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THE REFORM OF INTERNATIONAL INSTITUTIONS

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The Brookings Institution

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Former Chief Representative of the Commission of the European Communities in the United Kingdom

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The Trilateral Commission

A Private North American-European-Japanese
Initiative on Matters of Common Concern

This report has been prepared for the Trilateral Commission and is released under its auspices. It was discussed at the Trilateral Commission meeting held in Ottawa, May 9-11, 1976, and the Joint Statement issued in Ottawa was based in part upon it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views; and the opinions expressed are put forward in a personal capacity and do not purport to represent those of any body with which the authors may be associated. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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The Reform of International Institutions

A Report of the

Trilateral Task Force on

International Institutions

to the

Trilateral Commission

Rapporteurs: C. Fred Bergsten
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GEORGES BERTHOIN was the Chief Representative of the Commission of the European Communities in the United Kingdom, a post he held (1971-73) until British entry into the Community. Born in 1925 and educated at the University of Grenoble, the Ecole des Sciences Politiques in Paris, and Harvard University, Mr. Berthoin began his career in the French civil service in 1948-50 as Private Secretary to the Minister of Finance. After a period as Head of Staff in the Superprefecture of Alsace-Lorraine-Champagne (1950-52), he joined the European civil service and served as Principal Private Secretary to Jean Monnet, President of the High Authority of the new European Coal and Steel Community (ECSC). Mr. Berthoin first took up duties in London in 1956, as Deputy Chief Representative of the ECSC.

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The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on International Institutions, with C. Fred Bergsten serving as principal drafter. The rapporteurs have been aided in their work by extensive consultations. John Pinder, Director of Political and Economic Planning (PEP) in London, served as a special consultant. In each case, consultants spoke for themselves as individuals and not as representatives of any institutions with which they are associated. Those consulted included the following:

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SCHEDULE OF TASK FORCE ACTIVITIES:

December 7, 1974 — Preliminary discussion of task force concerns in trilateral "brainstorming" session in Washington, D.C., including the three rapporteurs, Brzezinski, and twenty-two others.
February 22-23, 1975 — Bergsten, Yamamoto and few others meet in New York City to develop task force concerns.
April 17 — Mushakoji meets with Japanese consultants in Tokyo.
April 24-25 — Bergsten meets with North American consultants in Racine, Wisconsin.
May 2 — Mushakoji meets with Japanese consultants in Tokyo.
May 28 — Berthoin and Mushakoji meet with trilateral group of consultants in Tokyo.
June 21 — Berthoin and Bergsten meet with European consultants in Paris.
Late July — Bergsten completes tentative outline of task force report.
July 30-31 — The rapporteurs meet in Aspen, Colorado, to discuss tentative outline of report.
October 17 — Bergsten leads discussion of work of task force at meeting of North American Commissioners in New York City.
December 1 — Mushakoji speaks on reform of international institutions at meeting of the Executive Committee of the Commission in Paris.
Mid-December — Bergsten completes first draft of report.
March 8, 1976 — Rapporteurs and Makins meet in Tokyo.
Early April — Bergsten completes full draft of report.
May 10 — Draft report discussed at meeting in Ottawa of members of Trilateral Commission.
Mid-June — Final draft completed.

SUMMARY OF THE REPORT OF THE TRILATERAL TASK FORCE ON INTERNATIONAL INSTITUTIONS

The Reform of International Institutions

The report proposes an extensive program of international institutional reform (Chapter IV), with a focus on international economic institutions. The reform proposals are grounded in an analysis of lessons from the past (Chapter II) and of key problems in the current wave of institution-building, the third wave of the postwar era (Chapter III).

A major lesson from the past is that international institutions can make the world safe for interdependence and indeed are necessary to avoid efforts by individual nations to export their internal problems to each other. Hence all issues of international interdependence should be brought under the governance of effective international rules and institutional arrangements. Several new institutions need to be created to deal with topics newly critical to international interdependence. A new institution is particularly needed to govern foreign direct investment and multinational enterprises. One set of problems here derives from the global scope of operations of multinational firms, exceeding the jurisdiction of any individual government. The second concerns the need for rules to check the efforts of national governments to seize for their own countries a disproportionate share of the benefits generated by foreign direct investment. New arrangements are required on several fronts in the area of commodity trade. Commodity agreements, with buffer stocks to defend floor and ceiling prices alike, will be the best answer for some products. The proposed International Resources Bank could help smooth the flow of investment capital into producing countries and help assure adequate output over the longer run.

Several existing international institutions need reform. New arrangements are needed in the General Agreement on Tariffs and Trade (GATT) to govern export controls, like the rules which have for a generation governed import controls. The GATT needs reform in a number of other areas as well. The International Monetary Fund (IMF) needs new arrangements to effect multilateral surveillance over the system of flexible exchange rates and control over the growth of international liquidity. For the first of these two purposes, a permanent committee should be created within the Fund to monitor exchange markets constantly and develop norms against which to assess national interventions. For more control over liquidity, a Reserve Substitution Account should be created through which national monetary authorities could convert their current reserve assets into Special Drawing Rights.

SDRs were developed in the late 1960s to permit effective control in this area, but have fallen into disuse.

The OECD should strengthen its process of consultation on the policy plans of the major industrialized countries and the likely interactions among them. The economic officials of at least the largest countries must begin to think in terms of managing a single *world* economy in addition to managing *international* economic relations among countries. In the area of development assistance, a consolidated "world development budget" should be constructed each year and discussed actively by donor and recipient countries, perhaps in the World Bank, as they formulate their plans. This budget might then be coordinated with other developmental policies in the United Nations.

History has shown that the greatest dangers to international stability often arise from those nations whose real power is inadequately reflected in the relevant sets of international arrangements and symbols of status therein. Such nations can challenge the legitimacy of the system with actions as well as rhetoric. Much of the current call for a new international economic order flows directly from such concerns, and a major need in the current phase of institution-building is to bring developing countries into effective participation in the international system. First, serious and sustained attention must be paid to their substantive concerns. In terms of broad objectives, this requires the international economic system to attach priority to issues of income and wealth distribution as well as the more traditional goals of efficiency and growth. A second essential step is to provide major developing countries with a role in the international decision-making process which corresponds to their sharply increased importance to the system. A third step is to go still further and bring selected "newcomers" into the inner circles of international decision-making.

The report envisages a series of concentric circles of international decision-making to provide the collective management which has become necessary for an effective international system: a small informal core group (which might differ in its precise composition from issue to issue), a broader group of all major countries, and formal implementation of agreed initiatives through existing or new universal institutions. Such a system can be both effective and legitimate, if implemented through continuous consultations among countries in the different circles and if individual countries are willing to be represented by others at some levels of discussion. A system of representation is in fact evolving through the medium of the new Conference on International Economic Cooperation (CIEC), which could provide policy direction for a wide-ranging set of agreements to be carried out in other forums.

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I. Introduction

Mankind has turned increasingly to international institutions as interdependence among nations has grown. Communications and health were among the first concerns where national borders became obsolete, and successful international organizations were created. The horrors of the First World War produced the League of Nations, the planet's first effort to organize for its collective security. The Second World War triggered the creation of the United Nations, to pursue the same objective. The lessons of the Great Depression, which caused massive human tragedy and accelerated the slide toward renewed armed conflict, stimulated the creation of a wholly new set of international institutions aimed at providing the world with collective economic security.

The minimum goal of international organization is to help avoid national actions which hurt mankind as a whole — in the extreme cases, war or economic disruption. Its fundamental operative principle is that countries should not seek to solve their internal problems by exporting those problems to others. The maximum goal is to promote national steps which enhance global welfare, such as the reduction of barriers to international trade.

In some cases, international institutions can help countries avoid actions which are mistaken even in terms of their own interests. Indeed, an important goal of all international arrangements is to provide support for constructive policies within individual countries. But the more difficult cases arise when an individual country (or group of countries) feels that it can benefit from a particular course of action even though others will lose more, posing a clear conflict between the common interest and the specific interests of some countries. Problems also arise when individual countries fear that they will suffer national harm even though the measures contemplated will promote global welfare. Hence international institutions must help distribute the costs and benefits of international actions among the nations involved in an acceptable manner, as well as promote generally desirable policies, to achieve their fundamental objectives.

Today, achievement of the goals of international institutions has become more complex than ever because of the intensity of both the breadth and depth of interdependence among the nations of the world. Problems such as pollution, which have historically been regarded as national issues — if indeed issues at all — are now widely accepted as global in nature. Countries such as Abu Dhabi and Angola, which have never before played a role on the global stage — indeed, have not until recently become countries — affect lives a world away.

At the same time, there is renewed emphasis throughout the world on national sovereignty. Governments are accepting increasing responsibility for an ever-expanding set of policy objectives. There is great pressure to repel outside forces which threaten to upset the achievement of those objectives. There is also pressure to manipulate outside forces to promote internal policy goals, whatever the impact on other countries. Hence the distinction between foreign and domestic policy is increasingly blurred. As a result, economic issues are rising steadily toward the top of the foreign policy agendas of virtually all countries. The centripetal forces of interdependence trigger their own centrifugal reactions.

One result is increasing doubt over the utility of new international arrangements. Indeed, even the continued operation of some existing institutions has been placed in jeopardy. This tension, between the imperatives of international interdependence and the quest to retain adequate degrees of national autonomy, appears likely to remain the basic issue of international relationships for some time to come.

There is some optimum level of international rules and institutions for reconciling this tension in a politically feasible manner, to provide collective political and economic security for nations whose real sovereignty has already declined much faster than their nominal sovereignty may ever fall. The search for that optimum will pervade the evolution of international arrangements. The overriding goal is to make the world safe for interdependence, by protecting the benefits which it provides for each country against the external and internal threats which will constantly emerge from those willing to pay a price for more national autonomy. This may sometimes require slowing the pace at which interdependence proceeds, and checking some aspects of it. More frequently, however, it will call for checking the intrusion of national governments into the international exchange of both economic and noneconomic goods.

International rules and institutions already aim at these objectives in a number of issue-areas, particularly in economics. Some of the existing institutions are working well, but even they can be mobilized more effectively. Others need major reform if they are to achieve their objectives. And there are several important areas of international relationships where new institutional arrangements are needed, because of the emergence to prominence of relatively new issues and because no such arrangements now exist.

Our specific proposals will address each of these topics. They cover a wide range of issue-areas, but will focus primarily on international economic institutions. As already indicated, economic issues are rapidly moving to occupy a central place in the totality of international relationships. The imperatives of interdependence are advancing most relentlessly in this area, as are nationalistic reactions to international collaboration. In addition, lessons learned from international economic arrangements can often be applied in other contexts. We thus turn first to a quick review of past efforts to institutionalize economic relations among nations.

II. The Lessons of the Past

Past efforts to build international institutions have sought to provide new or improved international frameworks within which to manage issues where national management had become inadequate. The need for new international arrangements spawned institutions to cover international money and trade in the early postwar years, the beginnings of macroeconomic policy coordination and decentralized development financing around 1960, and a series of newly globalized issues (such as environment, food and energy) most recently. To do an old job better, the United Nations was created to supplant the League of Nations, and the World Food Council and International Fund for Agricultural Development have recently sought to augment the Food and Agriculture Organization.

Each phase of institution building has had two political objectives: the ratification and legitimization of the power structure underlying international relationships at the time, and the integration of newcomers into those relationships. In 1945, this largely meant codifying U.S. hegemony and involving the other independent nation-states of the day (except the Communists, who dropped out). Around 1960, it meant an increased role for Western Europe and Japan, and incorporation of the newly independent developing countries of Asia and Africa. In both periods, the primary focus was on ordering relationships among the industrialized countries and maximizing efficiency and economic growth. Now the focus must be broadened to include the relationship between industrial and developing countries as well, with an emphasis on income distribution in addition to the more traditional goals. This will in turn require new modes of collective leadership and sharing of rights and responsibilities across the entire spectrum of nations, including those in the Third World on many important issues.

The past record of international institutions is mixed. Neither the League of Nations nor the United Nations has decisively affected the prospect for world peace, but both have been instrumental in settling a large number of important disputes. The "Bretton Woods" institutions — the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD, or World Bank) and the General Agreement on Tariffs and Trade (GATT) — helped maintain a generation of economic peace, promoted impressive economic growth throughout the world, including in the developing countries, and showed remarkable capacity to respond even when confronted by an unprecedented series of shocks in the early 1970s.

But these institutions have made inadequate contributions to solving some of the most pressing of contemporary global economic problems such as inflation and more equitable income distribution. The growing number of technical and scientific institutions have effectively, if quietly, promoted progress on many issues.

A number of guidelines for future institutional steps derive from past experience. First, international institutions help restrain member countries from resorting to unilateral beggar-thy-neighbor policies, through which they might otherwise seek to export their internal problems to other countries. This is partly due to legal prohibitions and sanctions against such measures. For example, a country may pause before erecting a particular import barrier because it would then have to reduce its other import barriers to compensate the rest of the world or face retaliation against its exports.

Less tangible effects of international institutional arrangements are probably even more important, however. The very existence of such cooperative structures, more than the specific rules themselves, inspires confidence in both private sectors and government circles around the world that progress will not be disrupted by conflict among nations. International agreements strengthen the hand of outward-looking forces within each government. They promote transnational coalitions among those forces, whose meshing of like interests often proves importantly reinforcing in pursuing internationalist initiatives.

Second, functionally specific international organizations succeed far better than multipurpose organizations in accomplishing concrete tasks such as organizing technical cooperation among nations and negotiating specific arrangements such as trade liberalization and international monetary rules. This is clearest for essentially nonpolitical issues, such as those handled by the Universal Postal Union and World Health Organization. But it is also true for the functionally specific economic institutions, such as the IMF and GATT (and the Organization of Petroleum-Exporting Countries [OPEC]) when compared with the broader UN agencies.

Functional specificity works better for a variety of reasons. The issues are smaller and better defined, and hence more manageable. Like-minded officials are thrown together. There can be less blackmail over setting agendas, because the agendas are more rigidly defined at the outset.

Perhaps most important, issue-area linkage and politicization — both of which can deter functional progress — are better avoided. Linkage occurs when individual countries tie progress on one issue to progress on other issues as a price for their cooperation. In some cases, where there is a consensus on underlying objectives, such an approach may help produce results. For example, the United States in late 1971 felt that it could move the world toward a new round of trade negotiations only by tying that issue to the exchange rate of the dollar. Linkage among issues has been a common feature of negotiations within the European Community, and within all of the major postwar trade negotiations.

However, linkage can delay action on all fronts when it seeks to bridge issues on which there is fundamental disagreement among the relevant parties. In many cases, it blocks progress altogether — by making the whole negotiating package much more complex, and by forcing domestic political tradeoffs which may be impossible in some countries even with the best of will. But the pressure to link is omnipresent in multipurpose organizations, and even leads to their creation, as when OPEC in 1975 felt that it could prompt a comprehensive international discussion of commodity and other development problems only by tying those issues to energy.

Politicization of issues is better avoided in functionally specific institutions simply because of the consensus that such institutions are the best, perhaps only, places where serious business can be done. The same countries which will often indulge in fanciful rhetoric in a broad, multipurpose organization (such as various UN agencies) will often be negotiating seriously and cooperatively in another organization (such as GATT) on the same issue at the very same time. The more technical focus, and lesser public awareness, of such organizations promotes such a result.

The third lesson of the past is a corollary: that broader, multipurpose groups (such as the United Nations) also have an important — though quite different — role to play. They are better than functionally specific groupings for legitimizing broad new concepts. They may be able to coordinate the activities of the many functionally specific organizations, as will be discussed below. They enable governments to transmit their political concerns, and convey their domestic political pressures, without fear of jeopardizing progress toward concrete goals. Their wide-ranging debates can help set future agendas for functionally specific organizations, by flagging new issues and surfacing fresh approaches to old issues. These broad organizations can play a useful and even necessary role, but one which is quite different from achieving clearly defined tasks which are largely operational.

A fourth lesson, also corollary to the second, is that regional institutions can often help foster the evolution of constructive global arrangements. In many instances, regional — or other limited — groups, among both industrialized and developing countries, can move more quickly than would be possible for the same countries on a broader scale. The creation of the European Payments Union, for example, was an important step toward the widespread restoration of currency convertibility.

However, regional groupings must maintain an outward-looking orientation if their role is to be positive and to avoid delay in the evolution of desirable global arrangements. Elements of both outward and inward orientation can often be found in the same regional arrangement. The recent Lomé Convention between the European Communities (EC) and the forty-six African, Caribbean, and Pacific States (ACP), for example, provides global leadership in supporting income stabilization for producers of primary products. Simultaneously, however, it creates new forms of discrimination — mainly against Latin America, in this case — by limiting those benefits to a selected group. The dilemma can only be resolved by regarding regional (and other limited-group) steps as precursors of wider arrangements rather than as ends in themselves.

A fifth lesson is that all important actors must be involved if an institution is to succeed. The classic case is the League of Nations, which the United States never joined and where several key powers were absent at key times. At present, there can be no satisfactory solution to the energy problem as long as OPEC and the International Energy Agency (IEA) stand apart; indeed, the Conference on International Economic Cooperation (CIEC) arose from an effort to bring them together. The complaints from the Third World about international trading arrangements stem at least partly from the absence of many developing countries from the GATT, and the UN Conference on Trade and Development (UNCTAD) was created largely to provide them with an alternative forum for attempting to structure international trade.

A sixth lesson is that strong Secretaries-General and international staffs can help greatly in formulating and implementing international agreements. The histories of the United Nations, GATT and IMF all reveal the importance of strong, impartial leadership from the institutions themselves. Such leaders can propose solutions when no country is able or willing to do so, help galvanize support in individual countries, and implement decisions when everyone else goes on to the next issue. They do not need formal powers or large bureaucracies to play such a role. The key ingredients are impartiality, integrity and good tactical sense along with intellectual creativity. The willingness of governments to entrust responsibility to an international institution often depends, quite rightly, on whether those who staff it possess such attributes.

These lessons from the past suggest several steps which should *not* be taken in any reform of international institutional arrangements. There should be no "dusting off" of the International Trade Organization (ITO) in an effort to manage all international economic issues under a single roof. Those issues should not be moved into the United Nations. Nor would amalgamation across functional lines, such as merger of the IMF and GATT, meet the precepts for effective institutions. The creation of new institutions limited to the industrialized countries would generally be a mistake, since at least some developing countries must be integrated in virtually every issue-area.

At the same time, this past record of international institutions indicates a number of guidelines for positive reform. But how do they relate to the contemporary problems which governments will be facing in the late 1970s?

III. Current Problems

History has shown that the greatest dangers to international stability often arise from those nations whose real power is inadequately reflected in both real involvement in the relevant sets of international arrangements and symbols of status therein. Such nations can challenge the legitimacy of the system with actions as well as rhetoric. Much of the current call for a new international economic order flows directly from such concerns. Indeed, only through integration into the management of international arrangements are such countries likely to acquire the systemic interests necessary for the constructive formulation of their own foreign economic policies.

Integration of the newcomers and dropouts is thus one of the major needs of international institutional arrangements today. As Japan was integrated in the early 1960s, by joining the OECD and adopting Article VIII status in the IMF, the new "international middle class" — most notably the members of OPEC, but also many other countries with rapidly growing economic or military strength — must be integrated today.

The absence of these countries both reflects, and is a reflection of, the principal shortcoming of the postwar international order. Its ultimate objective was stability, both to reduce the risk of conflict among nations and to provide a framework within which economic growth could progress unimpeded. Its proximate targets were those of neoclassical economics: maximum efficiency, growth, full employment and, to a lesser extent, minimization of inflation.

Missing from this list was a conscious effort to promote a more equitable distribution of income among countries. To be sure, the system which evolved provided strong support for impressive — indeed, historically unprecedented — growth in the developing countries. Foreign aid programs, also unprecedented in human history, did generate a significant transfer of resources.

Nevertheless, the system encompassed impediments to even better performance by the developing countries. Unemployment remained high, even in some countries where GNP growth was rapid. Redistribution was not an international goal. This was due partly to the minor role played by developing countries in the system. Along with their lack of representation, it also explains why they have become so hostile to it — and call for the creation of a "New International Economic Order." Whether "new" or "old," the evolving order must focus explicitly on income distribution and an adequate role for the developing countries if it is to attract them to constructive participation.

Similar considerations argue for restoring participation by the dropouts. Most notable are the Communist countries, several of which (including the Soviet Union) were involved at the outset of the postwar international economic system but left before it began to function. They are now re-entering the world economy, particularly in such key individual markets as food (especially the Soviet Union) and energy (especially China).

It will be difficult to reintegrate the Communist countries, because of the fundamental differences between their economic systems and those of the market economies. And care must be taken not to distort arrangements which are working effectively solely to broaden membership. Nevertheless, major efforts should be made on issues where these countries are playing important roles.

A second current problem of international institutional arrangements is the absence of consistent, decisive leadership. History shows that an effective international system requires a custodian. This must be a sizable country (or group of countries) because only such an entity is both aware of the systemic effects of its own actions, and hence willing to play the custodial role, and able to accept the domestic political effects of actions taken (or not taken) to defend the system. In the economic area, such a role was played by Britain in the second half of the nineteenth century and America in the first generation after the Second World War. During the interwar years, there was no leader and the system collapsed.

"Leadership" and "management" can of course be exercised through market forces as well as through overt governmental action. But governmental action is necessary to establish a market-oriented system in the first place and hold at bay those forces which perennially seek to reduce the scope for market forces. An example is the recent U.S. lead in maintaining maximum scope for market forces to determine international exchange rates, which stands in sharp contrast to its opposition to such a system — and hence failure of leadership — when it became obvious in the early 1970s that fixed rates were no longer sustainable. And even in a market-based system, whether internal or international, government action is frequently needed to make the market work better by countervailing distortions of it (such as the monopoly power of some individual firms), taking account of externalities (such as pollution and security considerations), and promoting objectives which are not addressed by the market (such as income redistribution).

America must still play a major role in managing the international system. It continues to provide the ultimate security of most of the other industrialized countries and remains the world's largest single economy, the home country of one-half the world's foreign direct investment, the major food supplier to international markets, and the least dependent of the large industrialized countries on imported energy and raw materials. However, both U.S. domestic politics — which increasingly inhibit it from shouldering a disproportionate economic burden — and the unwillingness of other countries to follow its lead rule out the same degree of American dominance which existed in the recent past. A pluralistic, multipolar world with alliances of different countries on different issues has replaced the rigidly bipolar world of the earlier postwar period.

There are two alternatives for providing the needed leadership for the international economic system. One is leadership by another individual country, or group of countries — the European Community, Germany alone, Japan, or OPEC:

- The European Community as a group dominates world trade, and its monetary reserves dwarf those of anyone else. It would provide an ideal component in the world management structure, blending together a variety of interests in reaching its own policy positions. But it has shown insufficient ability to act together on issues outside trade. It has great trouble finding a common stand when the economic going is rough, and hence world leadership is needed most intensely. It plays no security role as a Community, and the security role of its individual members outside Europe is minimal. The EC may well evolve to a point where it could share world leadership, at least on economic issues, but that point still appears to be well in the future.
- The Federal Republic of Germany has become the second economic superpower, with monetary reserves double the American, the world's second key currency (center of a major currency area), the world's largest exports of manufactured goods and highest wages in manufacturing industries, the strongest trade balance and the lowest rate of inflation. But German economic weight is insufficient for it to exercise unilateral leadership, even on economic issues, and any attempt to do so might jeopardize both European unity and detente.
- Japan has a larger economy than West Germany. But it stands culturally outside the rest of the industrialized world, has a limited tradition of world involvement let alone leadership, and is con-

strained both by its internal decision-making process and its extreme vulnerability (and hence sensitivity) to OPEC and other suppliers of raw materials. Indeed, its economic structure and history suggest that it may always seek to mediate rather than exercise unilateral leadership — between East and West, between rich and poor, between producers and consumers — and thus find difficult any leadership position.

- OPEC is of course a critical factor in energy markets, and important financially as well. It comprises the most important set of newcomers which must be integrated into the system and hopefully imbued with systemic concerns, but it is too much to ask it to leap into leadership so quickly.

Hence no country, or group of countries, now seems equipped to play a major leadership role alone. The only alternative is collective leadership, such as exists at the highest levels of the security system between the United States and the Soviet Union as they seek jointly to prevent nuclear war while competing actively at lower levels of international relations. The United States, Japan, the EC as a group (or Germany and perhaps one or two other countries of Western Europe individually), and perhaps one or two OPEC or other Third World countries on some issues, would seem the likely partners in any collective arrangement. Strong management and staff in the international institutions themselves can help, but individual countries will continue for some time to bear the primary responsibilities — especially in structuring the system within which the process of international economic cooperation can proceed.

Indeed, there have already been steps toward such collective leadership through the informal meetings of the "Group of Five" to discuss international monetary matters, the "economic summits" at Rambouillet in 1975 and Puerto Rico in 1976 to discuss the whole range of international economic issues, and the meetings of ten industrial, OPEC, and non-oil developing countries to organize the Conference on International Economic Cooperation in 1975 (and CIEC itself). These beginning steps confirm that the collective leadership which is needed can be exercised only through international institutions, be they formal (a la CIEC) or informal (like Rambouillet).

To be sure, such meetings of limited groups of countries raise problems for those who are omitted. And there is a clear difference between leadership and systemic concern. Smaller countries (such as Switzerland and the Netherlands) frequently adopt policies geared to systemic as well as purely national objectives — not because they are leaders, but because they rely so heavily on the functioning of the international order that their national interest is to actively promote its success. Larger countries (such as France) often ignore systemic effects, due to an inadequate appreciation of their own impact and a confidence that other countries will keep the system functioning anyway.

The record indicates that systemic concerns are most likely to be evidenced by the very largest countries, because their impact on the world economy is so clear, and by the countries most open to international exchange, because they depend on it so heavily. Indeed, the strongest proclivities for leadership are found in large countries which are quite open; the prototype is Britain before World War I. Large countries which are not as open, such as America after World War II, are not as reliable because their domestic politics may not always support systemically oriented policies; in such circumstances, their very size makes them a threat to world order. Great dangers may also arise from countries which — due either to honest miscalculation or conscious efforts to "free ride" — deem themselves of insufficient size to affect the system decisively, and insufficiently reliant on the world economy to place high priority on the global effects of their policies. Such behavior has characterized France during several periods of the twentieth century, Japan in the late 1960s, and perhaps some of the more advanced countries of the Third World today and in the years just ahead.

It is essential for all countries to exercise systemic concern. The scope for "free riders" has been sharply reduced with the dispersion of economic wealth and power throughout the world. More and more countries affect the functioning of the entire world economy. Fewer and fewer countries can be counted on automatically to take actions needed to keep the system afloat. Sanctions against recalcitrants should thus be incorporated in international institutional arrangements wherever possible, mainly for their deterrent value. And it is imperative at this point in history for the more important countries to join together to exercise systemic leadership.

It must be noted that there is potential conflict between the exercise of international leadership and adequate participation of all countries, including the newcomers and dropouts. The issue is how to reconcile the often conflicting requirements for (a) legitimacy and hence breadth of membership and (b) efficiency in carrying out specific tasks. Universal membership makes progress difficult, but the expeditiousness of limited groups may be bought at a high price in terms of acceptability of the resulting decisions. This tension pervades all contemporary efforts to reform international institutions.

A final problem which challenges today's international institutional arrangements is the increased interdependence among the whole array of functional issues. The "energy crisis" has epitomized the tight relationship among trade, monetary, resources, development and security issues — and led to the creation of the CIEC, with its four functional commissions. The disequilibrium in the international monetary system which developed in the late 1960s was a major cause of the outbreak of intense pressures for protectionist trade policies in the early 1970s. The world inflation of 1973-74 and world recession of 1974-75 further confirmed the pervasiveness of these linkages.

So it is impossible to keep separate the major international economic, and even security, issues. A return to the earlier postwar situation, in which each was handled largely within its functionally narrow framework, appears most unlikely. New means must be found to achieve better coordination across the individual issues.

IV. Specific Proposals

International institutional reform must therefore focus on six issues: the creation of new institutions where they have become necessary on particular topics newly critical to international interdependence, the reform of some existing institutions to deal better with the problems they are already addressing, more effective mobilization of both sets of institutions, the legitimization of all institutions through integration of the newcomers and dropouts, progress toward resolving the leadership issue and better coordination across issue-areas. Several proposed approaches have already been rejected. What positive steps should be taken?

A. NEW INSTITUTIONS

Our emphasis in this report is the reform of existing international institutions, rather than the creation of new ones. Indeed, we looked for institutions which could be eliminated, but found none where the benefits of such action would seem likely to outweigh the political battles which would inevitably be required to end them. Nevertheless, new institutions are needed where an issue-area is of profound importance to relationships among nations and none now exists. These two criteria are met for specific issue-areas within two broad aspects of international interdependence: the "commons" of mankind, and international economic relations.

Among the "commons," the most urgent requirement is the creation of an international regime for the oceans to cover a host of related issues including fishing, shipping, mining from the deep seabeds, and ocean pollution.[1] Other "commons" which may need new regimes include Antarctica, outer space, and the weather and climate of our planet. A new agency to centralize and improve world population programs is often proposed. Global environmental problems are already covered in the new United Nations Environmental Program.

There is one economic issue where new institutional arrangements are clearly needed: foreign direct investment and multinational enterprises. The value of international production by multinationals now

[1] See Michael Hardy, Ann L. Hollick, Johan Jorgen Holst, Douglas M. Johnston and Shigeru Oda, *A New Regime for the Oceans,* A Report of the Trilateral Task Force on the Oceans, The Triangle Papers: 9 (1976). It proposes new international institutions to manage the exploitation of deep seabed mineral resources, fisheries management bodies for each distinguishable fishing ground, and new organs for settlement of disputes arising out of ocean uses and delimitation of coastal economic zones.

approximates the value of world trade, and exceeds half a trillion dollars. Transactions within such firms account for a sizable share of world trade itself. A highly articulated set of international rules and institutions has governed world trade, with outstanding success, for a generation. Yet there are no rules or institutions whatsoever to govern international investment. This anomaly, along with that concerning the oceans, is the major institutional gap in international relations today.

Two sets of problems underlay the need for creation of a "GATT for investment." One derives from the fact that the global scope of operations of multinational firms exceeds the national jurisdiction of any individual government. International action thus becomes a virtual necessity to provide the same kind of effective countervailing power against possible corporate abuses which national governments provide within most countries. Issues to be covered by such rules would include the allocation of taxable income among different countries in which a particular multinational operates, the related question of transfer pricing of transactions among the components of individual firms, antitrust policy and improper corporate payments. State enterprises as well as privately owned enterprises would be covered. In the absence of new international approaches to these issues, conflicts between national efforts to regulate the firms are bound to proliferate, with adverse effects on the world economy, on relations among nations and on the multinational enterprises themselves.

The second need is for new international rules to check the efforts of national governments to seize for their own countries a disproportionate share of the benefits generated by foreign direct investment. The home countries where multinational enterprises are based have traditionally sought to use "their" firms to pursue the national economic and political advantage, and some such efforts continue today.

A major new development, however, is the increasing capability of host countries where the subsidiaries or branches are located, in both the industrialized and developing worlds, to harness the firms to their national goals. The firms are simply required to generate a predetermined level of jobs, exports and other economic benefits. They must agree in order to gain permission to operate locally, which often is sufficient inducement for them to acquiesce. In addition, however, the corporations often receive tax and other attractive concessions; hence they increasingly ally with the host countries in mutually profitable arrangements. The trend is clearest in the extractive industries, but extends to all areas of manufacturing and services investments as well. It encompasses all countries, even the least developed in many industries.

Thus an increasing share of world production is being negotiated between the governments of host countries and the management of multinational enterprises, who properly represent their own corporate interests rather than the interests of their home countries. The result is a second anomaly: an empty chair for the governments of home countries in an increasingly central arena of international economic negotiations. Reactions against foreign direct investment within the home countries themselves have already begun to emerge, partly in reaction to these new developments.

To some extent, action by host countries to harness multinational enterprises represents a justified exercise of national countervailing power. Indeed, such efforts are often necessary in the poorer countries to expand the contribution of foreign direct investment to development. But, with increasing frequency, these measures — in both industrialized and developing host countries — are shifting production out of home countries. Jobs, exports, capital and technology are being moved from one set of countries to another by virtue of the overt policy actions of national governments. Emulation of such moves, and retaliation by countries which are hurt, are inevitable.

The result could well be the emergence of "investment wars" akin to the trade wars of past years. In an earlier period, when trade was the dominant vehicle for international economic exchange and there were no international rules of the game, governments sought through overt policy actions (such as higher tariffs, import quotas, and export subsidies) to increase their national shares of the international benefits which were generated. Other governments would simply not accept such steps, and the resultant international economic conflict broadened and deepened the Great Depression. Today, direct investment has moved up alongside trade as a major engine of economic intercourse among nations, and similar developments are likely if the present vacuum of international rules and institutional arrangements is not filled.

The new rules should encompass limitations on the degree to which national governments can distort the international investment process — including host-country levying of performance requirements on the firms and offering of incentives to attract them in the first place, and home-country use of fiscal and other devices to pursue national goals of the firms' countries of origin. A first step should be the declaration of a "cease fire" on the institution of all such measures. Thereafter, certain practices, such as minimum export quotas and long-term tax holidays, should probably be banned altogether. As with trade, exceptions could be made for the poorer countries — with procedures for countries to "graduate" from that category when their needs no longer require distortion of international economic processes.

The two types of rules which would comprise the new "GATT for investment" — one to regulate the behavior of firms, one to regulate the behavior of governments — are closely related. Governments will be willing to limit their scope for national exercises of countervailing power against multinational enterprises only if they are convinced that such power will be levied effectively at the international level. Hence the institution of rules to govern the firms will be a necessary concomitant to the institution of rules to govern the action of governments toward the firms.

A new international organization is needed to implement this regime because such a wide array of individual issues — taxes, antitrust regulations, industrial policies, regional policies, development considerations — are involved. No existing institution could handle the whole subject, yet its various components are too closely interrelated to permit treatment in separate forums. The historical lesson that functionally specific institutions are best equipped to deal effectively with such problems should be applied in this area.

The creation of a new international regime for investment will take many years, in view of the continuing uncertainties concerning its effects and the sharply differing views of the subject between (and within) different countries. However, the agreements reached in mid-1976 by the OECD countries on guidelines for multinational enterprises, national treatment of the firms by member governments, and governmental incentives and disincentives to foreign direct investment mark an important first step toward setting up such a regime. They are inadequate for the longer run, both because they are limited to the OECD countries and because their provisions, especially regarding governmental commitments, are tentative and weak. But they do indicate a promising degree of consensus on which more comprehensive steps can be based.

The long-term horizon for developing the needed rules and institutional arrangements should be no deterrent, in any event. The evolution of effective international monetary and trade regimes was a major preoccupation of the nations of the world for the past generation, and the evolution of a similar regime for investment may be a similar preoccupation for the next generation. Trade issues are at least as difficult politically as investment issues, yet have been subjected to far-ranging international rules. The current efforts, in the OECD and elsewhere, represent the first steps in the process of developing the needed regime. Its completion is necessary if multinational enterprises are to be made safe for the world, and the world made safe for multinational enterprises.

The second economic issue which requires new institutional arrangements, as well as modifications of existing arrangements, is *access to supplies*. The traditional GATT arrangements have protected access to markets for producers. However, its rules governing access to supplies for consumers were weak from the outset and have been totally useless in practice. New arrangements are needed to govern export controls, like the rules which have for a generation governed import controls.

The issue of access to supplies for consumers is intimately linked to the issue of economic returns to producers. As with international investment, individual countries will accept limitations on their exercise of national power only if they are satisfied that reigning international arrangements meet their own needs. This is indeed the central task of international institutions: achievement of sufficient legitimacy in the eyes of all participants for them to be willing to rely on the institutions rather than their own unilateral efforts.

In the area of commodity trade, achievement of such legitimacy will probably require new arrangements on several fronts.[2] Commodity agreements, with buffer stocks to defend floor and ceiling prices alike, will be the best answer for some products. Income stabilization agreements, which protect exporters against losses of earnings from price declines for their exports, should be part of the package. Reductions in tariff and nontariff barriers are needed in the countries which import primary products, barriers which discourage processing in the producing countries. The proposed International Resources Bank, attached to the World Bank, could smooth the flow of investment capital into producing countries, to assure adequate output over the longer run, and might become the institutional base for other components of a new international approach to commodity trade.

B. REFORM OF EXISTING INSTITUTIONS

Many existing international institutions need reform if they are to deal effectively with new aspects of their traditional domains. Beyond

[2] For one set of specific proposals see Carl E. Beigie, Wolfgang Hager and Sueo Sekiguchi, *Seeking A New Accommodation in World Commodity Markets,* A Report of the Trilateral Task Force on Commodities Issues, The Triangle Papers: 10 (1976).

the development of new rules governing access to supplies, the *GATT* needs reform in several key areas. Its rules enabling member countries to safeguard themselves against disruptive imports need amendment, both to permit timely (though temporary) use of import controls and to bring within their scope all types of such controls (including "voluntary" export restraints). Its permission for countries to apply import controls in response to balance-of-payments problems has become obsolete in a world which relies on flexible exchange rates to correct imbalances. And it needs new types of consultative and decision-making procedures to cope with the array of nontariff distortions and other new issues which have become central to international trade relationships.

The *international monetary rules* need revision in two major areas. The Bretton Woods system was based on fixed exchange rates and relied on domestic policy actions to achieve balance-of-payments adjustment, and came to rely on the dollar to expand world liquidity. It is widely recognized that neither is suitable for the future. Much *de facto* reform has already occurred, primarily through the advent of flexible exchange rates and the creation of Special Drawing Rights in the IMF. The need now is for effective multilateral surveillance over the operation of the system of flexible exchange rates, and resolution of the ongoing problems attendant to the multiplicity of monetary assets.

The present monetary system is based on unilaterally managed floating rates. Under such a regime, different countries may intervene in the exchange markets at cross-purposes, disturbing both international financial markets and relations between them. Individual countries may seek to manipulate the exchange rates of their currency to export their problems to others — either strengthening their currencies to export inflation, or weakening their currencies to export unemployment.

Agreements have been reached in principle to move to a system of multilaterally managed floats, to prevent such problems, but little actual progress in that direction has been recorded to date. Exchange rate relationships have a pervasive impact on overall economic relations among nations, and the maintenance of equilibrium conditions are essential in avoiding pressures for protectionist policies on trade and international capital flows. Hence the evolution of institutionalized arrangements to assure stable, joint management of international monetary affairs is of highest priority. A high-level, permanent committee should be created within the IMF to monitor the exchange markets constantly and develop a body of norms against which the legitimacy of individual national interventions (direct or indirect, through other policy steps) could be judged.

There also remains the perennial problem of achieving effective international control over the growth of international monetary reserves. Excessive liquidity expansion promotes world inflation, as in the early 1970s, while inadequate growth dampens world economic activity. Yet reserve growth — whether in the form of gold, dollars or other national currencies — continues to result from the wholly unplanned, uncoordinated interplay of national economic activity and policies.

Special Drawing Rights were developed in the late 1960s in order to permit effective international control in this area, but have fallen into disuse. Here, as in the case of multilateral surveillance over the exchange-rate regime, concrete actions are needed to implement an agreed principle — in this case, relying increasingly on the Special Drawing Rights. The most promising step would be the creation of a Reserve Substitution Account, through which national monetary authorities could convert their current reserve assets into Special Drawing Rights. Through such a device, these international assets could quickly become a major, if not the central, monetary component of the world economy.

A fourth area where reform is needed is *coordination of domestic economic policies* among the major industrialized nations. The advent of more flexible exchange rates by no means obviates this problem, and may even intensify it in some respects. As with the issue of access to supplies, it might be desirable to create a wholly new international institution for this purpose. But reform of the OECD seems a more cost-effective means to proceed, at least at this early stage in the process.

To this end, the OECD should initiate an annual consultation on the outlook for economic developments and economic policy plans in each of its major member countries. Present discussions do review future prospects, but countries seldom consult meaningfully on the policy options which they face and the factors which will influence their policy choices. There is little, if any, effort to assess the interactions of proposed national policies and hence their likely effectiveness in the face of intensified international interdependence. An interchange on such subjects, at strategic times in the decision-making process by highly responsible officials, could have an important effect both in improving the effectiveness of policy within each country and in avoiding conflicts between the efforts of different countries.

Economic forecasting is not yet sufficiently accurate to assure major benefits from such a process. But its existence might well have improved the performance of the world economy in 1975. In late 1974, Europe and Japan both looked to a buoyant recovery in the United

States as the key to their own emergence from recession. But the American authorities knew that U.S. performance would be sluggish for much of the year. And an effective interchange could have revealed more clearly that even an American boom would have only marginal effects on Europe and Japan in 1975, so that they would have to rely on internal measures for the bulk of the needed expansion.

As the world's economies become increasingly interdependent, increased coordination of this type becomes increasingly necessary. Indeed, the economic officials of at least the largest countries must begin to think in terms of managing a single *world* economy, in addition to managing *international* economic relations among countries.[3] Since it is the largest countries which bear the responsibility, it seems a role best suited for the OECD — with expanded membership as additional countries become important for these and other of its purposes.

Finally, an issue which has triggered much of the demand of the developing countries for a "new international economic order" is the distribution of income and wealth among countries. A number of changes are needed in the international trading, investment, monetary and other rules to promote a more equitable distribution, and all of the proposals made in this report for new or modified arrangements in economic institutions should incorporate such changes. For example, cuts in import barriers against processed primary products would spur exports of developing countries, as would limitations on the opportunities for multinational enterprises to restrict the markets available to their foreign subsidiaries.[4]

In addition, there is a need for institutional improvements in the channeling of concessional assistance to the poorer countries. In recent years, there has been an explosive proliferation of funds through which such help is extended. Many additional mechanisms have been proposed. One result is increasing confusion among donor and recipient countries alike, and severe risk that sight will be lost of developmental priorities both in terms of countries (the poorest) and functional goals (such as increased food production).

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[3] See Miriam Camps, *First World Relationships: the Role of the OECD,* the Atlantic Papers 2/1975; Council Papers on International Affairs: 5. Atlantic Institute for International Affairs, Paris, and Council on Foreign Relations, New York, 1975.

[4] Specific proposals are made in Richard N. Gardner, Saburo Okita and B. J. Udink, *A Turning Point in North-South Economic Relations* and *OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980,* Reports of the Trilateral Task Force on Relations with Developing Countries, The Triangle Papers: 3 (1974) and 7 (1975).

Hence a consolidated "world development budget" should be constructed each year and discussed actively by donor and recipient countries as they formulate both their short-run and long-run plans. The World Bank, which includes both groups, might be the natural locus for the discussion. However, these direct resource transfers should also be discussed in connection with developmental efforts in the trade, commodity and other areas; a broader forum, such as the United Nations, might thus be appropriate as a second stage. The improved coordination of assistance programs which should result would increase the confidence of all parties in the process by which resources were being transferred from richer to poorer countries, thus enhancing the legitimacy of the entire program as well as speeding the transfer itself.

C. MOBILIZATION OF INTERNATIONAL INSTITUTIONS

Both the existing and proposed new international institutions need to be mobilized much more effectively than has been the case in recent years. This of course requires a greater willingness by national governments to use them. But there are many things which the institutions can do largely on their own, both to foster progress on specific issues and to enhance the legitimacy of the institutions in the eyes of their members.

In order to be effective in shaping national policies, international institutions, through their top management and staffs, should seek to actively engage national officials concerned with the relevant functional issue, at both the political and senior bureaucratic levels, at early stages of the decision-making process. The institutions should in fact provide a forum for consultations prior to national decisions which importantly affect other countries, as is required by the Articles of Agreement of the IMF regarding exchange-rate changes. But even without such formality, which is extremely difficult in terms of domestic politics in most countries, a major function of international institutions should be substantive discussion among countries early in the decision-making process — and throughout that process, as it evolves continuously until decisions are finally made.

The management and staffs of international organizations can help develop such a process of early and continuous consultation by prompting the deepening of transnational networks of like-minded officials. Expansion of the consultative process would in turn help create such transnational networks. So the relationship between international consultation and institutional evolution could become a self-reinforcing process in which the personnel of the organizations themselves could play an instrumental role.[5]

In addition, the institutions should seek to involve the private sector in countries where it can be influential. Indeed, private groups can often be mobilized formally to help catalyze international action: the Rey Committee of the OECD helped lay the basis for the current Multilateral Trade Negotiations, and the UN Group of Eminent Persons paved the way for its new Commission on Transnational Enterprises.

Such steps require strong, active and effective management of the international institutions themselves, at both the director-general and staff levels. Again there is a self-reinforcing process: if the institutions take a more active and initiatory approach to problems, they will attract better management and staff. To achieve such a position, officials of the institutions must find a proper balance between independence of action and proximity to the member governments; too much independence reduces effectiveness in selling ideas to governments, while excessive ties to governments limit the likelihood of independent thought which challenges those same governments to alter their own policies. Such leadership has emerged at times from the Commission of the European Communities, and creation of similar "extranational" bodies might be considered for other international arenas (such as North-South relations) where political factors make it difficult for individual nations to provide strong leadership.

Finally, effective mobilization of international institutions requires stronger support for them within national governments. Few governments are in fact organized effectively to backstop the international organizations of which they are members. There is usually a wide gap between the people responsible for relations with the institutions and those responsible for the substance of the issues. The same government officials who are responsible for national decisions must participate directly in the international institutional process if that process is to succeed. In turn, the position of outward-looking forces within national governments would in most cases be greatly strengthened.

D. INTEGRATION OF NEWCOMERS AND DROPOUTS

Three sets of measures are needed in order to bring additional, primarily developing, countries into effective participation in the international system. First, serious and sustained attention must be paid to

[5] For elaboration of this theme see Egidio Ortona, J. Robert Schaetzel and Nobuhiko Ushiba, *The Problem of International Consultations,* A Report of the Trilateral Task Force on Consultative Procedures, The Triangle Papers: 12 (1976).

their substantive concerns. In terms of broad objectives, this requires the international economic system to attach priority to issues of income and wealth distribution as well as the more traditional goals of efficiency and growth. Numerous examples have already been given of specific measures which should be adopted to help deal both with the problems caused for these countries by the existing international economic order, and the problems which they cause for it.

Concrete action to meet some of the subtantive demands of the developing countries is a necessary condition for integrating them into the international economic order, but it is clearly not sufficient. A second essential step is to provide key developing countries with a role in the international decision-making process which corresponds to their sharply increased importance to the system. Some steps in this direction have already been taken, with the creation of the CIEC and increases in Third World voting power at the IMF and World Bank. Effective participation, as well as cooperative substantive agreements, must round out the effort to involve all key countries in the operation of the system.

A third step is to go still further, and bring selected newcomers into the inner circles of international decision-making. The objective would be two-fold: to improve the performance of the system by integrating such countries into its management, and to enable those countries to improve the effectiveness of their own policies by making them more aware of the feedback from other countries in response to their actions. Countries would be chosen on the basis of their weight in particular international issue-areas, with different criteria applying to membership in different institutions.

The most apt historical precedent is the inclusion of Japan in the OECD in 1962. It would now seem desirable to invite such major new powers as Iran, Brazil and Mexico to join that same organization. Saudi Arabia, which now has the second largest monetary reserves in the world, might be invited to meetings of the Group of Ten, which will doubtlessly continue to act as an informal steering group on some international monetary issues. The established powers should, in general, be alert to the opportunity to broaden their groupings to engage additional countries whose importance in a particular issue-area suggests that international progress will be more readily achieved if they are active participants at all levels of the decision-making process.

The problem of re-integrating the "dropouts" is somewhat different. In most cases, they dropped out because they were unwilling to continue along a path of international cooperation to which they had previously been committed. Such decisions usually flowed from major political changes, such as the onset of the Cold War (regarding Soviet and Eastern European participation in the Bretton Woods institutions). Reversal, or at least moderation, of the underlying political shift is usually necessary for these countries to rejoin the existing institutional arrangements. Indeed, this is already happening to some extent in East-West relations, as individual Eastern European countries join the GATT and IMF with the declining intensity of the Cold War. Nevertheless, in some cases it may be possible to speed such re-integration through alterations in the institutional arrangements themselves which meet legitimate concerns of the countries in question. At the same time, however, it would seldom make sense to alter substantially the basic focus of existing organizations simply for that purpose.

E. LEADERSHIP

The issues of participation in the decision-making process raise directly the question of leadership. Who stands in the innermost circles? Who, within that group, takes the initiative? Who tries to assure follow-up? In short, who is the custodian, both for individual pieces of the international system and its overall integrity?

As already noted, history raises doubts about the feasibility of collective management of the international economic system. And there is a risk that no one will lead if several are expected to do so. Nevertheless, there is no alternative. Collective leadership is indispensable at this point in history.

Within that framework, there are numerous tactical approaches depending on the issue involved and the nature of the problem. As already noted, the executives and staff of international institutions themselves can play a critical role in such a milieu by taking initiatives — after consultation with the key countries — when no individual country feels able to do so. American initiatives are often undesirable, because they trigger negative reactions by virtue of being American. European initiatives appear to be particularly well received by the developing countries, and may thus be the most effective route on issues concerning North-South relationships. The question of who takes the lead on specific problems, and how it should be done, would indeed be one of the key issues for discussions among the collective management.

One can envisage a series of concentric circles of decision-making through which progress toward achieving the needed leadership can be made. A small number of key countries, perhaps as few as two or three on some issues, could decide to pursue a common course of action through completely informal discussions and after consultations with other countries outside this "core group." (The European Communities as a unit could be one of these "countries," as is in fact the case in the CIEC). Next, each could seek to broaden the agreement through further discussions with its own closest associates. Finally, implementation would come through the existing (and newly created) institutions where all relevant countries would become involved. The whole process would of course encompass prior consultations between members of each circle with members of the more outlying circles, as an input to their own thinking and sense of subsequent saleability. The inner group might differ from issue to issue, depending on the importance of different countries on each.

Such an approach would seek to move more effectively toward reaching agreements in the proper institutional forums. It would rest on informal collaboration at the early stages of discussion, as a prelude to eventual formal agreements. This would avoid both domestic political costs to countries which were excluded (a la Rambouillet) and any appearance of imposition by the inner group.

Such a process would require some countries to accept the legitimacy of being represented by others at some stages of consultation and even negotiation. This is nothing new in international affairs — since the creation of the IMF, most of its Executive Directors have represented multi-country constituencies — but now needs to be practiced more widely. It would require early, frequent and intensive consultations between those who are represented and those who are doing the representing. Such an approach has been recommended by the Group of Experts on the Structure of the United Nations to improve the performance of that organization, particularly on international economic issues.

A system of representation is in fact now evolving through the medium of the CIEC. Its four commissions each comprise fifteen countries, and the Conference itself comprises twenty-seven. Within each constituent forum, there is careful balancing among three groups of countries: industrialized, oil-producing and developing non-oil-producing. The countries which are involved, in essence, represent each of these three broader groups. The groups, in turn, caucus — in the OECD (or the IEA), OPEC and UNCTAD (or the Group of 77) — to determine the positions which their representatives will take. In terms of output, the CIEC will not itself seek to implement new agreements. If it works, however, it could provide policy direction for a wide-ranging set of agreements which would be carried out in other forums, perhaps including some new forums (such as for new commodity pacts) generated by its activities.

It is much too early to assess the success of the CIEC. It suffers from some institutional liabilities, such as the absence of its own secretariat and other institutional necessities. (Such a secretariat should be small and non-operational, in view of the functions of CIEC, but is needed *inter alia* to prepare common documents for the meetings, record the decisions that are taken, and promote follow-through.) But it meets some of the objectives outlined in this report as most essential for strengthening the role of international organizations: integrating the newcomers by dealing seriously with their substantive concerns and providing them with an effective participatory role, and reconciling the tension between (a) widespread participation and hence legitimacy and (b) effective decision making. It thus provides a promising avenue for enhancing the role of international organization.

F. COORDINATION ACROSS AND WITHIN ISSUE-AREAS

The CIEC also offers a promising approach toward improving international coordination across different issues. History has demonstrated that it is unwise to pursue coordination by locating functionally separate issues under a single institutional roof. But this leaves unanswered the question of how to achieve the coordination required by the increased interrelationships among issues, or even adequate coordination among the several institutions which exist within a given issue-area.

Intra-issue coordination is a problem in several areas. Regarding international monetary affairs, for example, there are at least six important institutions whose functions are largely overlapping: the Executive Board of the IMF, its Interim Committee (which supplanted the Group of Twenty), the Group of Ten, the informal Group of Five (or sometimes six or seven), the Bank for International Settlements, and Working Party Three of the OECD. In this particular case, the dominance of the same countries in the different forums — and the frequent participation in them by the same individuals — minimizes the risk of uncoordinated approaches.

In trade, however, the problem is more complex. The OECD, which occasionally is the locus for important trade activities, is comprised mainly of industrialized countries. UNCTAD is dominated by the developing countries. Predictably, both the objectives and specific measures promoted by these two institutions, nominally in the same field of activity, are quite different. Indeed, the OECD and UNCTAD have to some degree become caucuses for the richer and poorer countries, respectively, on such issues as generalized tariff preferences and aid levels, before they meet in common forums such as the GATT. Some such universal grouping, which supersedes the institutions dominated by a subuniversal group, may be needed in all such cases.

As already noted, foreign assistance is the component of international economics where the greatest proliferation of institutions has occurred. Even experts have difficulty keeping track of all the new funds which are emerging or being proposed to channel help for specific purposes (food production, energy research, technology transfer, etc.) or to specific countries (those "most seriously affected" by the higher price of oil, Moslem countries, producers of raw materials, etc.). In this case, the new "world development budget" is needed to assure better coordination of the entire process.

Informal collaboration among the leading countries is probably the best route to effective coordination among international economic issue-areas. Indeed, such coordination as has occurred in the past came through such devices. In the 1971 monetary crisis triggered by the U.S. suspension of dollar convertibility and imposition of an import surcharge, for example, the Group of Ten was forced to relate trade to monetary measures. The institution of the CIEC is a step toward such an approach. So were the economic summits of late 1975 and mid-1976, though their legitimacy was less certain because of the exclusion of all developing and many smaller industrialized countries.

The only issue is the means through which coordinating efforts will take place. One possibility is to use large, multi-purpose organizations such as the United Nations and, in the field of international economics, the UN Conference on Trade and Development. These groups have traditionally proved too large and politicized to achieve much effective coordination. To be effective they would need to reform their own procedures, particularly to set up small issue-oriented bargaining groups as recommended by the Group of Experts on the Structure of the United Nations System.

Another possibility is meetings of smaller groups, either formally or informally, on either an *ad hoc* or regular basis. This approach raises questions of legitimacy and could cause internal political difficulties for those left outside — especially if the sessions were publicized and held regularly. But it provides flexibility to alter the composition of the steering group as the importance of different issues waxes and wanes; for example, Switzerland is important on many international monetary matters and Iran is an essential participant in energy discussions.

Hence the three-fold set of concentric circles of decision making outlined above also seems best attuned to the needs of coordination across issue-areas. The members of the innermost circle — always on the basis of constant consultation with their own closest partners, and indeed with all countries which they "represent" — would bear the bulk of the responsibility for relating the various issues to each other in a cohesive manner. For these coordination purposes, the membership of the inner group would have to remain largely constant, and some members of it would have to participate in each of the core groups on specific issues.

The core countries could get together either through purely *ad hoc* sessions, or within the broader framework of the United Nations or other institutions attended by officials with sufficient authority to address the wide range of issues involved. Either approach would force individual governments to develop better means of internal coordination across issue-areas, which are now often quite inadequate. Hence the process would become mutually reinforcing as between the national and international levels.

V. Epilogue

The objective of these proposals is to bring all issues of international interdependence under the governance of effective international rules and institutional arrangements. This requires the creation of a few new institutions and the reform of many existing institutions, each to pursue functionally specific tasks. It requires engaging all relevant actors in the decision-making process, while at the same time developing collective leadership of the system and better coordination within and across issue-areas through joint management by small groups of key countries. It requires national willingness to submit important issues to international institutional determination and to accept representation by other countries at some stages of the decision-making process, and more effective management in the institutions themselves to win confidence in national capitals and hence spur the process.

History has shown that effective international institutions can defuse conflicts among nations and deter globally harmful outcomes, which are not only possible but probable in the absence of such institutions. Indeed, such institutions can often promote outcomes in which all countries benefit from higher degrees of international cooperation. International interdependence is expanding rapidly in a whole range of issue-areas. So is its antithesis, nationalist opposition to international approaches. Hence a high priority must be attached to the further evolution of international institutional arrangements.

The world has already entered its third postwar wave of institution-building. The first wave came immediately after 1945, with the creation of the United Nations system and its economic components — particularly the Bretton Woods institutions. The second came around 1960 and included the Common Market, the Organization for Economic Cooperation and Development, the regional development banks and — though it was barely noticed at the time — OPEC. The third wave began around 1973, and continues to this day. It has witnessed creation of a United Nations Environment Program, a World Food Council, an International Energy Agency, a series of "producers associations" of exporters of primary products, and most recently the CIEC with its four standing commissions.

The first and second postwar waves of international institution-building made the world safe for the explosion of interdependence of the last generation, which has been a central element in the explosion of prosperity and the maintenance of peace. Imaginative conclusion of the third wave is necessary to ensure such results for the next generation. It must rank high on the foreign policy agendas of all countries.

The Industrialized Democratic Regions in a Changing International System

Inaugurated in July 1973, the Trilateral Commission is a policy-oriented organization. Based on analysis of major issues facing the trilateral regions, the Commission has sought to develop practicable proposals for joint action. The Commission's members are about two hundred distinguished citizens from the three regions, drawn from a variety of backgrounds.

The historical roots of the Commission can be traced to serious strains early in the 1970s in relations among Japan, North America and Western Europe. As the decade has proceeded, however, it has become increasingly clear that the strains and shifts in the international system are global as well as trilateral in scope. The renovation of the international system is a task of global as well as trilateral dimensions, and the work of the Commission has moved accordingly.

In this global effort, the industrialized democratic regions remain an identifiable community and a vital core. Their focus, however, must not be on the preservation of the status quo, but on arrangements which increasingly embrace the Third and Fourth Worlds in a cooperative endeavor to secure a more equitable world order.

The renovation of the international system will be a very prolonged process. The system created after World War II was created through an act of will and human initiative in a relatively restricted period of time. One power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation — much longer and more complex — a process in which prolonged negotiations will have to be engaged and developed. In nurturing habits and practices of working together among the trilateral regions, the Commission should help set the context for these necessary efforts.

△THE TRIANGLE PAPERS

Reports of Task Forces to The Trilateral Commission

1. *Towards a Renovated World Monetary System* (1973)
   Trilateral Monetary Task Force
   Rapporteurs: Richard N. Cooper, Motoo Kaji, Claudio Segré
2. *The Crisis of International Cooperation* (1974)
   Trilateral Political Task Force
   Rapporteurs: François Duchêne, Kinhide Mushakoji, Henry D. Owen
3. *A Turning Point in North-South Economic Relations* (1974)
   Trilateral Task Force on Relations with Developing Countries
   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink
4. *Directions for World Trade in the Nineteen-Seventies* (1974)
   Trilateral Task Force on Trade
   Rapporteurs: Guido Colonna di Paliano, Philip H. Trezise, Nobuhiko Ushiba
5. *Energy: The Imperative for a Trilateral Approach* (1974)
   Trilateral Task Force on the Political and International Implications of the Energy Crisis
   Rapporteurs: John C. Campbell, Guy de Carmoy, Shinichi Kondo
6. *Energy: A Strategy for International Action* (1975)
   Trilateral Task Force on the Political and International Implications of the Energy Crisis
   Rapporteurs: John C. Campbell, Guy de Carmoy, Shinichi Kondo
7. *OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980* (1975)
   Trilateral Task Force on Relations with Developing Countries
   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink
8. *The Crisis of Democracy* (1975)
   Trilateral Task Force on the Governability of Democracies
   Rapporteurs: Michel Crozier, Samuel P. Huntington, Joji Watanuki
9. *A New Regime for the Oceans* (1976)
   Trilateral Task Force on the Oceans
   Rapporteurs: Michael Hardy, Ann L. Hollick, Johan Jørgen Holst, Douglas M. Johnston, Shigeru Oda
10. *Seeking a New Accommodation in World Commodity Markets* (1976)
    Trilateral Task Force on Commodities Issues
    Rapporteurs: Carl E. Beigie, Wolfgang Hager, Sueo Sekiguchi
11. *The Reform of International Institutions* (1976)
    Trilateral Task Force on International Institutions
    Rapporteurs: C. Fred Bergsten, Georges Berthoin, Kinhide Mushakoji
12. *The Problem of International Consultations* (1976)
    Trilateral Task Force on Consultative Procedures
    Rapporteurs: Egidio Ortona, J. Robert Schaetzel, Nobuhiko Ushiba

△ THE TRIANGLE PAPERS: 12

THE PROBLEM OF INTERNATIONAL CONSULTATIONS

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The Trilateral Commission
A Private North American-European-Japanese Initiative on Matters of Common Concern

This report has been prepared for the Trilateral Commission and is released under its auspices. It was discussed at the Trilateral Commission meeting held in Ottawa, May 9-11, 1976, and the Joint Statement issued in Ottawa was based in part upon it. The authors, who are experts from North America, Western Europe and Japan, have been free to present their own views. The Commission will utilize the report in making any proposals or recommendations of its own. It is making the report available for wider distribution as a contribution to informed discussion and handling of the issues treated.

The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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The Problem of International Consultations

A Report of the
Trilateral Task Force on
Consultative Procedures
to the
Trilateral Commission

Rapporteurs:

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The Rapporteurs

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NOBUHIKO USHIBA was Ambassador of Japan to the United States in 1970-73. In 1964-70, he served in Tokyo as Deputy Vice-Minister and then Vice-Minister of Foreign Affairs. Mr. Ushiba joined the Japanese diplomatic service in 1932, after graduation from Tokyo Imperial University. He served in various major European capitals in his earlier assignments. In 1951, he was appointed Director-General of the International Trade Bureau of the Ministry of International Trade and Industry, later becoming Director-General of the Economic Affairs Bureau of the Ministry of Foreign Affairs. Mr. Ushiba was Ambassador to Canada in 1961-64.

The Trilateral Process

The report which follows is the joint responsibility of the three rapporteurs of the Trilateral Task Force on Consultative Procedures, with J. Robert Schaetzel serving as principal drafter. The rapporteurs have been aided in their work by extensive consultations. In each case, the consultants spoke for themselves as individuals and not as representatives of any institutions with which they are associated. Those consulted included the following:

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Graham Allison, *Professor of Politics, Harvard University*
John B. Anderson, *U.S. House of Representatives*
Reginald Bartholomew, *Deputy Director, Policy Planning Staff, U.S. Department of State*
Robert A. Best, *Chief Economist, Senate Committee on Finance*
Harold Brown, *President, California Institute of Technology*
Zbigniew Brzezinski, *Director, The Trilateral Commission*
Alfred Cahen, *Minister and Deputy Chief of Mission, Embassy of Belgium to the United States*
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John Schnittker, *former U.S. Undersecretary of Agriculture*

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Sir Eric Wyndham White, *former Director-General of GATT*

Tadashi Yamamoto, *Japanese Secretary, The Trilateral Commission*

SCHEDULE OF TASK FORCE ACTIVITIES:

December 7, 1974 — Preliminary discussion of task force concerns in trilateral "brainstorming" session in Washington, D.C., including Schaetzel, Brzezinski and twenty-four others.

February 28, 1975 — Schaetzel meets with North American consultants in Washington, D.C.

March 26, May 21 — Ushiba meets with Japanese consultants in Tokyo.

May 26 — Rapporteurs meet with consultants in Tokyo.

Late August — Schaetzel completes first draft of report.

September 13-14 — Rapporteurs and Makins meet in Seattle to consider first draft.

Early November — Schaetzel completes second draft of report.

November 19 — Ortona meets with European consultants in Brussels to discuss second draft.

November 25 — Ushiba meets with Japanese consultants in Tokyo.

November 30 — Rapporteurs meet with consultants in Paris to discuss second draft.

January 8, 1976 — Schaetzel meets with trilateral group of consultants in Washington, D.C. to discuss second draft.

March 10-11 — Rapporteurs and Makins meet in Tokyo.

Late March — Schaetzel completes third draft of report.

April 26 — Ushiba meets with Japanese consultants in Tokyo.

May 9 — Draft report discussed at meeting of Trilateral Commission in Ottawa.

Mid-June — Final draft completed.

SUMMARY OF THE REPORT OF THE TRILATERAL TASK FORCE ON CONSULTATIVE PROCEDURES

The Problem of International Consultations

Consultation is hardly a novel concept — it is inherent in traditional diplomatic practice. The report explores a more extensive commitment and sophisticated process beyond normal diplomatic practice, which can enable the Trilateral countries to deal with contemporary problems, notably in the international economic area.

The benefits of consultations (discussed in Chapter IV) have many dimensions. Consultations are a principal device for renewing the basic consensus among Trilateral countries, which would make easier the modification of domestic policies to minimize adverse effects on foreign interests, the reconciliation of direct conflicts of interest, and common action on international problems. Consultation can lessen the shock of sudden action and minimize embarrassment to a friendly state. The educational value of consultation is substantial, and it can sometimes produce new ideas or approaches through collective consideration. Consultation can serve as a means of influencing the domestic decision-making process, through international input or by requiring an internal concentration of effort and coordination among various departments.

Despite these benefits, the development of improved consultative processes faces many obstacles (discussed in Chapter V). Some of these derive from internal politics, such as vulnerability to charges of undue foreign influence in national decision-making or structural complications from a constitutional system like that of the United States. Others are external political ones, such as the problem of excluding certain governments, and the multiplicity of multilateral commitments and agreements. There are other difficulties of a procedural or psychological nature.

If improvement in consultation is to occur, the obligation to consult must be clarified and to a degree limited. Four criteria are suggested to reduce the commitment to manageable proportions and to make it routine and automatic:

1. Information will be volunteered on matters likely to embarrass significantly other parties.
2. Consultation will be undertaken where the vital interests of other parties are involved.

3. Consultation will be undertaken at the request of one or more other parties.

4. Previous agreements for consultation on specific matters will be honored.

Experience is at odds with hopes for implementation of agreed criteria. As a general rule, countries have been unprepared to consult on the most important issues. The report argues, however, for improved consultative procedures by which governments would face difficult issues early, informally and without drama. The involvement of legislators is also advisable in general, and indispensable in the U.S. system. A recognition by political leaders of the importance of effective consultation is essential.

The report makes a number of specific recommendations:

1. A *Trilateral Staff Group* should be established of senior governmental advisers with the personal confidence of the heads of government. It would oversee the whole range of trilateral consultations and cooperation. It would, among other functions, identify issues on which consultation is inadequate or non-existent and provide the necessary political drive to rectify this.

2. A *Trilateral Political Committee* should be established to discuss and, where possible and desirable, seek ways of coordinating foreign political activities. The European Community Political Committee should be asked to designate the European representative on this Committee — perhaps one official from the European Commission and one from the member state currently president of the Council of Ministers.

3. Recognition should be given to the value of the OECD as a flexible instrument at hand, ideally suited for more effective consultation.

Table of Contents

I. Introduction

The concept of interdependence, accepted as an intellectual fact if not as a guide to policy, rests on a series of realities: nuclear war as a practical risk; an indivisible international market for goods and supporting economic and financial services; revolutionary changes in electronic and physical communication. But interdependence is challenged by nationalism — countries attempting to cope with explosive political and economic phenomena primarily through national efforts. This tension imparts a special urgency to the search for new policies and improved cooperative arrangements among the industrial and democratic societies of the trilateral world, which are bound together by common security, political and economic interests, and by their need to deal with a world in transition. Whatever the next stage, improved consultative procedures will inevitably be important. Consultation can provide the lubricant which makes it easier for allies to live with a host of angry problems. Consultation can help weave a new web of cooperation to counter the centrifugal forces of nationalism and the risk that smaller nations will drift towards neutralism while the large powers seek security in armed isolation.

The economic element has become the most important and difficult aspect of the trilateral relationship. Today many of the most critical issues arise from the international ramifications of internal economic problems, reactions and policies, and, conversely, the impact of international economic events on domestic affairs. Inflation, unemployment, recession and social discontent create intense political pressures which too frequently induce purely national responses, with little attention to the effects of these actions on others. Interest groups and governmental agencies, formerly on the fringes of international affairs, have now become directly involved. Failure to control and manage intelligently the economic sector of the complex relationships among trilateral countries can undermine political and security arrangements. This is both a matter of maintaining the economic base upon which the political and security commitments rely, and of avoiding the debilitating frictions and tensions that economic problems generate which, if left untended, can destroy the larger structure.

Consultation is hardly a novel concept; it is inherent in traditional diplomatic practice. However, the more extensive commitment and sophisticated process explored here refer to policies, programs and actions beyond normal diplomatic practice, with more far-reaching, explicit and predetermined obligations.

II. Definition

We wish to avoid the sterile exercise of artificial definition and subdivision, but a brief reference to various degrees and objectives of consultation is useful for the subsequent analysis:

1. exchange of general information;
2. advice regarding a specific action taken;
3. advance information of an action to be taken — to minimize shocks, to gain support, to solicit consent;
4. consultation where subsequent modification of a proposed action is not excluded;
5. consultation in order to encourage separate, but parallel national actions or policies;
6. consultation with the objective of concerted international action.

These various forms of consultation may be aimed at different objectives, carried out bilaterally or multilaterally, formally or informally, on an *ad hoc* or periodic basis, within existing organizations or outside such organizations.

Most consultation among trilateral countries lies at the informational end of the scale. An incident during the Cuban missile crisis provides an illustration. Under instructions from President Kennedy, Dean Acheson was sent to Paris to brief General de Gaulle on the actions the United States was about to take in response to the Soviet missiles being installed in Cuba. At the conclusion of the meeting at the Elysée, de Gaulle made the point: "I understand that I am being informed, not consulted."

While there is a distinction between "consultation" and "negotiation," the distinction is not always sharp and the two often overlap. This is particularly true where consultation, as so frequently happens, prepares the ground for subsequent negotiation. Consultation is often used as an alternative device where actual negotiations are infeasible; the process can be used to deal with unresolved negotiating points when resigned negotiators settle on a commitment to consult as an escape from an impasse.

Defined in a different way, consultation can be broken down into three broad categories:

1. consultation with respect to *domestic programs or policies* (e.g., domestic tax policies) *where the impact on other nations may be indirect and limited,* but where consultation nonetheless becomes increasingly necessary in a world of growing interdependence.

2. consultation where there are *direct conflicts of policy or interest between trilateral countries* (e.g., between the United States and the European Community with respect to the Common Agricultural Policy). Consultation can rarely remove the basic conflict; it can moderate and defuse the dispute.
3. consultation in those substantive areas *where the postwar consensus has collapsed* (e.g., monetary policy) *or new policies are required* (e.g., North-South relationships, international seabed). Common exploration among experts and informal consultation can be the means of developing a new consensus.

III. Present Organization for Consultation

A bewildering variety of institutions are available for consultations: global international organizations (such as the UN, IBRD, IMF, and GATT); functional organizations with limited membership (like OECD, NATO, the International Energy Agency, and the Bank for International Settlements); bilateral arrangements, both formal and informal (e.g., joint ministerial committees); and finally the increasingly popular summit meetings, both bilateral and multilateral. Despite the range of new problems, the burden of proof falls on those who propose the creation of additional international agencies. The first step clearly should be to use more imaginatively and effectively existing institutions.

A. AMONG TRILATERAL COUNTRIES

Within existing organizations and with present consultative practices, consultation has been shown to work best where a substantial policy consensus exists. Such a consensus facilitated extensive consultation among Treasury and central bank officials while the Bretton Woods system was intact. A similar broad consensus exists within the Atlantic Alliance on security policy. Consultation can also work reasonably well where no vital national interest is at stake. Consultation is, on the contrary, least likely with respect to a major issue where neither agreed domestic policy nor international consensus on the nature of the problem exists, and each country is attempting to work out its internal position alone. After a false spring when the IEA was first established, energy turned out to be such an issue.

Europe has institutionalized the summit technique, bilaterally for instance under the Franco-German Treaty, and multilaterally with the recently established thrice-yearly European Council of the nine heads of government. While in the past summit meetings have frequently shown more form than substance, with timing erratic and preparation meager, the European Council has become a device for serious Community consultation. Regular meetings force better preparation, draw in the career service, and show promise of leading to real coordination among the Nine.

B. WITH DEVELOPING COUNTRIES

The problems of organizing consultation among the trilateral countries pale before the task of carrying out a dialogue with the Third World. The reasons are many: the variety and differing interests of the developing countries; dissension among them; governments which can be both authoritarian and weak; daunting economic and social problems; policies and attitudes often shaped more by outside pressures, political expediency and emotion than considered self-interest.

The OECD, whose primary purpose is to facilitate economic cooperation among the advanced industrialized countries, contributes to the North-South dialogue through such means as the Development Center and the Development Assistance Committee. The IMF and the IBRD have become useful devices on certain issues. The Lomé Convention provides a framework for extensive consultation and cooperation between the European Community and 46 associated developing countries. The new 27-nation Conference on International Economic Cooperation (CIEC), assisted by the OECD and the IEA, is the most promising consultative bridge between the rich and the poor nations. Large unwieldy meetings (UNCTAD, for example) have been shown to be peculiarly unconducive to serious discussion; much less, true consultation. The objective must be to narrow the agenda and to limit participation. Hence the promise of the CIEC.

Given the crucial role of individual leaders in many developing countries, one of the most effective means of North-South consultation may be informal contact with these key individuals in Africa, the

Middle East, Asia and Latin America. This can generate understanding and be a useful pre-negotiating tool. European officials have successfully used this technique in relations with associated African states. When this device is used it should be preceded by consultation among the trilateral nations and followed by reports to appropriate trilateral officials.

C. WITH COMMUNIST COUNTRIES

Consultations with the communist world fall into a special category. Over the years, members of the North Atlantic Alliance have evolved a psychological framework and a sense of mutual obligation to consult on relations with the Soviet Union. It is accepted that reports will be made to the North Atlantic Council of consequential discussions with Russian leaders; increasingly consultation in the Council precedes important meetings of Western foreign ministers or heads of government with the Russians. One beneficial side effect of the Helsinki conference was to force the Nine to prepare a common position for the negotiations, which included discussions with the United States before the positions of the Nine were advanced at the conference.

Japan has an interest in sharing assessments of Soviet capabilities and intentions, identification of areas where common trilateral policies are necessary, exchanges of views before major contacts are made with Soviet officials and, of course, detailed *ex post facto* reporting. The trilateral nations have a similar interest in trilateral consultations regarding China.

In recent years a practice has grown up of both formal and informal consultation, on a bilateral basis, between Western and communist countries. This consultation, primarily with the Eastern European countries, has remained in the area of exchanges of information. The smaller communist countries welcome this avenue of communication, despite the modest substantive content. It provides a means of exchanging different points of view and of escaping from the Soviet-dominated structures of the Warsaw Pact or CMEA.

IV. The Case for Consultation

The benefits of consultations have many dimensions. First, they are a principal device for renewing the basic consensus which makes easier the reconciliation of direct conflicts of interest, common action on international problems, and modification of domestic policies to minimize adverse effects on foreign interests — crucial aspects of a well-functioning trilateral relationship. Such consultation in the early 1960s preceded the establishment of the Development Assistance Group out of which came the Development Assistance Committee. A similar process of intense consultation prepared the way for the International Energy Agency. Consultation regarding problems involving other areas (such as the relationship between the rich and the poor countries) may create quite coincidentally a climate of common purpose which can facilitate the resolution of specific contentious issues between members of the trilateral group.

The educational value of consultation is substantial. As a pre-negotiating tool, or as a means of exploring a new problem, the consultative process produces valuable information. Consultation can be one of the most effective means of determining the seriousness with which other governments approach a subject, and the political restraints which will limit their freedom of movement.

Consultation can be to the politician what preventive medicine is to the doctor. It can lessen the shock of sudden action and minimize embarrassment to a friendly state. Consultation can provide partial protection against retaliatory action by those who feel injured. Consultation can also be used to create an implied obligation on the part of the nations informed that they provide advance notification in similar situations. The common element of each of these motivations is an elementary appreciation that the absence of some form of consultation is apt to produce ill will, worsened relations and even to provoke retaliation.*

Consultation can sometimes be commended as a means of producing, through collective consideration of international problems, new

*Sometimes, however, the best defense in the face of domestic uproar precipitated by the actions of a transgressing ally appears to be confession of ignorance. A case in point was the American use of German ports during the 1973 Yom Kippur war without prior discussion with Bonn. To parry such attacks with a plea of no advance consultation is nevertheless an admission of failure, of a breakdown in cooperation.

ideas and approaches. Although committees, whether national or international, are not creativity's natural breeding ground, examination in common of major issues and of possible courses of action can serve useful purposes. Frequently the difficulty is less the absence of an idea or program than the novelty of each, or how to choose among several approaches, and develop a consensus. Thus consultation becomes a means of obtaining acceptance of a new idea. The 1975 Commonwealth conference in Kingston provided a forum for consultation out of which came general agreement on the British scheme for commodity stabilization.

From the internal point of view a major objective, and one of growing importance, is consultation as a means of influencing the domestic decision-making process. At a time when governments are overwhelmed by domestic preoccupations, an obligation to consult can be the best if not the only means of broadening the internal debate and thus assuring that some consideration will be given to the international implications of national policies. Because of Japan's decision-by-consensus, vertically-organized society and insular political life, strong outside pressure through a consultative process is of special importance.

Preparation for consultation at the ministers-of-foreign-affairs or heads-of-government level makes inescapable an internal concentration of effort and coordination among the various departments and facilitates the process of domestic decision-making. Moreover the obligation of ministers to meet colleagues periodically and deal with a predetermined agenda forces attention on international issues and can prepare the way for subsequent informal and more productive contacts. Periodic ministerial conferences, such as the annual meetings of the IMF and the OECD, encourage informal corridor discussions.

V. Obstacles to be Overcome

For effective and profitable consultation many obstacles must be surmounted.

A. INTERNAL POLITICAL OBSTACLES

A commitment to consult in agreed areas is easier to accept in the abstract than to implement. And failure to implement a consultative commitment can intensify the tension and resentment caused by a particular dispute, since domestic interest groups and the media can be counted on to berate the government for the fact that the offending country has failed to live up to its specific commitments (e.g., France, in imposing restrictions on wine imports despite European Community obligations, aroused Italian passions).

Consultation is always vulnerable to the demagogic charges that it is an attempt by foreigners to interfere with the internal decision-making process. American criticisms of the Common Agricultural Policy (CAP) — that it is a protective system that foredooms the outsider to the role of residual supplier, that its price structures are unreasonably high — have been so attacked in Europe, as Europeans have denounced Washington's attempts to become involved at an early stage in the process of political consultation among the Nine.

The domestic decision-making process can be an obstacle to effective consultation. America's constitutional system is a case in point, particularly the independent power of Congress, whose members tend to approach issues from predominantly national points of view.

There are compelling reasons to involve the Congress systematically and early in the international consultative process, but this is exceedingly difficult to accomplish. Orderly and substantive contacts between the Congress and the Administration on foreign economic issues are more the exception than the rule. The traditional foreign affairs committees of the House and Senate are even more on the fringes of the new trilateral agenda than is the State Department within the Executive Branch. Different committees — Ways and Means, Banking and Currency, the Joint Economic Committee — and obscure centers of Congressional power are largely domestically oriented even though their actions can have the most profound international effects. The problems imposed by this unique constitutional system can only be solved through improved techniques of discussion, cooperation and compromise between the Executive and the Congress.

In this litany of obstacles the asymmetry of political systems, of parliamentary government versus the American constitutional system, must be noted. Not only does this asymmetry constrain the ability of the American Executive Branch to consult internationally, but it is a special barrier to effective dialogue among European, Japanese, Canadian and American parliamentarians. Indeed it can be argued that because of the coequal power of the U.S. Congress its logical counterparts abroad are not parliaments but government officials.

Europe remains a hybrid — part classical nation-states, part nascent Community. Its ambition to deal on equal terms with the United States is frustrated by disunity and the difficulty of designating a single spokesman who can speak and consult for Europe on critical issues. In the crucial economic area, the Brussels institutions have been given only a limited mandate after twenty-five years. Even in cases where authority under the treaties is clear, the member states are ambivalent about the role they are prepared to assign the European Commission.* Washington's customary reaction to this situation, abetted by the three largest Common Market countries, is to consult exclusively with France, Germany and Great Britain. The result is to undermine the struggling Community institutions, aggravate relations with other Community members, and of them with the three. However, even if there were to occur a sudden revival of political will and commitment, the still incomplete organization of Western Europe implies an awkward partner for Japan and America.

Japan's distinctive cultural patterns pose special problems. The face it presents of a complex decision-making process working from the bottom up, and of a vertically organized and divided society with an ubiquitous press makes international consultation appear difficult. This seems a paradox, for consultation is an integral part of its domestic political process. Internationally there are the problems of language, particularly among politicians, and of geographical remoteness. The distance between Europe and Japan is more than a matter of statute miles. To each the other is truly foreign, although this attitude is being slowly changed. However, strangeness and unfamiliarity appear to be more the obstacles than what are sometimes assumed to be inherent differences between Japan and its trilateral partners. Japan has shown its interest in expanding consultation with the United States, Canada, and Western Europe in all fields; in the economic area this interest could carry Japan to consultation beyond the mere exchange of information.

*Prime Minister Tindemans identified these problems in his recent report on European Union.

B. EXTERNAL POLITICAL OBSTACLES

Consultation, by its nature restricted, inevitably contains the disadvantages of exclusion — some countries will be outside the privileged group. The adverse impact of exclusion is real, both on those excluded and on the institutions which would have been used but were bypassed. Removing crucial issues from the agenda of appropriate agencies undercuts their authority and insures their further decay. The impact of exclusion is illustrated by the 1974 initiative of the United States in bringing together the five major industrialized countries (France, the United Kingdom, Germany, Japan, and the United States) to examine financial and monetary problems. In spite of the informality of the group, its meetings stirred up adverse reactions in other countries which have a strong interest in such discussions and are members of established institutions (the IMF and the OECD) with jurisdiction in the field. Similar difficulties arose in connection with the French initiative for the November 1975 "economic summit" at Rambouillet, especially over the exclusion of Italy, only belatedly invited, and Canada. Although insistence on participation can spring from little more than national ego, it can also arise from serious concern over the domestic effects of exclusion. If not party to consultation concerning issues of vital national importance, political leaders find it difficult later to get their governments to accept a consensus reached without their participation. Exclusion is especially sensitive for the nine members of the European Community. Treaties and collateral obligations commit them to Community institutions and to inclusive, not exclusive, procedures. The CIEC may point the way for the President of the Council and the President of the Commission officially to represent the Nine. It is sometimes argued, in support of the growing practice of special gatherings of the larger powers, that the participation of many smaller states would render agreement impossible. This ignores the fact that the difficulties to be resolved generally arise from disagreements among the larger powers. The smaller nations, which derive distinct benefit from the consultative process, usually give way in any event. Repeatedly it has been the larger countries that frustrate the consensus, or violate the agreed rules. Laborious Community efforts to arrive at a common position on Angola were in the end frustrated by the French with their precipitous unilateral action in recognizing the Popular Movement.

The tangle of treaties, agreements and institutions (bilateral, European Community, NATO, OECD, etc.) illustrates the varied interests and differing obligations of the trilateral nations and complicates consultations. The problem is most obvious and difficult in the field of defense. The Atlantic nations have their North Atlantic Alliance commitments. For the Japanese defense is internally a sensitive issue and externally largely a matter of its bilateral relations with the United States. At the present time no overarching trilateral structure exists. An additional problem for Europe, made more complex by its disunity, is the maze of bilateral commitments and intra- and extra-European organizations — the European Community, the Political Committee, NATO, the Euro-group, WEU, OECD. The various intra-European organizations do provide one means of dealing with the perplexing question of peripheral countries which are not members of the Community—the European neutrals, Norway, Iberia, Greece and Turkey. The obligations of the Nine to and their bureaucratic investment in these organizations, however, sap the executive energy needed for effective trilateral consultation and add to the complexity of an already difficult process.

C. PROCEDURAL OBSTACLES

Extensive and detailed obligations to consult may have the effect of diluting the content of policy. If consultation means that alternative courses of action for critical problems must be explored with allies, then there is the risk that the design and launching of novel and daring proposals can be inhibited. The end result can be the lowest common denominator, another term for mediocre.

On major issues, national policies are often the product of protracted internal conflict and compromise. A commitment to international consultation on such matters can mean reopening old wounds.

One of the most troublesome aspects of consultation is the risk of disclosure, the "leak." Ironically, the problem lies generally in the concern over potential domestic embarrassment rather than international repercussions. There is no foolproof insurance against this contingency. But it is a risk habitually overstated (for example, there was no breach in the security of the sensitive SALT I consultations in NATO) and unscrupulously employed as a rationale to excuse the failure to consult. While there is a widespread view that Japan, because of its pervasive press, may have more trouble than the other members of the trilateral group in maintaining the privacy of consultation, the differences appear marginal.

Frenetic exchanges of information, official visits and consultation can be construed, or tacitly accepted, as a painless substitute for coherent policies, strong institutions and effective, enforceable rules. In short, the process can become a narcotic. Instead of employing consultation as a means of strengthening Community institutions and improving its decision-making process, the Nine often resort to bilateral exchanges and informal discussions, a less promising path to European unity.

Clearly dangers exist in adequate preparation for consultation, especially at the ministerial or heads-of-government levels. Ambiguity routinely surrounds the nature of decisions or a consensus reached at such meetings. The most powerful, the loudest or the most assertive participant (witness Secretary Connally during the post-August 1971 financial crisis) can dominate the process with only coincidental reference to the merit of the various positions advanced.

D. PSYCHOLOGICAL OBSTACLES

Drama is the enemy of effective consultation. Once an issue is drawn under the spotlight of public attention, whether directed by the media, special interest groups or incensed politicians, a hardening of positions occurs which makes more difficult and frequently precludes the modification of views essential to consultative success.

Politicians thrive on initiatives which carry their names. As a collective activity, consultation tends to take over the initiative and deny the politician his moment of personal glory.

A subtle but important point is the relationship between extended international consultation and the citizen's current sense of alienation. The latter stems from the remoteness of national government, its apparent indifference to the individual's day-to-day problems and personal needs, and government's contrary sensitivity to general and elusive considerations. In this atmosphere, especially in the United States, extensive, advertised, serious consultation could lead to the charge that governments have "more interest in communicating with foreigners than with their own citizens." This might well increase the sense of alienation.

VI. Improvement in Consultative Procedures

If improvement in consultation is to occur the obligation to consult must be clarified and to a degree limited. It would be manifestly absurd to establish the premise that consultation should cover all subjects. Several criteria could be established to reduce the commitment to manageable proportions:

1. Information will be volunteered on matters likely to embarrass significantly other parties.
2. Consultation will be undertaken where the vital interests of other parties are involved.
3. Consultation will be undertaken at the request of one or more other parties.
4. Previous agreements for consultation on specific matters will be honored.

The objective is to make consultation routine and automatic, especially to insure that failure to consult will become an embarrassment to delinquent parties. One rule to this end would be to place an obligation on the offending country to justify its failure to consult on any subject covered by the four criteria.

No matter how heroic the effort, consultation will remain a complex and confusing part of the trilateral relationship. Failure to meet the obligation to consult, or disingenuous consultation, can easily worsen rather than strengthen relations. These dangers can be lessened by reducing ambiguity to the extent possible. Only in rare circumstances will the subject matter be precise, understood on all sides, and the consultative procedures equally explicit. Nevertheless, all parties to consultation must know the rules. The initiating party must assume an obligation to inform others whether they are merely being advised, or whether reactions are actually desired, or whether the initiator has either the intention or the latitude to adjust his proposed course of action in light of the comments subsequently proffered. Resentment can easily result if carefully prepared, serious reactions are ignored or summarily rejected. A central part of the process is that each party must make clear the constraints within which he operates and within which the consensus or solution must be found. Overstating or misrepresenting these constraints for bargaining purposes, however, can destroy the mutual confidence upon which a serious consultative process relies.

Experience is at odds with hopes for implementation of the criteria outlined above. As a general rule countries have been unprepared to consult on the most important issues — the Nixon opening to Peking; America's August 1971 monetary moves; the invasion of Suez by France and Britain in 1956. The record can be construed as an argument for concentrating on the less important, less sensitive items. But it is also an argument for facing highly charged and difficult issues early, informally and without drama.

The seriousness and fruitfulness of consultations are in inverse ratio to formality. This rule argues against excessive reliance on such instruments as formal ministerial committees. Discreet informal contacts are obviously essential to the work of more formal groupings. In the case of the nuclear-supplying nations, had there not been informality and discretion, neither the meetings nor the general agreement on provisions covering exports of nuclear technology of materials would have been possible. If a major objective of consultation is to affect the national decision-making process, timing is crucial. If a country is serious in imparting information, or in suggesting consultation on a given matter, then the dialogue must begin early. There must be sufficient time for those consulted to examine the problem, hold their own internal discussions, and arrive at a considered view. Unless the initiating party is play-acting, there must be adequate time prior to the taking of action so that the reactions solicited through the consultation process can be taken into account.

Adequate time is essential for other reasons. With the exception of the global institutions, someone will always be on the outside looking in. Political consultation in the North Atlantic Council excludes, for instance, European neutrals and Japan; the Eurogroup within NATO, from which France has excluded itself, does not include the United States and Canada; the Secretary of State worries about the preclusion of America from the political consultation process of the Nine.

This problem, which takes us back to the matter of exclusion, defies perfect solution. The major countries have responsibilities which derive from their economic and general weight. They also have a responsibility to strengthen, not weaken, the complex of international institutions; to ease, not compound, the problems of the smaller countries. In a measure this circle can be squared if, first, sufficient time is allowed for the process to work; if, second, the conclaves of the major powers are informal, not institutionalized; if, third, consensuses rather than decisions are sought; and fourth, if actions are reserved for and subsequently carried out within the appropriate international body.

The criteria "informal" and "early" lead to the question of whether consultation should be primarily by the civil servant expert or by the politician. If the emphasis on early consultation is correct then the principal burden inevitably falls on the high-level expert. He and his colleagues will be shaping the proposals to be considered at the political level. If international considerations are introduced at a preliminary stage before internal power centers have been locked in as a result of the political bargaining process, adjustments can be made without loss of face and with less fear of attack that concessions have been made under foreign pressure. This is not an either-or situation, however. The political level cannot be excluded from the consultative process, even if this were possible; for it is consultation which sensitizes ministerial and legislative thinking so that appropriate weight may be given to the external consequences of proposed actions.

A word should be said about the role of the foreign offices in the process of consultation. The intrusion of domestic economic and social policies into international affairs has blurred the function of foreign offices as a major element in developing more effective and extensive consultation. The problem for the diplomatic services is to find a place for themselves in a process of which the critical element is continual, direct and mutually respectful contact between responsible functional officials. This has been especially evident, for example, with respect to monetary consultations between high officials from treasuries and between ministers of finance and central bankers.

Foreign offices and the diplomatic services have an indispensable role to play. Someone must be responsible for an overview, for examining the work of consulting specialists, to see that their activities do not damage other interests and that they fit within an overall strategy. In other words, the more successful we are in bringing together the functional experts the more careful we must be to insure that their work does not proceed in splendid isolation. Foreign office officials should participate in consultations and be constantly informed of their progress. If consultation leads to negotiation, this role becomes of even greater importance. The procedures of the European Community are a case in point. There are various functional ministerial councils where decisions have to be taken, but a special burden for policy consistency falls on the Council of Ministers of Foreign Affairs.

We have observed that legislators should be associated with the process of consultation but that the matter is complicated by the basic difference between parliamentary systems and the American constitutional system. As the agenda of consultation is geared increasingly to economic problems, some involvement of legislators becomes advisable in general, and indispensable in the American system. No matter how careful, extensive and well-intentioned the consultation among administrative officials, any consensus or agreement can be frustrated by legislators, who do, and must, reflect the primarily domestic concerns of their constituents. The objective is to contain this inevitable nationalistic bias of parliaments, or, better yet, to moderate the nationalism of the different parliaments so that they will at least be conscious of implications of proposed courses of action. Nationalistic excesses may be suppressed if legislators become accustomed to the idea that through consultation one gains the right to be consulted in turn. The European Parliament, still an incomplete body, nonetheless has the unique role of encouraging consultation among legislators from the nine Community states, of stimulating a dialogue with the European Commission, and, not least, of bringing Community views and interests to the attention of their own national constituencies and legislatures.

VII. Conclusion

The central problem is a function of the emphasis on economic phenomena in the new era the world is entering. This implies some re-direction of attention away from the classical areas of politics and security where consultation, no matter how primitive, has been facilitated by cumulative consensus. As we noted, the new economic agenda, so intimately involved with domestic policies, impinges on the immediate interests of each citizen to a degree rarely encountered with political and defense issues.

In our democratic societies, citizens and leaders alike show little eagerness to accept international consultation as a commendable influence on national behavior, or even as a generally desirable practice. Thus, this is not a problem of a few recalcitrant governments or officials; it is a general insensitivity to the importance of the objectives consultation seeks to achieve, indeed to the implications for national behavior imposed by interdependence.

A limited, clearly delineated obligation to consult can produce many advantages. This is true even at the most primitive level, the mere provision of information. When a country provides information, it provokes others to raise questions, if nothing more. This triggers the process of consultation.

If a more effective and equitable economic order is to emerge, national policies and programs must be subject to moderation and adjustment to take into account probable adverse international ramifications. This can be accomplished only if powerful domestic agencies are brought under control and sensitized to the international consequences of their policies. Commitment to the consultative process is one of the most effective means to this end, a weapon in the hands of the internationally-minded minority in each government.

The process must be comprehensive and bring in each level of the national bureaucracy. Probably the most important element is the high-level expert, the official responsible for preparing the policy proposals which will be considered at the political level. If at an early stage he thrashes out the problem and its possible solutions and international implications with his colleagues, their thinking will influence his subsequent recommendations. It is in this context that the OECD has such unique potentialities, with its economic vocation and the forum it provides for meetings among experts. This is a framework which can lead to the kind of serious international discussion that comes from direct contact as contrasted with the more classical, insulated diplomatic process where functional ministers communicate through foreign offices, or rely on international secretariats. The warning must be repeated, however, of the danger of OECD committees following their own limited paths on the basis of instructions from technical ministries with insufficient attention to the need to place these activities within an overall policy context.

Experience with consultation and speculation about the future lead to the conclusion that tidiness should neither be expected nor sought. This is bound to be a sloppy process. Countries have markedly varied interests and are subject to different pressures; they are members of an array of international organizations where membership differs and frequently overlaps. Acceptance of untidiness is not resignation to defeat. To recognize that consultation is inevitably complicated and disorderly is merely to confirm that it is an integral part of the complex, messy way democracies arrive at decisions.

What of trilateral consultation per se? Any exclusive or seemingly exclusive process of trilateral consultation runs the risk of stirring up resistance in Japan and, to an only slightly lesser degree, in Europe. One objection is that trilateral consultation could provoke a confrontation with the Third World. However, as the argument seems undeniable that progress toward a more secure and prosperous world depends in substantial part on the policies and action of the advanced industrial democracies, then intimate collaboration among the trilateral countries, of which consultation is an important component, is indispensable. Indeed such close, informal consultation among the three regions in connection with the CIEC has taken place without arousing undue suspicion or resentment among others, or unease on the part of Japan or Europe.

Any improvement in consultation, trilaterally or generally, depends fundamentally on an appreciation by political leaders of the national interests in this aspect of enlightened international relations. These leaders may be persuaded of the truth of this proposition if they can be made to realize the potential for domestic embarrassment if allies fail to consult; or conversely, the impairment of foreign relations and possible retaliation which can follow national actions taken without prior notice or consultation. Political leaders must be brought to recognize that efficacious international policies, and increasingly, sound domestic economic policies, demand a common approach and, in certain areas, common action — a new consensus. Consultation is the indispensable means to these ends.

We have noted before the danger that casual consultation and co-operation without commitment can become the escape route from an international regime of explicit policies, effective institutions and agreed rules. But even modest improvement in consultation can help the trilateral countries, through the current transitional period, preserve and strengthen the existing international system.

One final point. No progress toward more effective consultation is possible in the absence of political will. This can come only from realization by the heads of government, and opposition leaders, that more consultation is essential to a viable world order. It means acceptance of some restraints on independent national action, of the political embarrassment from the inevitable leaks, and of commitment to the consultative process in the agencies of government. No mere announcement of policy will suffice. A discipline must be laid on the bureaucracy, and a system designed to carry it out. Then, to insure that the decisions made at the top of government are not frustrated at the working level, the policy and its execution must be constantly monitored.

In short, consultation will not work in the absence of high-level political commitment to the process, by both executives and parliamentarians. The objective should be to move well beyond periodic admonishments to bureaucracies to consult. Consultation must be made routine, where failures to consult are embarrassing exceptions to accepted practice. Within the framework of the Community, the Europeans have moved farther and faster than the trilateral group as such.

VIII. Recommendations

The two preceding sections (VI and VII) contain a number of proposals to improve trilateral consultation. We offer certain additional, specific recommendations:

Trilateral Staff Group

A *Trilateral Staff Group* should be established which would:

1. oversee the whole range of trilateral consultations and cooperation;
2. identify issues or problems on which such consultation is inadequate or non-existent and provide the necessary political drive to rectify this, through either the Trilateral Political Committee referred to below, the OECD or other agencies.
3. where neither policy nor consensus exists and where no existing body can reasonably be charged with responsibility, designate a special consultative group, possibly of "wise men," to examine the problem and report back to the governments;
4. serve as an "early warning" system, alerting governments when a problem threatens to get out of hand or when a new problem appears on the horizon;
5. monitor the effectiveness of international institutions of particular interest to trilateral governments.

These functions are essentially those of coordination and the provision of the necessary political direction, rather than operational or policy-making functions.

This group would meet regularly (not less than twice yearly), but could also be called into special session. Because of the need to coordinate policy across the whole range of governments' international interests and to be able to give high-level political direction, its members should be senior governmental advisers with the personal confidence of the heads of government. They might therefore either be from the heads of government's central staffs or from foreign ministries. Identification and designation of such officials would inevitably be difficult for Japan and for the European Community. For Japan, the difficulty would derive from the lack of experience with high-level staff officials working directly with the Prime Minister. For the European Community, the aim should be to have a single representative, though achievement of this aim would be made difficult by the primitive state of Community development and the certain resistance of the nine member governments to designating one person for this task.

Trilateral Political Committee

A *Trilateral Political Committee* should be established to discuss and, where possible and desirable, seek ways of coordinating foreign political activities of trilateral governments. The European Community Political Committee should be asked to designate the European representative on this Committee, and the CIEC pattern might be followed: one official from the European Commission and one from the member state currently president of the Council of Ministers.

United Nations

There should be regular trilateral discussion and cooperation with respect to United Nations business, principally in New York but also at other appropriate locations, such as Geneva.

OECD

The trilateral nations should recognize the value of the OECD and should agree to make more effective use of it as a flexible instrument at hand, ideally suited for more effective consultation — both among ministers and among high-level experts.

The Industrialized Democratic Regions in a Changing International System

Inaugurated in July 1973, the Trilateral Commission is a policy-oriented organization. Based on analysis of major issues facing the trilateral regions, the Commission has sought to develop practicable proposals for joint action. The Commission's members are about two hundred distinguished citizens from the three regions, drawn from a variety of backgrounds.

The historical roots of the Commission can be traced to serious strains early in the 1970s in relations among Japan, North America and Western Europe. As the decade has proceeded, however, it has become increasingly clear that the strains and shifts in the international system are global as well as trilateral in scope. The renovation of the international system is a task of global as well as trilateral dimensions, and the work of the Commission has moved accordingly.

In this global effort, the industrialized democratic regions remain an identifiable community and a vital core. Their focus, however, must not be on the preservation of the status quo, but on arrangements which increasingly embrace the Third and Fourth Worlds in a cooperative endeavor to secure a more equitable world order.

The renovation of the international system will be a very prolonged process. The system created after World War II was created through an act of will and human initiative in a relatively restricted period of time. One power had overwhelming might and influence, and others were closely associated with it. In contrast, a renovated international system will now require a process of creation — much longer and more complex — a process in which prolonged negotiations will have to be engaged and developed. In nurturing habits and practices of working together among the trilateral regions, the Commission should help set the context for these necessary efforts.

△THE TRIANGLE PAPERS

Reports of Task Forces to The Trilateral Commission

1. *Towards a Renovated World Monetary System* (1973)
   Trilateral Monetary Task Force
   Rapporteurs: Richard N. Cooper, Motoo Kaji, Claudio Segré
2. *The Crisis of International Cooperation* (1974)
   Trilateral Political Task Force
   Rapporteurs: François Duchêne, Kinhide Mushakoji, Henry D. Owen
3. *A Turning Point in North-South Economic Relations* (1974)
   Trilateral Task Force on Relations with Developing Countries
   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink
4. *Directions for World Trade in the Nineteen-Seventies* (1974)
   Trilateral Task Force on Trade
   Rapporteurs: Guido Colonna di Paliano, Philip H. Trezise, Nobuhiko Ushiba
5. *Energy: The Imperative for a Trilateral Approach* (1974)
   Trilateral Task Force on the Political and International Implications of the Energy Crisis
   Rapporteurs: John C. Campbell, Guy de Carmoy, Shinichi Kondo
6. *Energy: A Strategy for International Action* (1975)
   Trilateral Task Force on the Political and International Implications of the Energy Crisis
   Rapporteurs: John C. Campbell, Guy de Carmoy, Shinichi Kondo
7. *OPEC, the Trilateral World, and the Developing Countries: New Arrangements for Cooperation, 1976-1980* (1975)
   Trilateral Task Force on Relations with Developing Countries
   Rapporteurs: Richard N. Gardner, Saburo Okita, B. J. Udink
8. *The Crisis of Democracy* (1975)
   Trilateral Task Force on the Governability of Democracies
   Rapporteurs: Michel Crozier, Samuel P. Huntington, Joji Watanuki
9. *A New Regime for the Oceans* (1976)
   Trilateral Task Force on the Oceans
   Rapporteurs: Michael Hardy, Ann L. Hollick, Johan Jørgen Holst, Douglas M. Johnston, Shigeru Oda
10. *Seeking a New Accommodation in World Commodity Markets* (1976)
    Trilateral Task Force on Commodities Issues
    Rapporteurs: Carl E. Beigie, Wolfgang Hager, Sueo Sekiguchi
11. *The Reform of International Institutions* (1976)
    Trilateral Task Force on International Institutions
    Rapporteurs: C. Fred Bergsten, Georges Berthoin, Kinhide Mushakoji
12. *The Problem of International Consultations* (1976)
    Trilateral Task Force on Consultative Procedures
    Rapporteurs: Egidio Ortona, J. Robert Schaetzel, Nobuhiko Ushiba

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: September 13, 1976

FROM: Shirley Boskey, IRD SBS

SUBJECT: Reports of the Trilateral Commission

behind file

Attached are two recent reports of the Trilateral Commission which may be of some interest: "The Reform of International Institutions" (Triangle Papers: 11) and "The Problem of International Consultations" (Triangle Papers: 12).

The second of these is concerned with trilateral consultations only. It suggests that the trilateral countries make more use of the OECD for consultations among both ministers and high level experts. It refers in an off-hand way to the Bank and the Fund, saying (p. 4) that they have "become useful devices on certain issues" for the purpose of consultation with developing countries. The particular task force which prepared this report demonstrates something less than prescience in characterizing the CIEC (p. 4) as "the most promising consultative bridge between the rich and the poor nations".

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After discussing lessons of the past and identifying current positions (integration into the international system of countries whose real influence and power is now inadequately reflected; lack of decisive leadership; growing interdependence of issues), the study on "reform" makes a number of specific proposals.

New Institutions

The thesis of the report on reform of international institutions is that reform is preferable to creation of new bodies. The report does, however, conclude that new institutional arrangements -- a "GATT for investment" -- are required to deal with foreign direct investment and international enterprises. The absence of rules or institutions for this field, together with a similar lack in respect of the oceans, is said to be the major gap in international relations today. The report also proposes new, and modification of existing, arrangements to deal with access to supplies and commodity trade. In this connection, the proposed International Resources Bank, "attached to the World Bank", is seen as possibly providing the institutional base for other components of a new international approach.

Reforms

Reforms are proposed for GATT; the international monetary system; the OECD (in connection with coordination of domestic economic policies of the major industrialized nations); rules governing income distribution; and institutional arrangements for channelling concessional assistance to the poorer countries. In connection with the latter, the report notes the recent "explosive proliferation of funds through which such help is extended," saying that this has led to confusion among both donors and recipients. To deal with this problem, it proposes that a consolidated "world development budget" be constructed each year, for discussion by donors and recipients as they formulate their short-run and long-run plans. It is suggested that the Bank might be the natural locus for these discussions initially; because resource transfers should be discussed in connection with efforts in trade, commodity and other areas, a broader forum, such as the U.N., might be appropriate as a second stage.

Mobilization of International Institutions

The report argues that existing and proposed international institutions should be mobilized much more effectively than in recent years. Among the steps which the institutions themselves might take to increase their effectiveness in shaping national policies, the report advocates active involvement of appropriate national officials, at both the political and senior bureaucratic levels, in the decision-making process, as well as involvement of the private sector in countries where it can be influential. These steps will require strong management at both the top and staff levels of the institutions themselves, and strong support of the institutions by governments.

Integration of Newcomers and Dropouts

Three sets of measures are advocated to bring additional LDCs into effective participation into the international system: serious and sustained attention to their substantive concerns; a role for key developing countries in the international decision-making process corresponding to the increased importance of these countries to the system; and the drawing in to the inner circles of international decision-making of selected newcomers. (Creation of CIEC and increases in the voting power of the Bank and Fund are cited as steps in the direction of the second of these recommendations.)

Leadership; Coordination

CIEC is cited as a promising practical approach to the leadership problem, under which some LDCs have agreed to being represented by others, and to the problem of international coordination within and across different "issue-areas".

SBoskey:tsb
cc: Mr. Clark