situation, which is one of the reasons why different conclusions are reached.

I thought that we should perhaps start with an hour on economic conditions, for they are one of the truly significant elements in the present situation.

It is perfectly evident that the new democracies of East Central Europe are less fortunate than say Spain and Portugal were in their time. They are emerging to the opportunities of a market economy at a time at which general economic conditions are much less favourable and, therefore, the probability of success must be much lower than it was six, seven, eight, ten years ago.

Let's have a look at the economic challenges with which we are faced. I have asked our resident member of the Central Bank Council of the German Federal Bank to start us off and I'd like to ask the father of Spain's economic miracle to follow him.

Jochimsen

As I have already noted, the problems facing us now are not just due to economic cycles and fluctuations, but to structural changes and upheavals. I expect these to remain the key factors over the next decade. The new departure in 1989 in Germany and in Europe did not simply trigger off a market economy big bang in Central and Eastern Europe, with everything quickly getting back to normal again.

There are three factors I would mention in this connection, concerning Germany primarily, but not exclusively,

One of these is the rapid increase in migratory movements, with people moving from East to West within Germany (we still have a high level of internal migration), with ethnic Germans returning into Germany, and with asylum seekers. The whole migration problem has reached a scale that is stretching us to the limits. This is a problem that affects the whole of Europe and threatens to completely swamp our social infrastructure, especially social benefits and the social services.

The second concerns things like reduction and withdrawal of military forces, disarmament and cuts in arms production. This also has a wide range of economic and technological repercussions. In the United States, for example, this means about a million people will be laid off in the arms industry. That is equivalent to nearly one per cent of jobs in the USA.

Thirdly, there is a whole series of factors which we have not considered sufficiently with all the upheaval of the Maastricht debate, and which concern the establishment of the internal market programme. I mean things like the stabilization of the European currency system since 1983, which has a number of facets to it. The financial markets that we have today, not only in Europe but throughout the world, are largely deregulated and liberalized; at the same time, the development of information and communication technology has enabled them to grow so large and react so fast that any kind of controlling function is highly problematic.

This is something that emerged very clearly in the New York bank debacle of 1986/87. In a nutshell, what happens is the appearance of a bubble economy, with asset inflation followed by asset deflation; this has happened mainly in the Anglo-American zone, but also in Japan and Scandinavia. This phenomenon was by no means a one-off event, and had enormous consequences not only on public borrowing, but above all on private borrowing, on corporate finance and on a changing bank structure (with the "credit crunch"). At the same time it affected the efficiency of the money supply control instruments. It certainly made consumers much more cautious in their behaviour, in view of the tremendous ups and downs on the capital market.

And then there were the currency turbulences of last September, exploding the myth that there was already a de facto currency union, and heralding in further adjustments.

This is very important because of its severely negative impact on corporate investment and employment decisions. The economic parameters have gone fuzzy. When will the UK return to the European Currency System, if ever? And what about Italy - what does the future hold in store for Italy? These are uncertainty factors that cause us considerable headaches, since European integration means not just trade, but also direct investment, inter-company links, and cooperation right down to the level of medium-sized companies. This is quite different from the kind of thing we had before World War I, for example, when economies were likewise highly interdependent.

And finally, let me comment on the internal market for financial services. In the credit sector, for example, we have the phenomenon of universal financing, with the question of whether British insurance companies can operate on the continent - which would have repercussions on employment in the service sector. But the effects of integration are by no means restricted to the finance sector - they are also apparent in the real economy. Integration is characterized by the dismantling of national state intervention in business and the economy. That will be replaced by a large common market. And that means deregulation in every sphere.

There have also been decisive changes in the past few decades in business location factors. "Natural" locations are growing scarcer. Geology, geography and demographics are losing their sway. Today you can generate a high-quality location almost anywhere if you invest enough intelligence and money. The "soft" location factors are taking over. This, however, tends to generate uncertainty, since there is no longer any fixity of industrial locations as there was in the 19th century or the first half of the 20th century.

This has considerable political implications. Who can safeguard employment in a situation like this? Capital is mobile. Is this a matter for the national states or the European Community? It is a development that helps to explain the renaissance of the regions and the strengthening of regional factors. Apart from the soft location factors - which naturally include science, research, education, the cooperativeness of medium-sized companies, and quality of infrastructure - there is certainly scope for EC activities.

At the same time, I would share Ralf Dahrendorf's worries that provincialism and egoism might get the upper hand. The situation generates tensions that hit centralized states far harder than a federally structured country like Germany. But just look at the effects on the regions in countries like Spain and Belgium. Below the national level, there are forces at work that make it necessary to have a new regional level.

These developments also affect the political system, which is expected to be a source of legitimacy, to safeguard employment and to generate opportunities for the future; from now on, this can only be done indirectly, and no longer directly. So it is hardly surprising if William R. Smyser warns of the danger of a mercantilist renaissance. Market deregulation, the creation of a large internal market, and regionalism are but three aspects of a single phenomenon. But mercantilism cannot be the answer. This leaves us with a tremendous task in structuring the situation.

I would go one step further and ask: "How can Europe secure its position as an industrial location within the global economy?" We undoubtedly have tremendous technological capacities, but blueprints in themselves do not suffice to create jobs, let alone to create enough of them. On the other hand, the change in conditions for industrial location, and specifically for mass production, completely rewrites the rule book in Europe, especially in Germany.

Following 1989, Europe has in a way reverted to its normal geopolitical situation. North-South relations are no longer dominant, and West-East relations are gaining ground again. Bohemia and Moravia are the new locations for cheap suppliers to Saxony and Bavaria, and as such are highly valued. But this alters the structure of the division of labour. So it is all the more important for us to keep our lead in high-quality products and processes. That in turn requires high investment in research and development, education and training. These factors will continue to be tremendously important, and so will the promotion of small and medium-sized business.

Let me get back to the shifts in the balance of forces - with the creation of a framework at the European level, maintenance of the national welfare state, and strengthening of regional development potentials through cooperation by those concerned. One consequence will be a major change in party interests and constellations. This is already emerging in the European Parliament, where all of a sudden regional alliances are playing a major role, taking precedence over party-political allegiances.

Let us look at Germany again, which is currently in a particularly complicated position, for a number of reasons. The economic fair weather phase from 1987 on led us to postpone the debate on Germany's future as an industrial and economic location. Though there has been no change in nominal exchange rates, in real terms we have witnessed a devaluation of the Deutsche Mark in a situation where our stability was better than that of other EC states. This situation has now been reversed. We are now worse than most of the others in terms of stability, perhaps only in eighth position out of twelve members. The other industrial nations of Europe are now ahead of us. Since the others have undergone a nominal devaluation - in some cases a very considerable one - our export chances have diminished sharply unless we react by changes in our product range and cost structure.

Of course, there have been some mistakes in the way German unity has been financed. Practice has proved that it was a total miscalculation to believe that economic prosperity could be conjured up in Eastern Germany in two to five years, and that all this could somehow be financed painlessly by extra tax revenues from unity-induced growth. Certainly, there has been unity-induced growth. Indeed that growth enabled us in Germany to postpone the business cycle downturn by two or two and a half years. The recession that has now hit us is the one that arrived in other countries back in 1989/90.

Our unit labour costs have risen too far, our tax ratio is rising much too fast, which causes me grave concern, and the expenditure ratio remains high. All of this is not exactly going to promote growth.

Much as I welcome the remarkable political achievement of an agreement between the Federal Government and the Länder, establishing the Solidarity Pact with a federal financing concept, I cannot help but

criticize the excessive level of expenditure stipulated therein. And as much as I welcome the fact that the metal workers' strike in Saxony and other eastern Länder have shown that collective bargaining principles must be respected, and that perspectives are needed for a single labour market, we cannot overlook the excessive cost burdens in certain sectors.

The key question for German economic policy is how to secure a base for value-adding activities in the eastern Länder, and prevent them from turning into a kind of Mezzo-giorno. Well, we will always find a way to prevent that by government intervention, but the costs of that would be incredibly high, and that would put great pressure on the Bundesbank to make cheap money available.

This faces us with the following trilemma: Monetary policy is out of step with fiscal policy. Wages and incomes policies are now moving along much more sensible lines, but have taken two years to adjust to the new situation. People have started to understand what is going on, and their undeniably sacrifices are being made in real incomes. So real incomes are falling in Germany, and not only with employees. This is unavoidable. But it is a process that we have established at the cost of high interest rates and a tremendous cost burden on the German economy.

At the same time, we have another problem as the Deutsche Mark has become the anchor currency in the European currency system, and various people are calling for the Deutsche Mark to be devalued. But that is not possible, because we will never regain stability in Europe if we once get into a devaluation spiral. Fortunately, we are getting support in this anchor function from countries like France, the Netherlands, Belgium and Denmark.

But we are walking a tightrope, because Germany is now dependent on capital import. At present we have a 40 billion Deutsche Mark deficit on current account; this is unlikely to be reduced in the short-term, and has to be financed. This requires confidence. With markets now deregulated, we do not have tools such as capital movement controls and the like at our disposal. The institutions will have to play their part in restoring confidence, even if this is a painful process.

German politicians must regain their ability to control all these processes. But that means first they have to expose the difficulties of the situation, obviously enough. We really do have some extremely critical months and years ahead of us in Germany.

Dahrendorf

What Reimut Jochimsen has done is to list a number of factors in the economic situation of Europe and beyond, which are not conjunctural and which we will, somehow or other, have to deal with. Starting with migration and the employment consequences of disarmament, going on to deregulation and its many implications which lead, among other things, to a new balance between European national and regional economic forces.

He was talking about the uncertainties and insecurities generated by the uncertain fate of the European Exchange Rate Mechanism. He was talking about geopolitical normality and about the specific German issues.

A whole list of factors, which won't go away just because there is a mysterious conjunctural upturn but which will somehow have to be dealt with. And while he has avoided the word "structural" (being an economist, he probably doesn't like it very much) that is what he was talking about, namely structural changes which somehow or other we have to cope with and which have political as well as economic implications.

Livingston

I just want to make one point which Americans don't understand as well as they should. That is the redistributionist imperative in Germany, the political and constitutional imperative to transfer resources in order to bring about roughly equal conditions of life throughout the country.

That is a concept, anchored constitutionally and politically as it is in Germany, that is quite foreign to us Americans. The present manifestation is the transfer of resources from West to East that Minister Boyer referred to. Whether it is a hundred billion dollars a year, net, or not, can be debated because, of course, there are now revenues coming in from East Germany. But certainly, the dimensions are, Mr Boyer, more or less as you describe them. There is more in the way of resources being transferred

from West to East in Germany, just in Germany alone, in a single year in constant dollars than the United States transferred to all of Western Europe in the Marshall Plan in 3 years.

So it is a very large sum. And even though a lot of it, of course, is going into consumption, at least a quarter of it - that is something in the range of 20 - 25 billion dollars - is in investment, infrastructural investment primarily. When you compare that to the amount of investment in each of the East and Central European countries, it is even on the investment side a very sizable element.

I want to emphasize this one point because it shows that, in Germany still, the role of the State in the economy is very large and will continue to be very large.

Bill Bradley, when listing the three values that we all subscribed to, listed third economic freedom, moderated in its excesses by the State. Now, those of us who subsequently referred to Bill's values generally referred to this as economic freedom or economic liberalism and dropped the second part of what I understood him to say. I want to make this point because there will certainly be the continued necessity for the Trusteeship Agency, the Treuhand, at the end of its time, to turn over to, I guess, state holding companies, a large number of companies in the former GDR. These will presumably continue to be state-operated companies in the future. Here is yet another element, a minor one reinforcing something that I think Americans at least don't take sufficient account of: that Germany continues to be an economy where the State plays a large role.

Boyer

First of all, I'd like to cover the short and medium-term situation. In continental Europe we are at the bottom of the cycle (this does not apply to the Anglo-Saxon countries, and this is one of the strangest features of the last cycle, where the United States, Canada and Britain hit the bottom a year or two ago), the worst year being 1993. Be that as it may, the scenario is dominated by the crisis. It is a crisis of a deepness we did not expect.

We understood that the crisis after the oil shocks of the 70s was a special and deep kind of crisis, deriving from a supply shock of abnormal intensity. But we came to believe that we would be able to tackle the more conventional fluctuations of the business cycle given that the supply-side crisis of the 70s did not repeat itself. In fact, at least in Europe, the deepness of the crisis has struck all of us and we do not know exactly how to tackle it.

One of the elements of hope is that the United States economy and also the British economy, seem to be on the road to a reasonable recovery even though in the United States there was some weakening of the economic trend in the first months of this year. This may be simply a fluctuation on the path towards recovery.

It is true, however, that the United States has a problem with the deterioration of its balance of payments. This had its best moment in the War of the Persian Gulf because of the repayment of the costs which that war incurred. But since this artificial equilibrium was reached in the winter of 1991, the balance of payments of the United States has deteriorated continuously, thus reversing the trend of the preceding years. This is a serious problem and the United States is already the main debtor country in the world.

But in the case of Europe, the crisis in my opinion is very deep. If we have to single out just one factor, it would be the enormous effort involved with German unification and the way Germany has chosen to deal with this unification. By that, I mean the refusal to raise taxes for the moment, as this was seen, probably, as an unwise move in terms of electoral policies. I mean, secondly, the decision to institute one-to-one parity between the "East Mark" and the western Deutsche Mark. And I refer, thirdly, to the policy of "transferring" income from the West to the East in order to maintain the standard of living of the population of a system which had previously made no provision for funding unemployment.

I believe that this economic approach toward assimilating the Eastern Länder was politically unavoidable and that if this approach had not been adopted, the problems arising from a consequent massive emigration to West Germany would have caused even greater difficulties, as the most highly-qualified workers would have left the East, thus weakening that part of Germany in greatest need of development, creating problems of housing and, probably, evoking hostility among the "western" population.

I do not believe that there was any other feasible road to take. Of course, any economist can criticize the approach adopted - and I remember that the President of the Bundesbank did so and criticized the economic logic underlying it. Of course, it was bad "economics", obviously. But politically, it was the only way!

From the economic point of view, this way of unifying both parts of Germany is an attempt to "square the circle". It is really difficult. And the most obvious consequence has been that the rates of interest have reached very inconvenient levels and that these inconvenient levels have been transmitted to the rest of Europe by the Exchange Rate Mechanism of the European Monetary System. It has led to the maintenance of very high rates of interest in a period of recession where obviously what was needed, or what was desirable, was a reduction in interest rates such as that which has come about in the United States over the last few years. So, the whole of Europe is now suffering from the efforts of the high interest rates which have come about as the result of the cost of German reunification.

This feeds back into another serious problem which is the public sector deficit. And here, the financial charges, incurred as a result of the vast debt which has arisen, are significant. The deficit is self-perpetuating. The higher interests are, the greater is the public sector deficit. This is a problem all over Europe and all over the world.

Please allow me one moment of reflection on the internal European scene. Of all the West European countries, Spain is perhaps undergoing the most serious crisis as a result of the unemployment situation. At present, Spain is suffering more than most other countries from the effects of a dreadful phenomenon which is spreading throughout the western world. It is more serious in Europe than in the United States. It is more serious in the European Community than in the EFTA countries.

This phenomenon is the upward trend of what we call the "non-accelerating" inflation rate of unemployment or the "natural" rate of unemployment. It means that, at a constant rate of inflation, unemployment has continued to rise perpetually over the last ten years. In the case of Europe, at the best moment during the recovery of the 80's, the rate of unemployment was 7.5% (which is high). Now, when the situation has worsened, it is approaching 11% - this is normal. But in Spain, at the best moment during the recovery of the second half of the 80's, the rate of unemployment, at its lowest, was 16.3%, and we now have a 21% rate of unemployment. The minimum rate of unemployment over the course of the cycle is rising. And this is happening all over the Western world. It is less pronounced in the United States, and in Scandinavia, and in the EFTA countries, but in the European Community, it is a phenomenon we regard with horror.

In fact the explanation - and there are many studies dealing with the phenomenon - is that the rigidity in the labour market of the Western European countries and, in particular, in the countries of the European Community is increasing and the labour market is less and less able to shift workers from one sector to the other. The workers are reluctant to go from one line of work to another. And, also, there is a growing insensitivity to the relationship between wages and economic trends.

Spain is the extreme here. We have, as I said, a 21% rate of unemployment and our wages are growing this year at 6.5% with inflation at 4.5%. Meanwhile, in Germany, which has inflation of the same level around 4 - 4.5%, the wage increases have been below the inflation rate because of the solidarity agreement between the government, the trade unions and the employers.

This is all extremely worrying, especially as the phenomenon is becoming worse from year to year. It is indeed one of the most difficult questions we are facing at present and which we will have to face in the near future.

It was particularly unfortunate that this crisis coincided with crucial stages in the process toward European Economic Union. A period of crisis such as that of the last and this year is not the best time to make a step forward toward reducing national barriers and developing the "grand" common market or to ask the people to forget national egoism. The most appropriate moment is, of course, when you have the euphoria of a boom or of a reasonable economic situation. And, in fact, as the economic situation deteriorated from 1989/90, 1991, 1992, 1993 the enthusiasm for the European Monetary and Economic Union project has also waned, as we have all seen.

And this waning has, furthermore, coincided with a new wave of nationalism, a phenomenon which was reinforced by the fall of communism. Certainly, nationalism was an element in the fall in the Eastern bloc. Each country wanted to leave the former Soviet Empire. But this has also had consequences in Western Europe, and we cannot feel safe from that wave of nationalism, the consequences of which we see in Yugoslavia and in the former Soviet Union. It also affects the Western countries. It played a role also in the French referendum. We don't know to what extent it was a factor in the Danish referendum, but, in any case, it was certainly a negative coincidental factor for the European project.

The third negative factor was the enormous effort of Germany unifying again. The figures I gave you in actual prices were that the United States were transferring 17 billion dollars a year, at current prices, to Europe from 1949 to 1955, and, last year, the German Government transferred 65 billion dollars to the

Eastern Länder. That's 3.8 times all the Marshall Plan for the whole of Western Europe. It was cheaper then, to help the Europeans to recover and nobody dreamed of maintaining its pre-war living standards before many years of effort.

The help for the East has been mentioned. Everybody seems to think now that political stability comes first in the East. Without political stability and institutional development almost all the help will be in vain and if they don't develop the institutions and laws demanded by the market economy the process will not start. Another reflection is that probably there will not be enough money in the West to solve the problem of the Eastern countries of Europe if they don't help themselves from the point of view of increasing their savings. Nothing on the scale of that being done by the German Government for the Eastern part of the country can be done for the whole of the former Soviet Union. This is too large a problem and we have not the amounts of money in anything like those proportions.

They will have to go through a period of austerity and they will have to save much more than they conceive to recreate Russian industry and to try to develop their economy. That does not mean, of course, that Western investment will not play a crucial role, in particular in the energy sector, which is one of the most obvious sectors for investment.

By the way, the difficulties of Russia underline the importance, and this is a political consequence, of helping the Chinese model in which a capitalist economy is being prepared under the rule of a socialist Marxist-Leninist dictatorship. But, seeing the difficulties of Russia, it is very probable that if the strange way the Chinese took some years ago succeeds, the problems of China will be much less than the problems the Soviet Union is facing now. Then, whatever our rejection of the political system in China is, we probably will have to help this development.

In the long run I expect tremendous challenges in the economic panorama because what now is the problem in producing the recovery of Russia and the Ukraine, and I have also offered the case of China, once successfully solved, will be an enormous challenge for Europe. If we now notice how hard the competition is from South Korea, from Taiwan, from Hong Kong, etc., just imagine what it will be like when 1.2 billion people of similar race and skills enter the market economy and economic competition with very low wages! This is what will happen also with Russia, in one or two decades, and with the Eastern countries in Europe, and we will have serious problems in maintaining our living standards because of this competition.

There is no difficulty, I think, from the point of view of economic principles in solving those problems. It is not a difficulty of principles. Every first-year economist knows that if the wages in Spain were not growing at such a pace we would have much lower unemployment. But the fact is that economic rationality is not prevailing in many countries. So, even if there is a solution from the point of view of economic principles, it may well be that we are not wise enough to combine the fundamentals of economics with politics and make everybody understand that there are solutions. These are the fears I have.

Kielinger

As far as capital transfer from Western to Eastern Germany is concerned, Mr Boyer, the actual figures are considerably higher than that. The 1991 figure is DM 150 billion, for 1992 it is DM 142 billion, and for the current year the government recently mentioned a figure of DM 183 billion. Not more than 20% of this goes into investment, as Mr Livingston remarked; the vast majority of payments are simply redistribution.

The disaster looming up for the welfare state is manifest from two opposed phenomena: the mobility of capital, as mentioned previously by Mr Jochimsen, with its ability to move practically anywhere, and the virtual immobility of labour, as mentioned by Mr Boyer. That is the pre-programmed conflict of the next few years.

Tugendhat

The question arose about whether Britain would be returning to the EMS, or to the ERM rather. So let me focus on that and also say something about the Exchange Rate Mechanism itself.

I preface my remarks so that people will understand the context more clearly by saying that I was a member of Roy Jenkins' commission that launched the original EMS proposal in his great speech in Florence, and unlike some of my German and French colleagues I actually supported it, as Pauline will recall. So I am emotionally as well as rationally committed to the concepts that underlie the move toward European Monetary Union.

I regretted very much that Britain didn't join at the outset, that it missed the opportunity to join in 1985, that when it did join it went in at too high a rate without an understanding with the Bundesbank, and that it was unwilling to adjust the parity in response to changing circumstances as the rules of the game would have both permitted and implied. But the question of whether or when we will return to the ERM is not perhaps the right question to ask. This is what will there be to return to by the time Britain might itself be ready to return? And that does not mean quite the same at all.

Let me look first at the ERM itself. I am sorry to say that I think one of the consequences of the last few years is that the disciplines of the Exchange Rate Mechanism have become synonymous with high unemployment, with recession and with high interest rates; that instead of being seen as an engine of growth, it has been seen as an engine of contraction. And this is a very important psychological political point.

Moreover, that game has not yet been played out. Because the British economy is now doing rather well by comparison with its continental neighbours and seems likely to do rather better over the next year to 18 months, there is a real danger that in a number of places (above all in France, where what is happening in Britain is being very closely followed) people will begin to think that not only was the ERM an engine of contraction but that leaving the ERM in itself is a key to further growth. And that is why we see Delors, in particular, but a number of people in Paris, as well, positively wishing the British economy to fail at the moment because of the fear they have that if it does do well, it will be seen as commentary on the ERM. I very much regret that but I think it is a point to recognize.

A second thing that has happened to the ERM is that it had taken on the attributes of inevitability. It was widely assumed in the markets that ERM was a stepping-stone to EMU, that the agreements had been reached at a political level and that EMU would follow, which, in itself, helped to underpin a lot of assumptions in exchange rates, and has now gone. The story about the "emperor having no clothes" is one that is particularly appropriate in these circumstances.

Not only has the inevitability gone but there is now an incredibility about the targets which are laid down in Maastricht. And when I say an "incredibility" I refer not only to Italy, where they are most strikingly incredible, or to Spain, or even to the United Kingdom, but to Belgium, whose public debt is over a hundred percent of GDP and, of course, increasingly to Germany.

So one now finds a situation where somebody like the Belgian Minister of Finance is talking on the one hand about accelerating the pace of unification and accelerating the Maastricht time-table, and at the same time saying that all the disciplines should be loosened. And indeed, as soon as the Belgian Government tries to get through its own parliament the measures that would be necessary to meet the Maastricht disciplines, it fails to do so.

And now I'd like to look at Germany and to make a historical point. I don't believe - and I don't suppose anybody round this table believes - that when the United States was financing the Vietnam War it intended to destroy the Bretton Woods system. I shouldn't think that such a thought was even in Lyndon Johnson's mind. What was in his mind was that he couldn't raise taxes to pay for the Vietnam War and so he had to do it by deficit financing. And the consequence of financing the Vietnam War by deficit financing was in practice, over a very short time, to undermine and to destroy the Bretton Woods system.

Mutatis mutandis, I think there is a parallel with German unification and the move towards European Monetary Union. I don't want anybody to misunderstand this: I absolutely take seriously the German commitment to ERM, to EMS, and to EMU. But the consequence of financing German unification in the way that it is being financed has been to put back for a very considerable time the move towards European Monetary Union.

What I mean by that is that I don't think you can have a monetary system - whether on a world level of Bretton Woods, or on a European level in the European Monetary System - unless the pivotal power, unless the primary currency, unless the central economy is stable, reliable and non-inflationary. And once it loses those characteristics, once it becomes unpredictable on the one hand and inflationary on the other, it is extremely difficult to build the edifice of Bretton Woods or the European Monetary System upon it. The fact that other countries may be more stable, that other countries may have better economic records, is not in itself a consolation in this respect. When the United States failed to fulfill the central role in Bretton Woods, of course, the Federal Republic was a model of economic stability in many ways. But that didn't make up for the loss of the United States. And I don't think the fact that the French economy or some other economy might be a model of stability would make up for the loss of the Federal Republic in a European context.

Does this mean that we are never going to have a European Monetary Union? I don't think so. The move towards Monetary Union identified with Maastricht was the third attempt. The first one was the Werner Plan. The second was the Roy Jenkins launch of EMS, when I was in the Commission. The third was Maastricht. And I have not the least doubt that there will be a fourth and perhaps even a fifth.

If the single market holds (and there is an "if" about the single market holding in present circumstances) and if the interpenetration of European economies by other European economies continues, the underlying imperative, the underlying logic that leads people to think in terms of a European Monetary Union, will reassert itself.

But it will be necessary to have two conditions. One is that there should be, in the language of the European Commission, a reasonable "conjuncture" between the various economies of the countries concerned (of the sort that did exist before the unification of Germany and the opening up of the former communist countries).

The second - and this I do attach importance to - is that the demand should come from below and not be imposed from above. One of the reasons why the single market enterprise has done so well is not only because Delors captured the moment and Lord Cockfield was there with the plan, but that there was a demand from industry and commerce throughout Western Europe for this to happen, for all kinds of reasons which were, of course, in part self-serving, but which were nonetheless of great macro-economic and macro-political importance.

So, it needs a Delors to capture the opportunity. It needs a Cockfield to have the plan, but it must be something that comes up in response to what business wants rather than something which appears to be imposed from above.

Jochimsen

It seems to me that Sir Christopher's wise remarks are slightly flawed in their logic at two points. To assess currency development, we should take a look at what happened in 1931. At the time Britain had just devaluated the pound sterling, which thereby lost its anchor role. The Bretton Woods system was the attempt to restore order. However, I see no realistic basis for getting back to that position, since it was only feasible with a high degree of price stability, which would have to be agreed among participating countries.

The world economic crisis and the disaster of World War II gave rise to a movement towards European integration, which was to create a new quality of cooperation and cohesion - with the exclusion of competitive devaluations, an obligation to work towards integration in trade, investment, corporate mergers, and similar measures.

I would agree with Sir Christopher that the British position is a difficult one. The initiative should come from the bottom up, as a need felt by business and industry. But does the government really take adequate account of the needs of business and industry? I believe there will be no progress in the intermeshing of our markets until we have got our act together on the currency issue. Which leaves us in a vicious circle - as long as the British take the view that first we have to eliminate shortcomings and do this, that and the other, there will be no further market penetration, and probably no genuine interest on the part of business, because by then they will have made other arrangements.

The second point I would make is that, while the UK has an enviable inflation rate of 1.3% - something that we can only dream of -, to get out of the vicious circle we have to decide whether to give priority to the EMS or the international finance market and its survival. We should face this challenge and make a decision. I feel that the level of integration we have obtained so far is so important that it is worth making an effort for. So I believe we should look for a *modus vivendi*. The issue at stake is not whether the UK remains outside or returns to the fold, but rather how we are to cope in the coming months and years.

One possibility would be to de-politicise this process, and to de-dramatize exchange rates. We have been working on this; and the independence of the Bank of England, which is desirable but still far from realization, is an essential part of it. We cannot simply adopt a take-it-or-leave-it attitude - we have to be flexible.

My third point concerns the policies of the Bundesbank. People keep on saying that our interest rates are so terribly high. That does apply to short-term interest rates, which are relatively high, but it definitely does not apply to long-term interest rates, which are currently 2.5% below their level of three years ago; at 6.5% they are lower than in any other capital markets, with the exception of Japan and

occasionally the USA and Switzerland. These lower interest rates are what matters for long-term finance, e.g. in housing construction and industrial investment.

British banks and the British money market operate quite differently. Short-term interest rates are decisive there. I feel we have to get closer together on this, otherwise we will never get a level playing-field.

And one final remark - the Bundesbank has no alternative but to maintain its very strict stability course. This has highly disagreeable sideeffects, not only for internal political reasons, but also because it tends to make interest payments in public budgets higher than they would be otherwise. But they could rise still further if we were to pursue inflationary policies and interest rates were to run riot.

In any case, we have to stick to this course to meet the Maastricht criteria.

Dahrendorf

We are right in the middle of a rather important discussion of three related issues. One is the underlying economic predicament, in which we will be operating for the next few years. One is the role of German unification in the process of getting, or in the attempt to get out of the mess. And one is the opportunities for Europe or not as the case may be, notably for a European Monetary Union. The three are evidently related. Every speaker here has related to them.

Of course, what has been said is that something like the German Solidarpakt is, in effect (even if this is not its intention), an anti-European agreement in the sense that it is an agreement between the German States and the Federal Government by which the Federal Government will, in the end, have to increase the deficit and, thereby, the public debt. It is moving Germany out of the convergence area of the Maastricht Treaty in the interest of an internal agreement on solidarity. And this is one example of what Sir Christopher has put in very polite terms, of a certain conflict between entirely credible and intended statements about the desire to move forward to Monetary Union and practical policies which make it virtually impossible in the foreseeable future to take the next steps in this direction.

Mr Jochimsen might, usefully, give a brief indication of what the Solidarpakt is because there is a degree of confusion about that.

Jochimsen

The "Solidarity Pact" or "Solidarity Contract" is an attempt to work within the framework of our consensus-style democracy to resolve our problems in a major concerted effort by the key groups within society - employees and employers, political parties and, of course, the state institutions. It is aimed especially at financing the necessary transfer payments to Eastern Germany.

The preparations for it last year entailed a number of discussion rounds with the trade unions, the employers and also with the individual Länder, and the political parties, though they never arrived at a common denominator. That is why I have used the word "Solidarity Package" instead of "Solidarity Pact" - because it refers only to that part of the agreement that deals with the reorganization of federal finances. This is mainly concerned with providing the new Länder with "regular" funding, as opposed to the special-purpose "German Unity" fund, which was set up in 1990 as a transitional solution until such time as a single Pan-German financial equalization system is established.

As Gerald Livingston has pointed out, this area is regulated by very precise rules in our constitution. The 16 Länder, the Federal Government, and all major parties in the Bundestag have given their consent to this solution. It may be too expensive, but it is a remarkable achievement in itself to get agreement on the principles to be applied.

The whole arrangement also has a sideeffect that is rarely appreciated, namely the move away from fiscal federalism, which aims at equalization, towards more competition. The ranking system applicable in the past meant that those Länder which had the highest tax revenues not only had to pay the highest contributions, but were reduced to a "normal" level. These Länder will now maintain their top position in the ranking. In the past, there was a rather nonsensical situation whereby a poor Land not only received more transfer funds, but sometimes in combination with its own tax resources had more tax income at its disposal than the rich Länder, whose only source of revenue was their own tax income. For example, after allocations from the Fund the Saarland had a higher per capita income than Baden-Württemberg. This is, of course, quite unthinkable in a "Europe of Regions".

The outcome is that we will now take a somewhat wider view of the equality of living standards, a goal that is very highly valued by our constitution. That is what the Solidarity Pact is all about. The wage disputes between trade unions and employers have also largely been resolved. There are still some

problems left in the fields of social insurance and non-wage labour cost, the labour market structure and cuts in public spending. The labour market authorities have a major crisis on their hands this year.

Stürmer

Mr Jochimsen mentioned immigration at the beginning of his remarks - migration from East to West, repatriation of ethnic Germans, asylum seekers, refugees - all in all, a total of about one million people per annum coming into Germany. The cost of these migrations for us, divided between various different budgetary items, is about 12 million Deutsche Mark per million immigrants per year, and that is a conservative estimate.

Remembering this immense immigration into Germany, there is another, contrasting issue which is becoming increasingly important, and that is "out-sourcing" - that is, the exodus of jobs, on the run from high labour costs in our country. This could cause major job losses in Germany over the next few years, with movement to the South and now also to Eastern Europe or beyond. This will make the problems in Germany more serious, and also in other Western European countries. In the long run, it means we will not be able to afford the very high standard of living that we enjoy today.

My fear is that these problems will lead to more protectionism on both sides of the Atlantic Alliance. This will face us with a great many problems in GATT, and in trading and economic relations with Eastern Europe. People will talk about social dumping. But, so far, I see no sign of even a start to resolving these problems.

Smyser

Even though I think it is useful to talk about the German economy, all Western economies face some of the same problems. We are in different phases of what is probably a process for all of us to go through.

I want to talk about two things which I think have made the American situation particularly tense since the 1970s. One is a structural issue, the other is the question of the role of government.

About the structural question: in the United States old industries have died, old industries have shifted. The cores of our old cities are now, in many cases, empty or they are occupied by people who essentially depend on public funds and who are often homeless.

There has, however, been a resurgence of manufacturing in other and new areas. It is absolute nonsense to say that American manufacturing is dead. In fact, the percentage of manufacturing jobs in the United States is now as high as it was twenty or thirty years ago. It is concentrated in different industries. They often depend on foreign investment. As Michael Stürmer said, the fact that American labour is not as unionized as, for example, German labour, means that a tremendous amount of German investment has come to the United States. There are parts of the Carolinas where you can spend a whole week and never speak a word of English. That's probably a good thing, I should add.

Of course, there are also Japanese companies that have invested in the United States. In fact nowadays when you buy a Japanese car in the United States it is more likely to have been assembled in America than if you buy an American car which can be assembled anywhere from Ontario to Mexico.

The fact is that manufacturing continues but in a different way. And, as labour has moved into the new sectors, stability has been lost and so has the consistency of high wages and high social benefits.

The other thing that has grown is services - and, in particular, two services. One is the medical service sector. Between 13 and 15 per cent of our gross domestic product now goes into health. The other is the legal service sector.

The future role of the American economy in global economy is, therefore, an open question. The structural issue is not settled. I am frankly not sure which way it will go. GATT is part of the struggle. America has its protectionists. They phone their protectionist friends in Europe all the time and they encourage each other. And GATT can be an instrument by which the transformation in America continues. It can also, incidentally, be the instrument which will create the transformation in Europe - because then you can blame it on us rather than blaming it on yourselves. So, there is a chance for progress. But the structural issue is one that will dominate much of American thinking and will have an effect on our relations with Europe.

The second American issue, which is even more brutal, is the question of the role of government. This has been a question since the mid-1970's, not just because of the Vietnam War but also because it

was in the mid-1970`s that the true costs of Lyndon Johnson`s "great society" programs began to take hold. The first major deficit in American post-war history was not in the 1980`s under Ronald Reagan, it was in 1975. That was the first time our deficit went over 50 billion dollars after World War II.

Curiously enough, the constant element in all this has been the government "take" from the American people. The Federal Government has relatively consistently taken between 19 - 21 per cent of the total gross domestic product through taxes. This has happened even though we have had three tax cuts and one tax increase. The first tax cut was under Carter, the second two were under Reagan. The tax increase was under Bush. It cost him his presidency.

Now comes Mr Clinton. Mr Clinton has the opposite philosophy of Mr Reagan. He believes in a much greater government role. If his plans work, the outflow of government money will be, for the first time since World War II, over 25 per cent of the American gross domestic product. Some of you have heard me refer to this as the "Europeanization of the American economy", because it will provide a government role which will begin to approximate the role that government plays in some European countries (though, of course, it is nowhere near as great as, for example, in some of the Nordic countries). If the medical plans go through as people now say, the Federal Government outlay may be as much as 26 or 27 percent of the American gross domestic product.

This is the reason why we have Ross Perot. Do not underestimate Ross Perot! In the 1992 election he got as many votes as the Republikaner, the Grünen and the Free Democrats in Germany. His current standing in American polls is higher now than it was then. There is a reaction to government. So we will have, in combination with the structural factor, a fierce debate about what the role of government will be. And all these things will play themselves out in our foreign policy.

Richter

I was criticized before as presenting too optimistic a picture of America, so I would like to balance my remarks by presenting a somewhat optimistic thought on Europe.

In my view, the economic "opening" of Eastern Europe is probably the best thing that has happened to Western Europe in a long time and we should be grateful for that. Living in the United States, I have seen an economy that is open. Every day it is exposed to fundamental pressure from every corner of the world economy. In Europe, by comparison, we have had a very different system and certainly not an open economy in a global sense. I think the opening of Eastern Europe is putting us in a position to overcome that deficiency. For example, European companies do not have a sufficient number of low-cost assembly facilities at their disposal because we failed to invest in South East Asia and are now faced with a situation where we don`t have the money to do that. Out of the blue, Eastern Europe provides us with such an option.

However, the main thing that Eastern Europe has done is that it side-started the social debate in Western Europe. Mind you, the reason why it started was not because entrepreneurs had all of a sudden become courageous enough to oppose the unions in wage talks. They have not been very good capitalists in recent years and they have lost the ability to communicate global economic pressures and what these mean for domestic society. This is also one of the fundamental problems in Germany today. We are one of the most successful export nations, but the political and social dialogue is quite bereft of economic facts.

Instead, business increasingly resorted to a kind of "voting-with-feet" syndrome by relocating production. Entrepreneurs were not courageous enough last year - to say it out loud - but when the unions started to have another round of wage increases, what the employers essentially said was "fine-and-good. If you do that to us, my company alone will move 1500 people into Czechoslovakia and if the increases go a little higher we`ll move 2500 folks". Had it not been for that kind of rather private dialogue, I don`t think that Germany would even have begun to react. The politics of symbolism, which are slowly receding, would have continued for a long, long time.

In this context, developments in the United States again provide inspiration. These assembly jobs are being brought back home from overseas - even into union areas. For example, Motorola is moving assembly production back from South East Asia. They want to have it back in Wisconsin. And the union and the people in that state say, "we can survive and we can have a decent-enough life to make it worthwhile at 8 dollars 61 cents instead of the previous 19 dollars and 64 cents." It is that kind of thinking that our German and the Central European societies have to come back to.

So we Europeans need to realize that we are much more sharply exposed to the forces of the global economy than we have always pretended. In that sense we should be grateful to the East Europeans

and should not shut them out of our markets. After all, these people are going through far worse changes than we have ever imagined.

Neville-Jones

One needs to be careful, when one is talking about "we Europeans", not to be too "blanket" in the comments made because there is considerable variation in the performance and the structures. Mr Richter said that the Europeans collectively had no low-cost manufacturing going on. That is actually incorrect if you look at what has happened recently in the United Kingdom.

One of the things that is disliked by some of our continental European partners is the degree of Japanese investment that has gone on. But it has had one absolutely dramatic effect on the UK economy which is that it has introduced efficient low-cost modern manufacturing and peaceful and stable labour relations to go along with it. These companies are now highly competitive. You now have UK cars being manufactured of a kind the UK actually wants to buy and you can now actually see them being driven on the roads of continental Europe. It's the reverse process. It is not going out to South East Asia. It is affordable, bringing Asia into Europe. But it is one of the ways forward. And the debate on the social wage in the United Kingdom started a lot earlier, I think to our good fortune, than it did in continental Europe.

Many things about Thatcherism have been reviled. Nevertheless, it started an extremely important debate about the extent to which we could afford the "social wage" that we were paying ourselves. And the whole business of lowering costs and, I have to say, lowering standards of living, has been going on for some time, and this was necessary in order to survive. The rejection of the "Social Chapter" is another element in the unwillingness of the government to take on what they regard as insupportable increases in the social wage which the country cannot and should not allow itself because it cannot afford it.

The second point relates to the issue of the cost and the financing of German unification. I think it has entered into popular fiction that it is the German Constitution that prevents "out-of-area" activity. In fact, it is actually an interpretation of the German Constitution that prevents that. And I think it is, similarly, something of a fiction that the way in which German unification has been financed was unavoidable, i.e. that you should have such large public flows going from West to East.

And I say that because at the time at which the "one-to-one deal" was done between the two Marks, I can remember the debate. I can remember going in to my ambassador when it was announced and saying: "These people have taken an extraordinary leap in the dark and surely it is not necessary." There is no doubt that the easterners were campaigning for one-to-one, or something very like it, although I don't think that they expected to get it.

Another element on the Western side that lay behind this debate was the fear, indeed, of migration from East to West if you didn't give them 1:1 parity and the feeling: "You have got to keep these people at home." And that goes very deeply to something which is a serious long-term problem in the German economy, i.e. the rigidity of the labour market and the national preference for it to remain rigid because it is much more comfortable to get people to stay at home and take the jobs to them than to encourage them to move to the jobs.

So I ask myself a question: It was unavoidable in the sense that, if the aspect were to satisfy short-term preferences then, indeed, that's the answer you come up with. If you had been prepared to something bolder, it would not have followed that you needed to do "one-to-one". I am not convinced that you couldn't have sold a 1:2 deal in the East. If you had done that, you would have had a dramatically different effect on the financial flows and German industry and manufacturing would have found it much easier to go in and create jobs. And I do think there was a different way of doing it and I think that decision has led to enormous consequences of the kind which have ramifications outside Germany.

Poettering

I feel we really should not continue discussion of the German currency union of 1 July 1990. At the time this was not just a matter of rational economies, but was largely a result of political circumstances - not least the fact that thousands of people were moving from the East to the West of Germany every day, and the situation in Moscow was anything but clear. The one and only issue at the time was to achieve German unity, and the currency union was a way of doing this, even if today we might feel a one-to-one exchange rate did not make economic or financial sense. Let us not forget that we could not simply take away from the people in the GDR what little they had managed to save.

And another comment on the European currency. It is certainly true to say that in times of recession the conditions for a common European currency get considerably worse. But I do feel it is encouraging that France now proposes to make its Central Bank independent and other countries in the Community are thinking along the same lines.

However, I would warn against the notion that we can leave ourselves any amount of time to make up our minds about a European currency, as Sir Christopher's remarks would suggest. I feel it is highly doubtful whether the next generation of politicians taking over in Germany in, say, ten years time, would be in favour of a European currency.

On the asylum issue, we in Germany simply have to get our act together. The present situation is that anybody, regardless of origin, is legally entitled to asylum proceedings once they arrive in Germany. In recent years we have had some 500,000 asylum applications per annum - no need for me to tell you the costs this involves. We also know that the vast majority of these asylum seekers are motivated by economic considerations, and are not the victims of political persecution.

Unless we change our policy on asylum, I fear there will be a rise in right-wing radicalism in Germany; this would have negative repercussions on Europe, calling the internal stability of our country into question. Hence our asylum issue is an eminently European problem. Incidentally, the Maastricht Treaty contains important provisions for common European regulations on asylum.

Today, these are questions that mainly concern the Central and Eastern European countries such as Poland, the Czech Republic and others - referring specifically to the third-country regulation that Germany now plans to implement. That is why I say the responsible ministers from the relevant Eastern European countries should be given seats at the table of the European Community, even if they do not have voting rights.

Bradley

In the United States, only 18 per cent of all workers are unionized. That number has decreased in the last decade. The United States is in the middle of an economic transition. This is an adjustment to the end of the Cold War. That involves jobs being lost permanently in the defence sector, and an adjustment to international competition. In the 1980s, there was a manufacturing adjustment in which large numbers of manufacturing workers were shed. In the 1990s, there has been an adjustment in the service sector as well, with large numbers of workers being shed, National Westminster being just an example.

And so the phenomenon that you are seeing is, on the one hand, something that occurred because of the end of the cold war and, on the other hand, it's a kind of process of "creative destruction" that is taking place in the United States. The question is: that will make the economy more efficient but what will happen to the workers?

And here there is a bet that is being made by the Clinton Administration. They are betting that if they provide National Health Insurance for the first time ever for all Americans which means that workers who lose their jobs don't lose their health insurance but carry that with them wherever they go - a basic benefit, if pensions are fully guaranteed. So that, if you lose your job you don't lose your pension benefits. If the children of any worker have the opportunity to go to college - if they have the ability - and the worker, him- or herself, has the opportunity to have lifetime education, in a career sense, if all these become a reality, then the worker is going to be more flexible. A lot of the workers that are losing their jobs are better-educated. Therefore, they should be more flexible in finding more opportunities.

That's the basic proposition that's being put to workers, and the Clinton Administration is responding to it by saying, essentially, that they believe people will be willing to pay a little more tax in order to have their social benefits guaranteed. That will give them greater flexibility even if it means having a little less money in their pockets to go to the mall on the weekend to spend on trinkets. That is a proposition that hasn't yet been resolved, but it is a very real change.

I must say, as I have listened to all the discussions about the ERM (and about the shifting political fortunes of this minister of finance and that minister of finance, and this year they agreed it would work, and next year they didn't think it would work), it makes me yearn for the Bretton Woods system.

It also makes me wonder whether the gold standard is absolutely out in the current environment and whether there shouldn't at least be a look taken at the issue even though there are sniggers in the highest places, the "best salon", when it comes to the discussion of the gold standard. It provides a certain predictability that is absent in our current environment and particularly in an environment where

governments have not been held in the highest regard. It provides a kind of non-governmental predictability that might be an interesting prospect.

One last point: for those who would put American budgetary profligacy in 1975, when, as Mr Smyser said, the deficit was \$ 50 billion, let me just correct that impression by pointing out that, in 1980, the national debt was \$ 900 billion and today it is \$ 4 trillion. Even with the reductions that President Clinton has proposed, it will be \$ 4.9 trillion in four years. So the \$ 50 billion deficit looms large in some people's eyes, but to me the "original sin" was the 1981 tax bill.

Pick

I would like to redirect the discussion back to Eastern Europe, to the points that were raised about the standards, the conditionality of the IMF, and the various lending institutions that have attempted to begin the transformation of the economies of Eastern Europe and of Russia. And I want to link that to Senator Bradley's definition of economic liberalism, of "economic freedom moderated from its excesses by the State". It seems to me what the IMF terms have done is to try and impose the constraints of a purist capitalist system on these economies, which none of our own economies could withstand, and which the ex-communist economies certainly cannot absorb.

The unemployment which has been caused there, for example, in Poland, by the IMF terms - and Poland, on the whole, has taken off rather better than some of the other East European countries or Russia - is extremely painful and is now leading to wide-spread social unrest. So, I would plead for a radical rethink of what we are trying to impose on these countries.

Linked to this, Mr Boyer said, and it is now generally accepted, that without political stability Western aid, Western capital flows and so on make very little sense. The kind of conditions that have been imposed so far are not exactly the kind of actions that are calculated to create political stability. I would argue that you cannot expect any degree of political stability until the economies improve.

But even though there has been much stress here on the attractions of low-cost labour in Eastern European countries, and to the resultant flow of capital investment that is going there, this is still only just touching the margins of those countries. It may affect our own economies. But it is not really helping to raise those economies.

Again, taking the example of East Germany: that does tell us something about the scale of investment and aid that is required. We have to rethink how we can best help to achieve political stability, democracy, and an economic upturn in the former "Iron Curtain" countries.

McArdle Kelleher

I wanted to come back to two themes. The first issue is what the real social and political costs of structural crisis and structural adaption have been in the United States in the last decade. What, in fact, is the major problem - not yet faced seriously by the political leadership - is to explain to its own populations how different life might indeed be.

One has to look at the last decade and see that, in many respects, real family income has been maintained at the same level only by the entry of women into the work force. What has been created are social conditions which really have no further elasticity if, in fact, income levels are to be preserved. That is a major change and it creates different demands within the political system and within the social system - demands that are far more different than I think has been fully realized.

Secondly, and perhaps less obvious, is the generational imbalance as individual families come to realize that the economic prospects for children, compared to those of their parents, are really simply going to be lower. That is, they are going to be older and have less good conditions when they perhaps acquire possessions and houses. Their chances for employment and for social support conditions are simply different from those that were taken for granted by their parents. And I think that raises a whole set of questions about who has the responsibility to right this imbalance, and how generational transfers of income will take place.

I think part of this set of structural effects has also had an impact on the amount of confidence in government, in its role as the agent by which significant changes in major social resource allocation can be brought about. The confidence that came with Mr Clinton's election implied that people believed that perhaps there was still a chance, that there was, in fact, a dynamic role which could still be taken by government in meeting basic concerns as for health insurance, pensions, and indeed even the future economic condition of children. This is a set of confidences which I believe are still well-placed. But it is not at all sure that this will come within the requisite number of years before re-

election looms. In fact, it is questionable whether these can only be solved in terms of American fiscal and monetary policy alone.

I realize that all of us well understand that we have many things that we must do simultaneously both in Europe and in Germany. Indeed we are at a point where we cannot simply assume that multilateral institutions, as they have existed in the past, are adequate to the task. We can no longer hope that we will not need to put considerably more effort into devising a new system for international fiscal and monetary coordination. These simply are not tasks which will wait. They will not wait for Europe and I think they will not wait for the United States either to get their respective acts in order. It is time now. If we do not, we will be paying the price continuously from this point on.

Jochimsen

I agree that structural issues should play a greater role in future, at the G7, too, and I would support Senator Bradley's view that promotion of personal contacts with the East is of primary importance - involving students, managers and so on, which incidentally would not be so very expensive. This should include relationships between organizations on lower levels, not just government activities.

And let me add a comment on the German currency union and the conversion rate applied at the time. Even the conversion of the existing stocks of money, i.e. balance sheet receivables and liabilities of the GDR, was problematic due to the 1-to-1 conversion of deposit accounts up to the basic threshold. And the 1-to-1 conversion of regular wage and salary payments was even more problematic. The tragic thing is that this conversion rate killed the GDR's production base, because exports to the West had previously been possible only with the aid of state subsidies or, in other words, the application of unrealistic exchange rates. As a rule, GDR companies had been entitled to enter 4.40 Marks in their books for every Deutsche Mark West they earned. Following currency union they only got one Mark - with the consequences that we all know.

There is an important lesson to be learned from this enlargement of the currency area for the future in Central and Eastern Europe. The way I see it, there are three quite separate phases. The first is what I would call structural breakdown - a system is opened up overnight, putting an end to self-sufficiency and letting in the winds of change. Result: the system breaks down.

The second is structural conversion, with the installation of a new system. That is not just macro-economics, but involves micro-economics, too, - with legislation, the central bank, the general banking system and similar institutions, all of which are needed to establish a stable and calculable framework.

The third phase is structural buildup. That calls for a great deal of investment. Western aid by itself will not be sufficient - it is essential to create sources of income. People have said quite rightly that a high savings quota will be needed. In Eastern Germany, for example, the savings quota is now about the same as in Western Germany, at more than 13% of disposable income - a very considerable amount. That implies that these countries will have to become viable through export, which in turn means we will have to liberalize our import policies. In other words, the time-scale for association agreements will have to be reduced appreciably. I am not in favour of early accession of the Eastern European countries, but I am in favour of giving them clear perspectives.

Hoge Jr

Senator Bradley described a series of initiatives of the Clinton Administration designed to achieve flexibility in the United States as we continue the struggle to become globally more competitive. The same initiatives will make it easier for the United States to maintain, in general, a liberal multi-lateral trade policy.

It is true that we do practise some protectionism. It is true that we are more interested in the question of market access than we have been at other times. But you will see most of the activity and energy on that front exhibited on a bilateral basis. I don't think it is an insurmountable obstacle to multi-lateral efforts to further the liberal trading order - an outcome very much in our interest.

And that is why I think the bluster and perhaps contradictory signals at the beginning of the Clinton Administration have been over-read by some. A new administration tries to see what it can get with a little thumping. And the US did get a little bit from Europe, some from Japan, and some from China. But it is clear now that there was no misunderstanding on the part of administration that this represented a long-term policy.

In fact, the most recent statements from the "Uruguay Round" strike me as showing reasonableness. That is, "Let's get it concluded however inadequate it may be and move on". (The indications of the

compromises we are seeking, such as trying to make NAFTA more sellable at home, strike me also as being fairly reasonable in terms of what we will be asking of our compatriots in that endeavour.) It is what comes after the "Uruguay Round" that becomes so critical. Miss Kelleher hit it very squarely, with regard to the changes that now have to come in the multi-lateral processes if they are to remain vigorous and useful.

As to Europe - two concluding comments: one is that there is a continuing concern in the US that as we wrestle and pay some heavy prices to become more competitive, the declining competitiveness in Europe could lead to EC protectionism.

A second comment is that, after listening to the discussion here, it strikes me that there is more chance of achieving continuity in American foreign policy, in the American approach to trade issues, than perhaps there is amongst some of our allies at the moment.

I think that for a foreseeable period, we can be relied upon to be a steady supporter of Europe and indeed to help shape, in constructive ways, the further unification of Europe and the broadening of the EC. And I would suggest that we perhaps can be - given the nature of the discussion I have heard - extremely helpful. The idea of "distancing" on the part of the US as an ultimate objective, ought to be viewed as an idea which should be quite far "down the line". We are still in an era of history in which - in our interest and Europe's - we should be encouraged and welcomed as a continuing leader in the effort to keep multi-lateral liberalization of trade and economic growth going, even though we may be fighting more rigorously in the post-cold war world on specific matters of trade.

Stuth

Our discussion today has nurtured my doubts as to whether we really have taken on board the change in realities since 1989, to say nothing of finding the right responses. It is significant that at this Round Table Japan and China have been mentioned more often than Poland and Hungary. This just goes to show what a wall there is, still separating us from Eastern Europe - a wall that lives on in our thoughts and actions. A leading politician from one of the Baltic States recently appealed to Western economics ministers to lift trading barriers, saying "Tear down this wall". His choice of words should make us stop and think.

Current developments are determined in no small measure by Maastricht, and the Treaty on European Union was undoubtedly needed. It was not least an attempt to answer some of the questions of the 80's. But our job now must be to answer the questions of the 90's, and I see no signs of us doing so.

For me, the crux of the matter is to overcome the division of Europe. What we are doing here is mainly a West-West-West discussion - the West talking to the West about the West; the East gets a mention in a foot-note every now and then. The costs of financing German unity are a mere fraction of what it would cost to finance European unity, i.e. to end the division in Europe.

Is the Western aid given so far sufficient? For most Western industrial countries, the answer is definitely "No". Is Western aid efficient? There are tremendous absorption problems in Poland, the Czech Republic, and elsewhere. What is our response? How concerned are we really about developments in Poland, Hungary, Latvia, Russia and the Ukraine? We hear about unemployment and destitution - and that is the right description of what is happening there. What about Western investments in these countries? - A subject referred to by Mr Richter. Quite manifestly, we in the West cannot continue to flourish in the long run if the East continues to flounder in the long run. This stems directly from the values that we keep referring to - human values.

And we should also look to our own interests, which are not just economic interests. Let me put it in plain language - Poland's security touches us far more closely than you would think from Mr Stunner's remarks. Berlin is nearer to Poland and Dresden nearer to the Czech Republic than Ditchley Park is to London's Whitehall. I cannot go along with advising politicians that "Poland is not threatened today, so we do not need security guarantees for Poland". That may quickly prove mistaken in the event of a civil war in Russia. Equally, we would be misleading politicians if we were to say, "In your economic and currency discussions, you need not consider the real problems stemming from the great European divide".

Ischinger

The European Community expanded in 1990, to include the territory of what was the GDR. Whatever mistakes were made in that process, there is one thing which it is very important for us to realise. It was a mistake to believe that we would be able to integrate the former GDR into the European Community under our own steam.

Let me take up what Mr Stuth said - we should be aware that the future eastward expansion of the European Community will spark off a struggle for the allocation of scarce resources. Germany will have to set clear priorities here, and that means that in future the focus of our activities will have to be in the East, and no longer in the South.

Dahrendorf

These are quite serious issues, and one we are not discussing here: Who defines the European interests? And that is one which has a lot to do with questions like a common foreign policy.

Hacke

The turnaround in 1989/90 not only produced radical changes, but also enabled us to take up some threads where they had been severed 40 or 50 years ago, or earlier still. First of all there is Germany's great trading tradition with Eastern Europe - and, of course, trade always had tremendous political significance, too. What Germany has done for Eastern Europe can certainly stand comparison with what other Western industrial nations have done - and I do not just mean our aid to Russia, but also to the other countries of Eastern Europe.

Following the turnaround, the Federal Republic immediately tried to pull the other countries of Western Europe in this direction, too. The UK, France, and also the United States produced a great deal of rhetoric on the subject, but their deeds fell far short of their words. More action would have been highly desirable in the interests of stability in Europe as a whole. Germany, with its position in the centre of Europe, is, of course, particularly affected by these changes and developments, and this is one important reason for the discrepancies occurring with us.

Sir Christopher was quite right about the dangers to Europe that might arise from the German deficit policy. But sometimes I have the feeling that we can do no right. If we do too little, people say "You are doing nothing". If we do too much, we are accused of dragging the others into things. That is why I stressed how much Germany has done for Central and Eastern Europe, Russia and the Ukraine.

The second thing I would like to mention is the policy of détente, which transformed East-West relations and was tremendously important to our country, not least on moral grounds. Willy Brandt's gesture was something unique in German foreign policy since World War II. The policy of détente not only smoothed the way to reunification, but also laid the foundation for a new "Ostpolitik" that benefits everyone today. What should Germany's Eastern Europe policy look like in future? A very difficult question, especially in view of the tougher economic prospects facing Germany today.

Thirdly, there is the inadequate backing that German foreign policy has at home; that is something that goes back to before 1989. And it does not make things any easier for the people of this country in their search for identity. It may also explain why we make such heavy weather of achieving a balance between the assertion of our national self-assurance and the espousal of European integration. But Europe continues to be a vitally important option for Germany, especially following unification. Ever since Adenauer's time, Western integration and liberty have been the two key components in German politics, and we can count ourselves fortunate to have achieved both.

What we urgently need in Germany is for political leaders to tell us plainly what foreign policy interests and goals we can realistically pursue. Moral categories are not much use to us if we want to take up the new global challenges mentioned by Senator Bradley. There is no getting around the fact that we cannot stand aside when Europe - and not only Europe - is going through severe crises that can only be mastered by joint action - with force of arms if need be.

Lindemann

After our discussion up to now has often focused on the disappointing policies presently practised by Germany and on the lack of credibility of German politicians, I would like to bring in a positive aspect, or, more clearly put, to bring a more optimistic remark into our debate. The German people seem to be politically more mature and seem to have more understanding for Germany's new geopolitical role and responsibility (which came about in 1989) than do many of the German politicians. The results of a recent poll in Germany which was initiated and published by an American think-tank, the RAND Corporation of Santa Monica, give so much reason for hope, that I would like to mention some of them here.

First, on the German-American relationship: three quarters of those asked would call themselves pro-American. Here the percentage is higher in the Western states than in the Eastern states, though the number in the east is growing.

Second, the relationship of Germany to NATO: there is among Germans growing support for NATO and the American military presence. 66% or two thirds of the Germans taking part agreed that NATO is of fundamental importance for German security. In 1991, it was only 58%! This development goes hand in hand with the rejection of a European security system that would exclude the US.

The numbers are even more dramatic when it comes to the military presence of American forces in Germany. 55% are for a continuation of the military presence - in 1991, it was only 36%, which means an increase of 19% in one year. In the western portion of Germany, the number is even higher: 63% want American forces to remain in Germany; in Eastern Germany the number rose from 12% in 1991 to 24% in 1992.

This encouraging development shows that the Germans have generally withdrawn from their position that NATO and the American military presence were only necessary as long as Germany had to be protected from the Soviet Union. The former Soviet military presence and the American military presence in Europe are no longer a matched pair. The change in public opinion is surely a result of feelings of insecurity concerning Europe.

Third: Germany and its geopolitical responsibility. The results of opinion polls underline my thesis that the German public has comprehended much better than lately suspected that Germany will play a new role in world politics and increasingly has to take on more responsibility. 62% of those polled are for a more active geopolitical role of Germany. 53% support the principle of international intervention in internal affairs of other states when civil rights or human rights are threatened, even if the intervention is military. In 1991, this number was 43%. Even so, the German public hesitates when it comes to German participation in such actions. While 53% support the participation of the German military in peace-keeping operations, only one third (32%) agrees to German participation in NATO operations outside of Germany and only one in five (20%) would approve of German participation in UN-supported actions such as Operation Desert Storm.

The numbers show an astounding increase in the number of Germans who approve of military actions, this with Germany's history and ambivalent attitude toward use of military force. The RAND study comes to the conclusion - and I quote: "Germany is maturing into the kind of strong partner in Europe that American policy has always called for." This is an encouraging and promising development in German public opinion, and, therefore, I cannot agree with the assertion of Mr Hacke that the German public has not grasped the importance of the present situation in terms of foreign policy and security. Now we must hope that German politicians and above all representatives of the German public will in the future take public opinion into account when making decisions.

Dahrendorf

First a foot-note on the subject of exchanges, a subject in which I am much involved. It is in one respect not dissimilar to the situation in trade. It is as important to help create institutions in the new democratic countries as it is to bring people from these countries here. And I worry that too many of those who benefit from exchanges do not want to go back and that too few institutions emerge in the new countries which I or my friends would find naturally attractive institutions to go to. So as in the case of trade, we have to make sure that people find a satisfactory life where they are as well as the opportunity to come and benefit from whatever they find when they come here.

Contrary to Mr Stuth I was not frustrated. I think we have concentrated a great deal on a subject which is of immense importance. Our subject was : "Will the West survive the disintegration of the East?" What we have discussed is the disintegrative forces in the West. And I think that is an extremely important issue with which we have to come to terms.

We have talked about nationalism which has crossed the old East-West frontier, and is certainly with us in the West as well. We have talked about economic trends which are more likely to support protectionist sentiments than they are likely to support an interest in opening frontiers and helping others. We have been fairly polite as far as the European Community and Maastricht are concerned. It could be argued that Maastricht has had an unfortunate disintegrative effect, both on those countries in which no more than 50 per cent were in favour and between countries in which some now find it less easy to accept the important and necessary idea of ever-closer union.

While most of us are reluctant to think of new institutions, we do not quite know how to make the old institutions work better. And there has been an undercurrent of references to the dearth of new elites. We are, in Europe at any rate, going through a process in which a particular group of political leaders is leaving the scene.

But it is by no means clear what the next group of leaders is going to do about Europe, about the new democracies in the East, about international institutions, or about the USA. Indeed there is a curious climate of uncertainty. And it is not always the grandchildren who solve the problems left behind by grandparents. Indeed, in a number of countries I detect a tendency to return to the grandfathers. People wonder whether they were not, perhaps, better able to cope with tomorrow's problems.

So there is a great deal of uncertainty, and there are disintegrative forces which make it all the more important that we bear in mind both the fundamental values in which we believe, and the instruments which can help us implement them. And so far as fundamental values are concerned, my own way of formulating Senator Bradley's list of values is "the belief in a society in which people who are different can live together under a common rule of law". This is something quite fundamental. Fundamental in the West, fundamental in the East. It is, indeed, even the basis of our Europeanism.

As far as institutions are concerned, Mr Hoge has made a very important point. Unless we keep what is left of the multilateral institutions strong, and add to them wherever we can, we are going to find ourselves in a new period of competitive devaluations, "begging our neighbours", a new period of explicit or subterranean conflicts. Whoever does not want that had better strengthen the multilateral framework which has served us well since the end of World War II.

Voswinckel

In closing this discussion, I would like firstly to thank all of you for sharing with us your perceptions and insights, and for the tremendous commitment evident in your contributions to our debate, bearing out our belief that the topic of our discussion, "Will the West survive the disintegration of the East?" is both a controversial one and a key issue for the future.

I will restrict myself to noting just a few points from the many that have emerged here:

So far, the West has proved incapable of producing an appropriate response to the 1989 turnaround in the East. The West has tended to retain as much continuity as possible in its political, economic and mental approaches; there is very little evidence that people here have tried to get away from past ideas and start a general process of rethinking.

There are major differences in perceptions and judgements. Some believe that the West is well-intentioned but are doubtful as to whether it can effectively help the East, due to the sheer magnitude of the task; others feel that Western behaviour is characterized more by verbal pronouncements than by serious intentions. Could the West do much more to provide effective political, economic and financial aid than it has in the past few years?

The peoples of Central and Eastern Europe are clearly pinning their hopes and expectations on two things. The first thing is security guarantees (especially important to the newly established states), and these can only be provided by NATO. We have heard here that such guarantees are hardly probable, and in particular that NATO membership will hardly be open to Eastern and Central European states. Must we conclude that there are still such things as mutually respected spheres of influence between West and East (mainly Russia), even after the end of the East-West conflict? What does it mean when Mr Smyser says that America will under no circumstances extend its influence on this continent further than in the past?

The second thing is that the peoples of Eastern Europe naturally want to get their economies moving and to achieve a sustained improvement in prosperity. However, the transition from centrally planned economies to market economies is proving so difficult that many people in the East have experienced a fall in their standards of living rather than a rise. Disappointment is spreading; social and political unrest is gathering. Has the West failed to get its act together, or are we simply expecting too much from the West?

Listening to Senator Bradley, one could hardly fail to notice that America is increasingly fed up with all the national and ethnic conflicts that have flared up again, with a vehemence we had thought long since relegated to the annals of history. Bill Bradley talked about a growing alienation between the USA and Europe if ethnocentric thinking continues to make more and more inroads here.

The Yugoslavia debate conveyed something of the severe state of shock at what is happening in a neighbouring country, and our shamefaced acknowledgement that we practically have no effective intervention capability - political or military - to stop the killing that is going on just next door.

We repeatedly addressed the issue of adaptability and re-orientation of existing organizations and institutions - NATO, EC, WEU, G7, CSCE, IMF -, but did not come up with an answer. Do we need new institutions or new goals and missions for the old ones? A question that is yet to be answered.

The world is in turmoil; we are seeking an all-embracing concept, a new architecture as Bill Bradley put it, even if Willem van Eekelen feels that the conditions are not conducive to meaningful work by architects. Have we already forgotten the hopes kindled by the end of the East-West conflict? We must not waste this opportunity to re-shape our destinies. We at the Körber Foundation and the Bergedorf Round Table feel that, in a situation like this, it is up to us to ensure that our activities help to advance the reform process in the East, and at the same time to strengthen cohesion between the partners in the West.