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6/6/83

TO: ED HARPER
FROM: HELEN AMMEN
Director

Post-Summit analyses, with
clippings of the Williamsburg
summit

Enclosures filed in
Oversize Attachments #

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12/12/2009



Summit Leaders Press Reagan for Deficit Cuts

Amidst colonial pageantry and distinctly American cuisine, the six visiting heads of government at the Williamsburg, Va., summit conference May 28-30 delivered a blunt message to their American hosts: U.S. budget deficits must be cut.

The foreign leaders represented France, Japan, Italy, Great Britain, Canada and West Germany.

Their message should provide some moral support to House and Senate conferees who meet during the week of June 6 in an attempt to draft a compromise budget resolution. The six foreign leaders share the fear of a majority of both houses of Congress that the nearly \$200 billion deficits called for under President Reagan's fiscal 1984 budget plan could keep interest rates high and stifle world recovery. (*Budget resolution, Weekly Report p. 1044; deficit outlook, p. 1106*)

Reagan argued at Williamsburg that as recovery progresses the red ink simply will fade away. And Treasury Secretary Donald T. Regan attempted to convince his fellow finance ministers that deficits and high interest rates are not linked.

—By Alan Murray

Leaders of the other six nations, however, were skeptical. According to one British official, deficits kept surfacing in the talks like a leitmotif.

The attack on U.S. fiscal policy was led by the French, but other nations were quick to join in. They succeeded in placing their concern about interest rates and deficits near the top of the summit declaration. Interest rates must be reduced "from their present too-high levels," the statement said, and nations must renew the "commitment to reduce structural budget deficits." (*Text, p. 1130*)

In deference to the United States, the statement did not say directly that deficits cause high interest rates. But as a Canadian participant noted, "the two thoughts are as close together as you can get them without putting in a formal link."

While the allies insisted that U.S. deficits be cut, they declined to offer advice on how to make those cuts. That was a domestic affair, foreign officials told reporters, and should best be left to the president and Congress. They even conceded to U.S. language in the declaration that deficit reductions should be brought about, "in particular, by limiting the growth of expenditures."

That phrase considerably dulls the import of the summit declaration for congressional budget writers. With President Reagan insisting on defense spending increases and both houses of Congress holding firm on non-defense spending, tax increases seem to provide the only means for making substantial deficit reductions in the near term.

The Senate has called for \$9 billion in new taxes in fiscal 1984; the House for \$30 billion. But Reagan is opposed to any new taxes, and the protestations of the six heads of government apparently did not weaken his opposition. "The president says he wants no tax increases in 1983 and 1984, and would veto any," a senior official told summit reporters May 29.

As a result, the deficit reduction so ardently sought by the allies at the economic summit may prove elusive.

Do Deficits Matter?

Before the summit began May 28, the French seemed to be the odd men out in the economic discussions of the seven summit nations. President Mitterrand had called for a new Bretton Woods conference like that establishing the exchange rate regime that prevailed from 1944-1971. The other nations interpreted the French president's comments as a plea for returning to fixed exchange rates, a prospect that, whatever its nostalgic appeal, is viewed as impractical by most of the summit leaders. (Prior to 1971, exchange rates could be changed only by government action. *Exchange rate background, Weekly Report p. 687*)

But soon after arriving in Williamsburg May 28, Mitterrand told President Reagan that the foreign press had misinterpreted his position. He was not calling for a return to fixed exchange rates; he merely was expressing a desire that the nations renew the spirit of the Bretton Woods accord in their attempts to sort out the world's monetary problems. The French president acquiesced in the final statement to a watered-down commitment to "consider the part which might, in due course, be played in [exchange rate stabilization efforts] by a



Participants in the Williamsburg summit, from left: Canadian Prime Minister Trudeau; Gaston Thorn, president of the European Communities; West German Chancellor Kohl, French President Mitterrand; President Reagan; Japanese Prime Minister Nakasone; British Prime Minister Thatcher; and Italian Prime Minister Fanfani.

high-level monetary conference."

With the French president in accord on exchange rates, the summit nations turned their attention to the United States, attacking it for its high deficits and high interest rates. The U.S. delegation found itself alone in the discussions, separated from the allies largely by a difference in economic theory.

In the view of the world expressed by the six, U.S. budget deficits absorb almost all of the personal savings in the United States and represent an enormous drain on the world's supply of money and credit. If the Federal Reserve accommodates the government's demand for credit by creating more money, inflation results. But if the Fed refuses to accommodate, the increased demand drives up the price of money — interest rates. (*Fed background, 1981 Weekly Report p. 2159*)

It is this phenomenon, the foreign leaders argued, that has kept U.S. "real" interest rates — the interest rate minus the inflation rate — nearly twice as high as real interest rates overseas. While the economy is still deep in recession, the demand for money and credit remains relatively low. But anticipating a credit squeeze as the economy recovers, lenders continue to demand high returns.

High U.S. interest rates have a serious effect on foreign nations. A promise of bigger returns draws huge amounts of money out of those countries and into the United States, draining funds needed by foreign nations for investment. The demand for dollars rises while the demand for other currencies falls, strengthening the dollar's exchange rate and weakening foreign currencies. With many of their imports — particularly oil — denominated in dollars, the rise of the U.S. currency prompts inflation in foreign nations.

High U.S. interest rates also exacerbate the debt problems of developing nations such as Brazil and Argentina, drastically raising the cost of their debt and decreasing their ability to pay it back. That, in turn, threatens world recovery.

The Reagan administration reluctantly concedes that U.S. interest rates are a problem, but insists that budget deficits are not to blame.

The culprit, according to Beryl W. Sprinkel, the Treasury's under secretary for monetary affairs, is the common expectation among lenders that U.S. inflation will reignite, decreasing the value of their money in



Summit Leaders Meeting in Williamsburg's House of Burgesses

the future. That causes them to demand higher interest rates. The "real" interest rate, Sprinkel says, is not the nominal rate minus actual inflation, but the nominal rate minus "expected" inflation — the inflation rate borrowers and lenders believe will prevail when the loan is repaid.

The current problem in the United States, according to the Treasury view, is not that the increased demand for money and credit resulting from large deficits is pushing up interest rates. Instead, it is expectations of higher inflation. Once investors become convinced that the administration and the Fed will prevail in their fight against inflation, rates will come down, deficits or no deficits.

Other Issues

The summit was the ninth in a series of annual meetings that began in Rambouillet, France, in 1975. The meetings are designed to address economic concerns, but the leaders at Williamsburg spent a large portion of the three days discussing defense and security issues.

Indeed, the most unexpected outcome of the summit was the statement released by the seven leaders May 29. That statement reaffirmed their commitment to arms control but criticized attempts by the Soviet Union to include French and British weapons systems in the negotiations on intermediate-range nuclear missile forces (INF), and pledged deployment of U.S. missiles in Europe if an INF agreement is not reached by the end of 1983. The

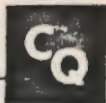
statement also said security issues "must be approached on a global basis," a phrase sought by Prime Minister Nakasone of Japan, which is not a member of the NATO security alliance. (*Text of nuclear arms control statement, p. 1131*)

The declaration on economic recovery was written by the leaders and their ministers of state and finance during the three-day meeting, and was announced by President Reagan May 30.

In addition to addressing deficits and interest rates, the statement called for a "halt to protectionism," and, as recovery proceeds, the "dismantling [of] trade barriers."

The declaration also called for "intervention in exchange markets in instances where it is agreed that such intervention would be helpful" in stabilizing exchange rates, although it reaffirmed each nation's "freedom to operate independently." Secretary Regan said that phrase would cause no major change in the Reagan administration policy. The administration has taken a hands-off approach to exchange markets.

In an annex to the declaration, the leaders agreed to strengthen the mechanism established at the Versailles summit last year for the surveillance of the economic policies of five of the summit nations — the United States, Japan, France, West Germany and the United Kingdom — in an effort to encourage greater "convergence," or consistency, in their economic policies and performance. ■



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Summit Leac

6/6/83

TO: ED HARPER
FROM: HELEN AMMEN
Director

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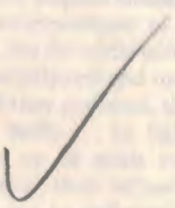
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—By Alan Mu



Participants in the Williamsburg summit, from left: Canadian Prime Minister Trudeau; Gaston Thorn, president of the European Communities; West German Chancellor Kohl, French President Mitterrand; President Reagan; Japanese Prime Minister Nakasone; British Prime Minister Thatcher; and Italian Prime Minister Fanfani.

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At the Summit—Avoiding Disagreements Can Sometimes Spell Genuine Victory

At Williamsburg, if there was none of the divisiveness that pervaded Versailles last year, neither was there a breakthrough on how to sustain economic recovery.

BY CHRISTOPHER MADISON

WILLIAMSBURG, VA.—If economic summits followed the rules of Broadway, this international extravaganza would have closed out of town years ago in the face of consistently mediocre reviews.

Instead, the summit opened its ninth year here on May 28 to larger crowds and more intense hoopla than ever. The mixed notices—the summit was judged by some to be a flop weeks before it opened—continued to bedevil the participants, yet the institution seems well enough established that it need not be judged favorably to be replayed annually.

There are several reasons, but the main one, perhaps, is that there is no true consensus about what summits are supposed to accomplish. Judging their success or usefulness depends on what one expects of them.

A cynical view is that summits are useless, that the leaders almost never face up to the big issues and that even when they do, they devise phony solutions. A typically jaded view was provided by the *Financial Times's* Reginald Dale on the occasion of the Tokyo summit in 1979: "It is hard to avoid the conclusion that seven-nation summitry has so far had little real impact on the world economy. It has almost certainly helped to counter protectionist tendencies and it has generally encouraged altruistic economic behavior. But the seven leaders have not yet demonstrated that they can impose their will on events."

Similarly, *The Washington Post* reported the day after the Williamsburg summit ended that the leaders had found "no new answers to a staggering array of international problems."

A more sympathetic, almost Cartesian view holds that summits are good, in essence, because they exist. Even eco-

omic consultant Myer Rashish, who believes the Reagan Administration missed an opportunity to make substantive gains at Versailles a year ago, said summits are "events of consequence, . . . events that are unsurpassable" simply because they bring together the seven most powerful free-world political heads of government to discuss economics and other issues face to face.

Viewed this way, summits can be said to succeed if they simply avoid failure. Following the 1981 Ottawa summit, for example, a *New York Times* editorial judged the meeting a success because another had been scheduled for 1982. "Only a few months ago," the *Times* said triumphantly, "the French suggested that the seventh annual meeting in Ottawa be the last."

In 1978, *The Los Angeles Times* judged the Bonn summit similarly: "Considering the enormousness of the problems involved, the domestic political pressures on the participants and the snappish mood in which they gathered, the summit . . . didn't go badly. . . . In light of the failure to live up to goals set in past summits, however, their refusal to promise more than can be delivered probably was a good thing."

It is an indication of how differently summits are viewed with the passage of time that, in retrospect, the Bonn summit is remembered for the detailed, specific and even bold promises made there by the heads of government. (See box, page 1173.)

The mood at Williamsburg was not snappish; it was cautious and expectant. None of the summit partners wanted a replay of the Versailles summit, where a nasty dispute over East-West trade overshadowed all other aspects of the meeting. So it was decided beforehand that the leaders at Williamsburg would not try to reach agreement on issues where con-

sensus wasn't apparent, such as agricultural export subsidies and U.S. export control laws. The theme of the meeting became the need to coordinate economic policies to ensure that the recovery beginning in many of the summit countries would be strong and lasting.

It was not a dazzling breakthrough, but the resulting communique, called the Williamsburg Declaration on Economic Recovery, represented a modest consensus on economic issues that was not present in recent summits. In fact, the communique seemed clearly to endorse the conservative economic policies followed by the United States and Great Britain.

"We must all focus on achieving and maintaining low inflation and reducing interest rates from their present too-high levels," the declaration said. "We must renew our commitment to reduce structural budget deficits, in particular by limiting our growth of expenditures."

The other main accomplishment here was in the national security area, with the seven leaders issuing a joint policy statement on arms control negotiations designed to show the Soviet Union that the West was speaking with a single voice, particularly on the issue of intermediate-range nuclear missiles in Europe.

USES OF SUMMITS

Undoubtedly there will be commentators who judge these results as modest at best. But successful summits do not necessarily have to produce dramatic results, according to many veterans who have planned and participated in them. And this truism, they point out, often is forgotten when commentators judge the merits of final communiques.

Richard N. Cooper, a Harvard University economics professor who served as undersecretary of State for economic affairs during the Carter Administration,

has divided the uses of summits into three categories that he outlined in testimony in May 1982 to Congress's Joint Economic Committee.

First, Cooper said, summits help heads of government see global economic issues clearly and give them a firsthand look at how the issues are viewed by other leaders. Second, summits "provide an occasion to review the linkages among different issues... and possibly to reach agreements on courses of action that acknowledge these linkages." Finally, summits allow the government leaders to get to know each other "and to discuss with one another what most preoccupies them from their lonely vantage points."

carry the bags for summit climbers in the Himalayas.

Particularly in retrospect, many critics think that President Reagan was wrong at Versailles last year to try to force an agreement among the allies on East-West trade issues because consensus was not possible. Summits are not the place to negotiate on issues where there are wide differences of views, Hormats said. But they can be used to narrow differences or resolve minor problems.

Often, summits provide an incentive for resolving disputes, but the real bargaining is done beforehand by lower-level officials, with heads of government endorsing the results at the summit. This

sive discussions before the summit to pinpoint the Williamsburg issues—and the positions their principals would take—Reagan resisted the traditional process of having them write the communique beforehand. Recent summits found the world leaders spending their time approving lengthy communiqués paragraph by paragraph as if they were legislators preparing a bill. Mitterrand first complained about this at Ottawa in 1981; more recently, his predecessor, Valéry Giscard d'Estaing, noted that summits have strayed far from the original model, in which heads of government engaged in candid, informal discussions in an atmosphere isolated from their bureaucracies and the press.

"The purpose of the meeting was neither to produce declarations nor to improve the functioning of the economic bureaucracies," Giscard said of the first summit in an interview conducted in 1982 for the Council on Foreign Relations.

According to W. Allen Wallis, the undersecretary of State for economic affairs and Reagan's sherpa for Williamsburg, this year's communique reflected what the seven leaders actually discussed, rather than a "pre-cooked" agenda. The communique was written by the sherpas in consultation with the heads of government in Williamsburg.

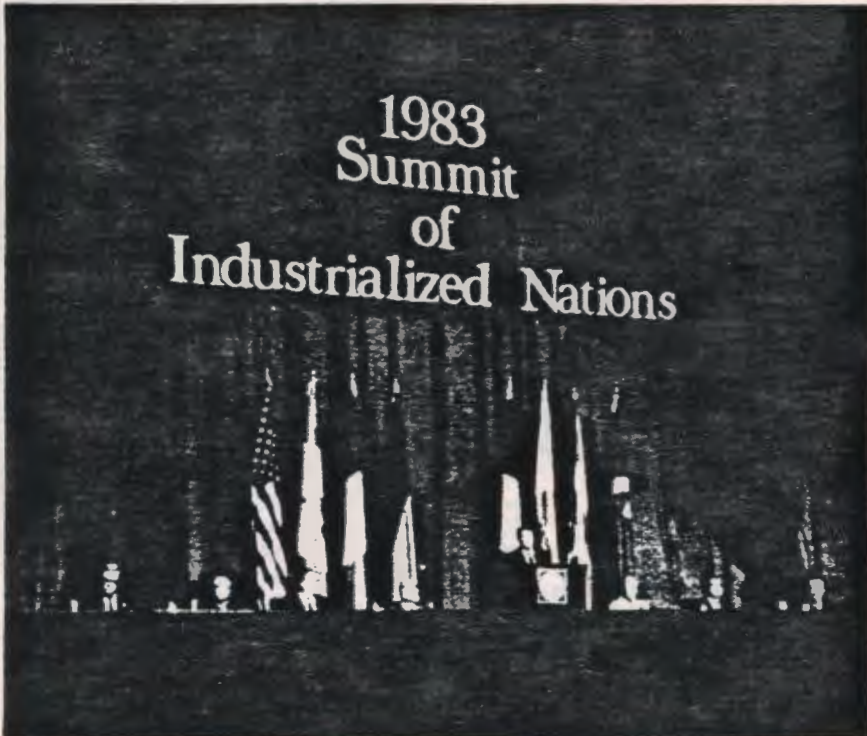
To some summit veterans, this practice differed only slightly from that of past summits. Wallis and the other sherpas did, by all accounts, agree on a list of acceptable topics and points of view beforehand, and that obviously served as an aid in drafting the communique.

Another Reagan innovation was more substantive. Even though Reagan has a reputation for being less than polished in formal discussions of technical issues, he proposed that the first meeting of the seven leaders take place without sherpas or Cabinet ministers present. Even translators were in another room. At other sessions, foreign and finance ministers attended, and the sherpas served as note takers.

Hormats, who was assistant Secretary of State for economic and business affairs until last fall, believes the debate over what procedures to use at summits is somewhat beside the point. "Summits are really a mirror that reflects the commitment of leaders to reach agreement on key issues," he said. "If they are committed, whatever procedures are used will work."

DIRECT DIALOGUE

Although many who have been connected with the substantive negotiations leading to summits often tend to dismiss as unimportant the benefits of face-to-



President Reagan sums up the results of the Williamsburg summit.

"It follows from this," he said, "that to be successful, a summit need not involve a package agreement on courses of action; it can have performed a useful role, and be far from a failure, even if no formal agreement is reached at all."

The meetings are "useful, but not a panacea," said a foreign diplomat who asked not to be identified. "What you're doing is oiling the machine of international relations. What they can do is see if there is a consensus."

What summits cannot do is resolve major difficulties, according to Robert D. Hormats, the "sherpa" for the Versailles summit and now a vice president with Goldman, Sachs & Co., New York investment bankers. Because he attended the first eight meetings, Hormats may be as closely identified with summits as the word "sherpa," the term for guides who

was attempted prior to Versailles on the East-West trade issue. James L. Buckley, then undersecretary of State for security assistance, science and technology, tried through a kind of pre-summit shuttle diplomacy to forge a consensus on the issue of subsidized loans to the Soviet Union, but he failed. This left Reagan and his colleagues to grapple with drafting a communique in several different languages on this technical issue.

The results were disastrous. Forced to agree on something, the leaders adopted language that was soon denounced as meaningless by at least two of the summit participants: then-German Chancellor Helmut Schmidt and French President Francois Mitterrand. A change in tone was almost inevitable this year.

But there was also a change in procedure. Although sherpas conducted exten-

If This is 1983, It Must be Williamsburg

Particularly when viewed from a distance of time, each of the eight economic summits that preceded Williamsburg begins to take on a character of its own. Put another way, economic summitry has become an art form, as well as an annual media event, that is practiced with varying degrees of success. Some highlights from the first eight meetings and from the ninth:

Chateau de Rambouillet, France, November 1975. Organized at the initiative of French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt, the first summit started out as a conference on monetary affairs—in particular, a search for a compromise between the French position in favor of fixed exchange rates and the U.S. belief in floating rates. An important “rapprochement,” as the first summit communique described it, was worked out: the heads of government endorsed floating rates but called on the International Monetary Fund to conduct “surveillance” of the rates and committed their own central banks to intervene in currency markets to counter disorder.

But the leaders did not restrict their discussions to monetary matters. The broader context of the summit was recession and inflation, and the leaders agreed to follow policies that would counter high inflation, unemployment and energy shortages. They also called for early completion of the Tokyo Round of multilateral trade negotiations, a major effort to remove international trade barriers.

San Juan, June 1976. Compared with the historic aspects of Rambouillet—heads of government had never gathered together before to discuss economic issues—the San Juan summit was much less notable, and was held with only a month's planning. The summit communique endorsed the Ford Administration's policy of “avoiding a new wave of inflation,” a victory for the United States.

London, May 1977. This was the first of several summits to adopt the practice of setting specific economic targets for summit countries. The communique set growth goals for the participating countries, but the targets did not represent the firm commitment to economic growth that the Carter Administration had sought. To make things worse, weakness in the world economy following the summit made even the modest goals impossible to meet. Nevertheless, Germany and Japan did take some expansionary steps in keeping with their summit commitments.

The summit will perhaps be remembered by those in the Carter Administration for their President's failure to get his summit partners to limit trade in breeder reactors. But trade experts still recall that the London meeting gave an important push to the completion of the Tokyo Round.

Bonn, July 1978. Summit aficionados who value the meetings for the possibility of informal contacts among government heads prefer the more intimate Rambouillet model. But Bonn is the likely favorite of those who see summits as a way to coordinate economic policies. Bonn is most closely identified with the locomotive theory, which called for spurring worldwide economic growth by tailoring specific economic policies for each summit country.

Thus, the communique outlined specific growth targets for Germany and Japan, to be achieved through expansionary policies. The United States vowed to raise oil prices to world levels and to fight inflation, in part by reducing previously enacted tax cuts.

It was a package deal to be admired for its comprehensive-

ness. But it was based on assumptions that were wiped away by the second oil price “shock” at the end of 1978, when revolution in Iran provoked chaos on world oil markets. Economic targeting received a bad reputation in the end.

Tokyo, June 1979. This most clearly was the “energy summit.” The Organization of Petroleum Exporting Countries had raised prices 50 per cent the day before the Tokyo meeting, and the tradition of target setting established at Bonn was used at Tokyo to set oil import limits for the summit countries. Ironically, the targets were never necessary. Partly because of the unexpectedly severe recession that followed and partly because of conservation measures, oil consumption among the summit countries was much lower in the early 1980s than was expected.

Venice, June 1980. This was the second energy summit and produced still more strategies to cope with skyrocketing oil prices. The heads of government pledged to double their coal consumption by 1990 and to ban large oil-fired power plants and to build more nuclear plants. Joint synthetic fuel ventures and a World Bank energy affiliate were also endorsed.

Ottawa, June 1981. The days of target setting were over as this summit was dominated by the political polarities represented by President Reagan on the right and French President Francois Mitterrand on the left. High U.S. interest rates and their side effects in Europe and Japan were supposed to be a lightning rod for acrimony, but Reagan won some

breathing room for his policies. The summit also helped prepare the way for the North-South summit in Cancun in October 1981 and resulted in a commitment to strengthen controls on the transfer of strategic technology to the Soviet Union.

Versailles, June 1982. This summit will be more remembered for the disagreements that broke out after it had ended than for the agreements reached there. The seven summit partners agreed to attempt a “convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth,” a goal that has been all but forgotten by summit pundits.

More public attention was paid to the communique's pledge of greater prudence in East-West economic relations because at least two leaders—Schmidt and Mitterrand—later said it did not signal any real change in policy. This, in turn, prompted Reagan to conclude that he had been hoodwinked at Versailles. He showed his anger by imposing additional sanctions on the Soviet natural gas pipeline, and trans-Atlantic relations were soured for at least six months. This experience may suggest that heads of government should not be the ones to negotiate the exact language of summit communiqués, at least not on sensitive issues.

Williamsburg, May 1983. The meeting in the restored colonial capital probably will be remembered as a pleasant change from the Versailles disarray, not only because the leaders tried to get along but because the recovering world economy made it easier to do so. The leaders endorsed policies to fight inflation and high interest rates, to coordinate their economic policies more closely and to seek stability in exchange rates. They raised the possibility of a high-level world monetary conference as well as another round of trade negotiations. Past commitments to help the developing countries were strengthened, and protectionism was decried. In a significant non-economic move, the leaders issued an unusual policy statement on arms control negotiations.



face meetings among heads of government, other diplomats say they are important. They point out that politicians by nature like to meet people, particularly peers with whom they are involved in international policy debates. As Reagan remarked at Ottawa, "It's good to meet the face at the other end of the telephone."

The emphasis on informality worked. In their post-summit press conferences, several of the leaders praised Reagan's efforts to relax the format, and Reagan's aides reported that the participants engaged in many lively, animated discussions.

Ideally, however, summits have substantive effects as well. They were born, after all, out of the economic crises of the 1970s, when the oil "shocks" sent a wave of inflation and then recession upon the

According to C. Fred Bergsten, assistant Treasury secretary for international affairs in the Carter Administration, "The potential virtue of summits is that you can pull together in a unique atmosphere the array of issues usually looked at in narrow cubbyholes."

Rashish called summits "instruments for managing interdependence. If they are used more to their potential, they represent an opportunity for political leaders to do what only they can do—to make the trade-offs and the linkages among issues."

The issues on summit agendas have not changed much over the past nine years. The principal ones have been trade, fiscal policy, monetary policy and exchange rates, energy and, more recently, East-West economic ties and relations with developing countries.

trade community that completion of the Tokyo Round of multilateral trade negotiations in 1979 was the result in no small measure of the annual endorsement from the summit leaders at Rambouillet, San Juan and London. And the final trade agreements reached in 1978 were forged under the deadline of the Bonn summit. "Any issues unresolved by July would be presented to the summit for completion, the negotiators were told. As a result, almost all of the work was done in time."

Since the Bonn summit, proponents of trade liberalization have used summits as a tool. Here at Williamsburg, U.S. officials were able to get agreement on common language that commits the summit countries to resist further protectionist measures. It also reaffirms efforts to liberalize trade in services and technology and raises the possibility of a new round of trade negotiations later in the decade. The wording is stronger than similar language adopted at the special meeting of trade ministers last year in Geneva.

Trade played a major role in this year's summit because U.S. officials, as well as most economists, believe a strong worldwide recovery will depend on renewed growth in world trade. Trade is also linked to the developing country debt issue because to service their debts to the banks of the industrialized countries, the poor countries will have to earn foreign exchange by exporting to the rich countries.

MISSED OPPORTUNITIES

Despite success on trade, there was a prevalent sense among some economists that the summit leaders missed an opportunity to accomplish far more this year. This gets to the issue of whether summits can force policy changes or merely reflect agreement where it already exists.

Some economists, including Bergsten and Edward Fried, a Brookings Institution fellow, urged the Reagan Administration to put together a package deal of economic reforms reminiscent of the Bonn summit, where summit partners devised differing economic strategies for ending the recession. Any deal would have had to start with the United States, which is still the acknowledged leader of the alliance and was this year's host.

Specifically, these critics wanted a strong Administration commitment to reduce the budget deficits projected for the remainder of the decade. An increase in taxes—or repeal of tax indexing—was the obvious means of accomplishing that. Defense budget cuts would also have helped.

Running through the discussions at Williamsburg was a general skepticism on the part of the other leaders that the

Forward, Ho!

The working assumption at Williamsburg, particularly for the Reagan Administration, was that worldwide recovery is under way. According to Chase Econometrics Inc., it is more accurate to say that recovery has started in the United States and can be expected to follow in Europe. Here are Chase's growth rate projections for the next several years.

	1982	1983	1984	1985
World gross domestic product	-0.4%	1.7%	3.6%	3.6%
United States	-1.7	2.6	4.5	4.0
Japan	3.0	3.4	3.9	4.0
Canada	-4.8	2.6	4.1	3.5
United Kingdom	1.2	1.9	3.7	2.5
Germany	-1.3	0.4	3.5	3.1
France	1.5	0.0	2.0	3.0
Italy	-0.2	-0.3	2.4	3.9
OECD*	-0.6	2.0	3.7	3.6
Latin America	-0.5	-3.9	0.4	2.9
Far East	2.1	3.4	5.5	4.9

* 11 largest members of the Organization for Economic Cooperation and Development

world. After the members of the Western alliance struggled to coordinate their oil strategies on an ad hoc basis following the first price hike at the end of 1973, they sought a more formal means of coordinating their responses to the developing crisis.

"What was needed was a new series of consultations at the highest level," wrote George de Menil in *Economic Summitry*, published recently by the Council on Foreign Relations. "The increasingly complex and interlocking nature of economic issues, as well as the political importance of what was at stake, called for direct dialogue between the leaders of the major nations. Only the highest political leader in each country had authority over the full range of problems and could cut across departmental specializations to grasp the essential interconnections."

Energy dominated the summits until 1980, during a period when energy prices were still increasing precipitously. At Versailles and again this year, monetary policy was high on the agenda because the high value of the dollar against the other major currencies has driven up worldwide interest rates, a major concern in Europe.

But over all, most summit veterans agree, the meetings have not focused on monetary policy. The exception was the first summit meeting, in 1975 at Chateau de Rambouillet, in which a breakthrough was achieved when the summit leaders endorsed floating exchange rates. This is still considered one of the most outstanding accomplishments of all the economic summits.

Trade has been the other success story. It is generally agreed in the international

U.S. economic recovery could be sustained without some strong action to reduce the federal deficit. Reagan and Treasury Secretary Donald T. Regan offered as evidence encouraging growth projections for the next few months. But Administration officials acknowledged afterward that their foreign colleagues were not entirely convinced.

At the same time, the other summit participants knew they would not get Reagan to change policies and agreed to seek additional taxes to bring down the deficits. So while there were some disagreements, the summit partners in the end sought compromise language that softened the controversy.



Edward Fried of the Brookings Institution urged the Administration to offer a package deal of economic reforms at Williamsburg, but to no avail.

Some outside economists thought the time was right for a package deal such as was crafted at Bonn, in which the United States would agree to bring down its deficit by raising taxes while other nations, particularly Japan and Germany, agreed to increase government spending to better the chances of a strong recovery. But it didn't happen that way; in keeping with the conversational mood, the summit communique contained no hint either of stimulative policies abroad or of U.S. tax increases.

Missing almost entirely from this year's economic summit was the idea of the heads of government using international pressure to take strong medicine needed at home.

In 1978, President Carter returned from Bonn having committed the United States to moving U.S. oil prices to world

levels. This was a policy that he favored but that Congress opposed. Similarly, many of Carter's energy conservation and fuel-switching policies, unpopular at home, were endorsed at the Tokyo and Venice summits.

Rashish still talks about the deal he thinks Reagan missed last year at Versailles. If the Administration had given some ground on its economic policies—for example, by pledging to bring down interest rates by reducing budget deficits and easing up on monetary restraints—it might have enticed European support on the East-West trade issue. But Rashish said no one in the Administration was thinking in broad terms about the linkage



Myer Rashish, an economic consultant and former State Department official, says of the heads of government at the Williamsburg summit: "They decided they don't have to do anything."

between issues and about possible package deals.

Rashish echoed the views of many others when he said of this year's summit: "They decided they don't have to do anything. Everything's on course," at least as far as the "conservative caucus" is concerned. He counts in that group Reagan, British Prime Minister Margaret Thatcher, German Chancellor Helmut Kohl and Japanese Prime Minister Yasuhiro Nakasone. Particularly after Versailles, Rashish said, it also was important to have a friendly summit.

Rashish thinks the leaders and their governments should have used the lull in the world energy crisis to take some long-range steps that would be relatively painless now. Specifically, he favors an oil import fee to spur domestic production and increase the leverage of the oil con-

suring world over the Organization of Petroleum Exporting Countries (OPEC). An import fee would reduce consumption while increasing domestic supply and thus force OPEC's prices even lower.

In the end, the seven leaders did endorse continued conservation and the search for alternative energy sources.

Rashish said the heads of government have to ask themselves, "Have they conveyed to the people of the world that they know what they are doing, that they're in control?" Many critics believe the bland Williamsburg communique, which did not test any countries' mettle, will not convey that impression.

But Versailles proved that it is danger-



Robert D. Hormats, who attended the first eight economic summits, says they are not the place to negotiate on issues where there are wide differences of views.

ous to tackle controversial issues when the leaders obviously do not agree. The failure some see in not taking on the tough issues at Williamsburg really means, as Fried put it, that the seven summit countries agreed to disagree.

Harald B. Malmgren, an international economic consultant, said there is a danger in summits if the leaders do not already agree on major issues because the summits tend to dramatize the differences. He suggested that leaders meet only when they are ready to reach a consensus.

Reagan would argue that there was a consensus: that no radical new policies are needed to strengthen the worldwide economic recovery. When the seven heads of state meet next year in the United Kingdom, it may be clearer if he is right. □

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RESEARCH CENTER

June 6, 1983

WASHINGTON FOCUS: *If history doesn't repeat itself, it is not above a little self-plagiarizing every now and then . . . Back in the Eisenhower days, Secretary of State John Foster Dulles felt crowded by Harold Stassen, then a White House aide for tentative talks with the Soviets (Stassen liked to call himself "Prince of Peace"), and he got rid of him . . . In the Nixon years, Secretary of State William P. Rogers was indeed crowded by Henry Kissinger, then White House national security adviser, and Kissinger got rid of him . . . Along came Secretary of State Cyrus R. Vance, with Zbigniew Brzezinski in the Kissinger role, and the results were the same for Vance as for Rogers . . . All of which brings us up to today, when, we are told on extremely good authority, Secretary of State George P. Shultz and William P. Clark, the latest White House national security director, give much evidence of being locked in a struggle for superiority and survival, vis-a-vis President Reagan and that elusive elixir called power . . . The focal point of the Shultz-Clark hassling right now is U.S. strategy in Central America . . . Shultz confronted President Reagan a couple of weeks ago with a decision on whether he or Clark was calling the tune, and the President came up with a Solomon-like decision: Shultz is in charge, but he had the wrong people running things . . . And so, to cut his losses, Shultz fired a career foreign service officer, Thomas Enders, as his top assistant for Latin American affairs, and accepted a Reagan amateur, Langhorne Motley, who has been U.S. ambassador to Brazil . . . Shultz's acceptance of this compromise may be a short-lived stopgap before he loses complete control over Central American affairs, for Republican Motley is more apt to take his cues from Clark, who sees Reagan every day and regularly goes horseback-riding with him, than from Shultz . . . And, once Clark is calling the tune in Central America (a harsher, more martial tune, surely), the rest of the world won't be far behind, as Henry Kissinger can tell you . . . And Clark, as he demonstrated in pushing Reagan into that disastrous debacle over the Soviet pipeline to western Europe, loves hard lines, confrontations, and brinkmanship of the most dangerous kind.*

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WILLIAMSBURG'S HAPPY ENDING WARMLY WELCOMED, BUT WHITE HOUSE AWAITS AFTER-SHOCK

There was congratulating all around at the White House following the "successful" conclusion of the 9th Summit of Industrialized Nations at Williamsburg, Va., but there were some who wanted to wait until all the returns are in. A little grumbling here and there among the visiting participants indicated that, if any of them need a scapegoat anytime soon, the United States (and President Reagan, too, for that matter) may be tapped for the role.

Reagan's staffers were hugging themselves with pleasure over their man's personal performance. It was said he was "really prepared" for his role as host of the 1983 session, and they liked the way he was credited with pushing through the summit's declaration endorsing his intention of deploying new medium-range nuclear weapons in western Europe.

Still, not every problem bothering the participating nations could be solved at Williamsburg. Some were not even addressed. And some others, while appearing to have been handled deftly, may come unglued later on, and blaming the United States and Reagan could very well carry the kind of credibility the other leaders might need back home.

Some things suggested that might yet go wrong:

- In these volatile times, public opinion in the visiting nations represented at Williamsburg -- Britain, Canada, France, Italy, Japan, and West Germany -- could turn against the missile declaration. The Soviets have rejected Reagan's argument that going ahead with plans to deploy Pershing II and cruise missiles could be a powerful goad to Moscow to make nuclear disarmament progress. And they have threatened to deploy nuclear weapons in eastern Europe. What would happen if public demonstrations broke out, in Europe and possibly the United States, that denounced the Williamsburg arms declaration and backed the Soviet position? Even Reagan's economic soul sister, Prime Minister Margaret Thatcher of Great Britain, might be forced to temper her support in the face of overwhelming public pressure.

- Japanese Prime Minister Yasuhiro Nakasone's signing of the arms statement created a storm back home. It marked the first time that Japan, sworn to eschew nuclear weapons and even technically disarmed (it has a "self-defense force" on land, at sea, and in the air, but no "army," "navy," or "air force"), had mixed into East-West security disputes in a formal way. Japanese political and news media figures demanded to know what Nakasone had created by signing a declaration that contained this sentence: "The security of our countries is indivisible and must be approached on a global basis." Some of Nakasone's political foes said that meant Japan was now sworn to help defend Europe, and, if so, where was Japan's *quid pro quo* for such a monumental promise?

- French President Francois Mitterand fought hard to win approval of another meeting like the 1944 Bretton Woods Conference to set standards for an international monetary reform. Mitterand conceded he had failed at that, but he insisted he would keep trying because "the idea has begun to penetrate." Mitterand spent part of his time at Williamsburg conducting a long-range argument with the French press. What if he starts beating the Bretton Woods drums in earnest from Paris now, blaming Reagan for thwarting him, and even blaming all of France's and Europe's economic woes on the United States and its huge budget deficits and high interest rates?

- Canadian Prime Minister Pierre Trudeau tried unsuccessfully to get his country invited to join the United States, Britain, France, Japan, and West Germany in a special watchdog arrangement overseeing their economies. This surveillance, set up under the International Monetary Fund, is designed to keep the five countries from surprising each other with sudden policy shifts. Trudeau, especially concerned about the impact of oil prices, must keep in touch with such developments through informal channels to the IMF. Over U.S. objections, Trudeau pushed through language in the Williamsburg communique that deplored unpredictability and volatility in oil prices. Whom will he blame if this fails to satisfy his home constituencies?

After Williamsburg

The summit brings a show of unity, and the Soviets adopt a friendlier tone

The seven world leaders came, ostensibly, to thrash out differences in trade policy and currency rates. But the most important consensus emerging from the ninth annual economic summit in Williamsburg, Va., last week had nothing to do with economics at all. In the hall that once reverberated with Patrick Henry's revolutionary oratory,

make the present situation easier." There was no way of knowing whether Andropov's conciliatory tone was prompted by Williamsburg, or whether it was even genuine. Some diplomatic sources were cynical about Andropov's aims, suggesting that he was merely firing another salvo in his "peace offensive" to undercut support for the missile deployments this fall.

The significance of the economic declaration will depend on events in Washington, where the White House and Congress have yet to work out a way to deal with the budget deficit, and in the currency markets, where it will soon become clear how sincere is the lip service being given to the goals of exchange-rate stability and coordinated monetary policies. "Williamsburg is only a step on a long road ahead," said French President François Mitterrand.

The summit was a personal success for Ronald Reagan, who helped dissipate doubts about his ability to handle details of diplomacy and diminished his image among Europeans as an unsophisticated and uninformed cowboy. The President came prepared with draft proposals on key issues and suggestions on what to say (one briefing paper that was leaked said that in dealing with Mitterrand, "you can express your support for his efforts at austerity, noting our own program for fighting inflation"). Moreover, he had clearly mastered the material. As planned, Reagan eschewed a formal agenda, emphasizing instead informal exchanges among the leaders of the seven nations (the U.S., France, West Germany, Britain, Italy, Japan and Canada; the European Economic Community was also represented). "The President took a very big gamble that we could have an unstructured summit and still produce results," said Canadian Prime Minister Pierre Trudeau, usually no fan of Reagan's. "I must say I had to congratulate him for having won that gamble."

The format allowed Reagan to pull off his biggest coup, the reaffirmation of the Western stance on Euromissiles. The U.S. had broached the possibility of making such a declaration two weeks before the summit began, but the idea initially met a cool reception. The French objected to discussing security issues at what was supposed to be an economic summit, particularly since France is not part of the military component of the NATO alliance. Most of the other leaders also expressed skepticism. The U.S. let the Euromissile question drop. Reagan told aides he was leery of raising it for fear of starting the summit off with a fight.

Margaret Thatcher, however, showed no such reluctance. The British and American "sheperds" (so named because they are in charge of preparing for the ascent to a summit) had been consulting on the arms policy issue, and the U.S.



Mixed messages: Soviet Leader Andropov and Veteran Diplomat Harriman in Moscow

the U.S., with the stout help of the British, forged an agreement among the allies to support resolutely NATO's plan to deploy nuclear weapons in Western Europe this year if no arms agreement can be reached with the Soviets.

The unified stand was, in part, an acceptance of President Reagan's oft-repeated contention that the Soviets would not seriously pursue arms control until the West resolved to build up its own nuclear arsenal. In Williamsburg, Reagan made a 20-minute plea for solidarity on the missile question. "We've fought together and we've fought each other and now we must stand together," he said. If the allies backed away from their deployment plans, he warned, "there will be laughter in the Kremlin tonight."

Several days later, the Kremlin proffered a sudden and surprising olive branch. The wartime U.S. Ambassador to Moscow, W. Averell Harriman, met for 80 minutes with Soviet Leader Yuri Andropov and quoted him as saying that "the Soviet Union is ready and interested in searching for joint initiatives, which would

Officially the Administration appeared willing to accept Andropov's overtures as a tentative thaw in East-West tensions. If Moscow was ready "to take concrete steps" to improve relations, said State Department Spokesman Alan Romberg, it would find "a ready partner" in the Reagan Administration.

Each of the leaders left quaint, historic Williamsburg in a position to claim at least token success. The French, fearful for their falling franc, won an agreement, albeit a decidedly vague one, that measures would be studied to stabilize currency markets. The Japanese escaped direct criticism of their own trade policies while joining in a general condemnation of protectionism. And all of America's trading partners extracted an admission from Washington that uncontrolled budget deficits contribute to rising interest rates and threaten to sap the strength of the budding global recovery. The conferees made no concrete pledges about how these problems would be specifically solved, but they at least came away with a greater sensitivity to one another's concerns.

had even privately prepared a draft proposal. When the leaders gathered for their first private dinner, the British Prime Minister argued that a firm stand was necessary to show Western resolve, particularly in the face of Andropov's ham-handed threat on the eve of the summit to place new nuclear weapons in Eastern Europe if NATO proceeded with its deployment plans.

Despite Mitterrand's early objections, a consensus formed that some statement was necessary. Reagan took copious notes on a yellow pad, writing in a small, neat script. When the discussion was over, he brought eight pages to the foreign ministers, who were having brandy and coffee after their dinner upstairs in the restored plantation, and instructed them to shape a formal declaration.

The following morning, the seven leaders resumed their private debate on the draft that had been worked up over-

and base them in Asia instead: "The security of our countries is indivisible and must be approached on a global basis."

What is more, France's acquiescence brought that country formally in line with NATO's nuclear policy. This will probably add to the harmony at this week's meeting of the Atlantic Alliance, which is being held in Paris for the first time since Charles de Gaulle ousted the NATO headquarters from that city in 1966.

Most significantly, the display of resolve may help convince the Soviet Union of the necessity to reach an INF agreement in Geneva, rather than a propaganda victory in Western Europe, if it wishes to stop the installation of new intermediate-range nuclear missiles. The U.S. finally seems positioned to aim for some movement at the other set of nuclear arms negotiations in Geneva, the Strategic Arms Reduction

some protection from criticism by the implicit protocol of such conferences, in which members refrain from trying to dictate specific internal policies to other participants. Neither West German Chancellor Helmut Kohl nor Mitterrand pressed for any direct steps to tackle the problem of high interest rates. "I'm not here to give anyone lessons," said Mitterrand diplomatically, "but the results of continuing high budget deficits should be obvious." Instead, the leaders merely endorsed Reagan's emphasis on fighting inflation and noted that deficits should be reduced, "preferably through discipline over government expenditures."

Perhaps the most deft accommodation Reagan worked out in the meetings was with Mitterrand, who had come to Williamsburg proclaiming his desire for a Bretton Woods-style conference designed to enforce stability among different currencies. The U.S. had previously resisted



Reagan delivering the joint statement at the end of the summit, pledging the leaders to "promote a sound and sustainable recovery"

night. Trudeau argued for a more visionary statement, stressing the need for arms control. "We should be busting our asses for peace," he said. Turning to Thatcher, who faces the voters this Thursday, he chided, "Don't worry, you'll win your election anyway." A final paragraph expressing a vision of peace along the lines suggested by Trudeau was added. When the agreement was finally reached, seven hours behind schedule, Reagan told the other leaders, to general laughter, "White smoke is now coming out of the Williamsburg chimney."

Although the statement on arms policy contained nothing substantially new, its context gave it long-term significance. Said a high West German official: "We now have unity on defense issues from London to Tokyo, and that is a new element." The Japanese for the first time officially gave approval to a key NATO defense doctrine. A sentence was included to assure Japan that any future intermediate-range nuclear forces (INF) agreement will not allow the Soviets simply to move their SS-20 missiles away from Europe

Talks (START), which deal with intercontinental weapons. Congress, in approving funds for the testing of the MX missile, has pressured the Reagan Administration to increase its efforts for a START agreement. In addition, the Scowcroft Commission, which Reagan last week authorized to function until 1985, recently recommended that the trend toward loading missiles with multiple warheads (MIRVs) be reversed, because the process makes both superpowers more vulnerable to a first strike. Consequently, Reagan is expected this week to modify the previous U.S. insistence on a deep cut in missile numbers, which the Soviets oppose, while continuing to press for reductions in the number of warheads.

Having achieved his prime goal of a statement on arms policy, Reagan was content to settle back and allow the vaguest possible economic declaration to emerge from the Williamsburg conference, mainly because any detailed document would probably have dwelt on the problems caused by high U.S. budget deficits and interest rates. Reagan was offered

any significant intervention in the free-floating exchange market. Though some observers regarded Mitterrand's Bretton Woods call as a red herring, the French were looking for at least a U.S. show of respect for their concern about the ill effects of unpredictable currency fluctuations. At the final session, Reagan showed his skill as a mediator by suggesting that debate over a paragraph dealing with protectionism be postponed while other issues were considered. Then, when the seven leaders came to the paragraph Mitterrand wanted on currency stability, Reagan proposed a deal: the French and the Americans would compromise their differences on both protectionism and interest rates and consider the two sections jointly. The package plan was quickly passed.

But there may have been a lot less to this compromise than met the eye. Treasury Secretary Donald Regan, for one, described the practical effect of the U.S. concession on currency intervention as exceedingly limited: "We've agreed to talk about it more. We will call each other up more often." Indeed, most of the Euro-

peans' economic concerns were met by little more than a promissory note, one with no specific due date for redemption. The six visitors will be able to determine what, if anything, they accomplished at Williamsburg only by watching the Washington budget process and U.S. interest rates and dollar exchange rates over the coming months.

The lack of any specific pledges by the U.S. to help stabilize exchange rates, and the absence of any willingness in Washington to take any immediate steps to act on the vague promises made, helped push the French franc and the Italian lira to new lows last week against the dollar.

Europeans were vocal in criticizing the lack of a more substantive agreement. Said Italian Treasury Minister Giovanni Goria: "The promise was pure façade, useful for French consumption." Though in his conciliatory style at Williamsburg Kohl tried to show he was a Helmut of a different color from his tendentious predecessor Helmut Schmidt, when he returned to Bonn he expressed discontent over American avoidance of any firm economic commitments. He told his Cabinet that it was "aggravating and depressing that the U.S. failed to comply with demands for lower interest rates."

Some of the participants returned to face fierce fire at home for their accommodating attitude at Williamsburg. Mitterrand was attacked from within his own governing Socialist coalition; Left Wing Leader Jean-Pierre Chevènement demanded a program of protectionism rather than austerity to aid the ailing economy. Both the Gaullists and the Communists joined in the criticism of the French President for bowing to American pressure on Euromissiles and monetary policy. "I have the feeling he gave the Americans carte blanche," said Communist Party Leader Georges Marchais. In Japan, Prime Minister Yasuhiro Nakasone was assaulted from all sides for allegedly forsaking his country's disarmament principles. "He remains a militant weather vane and continues to betray the peace-loving nation as a whole," said Socialist Party Chairman Ichio Asukata. Thatcher, entering the final week of her campaign, faced predictable blasts from Labor Party Leader Michael Foot, who called the failure of the summit to endorse a policy of monetary and fiscal expansion "catastrophic."

Nevertheless, Reagan received some rave notices from European observers. Italy's *La Stampa*, describing the slick conduct of the summit as "una Coreografia Hollywoodiana," called him "no longer a cowboy, but a President." *Le Quotidien de Paris* dubbed the summit "Reagansburg." *Le Figaro* in Paris added: "He was simultaneously screenwriter, arbiter and even stenographer." The German paper *Nürnberger Nachrichten* also turned the Hollywood imagery into a compliment,



Posing: Fanfani, the Reagans and Mitterrand



Shopping: Kohl and Thatcher admire crafts



Greeting: Reagan in a raised-arm welcome
A very big gamble that produced results.

noting: "Reagan made good use of his actor's training. But he has also developed a respectable talent as a director."

One of the notable achievements of last week's summit was that it breathed new life into the institution of summity within an alliance whose temporary discords often overshadow deeper and more abiding common interests. After last year's disastrous showing at Versailles, some questions had even been raised about the wisdom of holding such gatherings. But when Secretary of State George Shultz was going over the final document at Williamsburg last week, he was able to turn such worries into a good laugh. He kidded with the President that he was unsure about one line near the end. "Which line is that?" Reagan asked. Replied Shultz, alluding to the announcement that the Big Seven would meet next spring in Britain, "The one that says we've got to do it again next year."

The more intriguing question was whether Reagan and Andropov might have their own summit. The Harriman visit and the State Department's response touched off speculation that such a meeting might occur. But U.S. officials cautioned that the Harriman-Andropov session was not all sweetness and light. Indeed, it started out on a decidedly tense note, with Andropov lambasting the Reagan Administration for its aggressive attitude toward Communism, its arms control policies and other areas of bilateral tension. But Andropov was friendlier in an exchange with Harriman about the Soviet translator. Said Harriman, who had met the translator with previous Soviet leaders: "I've known this man such a long time. I hope these past associations don't bother you." Andropov laughed and replied, "No problem for me. Don't worry about that."

While at Williamsburg, Reagan reportedly authorized Kohl to raise the possibility of a U.S.-Soviet summit when he goes to Moscow next month. Some White House advisers believe a meeting with Andropov would help Reagan politically in 1984, since it would probably soften his cold warrior image. But others reportedly feel that it could backfire unless it yields progress on arms control. In the past, Reagan has said he would be willing to sit down with his Soviet counterpart only if there was a chance of producing substantive results.

Whether the Soviets are ready to bargain in good faith is the great unknown. Their warmer rhetoric may be nothing more than propaganda. But it is conceivable that Andropov is setting the stage for a more flexible negotiating position before the U.S. deploys its Pershing II and cruise missiles. "The signal they are sending is that they want to improve a bad relationship," commented a source at the U.S. embassy in Moscow. "But it doesn't mean they are willing to change their policies. We'll have to wait and see." —By Walter Isaacson. Reported by Laurence L. Barrett and Lawrence Malkin/Williamsburg

POSTSUMMIT BLUES HIT THE MARKETS



REAGAN AND VISITING HEADS OF STATE AT WILLIAMSBURG: HIS OPTIMISM DIDN'T KEEP EUROPE'S CURRENCIES FROM SAGGING AT THE THREAT OF A FED TIGHTENING

President Reagan startled some of his counterparts at the Williamsburg economic summit by suggesting that U.S. growth for the year could be closer to 6% than the 4.7% currently forecast by the Administration. But while Reagan was giving this sunny view of the prospects for economic recovery, some of his top economic officials were warning that the Federal Reserve Board will have to tighten the reins on a rapidly expanding money supply. The ink was hardly dry on the upbeat summit communique when financial markets, zeroing in on the clear conflict between Reagan's fast-growth scenario and tighter money, began to sag.

The leaders of Western Europe and Japan returned from Williamsburg on May 31 to find currency markets in turmoil and the dollar soaring to record highs. In a few hours of post-summit trading the French franc plunged 2.2%, to an all-time low of 7.69 to the dollar. Even the Deutschmark, one of Europe's strongest currencies, fell 1.6%, to 2.55. Stock and commodity markets around the world took a dive: The Dow Jones industrial average plummeted 14 points over two days, and London gold plunged 6.3%. In a further embarrassment to the summiteers, U.S. short-term interest rates rose sharply, to 8.65% on three-month Treasury bills, up from 8.46% a week earlier and the highest level this year.

What sent the financial markets reeling was the remark by a senior U.S. official at Williamsburg that "if this money supply [growth] continues during June to be still on the high side, obviously some more tightening is going to be needed." He was referring to a \$15 billion surge in M1, the closely watched, narrow measure of money supply, over the past four weeks. On an annual basis, M1 is now growing at a rate of more than 14%, nearly double the top of the Fed's target range of 4% to 8%.

A CHOKE ON RECOVERY? Treasury Secretary Donald T. Regan has asked Fed officials for an explanation of the money bulge. He has been told that they, too, are puzzled by strong money growth at such an early stage of a still sub-par recovery. "We don't want the Fed to slam on the brakes," comments a senior Treasury aide. "But we have to get M1 under control and back to around 6%. That means a gradual slowing in the money supply."

To most of the Williamsburg participants, this call for tightening poses the risk that the Fed could choke off the U.S. recovery. The Europeans have pointedly told Reagan that they want the Fed to "stay the course" as long as there is no clear evidence that the rapid money growth is causing inflation. "A squeeze on money supply means higher interest rates," says West German Economics Minister Otto Graf Lambsdorff.

Adds Gaston Thorn, president of the European Commission: "It would be catastrophic if [U.S.] interest rates went up," because that would act as a drag on Europe's recovery.

Administration monetarists, led by Beryl W. Sprinkel, Treasury Under Secretary for monetary affairs, argue that the Europeans' fears are misguided. They assert that loose monetary policy is already forcing up interest rates, because it is fueling market expectations of a sharp increase in inflation. "We've had three weeks of soaring money growth, and look what has happened," says one source close to Sprinkel. "Interest rates are up three-quarters of a point. Some Europeans believe that the more money you pump in, the more rates ought to go down. But that's not the way our markets work."

NO ASSURANCES. U.S. officials have said repeatedly that there is no link between high interest rates and big budget deficits. But the fact is that during the two weeks ended June 4, the Treasury Dept.—which must finance a \$200 billion deficit this year—went into the credit markets to sell a total of \$49.3 billion in securities, including \$21.6 billion in new cash. The heavy federal borrowing swamped the markets with more paper than they could handle, pushing bond prices down and rates up. At the summit, Reagan was unable to provide any firm assurances that the government's massive borrowing needs would decline any time soon, aside from expressing the hope that faster U.S. growth would reduce out-year deficits.

Reagan helped to defuse some criticism of U.S. policy at the summit by stressing his belief that stronger-than-anticipated growth would help shrink those big deficits. Reagan's optimism is based on evidence that real growth in the current quarter may top 6%, up from a 2.5% annual rate in the first quarter. Expansion in the January-to-March period was depressed by a massive inventory liquidation that now appears to have run its course. Additional strength is coming from consumers, whose bullish outlook and increased disposable income are giving a hefty boost to sales.

Because the entire economic focus of Williamsburg was on the urgent need for lower U.S. interest rates, the Administration's unexpected jawboning calling for Fed tightening has thrown world money markets a curve. Indeed, with Europe's currencies in a free fall, some officials are girding for a full-scale currency crisis. "The markets saw nothing at Williamsburg to bolster confidence in European currencies," says Friedrich W. Menzel, managing director of Citibank in Frankfurt. "The dollar has become unhinged again, and we don't know where the new peak will be." □

Editorials

WASHINGTON REPORT

JUNE 6, 1983

A Promise To Keep

President Reagan has made a promise that he will have a tough time keeping.

Reagan and six other Western government leaders concluded their economic summit in Virginia last week with the signing of a 10-point "Williamsburg Declaration." This document pledged to "promote a sound and sustainable economic recovery" by "limiting the growth of expenditures," among other things.

But vowing to restrain government spending and convincing Congress to do it are two distinctly different things. And although Reagan has been good at the former over the last two years, he hasn't accomplished the latter.

The last budget proposed by President Carter, in 1980, called for federal outlays of \$576.7 billion, \$212 billion more than his first budget proposal four years earlier.

Federal spending during the fiscal year ending this Sept. 30 is estimated at \$805 billion, \$229 billion more than Carter's final budget proposal.

And spending in 1984 would be \$849.7 billion under the budget resolution approved recently by the Senate but \$13.9 billion higher next year under the House-passed resolution.

Conferees begin meeting this week to reconcile these differing outlay figures. Although the product of their negotiations is uncertain, the final figure is sure to be higher than this year's spending total.

How, then, can President Reagan make good on his promise to restrain future government spending?

Simple. The president must use his veto power without hesitation on any 1984 appropriations bill that he deems excessive.

It takes a majority vote of the House and Senate to pass an appropriations bill, but it requires a two-thirds majority of both bodies to override a veto. So the president probably can make his vetoes stick.

Reagan's honor and political future — and our economic recovery — very likely depend on it.

give them refuge. The ANC's leaders have yet to build any concerted political or industrial action on the back of their intermittent bombings. Indeed, had it not been for the South African police, whose brutality drove some 5,000 young Sowetans abroad and into ANC training camps in 1976-77, the ANC would constitute no conceivable threat to South Africa's security. These youngsters are believed to be behind the decision to risk civilian casualties in bomb attacks.

White South Africa has remained astonishingly immune from what even stable democracies now regard as "normal" pseudo-political terrorism. The government has achieved this partly by the ruthless suppression of black opposition and the containment of white dissent. But it has also done it partly by its neo-apartheid policy—co-opting black workers into the economy, proposing modest constitutional reforms for Indians and mixed-race people, and forcibly clearing to the barren hinterland just about everybody else. This has produced two decades of quietude which mystifies South Africa's friends and enemies alike. The bombings in Pretoria and Maputo attracted much more attention abroad than the opening of a new police season for winter clearances of blacks from Cape Town. For those unfortunates, the ANC provides neither protection nor consolation.

The intimidation has largely worked

For the time being, the ANC matters mainly for what it does to the tortuous relations between South Africa and the black states round it. In talking of a "total onslaught on South Africa", that country's prime minister, Mr P. W. Botha, credits both the ANC and the front-line states with a wholly unrealistic strength. The result has recently become the pursuit of a regional

belligerence quite disproportionate to the threat.

The neighbouring black states have all felt an understandable obligation to offer sympathy and hospitality to ANC refugees, but they know the danger. Zimbabwe and Mozambique deny that their hospitality is of the military sort. Botswana, Swaziland and Lesotho have all but ceased to shelter ANC members. That organisation's guerrillas, such as they are, are trained well to the north, though they presumably have jump-off bases nearer their targets.

South Africa is none the less determined to make all these countries regret even the presence of "ANC suspects" on their soil. There is an economic squeeze on Zimbabwe, plus some military pinpricks; Mozambique is being systematically undermined by a South African-backed resistance movement, and its capital has now been attacked for the second time in two years; South Africa has taken upon itself the policing of ANC activities in Lesotho; and its counter-guerrilla raids into Angola are an awesome warning to any hostile neighbouring country.

The South African government likes to see Israel as its military model, and in those terms its chances of success must seem high. The ANC is even feebler than the PLO; the states around South Africa are frailer than most of Israel's Arab neighbours; the possible helping hand from Russia is much farther away. It is hard to see what more South Africa can realistically do to keep the terrorist wolf from its door. So long as it practises apartheid it must expect a measure of violent resistance. What does lie within its power is the establishment of live-and-let-live relations with its economically debilitated neighbours. The bombing of Maputo could push such relations into the even remoter future.

Buck-passing at Williamsburg

Everybody agrees the dollar is overvalued, but nobody is ready to do anything about it

President Reagan would dearly like to take lower American interest rates to this weekend's Williamsburg summit. Wall Street is denying him the pleasure. After months of stability, rates have started inching up this month. If inches become feet, they will stamp on the chances not merely of Mr Reagan's re-election (see pages 21-32), but of steady economic growth and a gradual solution to the problems of Brazil, Mexico and other overborrowed countries. American policy makers know that better than anybody. Yet they seem incapable of doing what is needed to keep interest rates—short and long—falling without reviving inflation.

The first requirement is a negative one—not to upset the financial markets by pretending that certainty beckons from the unknown and unknowable. For instance, it is impossible at present to draw firm conclusions from movements in the M1 measure of

America's money supply. Yet the treasury secretary, Mr Donald Regan, has reacted firmly to the \$11 billion (2.3%) rise in M1 announced for the two weeks April 27th-May 11th. He wants the Federal Reserve to rein M1 within its growth rate of 4-8% by the last quarter of 1983. That would mean M1 rising by barely 1% during the rest of this year. The Fed's chairman, Mr Paul Volcker, has often stressed that M1, the narrow measure of the money supply, has been too distorted by changes in banking and savings laws to be a reliable guide to monetary conditions in 1983. He puts more weight on M2, M3 and the outstanding debt of the non-financial private sector, all of which surged during the winter but are now growing close to their targets.

Although Mr Volcker's emphasis is probably the right one at the moment, even the slower growth in these measures of money could not justify the cut in the Fed's discount rate that he was hinting at a few weeks



ago. When financial indicators are ambiguous, the Fed ought to pay more attention to economic developments. These have started to suggest that caution on interest rates is needed, because the recovery is no longer as patchy as it once was. Industrial production is rising strongly—up 13.2% at an annual rate in three months to April. More important, the volume of retail sales and consumer spending is also picking up and will probably rise quite strongly from now on, because taxpayers have just received rebates from 1982's overpaid tax bills and will shortly get the last of President Reagan's three-year cuts.

For today's recovery to broaden into healthy growth, companies will have to invest more. They have cut their fixed investment by 2% in real terms during the past three years, and surveys suggest that the high cost of capital is the main reason why they are going to cut deeper this year. But although lower interest rates are needed, a reduction in the discount rate could backfire. That happened last December, when Mr Volcker hastened through a half-point cut—only to find that bond yields rose. The markets were already nervous of deflation that smacked of future inflation. Today, with reflation all about them, and consumer prices rising by a (perhaps freakish) 0.6% in April, their worst fears would be confirmed.

Bad tidings from Williamsburg

Unless, that is, their highest hopes were first fulfilled by action to cut America's prospective budget deficits. The White House was hoping to do a deal with congress that would reduce the deficits in fiscal 1984 and beyond by up to \$100 billion a year. Those hopes have died, not least because congress would prefer the White House to take the lead (and the political brickbats). President Reagan could now show that he believes what he says about the virtues of smaller deficits. If he does nothing, the United States will face the unhappiest of choices: a stunted recovery, with the White House blaming the Fed for higher interest rates; or, after a more biddable chairman has replaced Mr Volcker at the Fed in August, a reckless attempt to lower rates despite the large deficits.

To outsiders, the American outlook is doubly threatening. If dollar interest rates stay up, so will the dollar. Its strength has already put American industry at a competitive disadvantage, losing business at home and in third markets. But only the most myopic of foreign governments could welcome the price of an uncompetitive America. High dollar interest rates raise the cost of servicing the \$350 billion borrowed from the rich world's banks by two dozen semi-poor countries. And an overvalued dollar threatens to turn more and more Americans protectionist, making it harder for those two dozen to export their way out of trouble. These are truisms, accepted by the Reagan administration; like many truisms they do not necessarily stir the complacent into action.

The rest of the world cannot afford complacency. Yet, in monetary policy at least, the decisions of the other Williamsburg summiteers need to be conditional on what happens in America. That does not mean some grand plan for co-ordinated interest rates and currency intervention, but a tilt towards a much more modest objective.

There is some evidence to suggest that worldwide inflation depends (with the usual uncertain lags) on the combined monetary growth in the largest economies; individually their monetary policy has a greater effect on their exchange rate than on their inflation—provided, of course, that they do not all step up or slow down monetary growth simultaneously.

They may now be falling into the trap of simultaneous expansion. In four of the capitalist world's five largest economies—Japan being the exception—the narrow version of money supply is now more than 10% up on a year ago, even though prices are less than 4% higher. That kind of monetary pump-priming will revive inflation if it lasts for long, while doing nothing to correct the dollar's overvaluation and the too-cheap yen and D-mark. A bit of co-ordination among central banks, to keep monetary growth relatively fast in America, and relatively slow in Japan and West Germany, would do more good for the world than anything except a big cut in America's budget deficit. Williamsburg, alas, is likely to do neither.

A line for Andropov

No more fudging in Madrid, please

In Helsinki last weekend, while pacifist- and anti-nuclear demonstrations were being staged in other parts of Europe, several thousand young Finns did something different. The human chain they deployed was designed to link the embassies of the governments which, in Finland's capital in 1975, had signed the final act of the conference on security and co-operation in Europe—better known as the Helsinki agreement. The obvious target of the demonstrators' call for the 1975 pledges to be fulfilled was the Soviet government,



which is still flagrantly violating its Helsinki promises to respect basic human rights and promote free contact between all Europeans.

Next day the young Finns got a prompt and dusty answer from the KGB. It emphasised its intention to go on flouting those Helsinki promises, by temporarily extending its silencing of the best-known campaigner for human rights in Russia, Mr Andrei Sakharov, to his wife. The restraints imposed on the Sakharovs (see page 58) constitute one violation of Russia's Helsinki

EVANS-NOVAK POLITICAL REPORT

WHAT'S HAPPENING . . . WHO'S AHEAD . . . IN POLITICS TODAY

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To: Our Subscribers

From: Evans-Novak

Whether by luck or skill, or a combination of both, President Ronald Reagan came down from the Williamsburg Summit in remarkably fine shape, although his political condition in regards to Euronukes and a unified anti-Soviet stance appears far better than his economic posture on currency stabilization, high deficits and interest rates.

RR's success at the ninth economic Summit will help him with Congress and with the voters by supplying an ingredient lacking in his first thirty months in office: Presidential credibility in the game of geopolitics and competition with the U.S.S.R.

The shockingly-sudden shakeup at the State Department's Latin American Affairs desk puts National Security Adviser William Clark in the hot seat - where he most definitely does not want to be - in dealing with the El Salvador and Nicaraguan Crises (among others). Once again, Sec. of State George Shultz seems to be the odd man out.

The high praise heard here for Shultz's success in getting Israel to withdraw from Lebanon is fading fast. What withdrawal? The Syrians now hold the card that determines the immediate future of American policy in the Mideast - a strange commentary on U.S. policy.

Congressional moderates and liberals gather to demand the quid pro quo for their MX vote two weeks ago, as predicted in our last Report. Mr. Reagan must choose a new START position soon, but whatever it is, it won't please either hard or softliners.

President Reagan's Senate defeat on the Budget Resolution no longer is relevant in view of his intensified determination not to go for a big tax increase.

The Federal Reserve Board, ignoring the M-1 numbers, seems determined to maintain a steady-as-you-go attitude. Whoever ends up heading the Fed will not precipitously abort the Recovery prior to the 1984 election. Our feeling still is that Chairman Paul Volcker will go, with Alan Greenspan a step ahead of FRB Vice Chairman Preston Martin to succeed.

White House Staff Wars - Bill Clark vs. Jim Baker in its latest version - have subsided, with nobody leaving and nobody winning, as we forecast.

On the Democratic front, ex-Vice President Walter Mondale is in trouble for the first time. A horse race between Mondale and Sen. John Glenn (D-Ohio) is developing, with the liberals hoping for - but almost surely not getting - Sen. Edward M. Kennedy (D-Mass.) to jump in.

THE REAGAN ADMINISTRATION

The Williamsburg Summit: RR accomplished more than anyone expected. To wit:

1) Those strange words of praise from Canadian Prime Minister Pierre Trudeau struck an authentic note; the foreign leaders were both surprised and pleased by RR's grasp of the issues and his skill in running the affair as host and chairman.

2) Finessing the hard economic problems (except for the barest promise to study ways to stabilize international currencies), RR hit hardest on the military-arms control-unity issue. His agent was British Prime Minister Margaret Thatcher, but RR brought France and Japan along (to his own surprise), getting his way without alienating anyone.

3) RR was prepared for fireworks from French President Francois Mitterrand on a

return to a Bretton Woods-style currency stabilization system. But it did not happen.

4) One problem: The new extension of the Export Administration Act, now before Congress. All the Europeans oppose its extra-territorial provisions, etc.

5) Aside from its Message to Moscow, what was the accomplishment of the Summit? Lacking specifics, it nevertheless went far in getting the Allies, particularly the West Germans, to think harder about their problems with the U.S. on basic East-West issues.

Central America: The White House decision to send Asst. Sec. of State Tom Enders to Madrid and to sack Ambassador (to El Salvador) Deane Hinton was not over Shultz's protest, but was virtually independent of him:

1) We think the Secretary badly needs to find some way to assert control and not let the White House run away with him. But his mildness, sense of decorum and strong loyalty to the President make this unlikely. Moreover, Shultz's blank spots - such as ignoring Syria, which the White House worried about long before he did - invite policy interference by Clark, such as the one that did in Tom Enders.

2) With no one willing to take over the crises in Central American policy, Enders emerged as the strong man - an impossible position for an Asst. Sec. He began to rub both Clark and U.N. Ambassador Jeanne Kirkpatrick against the grain.

3) The policy dispute is real, but it involves not so much Central America but how to handle the two wars politically here at home. Enders counseled a soft hand with Congress; Clark and Kirkpatrick want to harden - i.e. come along or we'll accuse you (the Democrats) of losing Salvador and Nicaragua.

4) The problem for Clark is worse in Salvador than in Nicaragua, particularly with the assassination of a U.S. Naval officer last week. The repetition of such acts could bring emotional demands from Congress and voters to get out of Central America.

The Middle East: The chickens are coming home to roost in a deteriorating situation with the Soviets gaining:

1) Syria holds the key to withdrawals of Israeli troops from Lebanon, invaded a year ago. Until recently, Syria was spurned and ignored by Mr. Shultz.

2) A war between Syria and Israel cannot be ruled out, although both sides know the result could be a Superpower confrontation.

3) By appearing to absolve Israel from any punitive action for its Lebanon invasion (an OK on the F-16s, a U.S. visit from Prime Minister Menachem Begin next month), RR has, with or without a full understanding of it, been persuaded to deal a new blow to the Arab world. His peace proposals are in a shambles; there is now no chance for recouping until his second term - if there is one.

Arms Control: The battle between the Arms Control Lobby on Capitol Hill and the Reagan Administration's still-unknown new arms control position is heating up. Here's the outlook:

1) RR made concessions to get the MX missile approved in Congress. But he has never defined - and the arms controllers have never stated - exactly what they both want. Whatever the actual positions, they are antithetical.

2) Surprising movement in MBFR (conventional) weapons talks in Vienna: a near-agreement (being kept secret within the Administration). If so, it would relieve RR of some of the arms control pressure on nuclear weapons.

3) The arms control battle also pits State against Defense: i.e. the Pentagon will never willingly accept the "build down" thesis that Sens. William Cohen (R-Maine) and Sam Nunn (D-Ga.) have begun to push. But State and ACDA might buy it.

An NSC meeting next week may establish the Administration's new START position. Whenever it does, we're willing to bet the Arms Controllers will cry, Sell Out! Further, they can undercut RR any time in the future by threatening to pull the plug on the MX.

5) Nothing has so embittered Democratic rank-and-file liberals in the Arms Control bloc as House Majority Leader Jim Wright's (D-Tex.) and Whip Tom Foley's (D-Wash.) support of the MX in the interest of bi-partisan unanimity and as a device to strengthen the U.S.'s hand in bargaining with the Soviets.

6) Liberal Democrats have blocked - at least temporarily - ex-Rep. David Emery (R-Maine) as Deputy Director of ACDA, apparently on the grounds that in his campaign last year Emery made an issue of Soviet missile-test cheating. That's a no-no to the liberals.



Meeting at the Williamsburg summit: Gaston Thorn of the European Community; Amintore Fanfani of Italy; François Mitterrand of France; Margaret Thatcher of Britain; President Reagan; Yasuhiro Nakasone of Japan; Helmut Kohl of West Germany; Pierre Trudeau of Canada

History's Shadow at Williamsburg

The eight previous economic summit meetings were pageants of wealth and power, set in or near grand palaces that were built with the sweat and blood of ordinary people. For the ninth summit, the scene was turned on its head. The buildings of Williamsburg, where the leaders of the seven major industrialized democracies gathered over the weekend, could be tucked into one wing of Versailles, the site of last year's meeting. Marble, granite and gold gave way to wood, brick and pewter. Vistas of canals and cobbled courtyards yielded to intimate gardens of a few square yards and dusty streets that could be walked in minutes. Williamsburg is a reminder of the limits of government and the power of freedom.

No matter how intractable their problems seemed—and indeed high interest rates and the too strong dollar defy ready solution—these special visitors did not need to go home empty-handed. Williamsburg, after all, was a gathering place of ideas that shaped America and influenced the world. And for men and women who care to look and listen, great thoughts renew themselves in the modest homes, the taverns and the government buildings.

The founding impulses of America were not original. They came from the Magna Carta; from the British Bill of Rights, from Locke and Montesquieu, from St. Augustine and Nicholas of Cusa ("Since all men are by nature free, then government rests on the consent of the governed") and a hundred other places.

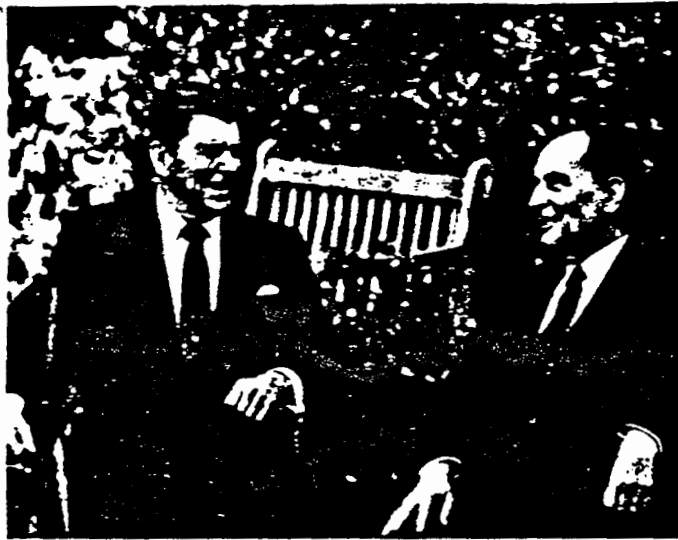
The young, exuberant colonies fused them into revolution.

Britain's Margaret Thatcher could summon up the image of 1769, when the Virginia assembly, protesting the British Revenue Act, was dissolved by Governor Botetourt. In defiance, the assemblymen moved up Williamsburg's Duke of Gloucester Street to the Raleigh Tavern, where next day they reconvened in the Apollo Room and drew up a boycott of British goods. It was a warning that the British ignored, to their regret.

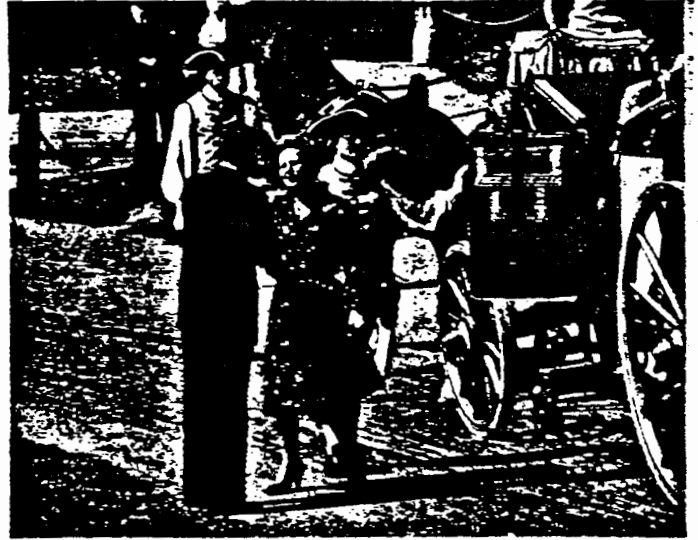
The memories are layered. François Mitterrand could savor echoes from that same Apollo Room. It was there that France's Marquis de Lafayette, hero of the Revolutionary War, was welcomed back to the U.S. in 1824 and toasted as a soldier of liberty.

In Williamsburg, George Washington nurtured his friendships with Virginia's revolutionary leaders, and took military commissions that sent him to the frontier in the French and Indian War. Did Treasury Secretary Donald Regan, beset by European complaints about burgeoning U.S. deficits, know that his earliest counterpart, Alexander Hamilton, commanded the bayonet attack on the British redoubts at Yorktown, only 13 miles from Williamsburg, in the decisive battle of the Revolution?

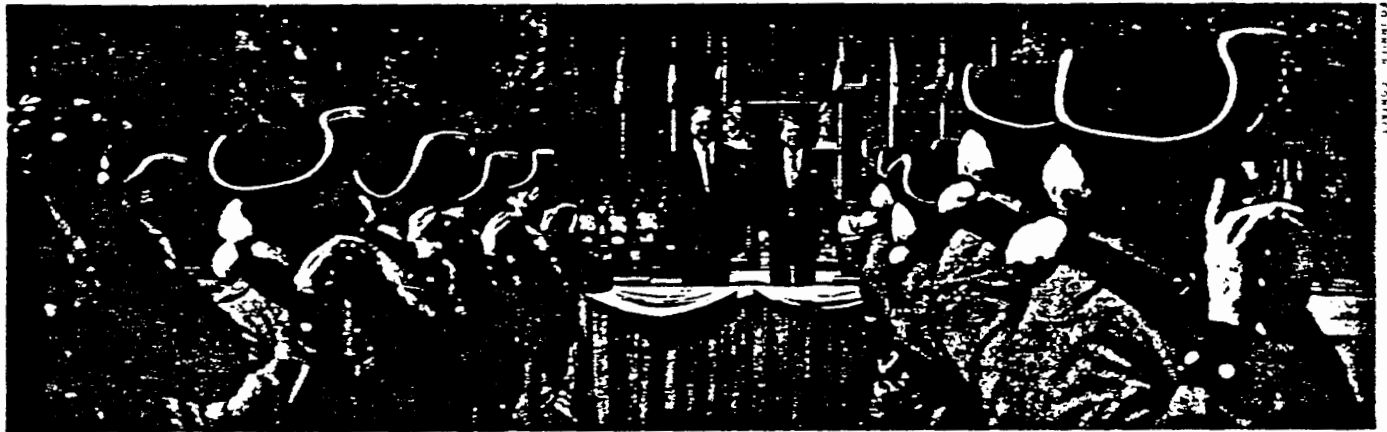
No voice from Williamsburg's past shouts louder than that of Patrick Henry, who in 1765 protested the British Stamp Act ("Caesar had his Brutus; Charles the First, his Cromwell"). Standing near the doorway of the House of Burgesses was Thomas Jefferson, then a 22-year-old law student. He listened as the



Reagan as host: talking privately with Mitterrand last Saturday



Greeting Thatcher as she arrives by horse-drawn carriage



Standing at attention with Chancellor Kohl as a fife-and-drum corps dressed in colonial uniform passes in review outside the Governor's Palace



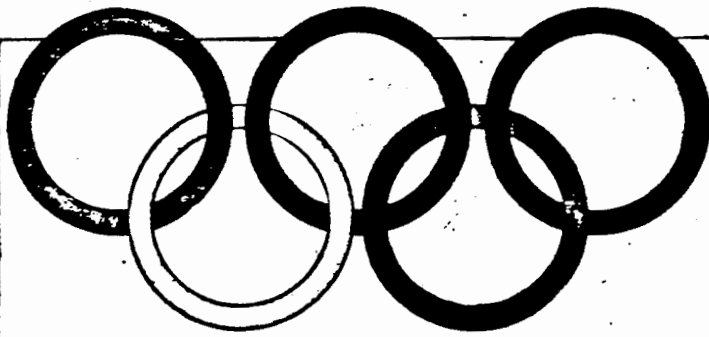
The House of Burgesses, where Patrick Henry decried the Stamp Act

passionate Henry paused before mentioning the name of the British King ("Let George the Third profit by their example"), then heard the cries of "Treason!" that reverberated through the colonies. While Thatcher could ponder her myopic forebears, Mitterrand could indulge a Francophile chuckle. On the fateful day that Henry spoke, there was a still unidentified spy from the French government among the listeners. He reported the British predicament to Paris in accurate detail.

The shadowy George Mason, near neighbor of Washington's and brilliant political writer, drafted the Virginia Declaration of Rights in Williamsburg. A copy was dispatched to Philadelphia, where Jefferson read it just before he sat down to draft the Declaration of Independence. His masterwork had many glints of Mason.

The receptive observer in Williamsburg could carry away even more than sketches of great men and political events. That small band of Virginians two centuries ago relished good wine, played their fiddles with delight if uneven skill, spent the gentle evenings talking about literature, philosophy and the new findings in medicine and science. They examined the delicacy of the bloom in more than a hundred small gardens and inhaled the subtle scents of the catalpa trees ("Almost everything grows that is put into the ground," marveled a Swiss visitor in 1701). They worked and studied prodigiously for their beliefs, a diligence that became the young nation's defining trait. Lawyer George Wythe, whose house on the green is a visual joy, started a student in Greek at dawn and by evening had taken him through Latin, mathematics, French and English literature. Young Jefferson studied 15 hours out of every 24. "Determine never to be idle," he told his daughter. "It is wonderful how much may be done if we are always doing." No better epigraph could be found for the leaders meeting at Williamsburg two centuries later.

—By Hugh Slidley



If Summit Nations Held an Economic "Olympics"

PICTOGRAM

WHILE PRESIDENT REAGAN dominated the pageantry of the 1983 economic summit, the fact is that the United States has failed to dominate world economic performance in recent years.

Now a turn for the better may be ahead.

The U.S. ranked only third in economic efficiency—after Japan and West Germany among the seven summit nations—over the past five years. Thus, American business and labor frequently find themselves scratching to stay competitive with foreigners. U.S. prestige also has suffered.

Scores were determined by the *U.S. News & World Report* Economic Unit on the basis of six key indicators. Together, the Summit Seven produce more than half the world's total output and, therefore, are regarded as the engine that drives the world's economy.

Even though America's economy is the world's biggest, it did not finish first in any growth category. Its best showing: Second place, both in boosting employment by 8 percent over the period and in strengthening the value of its currency, the dollar.

Japan was the big winner. Significantly, its economy expanded by a whopping 19.4 percent, after inflation, over the five years. Total U.S. growth, in contrast, amounted to 2 percent. The Japanese also registered the best gain in industrial production, the slowest rise in inflation and the most stable currency, the yen—all key factors in making Japan the second-largest economy in the free world.

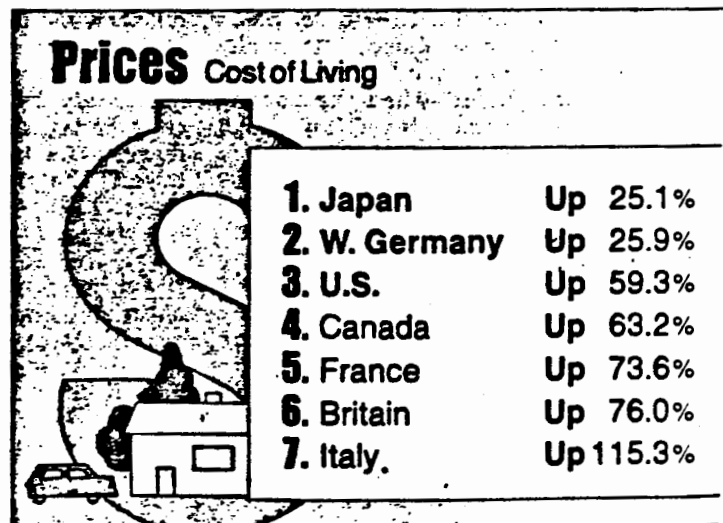
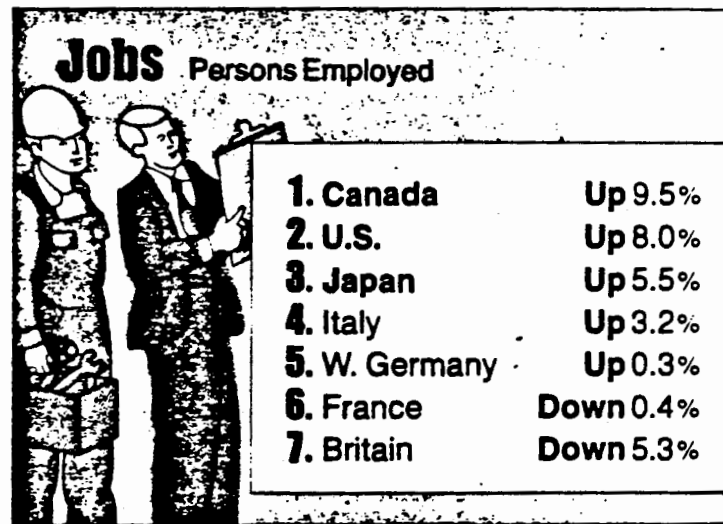
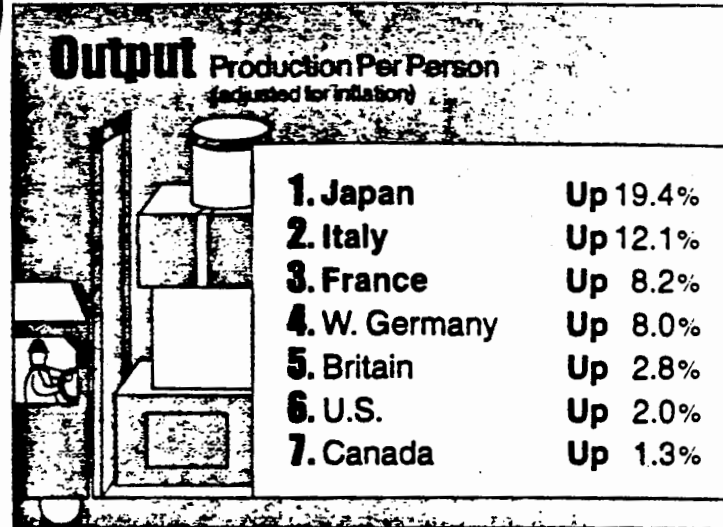
Other rankings. Second-place West Germany did best on exports. Third-place America was followed by Italy, France, Canada—which did best at producing jobs—and Britain.

That was the order of finish at the end of 1982. But this year, the perpetual competition among the Summit Seven is getting off to a far different start.

The U.S. and Canada now lead in economic expansion, according to the Center for International Business Cycle Research at Rutgers University. Ironically, the only one of the seven not yet joining in the budding recovery is—Japan.

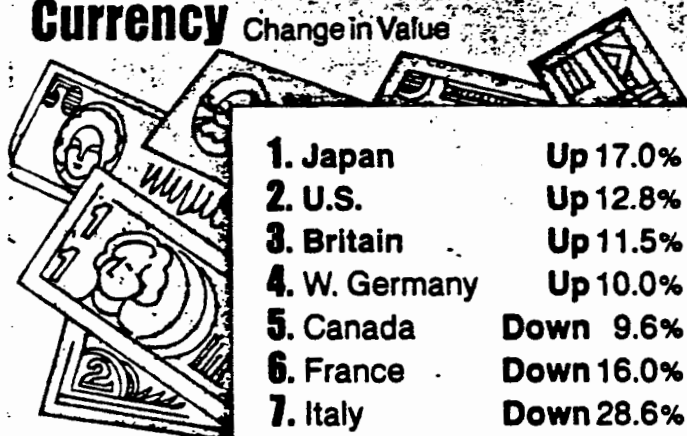
Britain is in the middle of the pack. The British economy has been coming on strong under Prime Minister Margaret Thatcher. It would have tied with the U.S. for third place if the "Olympics" were for 1980 through 1982. France is a potential laggard, with a business slump, a sinking franc and double-digit inflation. For all summit lands, it's clear, more challenges lie ahead.

Individual Events



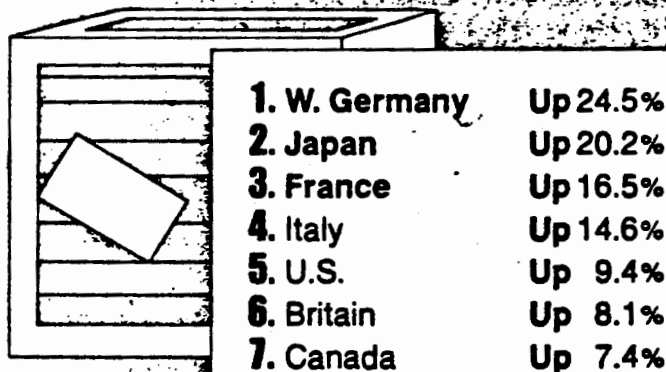
Changes 1977-82

Currency Change in Value

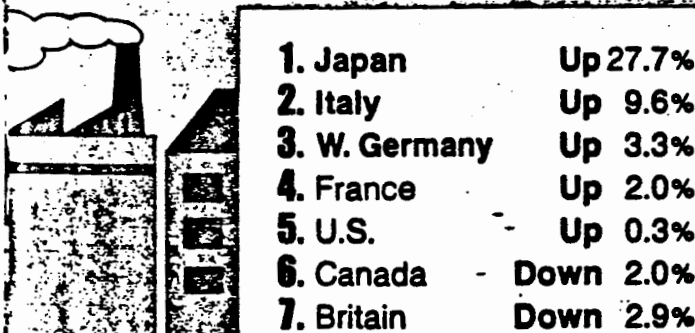


Note: Based on effective exchange-rate index of the International Monetary Fund.

Exports Amount Per Person



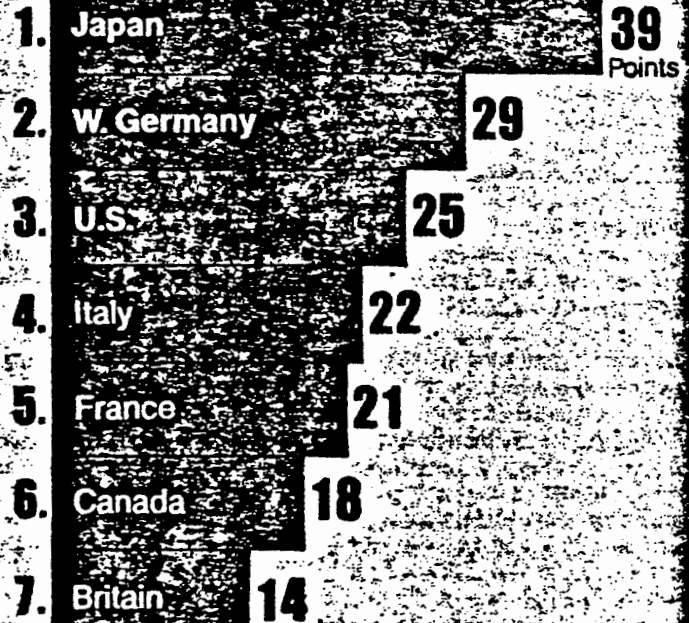
Industrial Production Output of Factories and Mines



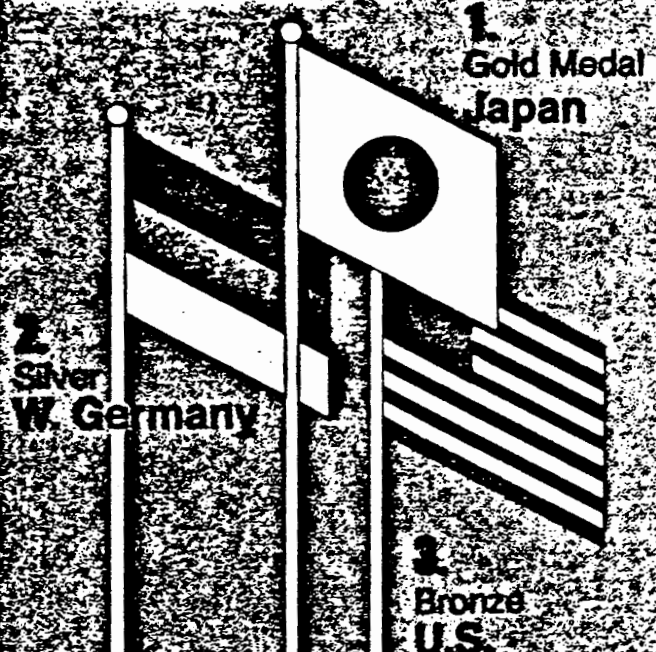
USPI/WPI chart by Richard Gage—Basic data: International Monetary Fund, U.S. Dept. of Commerce and Labor, Population Reference Bureau

Final Standings

On the basis of 7 points for first place in each event, 6 for second and down to 1 for seventh—



The Winners



Beyond the Summit: How Europe Relies on U.S.

For all the gripes about America, business overseas needs a strong recovery here, says Alfred Zanker, *USN&WR's* European economic correspondent, in this interview with editors.

Q Some people think that economic problems discussed at the Williamsburg summit will largely take care of themselves as the business recovery picks up steam. What's the chance of that, as seen from Europe?

A A broad upswing through 1984 and into 1985 wouldn't solve everything, but it would take the sting out of many of the world's economic troubles. International trade would pick up. Profits and employment would improve. Governments would be in a better position to contain protectionism and to handle debt problems in the Third World. But will the upturn really be strong enough and last long enough to turn the tide? European analysts have their doubts.

Q How do Europeans view the prospects for business?

A The view in Europe is that the U.S. will have to pull the others along. There are signs an upturn is beginning, but it is uncertain if the recovery will gather momentum later this year. Britain's economy should expand by 2 percent in 1983, and more next year. Forecasts in West Germany are on the cautious side, with maybe 2.5 percent growth in 1984; exports and business investments show few signs yet of a strong comeback. France and Italy still are struggling with austerity and recession. The smaller nations—from the Netherlands to Sweden—generally are lagging. Over all, prospects in Europe are for slow progress this year and maybe 2 or 3 percent growth in 1984.

Q What's going to happen to three big problems—inflation, unemployment and interest rates?

A Inflation is coming down much faster than almost anybody predicted. It is falling back to the lowest levels since the late 1960s. That's the best news in years. For example, Britain's inflation has come down from over 20 percent three years ago to around 4 percent recently. West Germany is aiming at 3 percent or less.

An important point is that labor unions have changed. Generally, now they are willing to moderate their demands as they see unemployment climbing. Workers in Britain and other countries find that as inflation recedes they end up with more in their pockets in purchasing power than before.

Q But what about the unemployed workers?

A That's the dark side of the picture. Europe's Common Market alone has more than 12 million

jobless—close to 11 percent of the labor force. Experts warn that unemployment could stay at or near these record levels for the next three or four years, or longer.

Yet 10 or even 15 percent unemployment today is causing less hardship than 4 or 5 percent did in the 1930s. Most Europeans are protected by generous jobless relief and other welfare benefits. That may explain why the dramatic rise in unemployment has caused little social unrest, no strikes or riots so far. Despite millions of jobless, the political left is even losing ground in many countries in recent years.

Q And how do interest rates shape up?

A That's another trouble spot. Interest rates in Europe, as in America, are coming down but not fast enough to speed the recovery. The main reason, I think, is that bankers and investors fear inflation may flare up this year or in 1984.

But we should get used to relatively high borrowing costs for years to come. In the 1970s, the cost of labor climbed rapidly, while capital was relatively inexpensive after inflation was taken into account. Labor, therefore, was increasingly replaced by machinery and equipment. The result was too few jobs. Herbert Giersch, director of West Germany's Kiel Institute, argues that for business to hire many more workers, the situation must turn around: Labor must become relatively cheap and capital expensive.

Q Over the years, Europeans have railed against high U.S. interest rates. Now that rates have dropped markedly, why are these critics still dissatisfied?

A Europeans want even lower American rates. But emphasis has shifted from interest rates to the strength of the dollar. The French, in particular, complain that the high-valued dollar tends to push the country's import bill higher, especially for oil, which they pay for in dollars.

Q How do Europeans want the U.S. to cut budget deficits?

A They would like to see both spending cuts and tax increases to reduce the deficit and thus take the pressure off monetary policy. U.S. energy and consumer taxes, for example, are low by international standards and could be raised. Budget deficits will eventually have to be cut so that interest rates can come down. That is the same in Europe, where many governments are even deeper in the red than the U.S.,

with deficits amounting to 10 to 15 percent of national output in some cases—twice and three times as much as in America.

Q What does Europe think of Reaganomics?

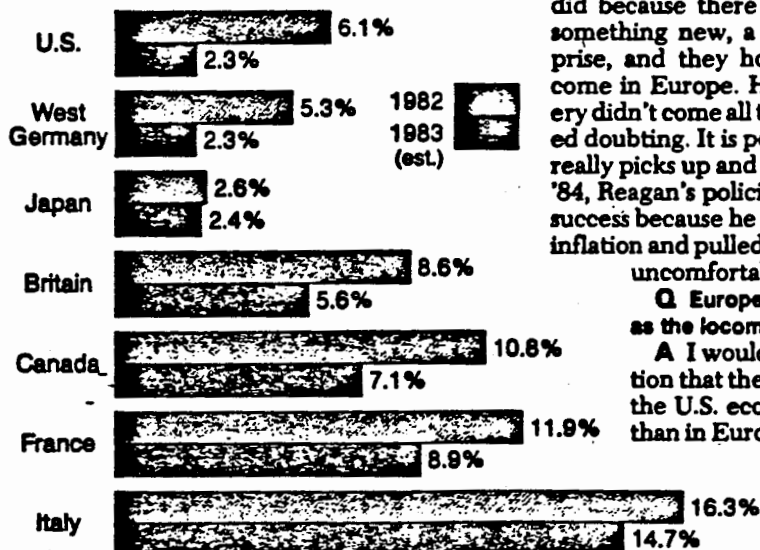
A In the beginning, Europeans welcomed Reaganomics maybe more than Americans did because there was a feeling that it was something new, a new dynamism in enterprise, and they hoped that this might also come in Europe. However, when the recovery didn't come all that fast, some people started doubting. It is possible that if the economy really picks up and the recovery lasts through '84, Reagan's policies would be regarded as a success because he would have brought down inflation and pulled the economy out of a very uncomfortable situation.

Q Europeans apparently see the U.S. as the locomotive for future growth—

A I would say so. There is a realization that the long-term perspectives in the U.S. economy are so much better than in Europe's, with its rigidities and its far more developed welfare state and high labor costs. In most fields, there is the belief that America is a better place for business. □

Where Inflation Is Headed

Increases in Consumer Prices
(annual averages)



USN&WR—Basic data: U.S. Dept. of Commerce, estimates by Wharton Economic Forecasting Associates

For Western Alliance, Worst Is Over, but—

While disputes tearing the partnership apart have been defused, the biggest test still lies ahead.

WILLIAMSBURG, Va.

Amid the debates over budget deficits, interest rates and monetary policy at the Williamsburg, Va., economic summit, this vital development may have been obscured:

The Western Alliance has largely recovered from the destructive crisis that followed last year's summit at Versailles—and today appears more united than it has been for years.

The partnership still is plagued by underlying disagreements that could erupt into a new crisis—possibly even a collapse, in the view of some authorities. But the seven allied leaders at Williamsburg, however much they differ on economic issues, seem unanimous on one thing—the overriding need to preserve a strong military alliance in the face of a continuing Soviet threat.

One expression of that sentiment: A commitment to hang tough in resisting Soviet efforts to sabotage a plan to deploy new American medium-range missiles in Europe in the absence of an arms agreement with Moscow.

What has produced the transformation from the disarray that followed the Versailles economic summit to the newfound unity of the alliance?

Dual debates. A key development is a shift in President Reagan's stand on the two issues that have been the most divisive between the U.S. and the six other countries represented at Williamsburg—Canada, France, West Germany, Britain, Japan and Italy. One involves economic strategy for dealing with Russia; the other concerns the administration's arms-control policy.

On the question of exports and credits for the Soviets, which triggered last year's alliance blow-up, Reagan has backed away from the hard line that gave rise to complaints that he was attempting to drive Ameri-

ca's partners into economic warfare against the Soviet Union.

The President in November dropped a 5-month-old embargo that penalized foreign companies for delivering American-licensed pipeline equipment to the Soviets and precipitated an open revolt by European allies against Washington.

In the run-up to the Williamsburg summit, the Reagan administration further softened its controversial approach to economic relations with the Soviet Union with an offer to negotiate a new grain agreement with Moscow. And Washington shelved a proposal that allied nations restrict gas imports from any one source—meaning the U.S.S.R.—to no more than 30 percent of their total requirements.

Bottom line. The cumulative effect of these measures has been to defuse, for now at least, the controversy over economic warfare against the Soviets that pitted the Reagan administration against the rest of the alliance.

Similarly, on the question of arms-control negotiations with Russia, the President has eased acute transatlantic strains by adopting a more flexible stand favored by European allies. He recently diluted his "zero option" proposal that would cancel the deploy-

ment of 572 American Pershing 2 and cruise missiles if Moscow would dismantle all of its SS-20 missiles.

In response to pressure from allied leaders, Reagan produced what he called an interim proposal offering equal numbers of American and Soviet medium-range weapons at the lowest level acceptable to Moscow. Among Europeans, the compromise proposition was welcomed as valuable ammunition in their continuing struggle with antinuclear protesters bent on killing the plan to deploy the new U.S. missiles.

Further contributing to the greater alliance unity is the fact that a number of other divisive disputes have been resolved or put in deep freeze in recent months. These include controversies over European-subsidized steel exports to the U.S., and Washington's allegations of grain dumping by the European Common Market.

At the same time, much of the heat has gone out of an intra-alliance controversy over Central America and the Middle East. Under the influence of Secretary of State George Shultz, the Reagan administration no longer is making unqualified European support of Washington's Central American policy a test of alliance loyalty.

In the Middle East, defeat of the Palestine Liberation Organization and Reagan's September 1 peace initiative have narrowed what had been a widening policy gap between the U.S. and its European allies in this area.

Aside from reduced friction over policies, a little-noticed political phe-





Nakasone and Reagan at summit. Japanese leader advocates strong alliance ties.

nomenon also has helped the alliance recover its equilibrium. It is this: Rarely has there been a time when the leadership in every major allied capital has given such high priority to support for the Western defense coalition.

French twist. Nowhere is this more true than in Paris, where the government traditionally has reveled in the role of maverick of the Western World and pursued a perverse flirtation with Moscow. While Socialist President François Mitterrand is harsh in his criticism of Reagan's budget and monetary policies, he has emerged as a dedicated "Atlanticist," an outspoken supporter of the plan to base new American missiles in Europe and a skeptic when it comes to détente with Moscow.

No French President in the past quarter of a century has taken such a tough stand in dealing with the Kremlin. He has spurned a summit meeting with Russia's top leader, and he recently expelled 47 Soviet spies from Paris. While opposing the kind of sanctions advocated by Reagan—particularly on credits for Moscow—he has tightened controls over sensitive technological exports to the U.S.S.R.

Mitterrand, in collaborating more actively with the U.S. and NATO, is motivated by two factors. One is his profound distrust of the Soviets. The other is concern about incipient neutralist tendencies in West Germany's Social Democratic Party, which the French leader sees as a potential threat to his country's security.

In West Germany, too, the North Atlantic Treaty Organization has been strengthened by the decisive March election victory of Christian Democratic Chancellor Helmut Kohl, a forthright champion of close cooperation

with the U.S. and a strong alliance. He defeated a Social Democratic Party that expresses its neutralist tendencies by opposing the plan to deploy U.S. missiles in Europe—a plan that originally was inspired by former Social Democratic Chancellor Helmut Schmidt.

In Britain, Conservative Prime Minister Margaret Thatcher, often described as "Reagan's soul mate," is an odds-on favorite to win re-election June 9. She shares the American President's economic philosophy and hard-line views on Russia. And she has remained firm in Britain's commitment to accept the U.S. missiles later this year in the face of a powerful "ban the bomb" movement.

In Italy, the caretaker government of Prime Minister Amintore Fanfani shows no sign of wavering on a commitment to base U.S. cruise missiles in Sicily. Rival Socialists are backing the policy even as they prepare for an election.

In Japan, Prime Minister Yasuhiro Nakasone is emerging as the most forthright champion of strong defense and military cooperation with the U.S. of any leader that the country has had since World War II.

Despite these developments that contribute to a more unified Western stand, few analysts would go as far as Reagan did with this recent assessment: "I do not believe that the NATO

Mitterrand and Kohl forge Paris-Bonn security links.



Alliance has ever been any more solid than it is now, or that there has been a better relationship between us and our NATO allies."

The greater cohesion in the alliance is viewed by most experts as exceedingly brittle. They point out that fundamental philosophical differences remain between the U.S. and its allies over the nature of the Soviet threat and the most effective response. These could blow up into a new crisis in the event of a fresh Soviet challenge—such as another Afghanistan adventure—or a new showdown on economic sanctions against Russia.

The "worst case" scenario is spelled out like this by the London-based International Institute for Strategic Studies in its annual survey: "Should European public perceptions of the level of the Soviet threat fall, American policies sound more belligerent and economic tensions increase, the alliance would face a severe predicament, and collapse would not be out of the question."

The missiles equation. For the present, the trend actually seems to be in the opposite direction. But NATO now is heading into what many consider its most critical test. This involves the potentially violent showdown over Euromissiles in the months ahead.

The Soviets are pursuing a determined propaganda offensive to derail the plan to install the U.S. weapons starting in December. They are offering a mixture of threats and blandishments to stimulate popular opposition to the plan in Western Europe.

Moscow's objective is to convince Europeans that the U.S. is not negotiating seriously in arms talks in Geneva and that the American missiles are both unnecessary and dangerously provocative.

Allied leaders stress that their success in riding out the mounting opposition by the antinuclear movement and defeating the Soviets in the Euromissile face-off may depend on U.S. diplomacy. Reagan's fellow summiteers presumably drove home this point in private talks at Williamsburg: What NATO leaders need above all else is continuing and convincing evidence of the President's commitment to arms control—a commitment that still is widely questioned in Europe.

Among allied leaders, there are few illusions about the stakes in the test ahead. If NATO is stymied in implementing its most important strategic decision in several decades, unity would quickly collapse, and the alliance might well be plunged into a crisis of unparalleled gravity. □

By JOSEPH FROMM with the magazine's foreign bureau

Williamsburg: Tea, Talk and Summitry

Arms control and the Soviets dominate the informal sessions, but Reagan predicts the allies will leave united.

One by one, from Amintore Fanfani to François Mitterrand, they boarded horse-drawn carriages for the slow ride west on Nicholson Street to the Palace Green. With Colonial Williamsburg sealed off and turned into an intimate meeting place, the world leaders met their host, Ronald Reagan, who declared, "Recovery is what this summit is all about." On the bricked terrace of Providence Hall, surrounded by magnolias and pine trees, Reagan threw a surprisingly amicable little tea party for France's

Mitterrand, the potential bad boy of the ninth annual economic summit. Then, on friendlier ground, he chatted with his soul mate, Margaret Thatcher of Britain. The serious talking wasn't supposed to start until Sunday, the second day of the three-day summit, but forget what the script and the official spokesmen said: the most important business of this summit was discussed informally over tea, Cajun popcorn and chocolate cheesecake brownies—what Reagan's aides called "the unwritten agenda."

Reagan greets Japan's Yasuhiro Nakasone: 'Recovery is what this summit is all about'

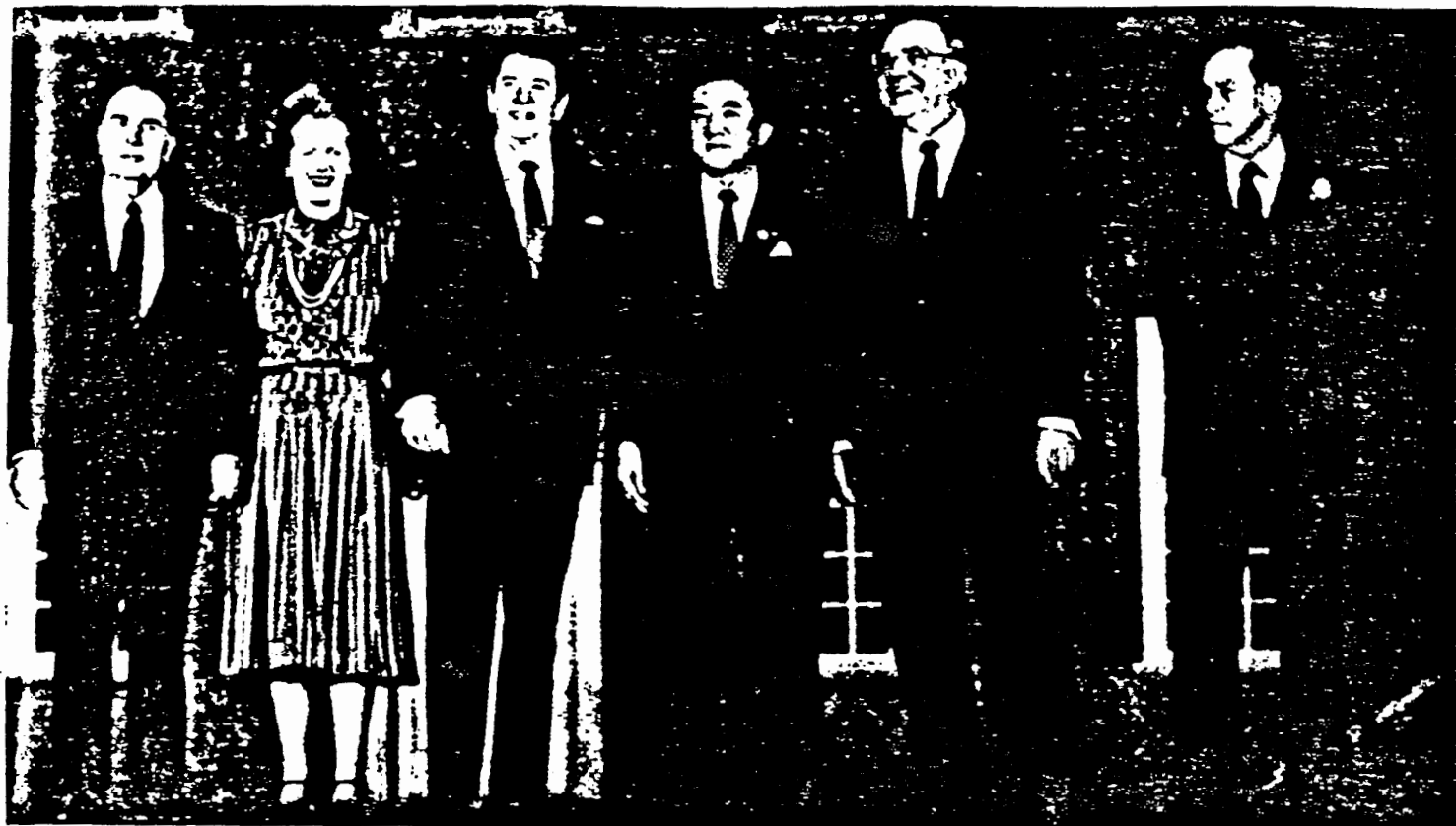
Larry Downing—Newsweek



At the top: The EEC's Thorn, Italy's Fanfani,

To be sure, the seven national leaders—plus Gaston Thorn, president of the European Economic Community—seemed ready to make important rhetorical compromises on major economic issues. In a draft communiqué expected to be issued at the end of the summit this week, the United States agreed to reduce budget deficits, Japan agreed to enhance free trade and the Europeans agreed to promote growth while reducing inflation. But all of that had largely been worked out before the first helicopter landed in Market Square. What the allies really came to Virginia to see was whether Ronald Reagan was finally prepared to cool his anti-Soviet crusade. With NATO missiles scheduled to be deployed in December, the leaders needed signs of American flexibility to take home to their wary people, who are increasingly skeptical about the nuclear arms race and Reagan's commitment to peace.

Assurances: Reagan predicted that the allies would leave Williamsburg "more, not less, united," and the other leaders quickly picked up the theme. As soon as he was greeted by Reagan, Italy's Fanfani assured the president that Italy remained committed to deploying NATO's missiles. Thatcher "was absolutely supportive on almost every issue," said one senior U.S. official. And Reagan and Mitterrand both worked hard to make sure that their 40-minute meeting was cordial—"serious, but absolutely non-confrontational," said one Reagan aide. They agreed that NATO had to redress the nuclear imbalance in Europe. Mitterrand



John Ficarra—NEWSWEEK

France's Mitterrand, Britain's Thatcher, Reagan, Japan's Nakasone, West Germany's Kohl, Canada's Trudeau

told Reagan that his disagreements with Washington's monetary policy had been overblown by the U.S. press, assured him that "we may disagree on tactics and methods, but not on overall objectives," and then accepted Reagan's invitation to visit Washington next spring. Mitterrand's implicit message was that "he didn't come here to raise hell," said the senior U.S. official. "That's good news for us—it cleared away the biggest potential roadblock."

Hint: Reagan had tried to promote a conciliatory meeting, and sent encouraging signals to the allies even before the summit began. After bitter debate within the administration, he decided to resume negotiations on long-term grain sales to the Soviets. Washington hinted that it might relax sanctions against Poland if Warsaw eases its grip. The administration showed some flexibility in strategic arms talks, prepared a new initiative to break the 10-year logjam at the conventional-force-reduction talks in Vienna and suggested that Washington might participate in negotiations which could lead to monitoring all NATO and Soviet military maneuvers in Europe.

Most important to his guests at Williamsburg, Reagan may finally be ready to meet with Soviet leader Yuri Andropov. West German Chancellor Helmut Kohl will visit Moscow five weeks after the summit and he is eager to promote a Reagan-Andropov meeting. Even before Kohl could lobby Reagan on the subject, the president said two weeks ago that a meeting was "likely." Last week he backed off a bit, but some U.S.

officials still suggested that a getting-to-know-you summit could take place as early as October, at the United Nations General Assembly meeting.

Despite their public cordiality, there was hardly overall agreement on other international matters. Reagan wanted the leaders to approve a statement urging "the withdrawal of all extraneous elements" from Central America, but U.S. officials said he probably wouldn't even propose the idea for fear of strong opposition. The Europeans and Canadians were expected to tell Reagan to put more pressure on Israel for a Middle East settlement. And NEWSWEEK learned that although American officials drafted a statement of support for the NATO missile deployments, the French and others shot down the idea because Japan, which is not a NATO member, would be present at the summit meeting while Belgium and the Netherlands, which are both scheduled to get some of the missiles, would not. Publicly, the summit will probably just avoid the issue.

The leaders also planned to finesse the most difficult economic issues. The United States and its allies still deeply disagree about trade with the Soviets, especially sales of Western technology. The Europeans are nettled that Reagan wants authority to bar imports from any country or foreign company that violates the U.S. interpretation of export-control regulations to the Soviet bloc. But the summit participants decided beforehand that they would agree to disagree while the issue is dis-

cussed in other forums. Mitterrand recently complained about big U.S. deficits and tight U.S. monetary policy, which drive up interest rates and inflate the dollar's value against foreign currencies; the French remained insistent on those issues, but polite, realizing they could not possibly be resolved at a single summit.

Theme Song: At the same time, the United States planned to soft-pedal its continuing demands that the European Common Market abolish its heavy export subsidies on grain. And although Washington wanted its allies to agree to import more goods from developing countries, it expected to settle for a largely noncontroversial statement laying out a set of North-South principles. That kind of compromising—although in many cases simply putting off hard decisions—is important in itself, a dramatic counterpoint to the disarray at last year's summit in Versailles.

Everyone was still quite touchy: the State Department apologized to the Japanese after Tokyo complained that a White House briefing book for reporters was critical of Japanese trade policies. But with a global recovery under way, the leaders could afford to be more conciliatory. "Economic growth with low and moderating inflation," said Secretary of State George Shultz. "That's the theme song of the summit." And if no one expected perfect harmony, at least all of the leaders seemed willing to sing along.

JOHN BRECHER with JOHN WALCOTT,
THOMAS M. DeFRANK, RICH THOMAS and
SCOTT SULLIVAN in Williamsburg

TRB[®]

FROM WASHINGTON

SCENES FROM THE SUMMIT

From the beginning, it was obvious that the economic summit conference at Williamsburg would be a success if it could just manage to avoid being a disaster. The disputatious Versailles summit last year, after all, had set a standard that even mere platitudes could surpass.

There was much strutting for the benefit of television viewers back home. Prime Minister Thatcher, looking cocky, seemed primed to reap benefits in her election campaign. Chancellor Kohl ambled about Williamsburg like an amiable bear. Prime Minister Trudeau, sporting his panama hat at the arrival ceremonies, had the self-possession to be blunt about arms control. "We should be busting our bloody asses for peace," he told his colleagues.

President Reagan, standing to gain the most politically, made nice with the allies by backing off his threats to wage economic war with the Russians. He had crammed like a college student for his role as summit moderator—and then found the course to be a gut. Only the president of the French Republic seemed to want to be someplace else. Grumpy and stiff, Mr. Mitterrand doled and complained about the photographers. How out-of-it can you get? Cameras are what summits are all about.

It was for the benefit of cameras that the summit leaders arrived in gleaming green-and-white Marine helicopters and transferred to horse-drawn carriages. They conferred where Thomas Jefferson once lived, and where Patrick Henry railed against the British Crown. They feasted on Craig Claiborne's menu of deep-fried catfish, stuffed chilies, Louisiana gumbo, and shoofly pie. And on Sunday they sat in an old brick church to which the House of Burgesses, upon hearing that the British Parliament had closed the port of Boston, had repaired in 1774 for a day of fasting, humiliation, and prayer. On that day the residents of Williamsburg had sought "divine interposition for averting the heavy Calamity which threatens destruction to our Civil Rights, and the Evils of Civil War."

In 1983, however, the only kind of interposition tolerated at Williamsburg was electronic. You had to watch the ersatz colonial pageantry on television, on one of the monitors that were everywhere in the huge, fetid basketball stadium where the White House had set up a press center. Reporters scampered about the center like cockroaches, feeding on free greasy hamburgers, plastic-wrapped pastries, and other delights. Does Craig Claiborne have a sadistic brother in the fast-food business?

The Williamsburg summit reflected the influence of its host in more ways than the White House might admit. The "reality" of the conference, we were told, lay in the words the leaders had wrought. Seven mortal men and one mortal woman with pen in hand, just like our colonial forbears.

After the statements were issued, everybody scrambled to figure out what they meant. On the big economic issues, it turned out, they agreed to pursue the same varied and even contradictory policies they had been pursuing all along. They pledged, for instance, to reduce budget deficits and interest rates, but Mr. Reagan's people allowed afterward that he had been doing that already. They wrung their hands over protectionism and the Third World's debt, but reassured themselves that these menaces would disappear just as soon as the economy got rolling. That's been Mr. Reagan's line for two years.

The summit participants were more persuasive in arguing for the significance of their statement of solidarity on arms control and Euromissile deploy-

ment. Secretary of State Shultz told a packed press briefing that this marked the first time the Japanese and the French had signed on formally to the European deployment scheme and the American negotiating position.

Reporters expressed skepticism that this was anything new. "The fact that to some extent you seem to greet this as old stuff, perhaps, is reassuring," Mr. Shultz retorted, calm but sarcastic. "I'm glad to hear you recognize how important it is that we be strong," he went on, his voice rising. "I'm glad to hear that you feel people recognize how reasonable we are. I'm glad to hear that you see that we truly are in favor of arms reduction."

This was not the Oxford Union he was addressing. It was a collection of slack-jawed, mussy-haired reporters who had been waiting seven hours for Mr. Shultz to appear. Then it became apparent why he was so cranky. "Where's Secretary Regan?" he asked his aides, looking for someone to bail him out of the briefing. "I'm the only guy in the place that didn't get any lunch because I was trying to re-draft this stuff. I need a cracker or something."

Before Williamsburg began, White House and State Department officials told reporters that Mr. Reagan had no intention of seeking a new commitment from the allies on missiles. This was to be an economic summit, they said; anyhow, the President already knows where his friends stand on the subject. It wasn't long before that line gave way to the word that Mr. Reagan had really wanted a missile statement all along, and that achieving one was a major triumph.

Another bit of chicanery seemed striking at the summit. That was Mr. Reagan's contention that this would be a conference where the participants, not their aides, controlled the agenda and wrote the communiqué. In fact, the bulk of the summit declaration on economic issues had been drafted well in advance by W. Allen Wallis, Undersecretary of State for Economic Affairs. The day after the summit, Mr. Reagan assured reporters that he had succeeded in a brand-new approach. Unlike previous summit declarations, he said, Williamsburg's was not "written in advance, before you'd had the discussions." Maybe Mr. Reagan's aides didn't have the heart to tell him the truth.

Reagan turns summit into imposing show of political solidarity

By Hedrick Smith
New York Times News Service

WILLIAMSBURG, Va. — For President Reagan, the Williamsburg summit meeting was more of a political than an economic success. He orchestrated an imposing show of political solidarity toward the Soviet Union on nuclear issues, but he did not gain the clear endorsement of his economic strategy and his optimistic view of recovery that he had wanted.

Personally, too, Reagan came off as a more skilled operator than some other leaders had expected. Although considerably more advance agreement had been reached on the final declaration than the Reagan entourage let on, the president won high marks from other leaders for his skill in leading them through discussions that were more informal than the last eight economic summit gatherings.

Prime Minister Pierre Elliott Trudeau of Canada hailed Reagan for having succeeded better at staging an informal summit meeting than Trudeau had as host to the Ottawa talks in 1981. "The president took a very big gamble that we would have an unstructured summit and still produce results," Trudeau said after the session. "I must say I had to congratulate him for having won that gamble."

French officials and correspondents, who regard summits as something of a diplomatic match and have sniped in the past at Reagan's inexperience in foreign affairs, said he had dispelled his "cowboy image." They talked of him as "a very clever player" who had held his own in long private

ANALYSIS

sessions with the other leaders and acquitted himself well as a fair and skillful moderator.

In the long economic discussion held Monday morning without aides, the president had called on the others in turn, using their first names.

The post-mortem comments of most of the leaders suggested that, as the White House had hoped, the Williamsburg summit meeting seemed likely to avoid dissolving into the sharp recriminations and policy conflicts that followed the last summit conference in Versailles, France, last June. All the leaders seemed relieved that they had gotten through their weekend without confrontations.

For this was a session of political trade-offs where each delegation could go home and point to its victories, the French citing a promise from the others to consider an international monetary conference, the British feeling vindicated in their advocacy of "strong financial discipline" as the correct economic medicine, and the Japanese feeling they had not been belabored for their trade practices. The Americans were cheered by the generally conservative tone of the final declaration.

Trudeau claimed a triumph in inserting into Sunday's political declaration a strong commitment to the cause of peace and of lifting "the shadow of war" from the world. Recalling his comment to the other leaders, he said, "I told them, 'we should bust our bloody asses for peace'; I made it emphatic."

Summit concludes with accord on economic policies

By Carl P. Leubsdorf
and Anne Swardson
Washington Bureau of The News

WILLIAMSBURG, Va. — President Reagan joined the leaders of six other industrial democracies Monday in vowing to pursue policies aimed at ensuring a worldwide economic recovery. But he was forced to retreat on several key issues as they wound up their ninth annual economic summit.

The 3-day meeting in the reconstructed colonial village of Williamsburg ended with agreement on a 10-point declaration in which the leaders said: "We now clearly see signs of recovery."

The agreement included the Reagan administration's emphasis on the need for "monetary and budgetary policies that will be conducive to low inflation, reduced interest rates, higher productive investment and greater employment opportunities, particularly for the young."

The declaration reflected the conservative policies not only of Reagan but of other key Western leaders and specifically avoided endorsing stimulative policies to curb persistent worldwide unemployment.

But the summit also agreed, despite initial U.S. objections, to both the essence of a French plan to consider an international conference on the world monetary system and to the language favored by the European nations and Canada that emphasized the need for reducing "structural budget deficits."

The declaration said this should be achieved "in particular, by limiting the growth of expenditures," which is the Reagan administration's policy. But Canadian Prime Minister Pierre Elliott Trudeau said that, during the meeting, Reagan had stressed his proposal for standby taxes in 1985 and 1986. "There's an assurance that the budget deficit will be brought down eventually by virtue of these taxes," Trudeau said.

The most significant U.S. retreat apparently occurred on the international conference to deal with problems caused by fluctuating exchange rates.

Reagan was forced to accept the French proposal that called on finance ministers, in consultation with the head of the International Monetary Fund, "to define the conditions for improving the interna-

tional monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference."

The U.S. negotiators, principally Undersecretary of State for Economic Affairs W. Allen Wallis, also objected during bargaining sessions that lasted until 5 a.m. Monday to specific calls for the need to lower interest rates. And they opposed the reference to "structural" budget deficits, built-in shortfalls that cannot be cured by economic recovery.

"The night was hard, and the Americans were isolated several times," a French official said. "It's because they were isolated that they accepted a text like this. We think it's a good one."

U.S. officials played down the degree of disagreement. "Frankly, the difference was not large," one senior administration official said.

Although U.S. officials said the monetary provision was acceptable, they have had problems with a conference that could presage a return to fixed exchange rates, because they believe the market should set relationships between currencies. This is a concern to other countries because the dollar is running at historically high levels.

U.S. officials stressed that they had not agreed that a conference should be held. "It's a process we're now going to engage in to see whether or not we have a monetary conference," Treasury Secretary Donald Regan said.

French President Francois Mitterrand, however, expressed satisfaction with the passage and said he considered the language binding.

There were other U.S. setbacks. An American effort to call for the lowering of barriers to agricultural exports was blocked by France and Japan. And the conferees agreed on an energy provision that ignored the administration's free-market approach and said the fall in oil prices in no way reduces the need for conservation or for development of alternative energy sources.

On the question of intervention in exchange markets, which the United States generally has opposed, the declaration said: "We are willing to undertake coordinated intervention in exchange markets while retaining our freedom to operate independently."

A senior administration official admitted that this was something of a change. "Our policy is modified to this extent: We agreed we would talk more about intervention," he said.

And on trade with the Soviet bloc, the most contentious issue at last year's Versailles summit, the Americans accepted an innocuous provision that said: "East-West relations should be compatible with our security interests" and encouraged recent efforts by several international organizations to set guidelines for trade.

Reagan read the "Williamsburg Declaration of Economic Recovery" to several hundred officials and journalists of the seven summit nations in the International Press Center on the College of William and Mary campus. He then added a brief statement that hailed this year's summit, which marked a departure from past sessions in that the meetings were less structured and no communique was prepared in advance.

"Our meeting has shown a spirit of confidence, optimism and certainty — confidence that recovery is under way, optimism that it will be durable and certainty that economic policy and security ties among us will be strengthened in the future," Reagan said, noting that "together, the summit partners are facing today's enormous challenges head on and not settling for quick fixes."

Reagan was flanked by Mitterrand, Trudeau, West German Chancellor Helmut Kohl, Italian Prime Minister Amintore Fanfani, Japanese Prime Minister Yasuhiro Nakasone, Gaston Thorn, president of the European Economic Community, and British Chancellor of the Exchequer Geoffrey Howe. British Prime Minister Margaret Thatcher went home Sunday night. At one point in Reagan's 10-minute presentation, a sharp noise sounded in the heavily secured hall. "Missed me," Reagan said before proceeding.

Reagan will give his assessment of the summit to a small group of reporters Tuesday morning before leaving for Washington. But Treasury Secretary Regan said the administration is "totally pleased" with the declaration, terming it "a reaffirmation of what we have done — of the convergence, the necessity of growth, sustainable, non-inflationary growth."

A senior White House official said the summit was "a plus for our country" and that there were "no winners, no losers." For Reagan, the host and chairman, he said that "politically, it was a modest plus."

Several other governmental heads said they were delighted with the results. Trudeau, quoted earlier by a spokesman as calling it "an unprecedented success," told a news conference that he was "very happy" with the stress on disarmament in Sunday's statement on nu-

SUMMIT DECLARATION

DEFICITS: We renew our commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditures.

RECOVERY: We now clearly see signs of recovery. ... We must all focus on achieving and maintaining low inflation and reducing interest rates from their present too-high levels.

TRADE: We commit ourselves to halt protectionism, and as recovery proceeds, to reverse it by dismantling trade barriers.

TRADE WITH THE SOVIET UNION: East-West economic relations should be compatible with our security interests.

INTERNATIONAL MONETARY SYSTEM: We have invited ministers of finance ...

to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

EXCHANGE RATES: While retaining our freedom to operate independently, we are willing to undertake coordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful.

DEBT OF DEVELOPING NATIONS: We agree to a strategy based on: effective adjustment and development policies by debtor nations; adequate private and official financing; more open markets, and worldwide economic recovery.

The Dallas Morning News

clear-missile talks and deployment, and with the emphasis in Monday's declaration on "the question of real interest rates."

Mitterrand also said he was generally satisfied with the results of the summit, although the insistence of the United States on a joint nuclear-arms statement Sunday was an "annoying precedent."

"The summit has been primarily concerned with problems of security, more than expected, than with economic problems," he said. But "our concern is to move forward, and we have moved forward. Today's declaration is the farthest we

have moved in two years," Trudeau said.

White House deputy press secretary Larry Speakes said: "I think we were successful in convincing them that our approach to the deficits is a reasonable one and will be successful," but the French disagreed.

"The criticism was virulent, and the discussions were long," French Finance and Economy Minister Jacques Delors said.

Asked if the French were satisfied that the U.S. was doing everything necessary to reduce deficits, Delors said: "They could do more, but they don't want to."

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THE SUN, Wednesday, June 1, 1983

Summit: the aftermath

Reagan hails success as allies leave

By Henry Trehwitt
Sun Staff Correspondent

Williamsburg, Va. — President Reagan closed the ninth annual economic summit meeting yesterday, ushering off the last of his guests and declaring that free-wheeling discussion had made it a success.

Just before returning to Washington, the president described the consensus of the seven leaders on economic and security issues as surprisingly broad. But that consensus was reached, according to Secretary of State George P. Shultz, only after "lots of disagreements and arguments."

The debate left unsettled many details, especially on economic issues, the official theme of the conference. Most of the agreed principles for dealing with budget deficits, inflation, general growth and global development will continue to be tested severely in practice, officials acknowledged.

There was more concrete agreement about how to deal with the Soviet Union regarding intermediate-range nuclear weapons. Those of the seven representing full members of NATO — the United States, Canada, Britain, West Germany and Italy — essentially repeated their pledge to deploy 572 new missiles in Europe unless the Soviet Union reduces or eliminates its versatile SS-20 missiles.

But the declaration was significant in other respects. It was endorsed by both France, which belongs to NATO's political organization but not its military one, and Japan, which can be targeted by SS-20s in East Asia.

The harmony was broad enough, at any rate, to permit the sometimes squabbling allies to part in good humor. Mr. Reagan saw the last of them off shortly after noon, waving good-bye from the front of the Inn at historic Williamsburg, the restored Eighteenth Century town.

There was a parting ceremony, a last march and serenade by fifes, drums and trumpets, and the leaders left Williamsburg open to a fresh inundation of tourists. They also left behind hundreds of now-superfluous security personnel, a suddenly empty gymnasium that was the



United Press International

President and Nancy Reagan wave as they board helicopter to leave summit.

workplace for some 2,000 reporters, and great amounts of chicken, hush puppies and beer left over from feeding the hordes.

Behind the official harmony, however, there remained considerable pressure on Mr. Reagan from his allies for greater flexibility in negotiations with the Soviets. Mr. Shultz ducked a question on that

point at a news conference, saying merely that the U.S. negotiating position had been reached through an "extremely heavy consultative process" with allies.

British Prime Minister Margaret Thatcher confirmed her wish for more determined negotiations across the spectrum of arms control. Western proposals, she said at a news conference Sunday, "have not been pursued as vigorously as they should. . . . We believe that we must continue to pursue these negotiations with impetus and urgency."

The immediate issue is intermediate-range nuclear weapons in Europe. Mr. Reagan has offered to tailor NATO deployments to an interim reduction in the number of SS-20 warheads, with the ultimate goal of eliminating such weapons entirely.

He may have given a hint of future flexibility at his closing news conference yesterday. By ducking a question, he left the way open to a delay in the deployment in new weapons, now scheduled for West Germany in December, if the Soviets agreed to dismantle SS-20s.

He refused to say whether an interim agreement might permit delay. To do so, he explained, would get into "the dangerous field of discussing strategy."

The official summit statement left only a small opening for negotiated delay. It called for allied deployments on schedule unless a "balanced" agreement were reached in the meantime.

"Should this occur, the negotiations will determine the level of deployment," it said. A usually well-informed official said he knew of no formal discussion of delay, but he added that it would be "logical in a deal by which the Russians were actually removing SS-20s."

A U.S. offer to that effect, an American diplomat remarked, probably would not appeal to the Soviets but might help convince allies of Mr. Reagan's good faith. For his part the president repeated his dedication to arms control, but he added regarding the Soviets:

"Frankly, my own opinion is that the negotiations won't get down to brass tacks until they see that we are going forward with the scheduled deployment."

THE



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JAMES I. HOUCK, Managing Editor • REG MURPHY, Publisher • J.R.L. STERNE, Editorial Page Editor

Summit Unity

President Reagan has used the summit of seven major Western nations on economic questions to forge a stronger and more unified bargaining position with the Soviet Union on arms. The statement issued Sunday was clear and unequivocal in its determination to deploy American intermediate-range missiles in Europe in the absence of negotiating progress with Moscow on this subject.

Most startling was the association of leaders of Canada, Japan and France in the bald statement that, "The security of our countries is indivisible and must be approached on a global basis. Attempts to avoid serious negotiating by seeking to influence public opinion in our countries will fail." Japan has dealt bilaterally with the United States on defense, but this is new territory for its foreign policy. France is more cooperatively Western on security matters than in years, with a government that is partly Communist. Canada, though a NATO member, cherishes a sidelines psychology.

In none of these countries is opinion undivided. The declaration spoke for governments, not for oppositions. As for Britain, the language helps Prime Minister Margaret Thatcher in next week's election by repudiating Labor Party defense notions.

The price for this demonstration of will was a "Williamsburg Declaration on Economic Recovery" that is far less optimistic than Mr. Reagan would have liked. He feels his domestic policies al-

ready have launched world prosperity. The other six summit leaders believe American interest rates and deficits are hurting their economies, and said so in the declaration. This risks providing fodder for Mr. Reagan's domestic critics, though the Williamsburg statement calls for more budget restraints, not higher taxes.

The declaration is like a New Year's resolution — as good as the performance in keeping it. Yet it gives surprising encouragement to President Francois Mitterrand's pleas for shoring up the French franc through coordinated intervention in currency markets and a promise to think about returning to fixed exchange rates. And it makes clear that American interest rates are everybody's business, and that machinery for "multilateral surveillance," framed last year at Versailles, will be enlarged.

This trade-off was a considerable success for the conference, where the administration had promised none. It is a personal achievement for President Reagan. His formula of working on his colleagues close-up, without advisers, vindicated his reputation for small-group effectiveness while shattering his reputation for shallowness. He had to know his briefs on arms control and economics to counter arguments and hatch this compromise. Ronald Reagan is more the leader of the West this morning than at any time in his 2½ years in office.

Deficit warnings fall on deafer ears

By Fred Barnes

Washington Bureau of The Sun

Washington — At the economic summit in Williamsburg, Va., the leaders of six industrialized nations complained to President Reagan that the budget deficits in the United States are imperiling the world's recovery from deep recession.

And in their so-called Declaration of Economic Recovery, Mr. Reagan and the six leaders insisted that they were renewing their "commitment to reduce structural budget deficits, in particular, by limiting the growth of expenditures."

But a sentiment expressed in Williamsburg is one thing — and the political mood in Washington quite another. As the leaders were bemoaning deficits, officials here in both the Reagan administration and Congress were drifting further and further away from taking decisive action aimed at slashing deficits.

What has prompted the new mood in Washington, where frenetic, near-apocalyptic concern about deficits potentially breaching the \$200 billion level was commonplace only a few months ago?

The foremost factor in defusing the deficit issue is the recovery, now in its incipient stages. "The recovery has just swept it [concern about the deficit] all away," said a Republican official on Capitol Hill.

Among those persuaded that the quickening recovery will dramatically pare the deficit is President Reagan, White House officials said. Unlike some members of his administration, such as Budget Director David A. Stockman, Mr. Reagan has expressed no worry that prolonged defi-

cits might curtail the recovery.

Neither have the president's most reliable supporters in Congress — the conservative Republican bloc. On the contrary, Representative Jack F. Kemp (R, N.Y.), for one, believes that the recovery will do more to shrink deficits than either spending cuts or tax increases would.

One administration official, chief economist Lawrence Kudlow of the Office of Management and Budget, has been quite explicit recently in projecting that a "bullish" economy will narrow deficits

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from \$210 billion this year to \$85 billion in 1986. "I think the deficit problem has been overrated," he said at a conference last week.

The 1984 election, though still 17 months away, also is having an impact on Washington's posture toward the deficit. Politicians are wary of raising income taxes in an election year, making it less than likely that the final 10 percent phase of the personal tax cut and tax indexing will be repealed.

For example, Representative James R. Jones (D, Okla.), chairman of the House Budget Committee, has made it clear that the \$30 billion figure for new revenues in the House-passed budget resolution will be scaled downward, if only because of the difficulty in pushing through that large a tax increase.

Moreover, the election has made itself felt as well on the spending side. "It's back to the same old pork-barrel politics," a Democratic official in the House said. "Everyone is just trying to get what-

ever he can for his district. It's depressing."

Administration officials point to bill after bill that is emerging from the House with a higher price tag than was established in the budget resolution — mortgage credit legislation, the farm credit bill, a public works bill, two veterans' measures, legislation providing health insurance for the unemployed.

"All that indicates they are throwing all caution [on spending] to the wind," insisted Edwin L. Dale, Jr., the spokesman for the Office of Management and Budget.

But Mr. Dale said there are members of Congress who are still deeply troubled by deficits, among them a group of Republican moderates who recently forced the Senate to defy Mr. Reagan and endorse tax increases he opposed.

With most Democrats unwilling to cut spending and most Republicans unwilling to raise taxes, a stalemate has set in. Republicans have given up on achieving further spending cuts, and Democrats probably cannot pass any bill over the president's veto that would cut the deficit by raising taxes.

"The president has said, in effect, that it's the lesser evil to have the deficit than a budget resolution that departs so much from his priorities," said a White House official. Foremost of his priorities is the tax cut.

And Mr. Reagan appears to have the votes in Congress to sustain any veto of a new tax bill. Thirty-four GOP senators and 147 House Republicans have written him with the promise that they will vote to uphold any veto of a tax boost.

Mandate maps tough path for U.S.

By Stephen E. Nordlinger
Sun Staff Correspondent

Williamsburg, Va. — There was a mixture of pleasure and frustration for American officials as they left the economic summit yesterday.

The cautiously optimistic outlook of the allied leaders, although less exuberant than President Reagan's, gratified the American delegation. It was the best that could be hoped for with 32 million unemployed and economic prospects still cloudy in the 24 Western industrialized nations.

But the Americans must cope with some formidable obstacles in carrying out the summit's chief mandate to lower interest rates in order to bring about sustained growth without renewed inflation.

Behind the diplomatically vague "Williamsburg Declaration on Economic Recovery" issued by the seven leading nations was a deeply felt concern that the still-high U.S. interest rates would effectively stymie efforts to reduce unemployment.

"The constant theme was interest rates and jobs," said one Canadian official. "There should be no complacency about the speed with which we would like interest rates to come down."

To the allied governments, high interest rates mean a continuing strong dollar, raising the cost of their imports and causing capital to flow to the United States for investment. The high rates impose a severe burden on the heavily indebted developing countries on which the industrialized nations depend to bolster a worldwide recovery.

The problem was readily acknowledged by Treasury Secretary Donald T. Regan in a departing television interview in Williamsburg in which he stated that "the whole world is looking to us to get interest rates down."

The American economy has managed a recovery in the last five months from the long recession even though interest rates, after discounting inflation, remain at historic levels for the early stages of a rebound.

As a sign of continuing economic strength, the government's index of leading economic indicators for April, issued

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yesterday, showed a 1.1 percent rise. The White House said the 10th consecutive monthly increase proves the recovery is "solidly on course."

But the summit leaders generally doubted that the U.S. pickup could be kept alive beyond next year and carry the world to a long-lasting recovery, so long as interest rates remain at present heights.

Conversations at the summit reached an impasse, however, when proposals to hasten the decline in rates and the recovery were analyzed.

Some of the allies cautiously favored some acceleration in the money supply in hope that it would reduce rates and stimulate the economy. But American officials opposed this proposal. Given the past pattern in the money markets, expansions of the money supply raise expectations of inflation and therefore lead to

still higher rates.

Over the past three months, the basic money supply has grown at a 10 percent annual rate — greater than the Federal Reserve's maximum target of 8 percent. And interest rates have moved up in the credit markets, including a rise yesterday.

"There were discussions about doing something in the short-term to heat up the economy" through a looser monetary policy, said one American official. "But we told them we can't add more stimulus to the economy. It won't work."

At that point, the summit conversations led to the large federal budget deficits as the culprit in keeping rates high. Even though Secretary Regan and his aides insisted that no historic relationship had been proved between deficits and interest rates, a U.S. official said the allied leaders were "skeptical."

President Reagan, in a post-summit interview yesterday, referred to "our own problems of deficits and interest rates." But the administration and Congress are at an impasse in cutting the deficits, as Secretary Regan acknowledged in his departing interview.

Therefore, to carry out the Williamsburg mandate — reducing deficits by lowering the growth of government spending — will prove difficult even with the new appeal by the allied leaders. One U.S. official said that "no departure in American policy was represented" at Williamsburg, meaning no change in the president's defense buildup or his opposition to new taxes. In Congress, there is at the same time little disposition to reduce social spending.

Williamsburg: 'unstructured,' but results produced

Behind ceremony, some agreement, useful exchange

By Richard J. Cattani

Staff correspondent of The Christian Science Monitor
Williamsburg, Va.

For one brief moment in its five days, the Williamsburg summit meeting was frozen. Security forces blocked off exits, closed the billowing food pavilion outside.

As millions of people in America and abroad watched, President Reagan mounted the mahogany dais at the College of William and Mary sports center Monday with the other delegation heads. He read the summit declaration.

Immediately afterward, Mr. Reagan was whisked away. Then the real Williamsburg summit resumed.

Summits are more bedlam than solemn pronouncements — teeming bazaars of official briefings and corridor huddles as several thousand journalists and aides-de-camp trade impressions and information.

Williamsburg was no exception. Distilled from the analysis of delegation leaders were these findings of progress here, and the outlook for next year's summit in London:

- The Reagan administration's staging, logistics, and agenda control of the Williamsburg parley were masterly, delegations said. The United States apparently learned from last year's bitter dispute at Versailles not to press too hard on sensitive areas like East-West trade. Reagan himself led private discussions, took notes, and guided his dele-

gation's negotiations, provoking complimentary rather than derisive comments on his performance.

- The US gave no significant ground on security or economic matters. "The Williamsburg parley largely endorsed the policy status quo," one foreign official said. The US gave ground only at the margins, or in ways that allowed both sides to claim satisfaction on contended issues.

- Reservations and second thoughts, however, quickly emerged after the security and economic declarations became public. The Japanese were concerned that Prime Minister Yasuhiro Nakasone might have "gone beyond the consensus" at home in supporting the summit's statement on Western arms talks with the Soviets.

The West Germans said they were more convinced than ever, after meeting with Reagan and his advisers, that there would be no change in US deficit policy, and thought US interest rates would likely rise later this year.

The French were pleased to escape with no major flare-ups with the US. They won inclusion of language in the declaration on exchange-rate intervention and a possible future monetary conference. They hoped the French public would not hear US interpretations, which played down their significance.

- But overall, the leaders found enough areas of agreement, enough chance for direct exchange, enough opportunity to emphasize broad policy concerns and objectives, to call the summit useful — if not an outright success.

Other leaders shared Reagan's hope that a less rehearsed summit, while posing greater risks for disagree-

ment, could produce a more direct sharing of views.

"We have been banking the past several summits for a summit where there would be no proclamation of the leader in advance," said Canadian Prime Minister Pierre Trudeau. "Unstructured, without a precise agenda, and, most important, without a lengthy communiqué which had been written over the period of weeks and months by our 'Sherpas' — that we would be meeting at summit level to, kind of, justify that we covered all these subjects."

"I like meetings where you can argue and say, 'Where did you get this' and 'I don't agree with that' and so on, which was becoming increasingly difficult," Mr. Trudeau said. "In this sense, I think President Reagan was taking a very big gamble that we could have an unstructured summit and still produce results."

Actually, the leaders came with tentative texts and wordings on positions to assist in the bargaining.

Typical of leaders leaving Williamsburg Tuesday, Trudeau departed on a positive note. "We came to Williamsburg determined to deal with two very important subjects," he said. "The first was disarmament and the second was the economic situation. Without any exaggeration, I think that the Canadian delegation can say that we are very happy with the outcome on both those subjects."

Just before leaving Williamsburg, Reagan told reporters, "We stayed until we'd worked out what we all felt was a way to go on the particular subject. And there was no vote taken. There were no winners or losers. Before we settled on it [individual subjects], all seven were in agreement."

Japan takes firm stand with West on defense issues at summit

By Takashi Oka
Staff correspondent of
The Christian Science Monitor
Williamsburg, Va.

Japanese Prime Minister Yasuhiro Nakasone has taken a significant step toward defining his country as a member of the Western alliance.

"We don't want the Soviet Union to use Asia as a garbage dump for any SS-20s it may withdraw from Europe," Mr. Nakasone said at a press conference for Japanese journalists following the seven-nation Williamsburg summit May 30.

He indicated that this was one reason he had associated Japan with the six Western partners in a statement affirming determination to "maintain sufficient military strength to deter any attack, to counter any threat, and to ensure the peace" while call-

For Nakasone and Japan, the summit was a kind of international coming-out party on defense issues.

ing upon the Soviet Union to "contribute constructively" to arms control negotiations. "The security of our countries is indivisible and must be approached on a global basis," the statement said.

Britain, Canada, France, West Germany, Italy, Japan, and the United States are the seven nations which participated in the Williamsburg summit hosted by President Reagan May 28-30. The summit meant different things to each participant. For Mr. Nakasone and his country, it was a kind of international coming-out party on defense issues.

Japan has taken part in every summit of the West's leading industrialized democracies since France convened the first one at the Chateau de Rambouillet outside Paris in 1975. But Japan is the only participant which is not a member of the North Atlantic Treaty Organization. Furthermore, Japan's defense forces are restricted by its no-war constitution strictly to self-defense. Japan does not even accept the resort to collective self-defense permitted by the United Nations charter.

Thus every previous summit has been meticulously prepared in such a way as to concentrate on economic subjects. Williamsburg is the first summit to take up

defense as an issue on which to make a joint statement, and it was able to do so because of President Reagan's insistence that he and his colleagues be free to discuss whatever they wanted without being locked into a tightly prearranged agenda.

For his part, Mr. Nakasone came to the summit determined to show a Japan that, in his words, was not "just an economic animal," that it was ready to speak out, to take stands, and to shoulder responsibilities on matters important to the survival and prosperity of the global community.

The Williamsburg summit's main concern, as expressed in its final statement read out by President Reagan May 30, was to obtain a better coordination of Western efforts to promote world economic recovery by pursuing "a balanced set of policies" designed to obtain inflation-free growth, lower interest rates, reduced budget deficits, higher productive investment, and greater employment opportunities.

But arms control was very much on the minds of West European leaders. And the participants could not ignore the drumfire of Soviet threats, designed to divide the allies and stop the scheduled deployment of nuclear-tipped, intermediate-range American Pershing II and cruise missiles in Europe later this year.

Japan could not avoid being concerned, because the plan to deploy the missiles responds to the steady increase of mobile multiheaded Soviet SS-20 missiles aimed at Western Europe. These missiles have also been deployed in Asia, and Japan, like its neighbor China, does not want any East-West negotiation that might reduce SS-20s in Europe to lead to an increase of such weapons in Asia. The point of any talks between Moscow and the Western allies should be to eliminate these weapons altogether, not to move them from one theater to the other, both the Japanese and Chinese say.

In this sense Japan applauds President Reagan's zero-option proposal. Japan also accepts the NATO proposal for an interim solution that would reduce the number of SS-20s as well as the Pershings and cruise missiles planned to be deployed in Europe.

It is not yet clear what effect such a solution, if reached, would have on the balance of East-West forces in Asia. That is why Mr. Nakasone came to Williamsburg determined to get across the point, if the issue was raised, that security must be tackled on a global basis. As one Japanese official put it, even though Japan is not a member of

NATO, the SS-20 has made security a global issue, has given it a dimension that transcends regional alliances.

This is a far cry from 1977, when West German Chancellor Helmut Schmidt voiced his concern over the SS-20 to his obviously uncomprehending Japanese counterpart. "What is the SS-20 anyway?" the prime minister was later reported to have asked one of his aides.

Mr. Nakasone said he made five points in discussing the matter with his colleagues at Williamsburg. First, the summit should express the common will of the participating nations. Second, to preserve world peace, deterrence and arms control negotiations must go hand in hand. Third, in order to induce the Soviet Union to talk, the Western nations must not change their plans to deploy Pershings and cruises at the end of this year. The timetable must be adhered to.

Fourth, in order to promote a summit between President Reagan and Soviet leader Yuri Andropov, the Western nations must give President Reagan a firm foundation of support from which to proceed. Fifth, the West must show patience and persistence in

talks with the Soviet Union.

No Japanese leader at a summit meeting has spoken out as resolutely and explicitly as this. The deployment of nuclear weapons anywhere is always a politically controversial subject. It is especially so in the case of Japan, which has a firmly established national policy neither to make, possess, nor allow the stationing of nuclear weapons on its territory. Mr. Nakasone has come under strong attack from opposition parties at home over his statements.

Japanese defense policy has not changed, Mr. Nakasone told reporters. Japan has not joined NATO and is not bound by NATO decisions. Japan relies on its own self-defense forces and its security treaty with the United States. But if it is not to be isolated in the world, it must speak out and take stands on issues vital to its security.

"Western unity can have a political result - to bring the Soviet Union to the negotiating table," Mr. Nakasone said. "If we are not united, the Soviet Union may just laugh at us and never sit down to negotiate. As a realistic statesman, that is how I think."

Beyond Williamsburg

The degree of success or failure of the Williamsburg economic summit will emerge in the weeks and months ahead. It will depend on how the leaders of the seven industrialized democracies follow up on their pledge to seek greater "convergence" of economic policies and how they put into practice the principles on which they all agreed: the need to lower trade barriers, to keep inflation under control, and to reduce interest rates and budget deficits. Reaffirmation of these broad principles may not be an achievement to shout about. But the fact that the leaders avoided confrontation and want to be seen committed to cooperation for the mutual economic good is something on which to build.

Economic summits are not primarily designed to solve problems. They are designed to heighten mutual understanding so that national leaders can proceed to work away at the solutions in a spirit of interdependence and personal knowledge of each other's problems. In this sense every summit is a success.

Of course the political dimension of the summit meeting weighed as heavily as the economic one, if not more so. The final declaration was carefully crafted to paper over differences and enable each leader to capitalize at home on the achievement of some political objective. President Reagan bolstered his image as a world leader, both through skillful moderation of the meetings and by winning for the first time an endorsement of a security statement — a common arms negotiation stance toward the Soviet Union. Japan managed to defuse the sharp criticism of its trade policies. France won a guarded agreement to consider its idea of an international conference on monetary stabilization. Prime Minister Thatcher, for her part, benefits domestically from the statement on national security and the conservative thrust of the pledge to limit government spending. No nation got all it wanted — Mr. Reagan, for instance, did not obtain assent to his optimistic economic views — but most returned home with something politically useful in their pockets.

However, the basic accord and harmony of the summit cannot obscure the lingering disagreements on how to spur the world economy and the challenges to overcoming these disagreements. The onus on the United States is especially great. If the leaders promised to lower budget deficits through "limiting the growth of expenditures," it is plain that the US is the chief culprit in violating this standard. Federal deficits have reached the historical high of \$200 billion annually and may approach the \$300 billion level if not soon brought under control. Yet the Reagan administration is not giving high priority to reducing these soaring deficits, inasmuch as it rejects increased taxes, resists slowing the rate of military spending, and even denies that there is any link between deficits and high interest rates — a position with which American and European economists disagree. The US Congress is thus having to carry the ball on restraining the budget explosion.

It may also be said that the summiters failed to address concretely what many regard as the most dangerous near-term problem and that is the debt burden of the developing countries. No commitment was made to strengthen IDA, the soft-loan arm of the World Bank, or provide for some other source of increased aid to help finance this debt. Yet the fact is that sustained world economic growth is closely linked to the state of economic health of the third-world countries. One American trade expert notes that demand from the developing nations has been the major source of export growth for the industrialized world in the past three years. If the industrialized nations cannot export more to the third world, how can they generate a momentum of recovery? It is thus vital to keep the debt-ridden countries on an even keel.

Will the seven nations pursue these problems with renewed vigor — even if this means making some politically uncomfortable choices? The world awaits an answer to that question.

Economic Summit:

The Limits of Amity

THERE'S always the chance that someone at one of these international confabs will put some truth serum in the wine of one of the heads of state and get him to blurt out something newsworthy. Pierre Trudeau used to specialize in such remarks.

Perhaps it's indicative of the seeming uneventfulness of this year's summit at Williamsburg, which brought together the leaders of the major industrial democracies, that even Trudeau could come up with nothing better than "I told them, 'we should bust our bloody asses for peace'; I made it emphatic."

To one of the statements released on Sunday, Trudeau got to add a phrase in support of "lifting the shadow of war" from the world. This gave him a feeling of triumph. Such are summits.

In this summit's 10-point declaration it was agreed that structural deficits must be reduced, chiefly by cutting spending; that everyone should try to cut inflation and interest rates; that free trade is better than protectionism; that the ministers of finance should consider holding an international monetary conference; and on and on, with the usual calls for actions that will be "coordinated," "effective," "helpful," etc.

One thing that does seem clear: We emerged from the summit still disgusted with the French, and they with us. A French official said that "the Americans were isolated several times," and

thus forced to accept "a text like this. We think it's a good one."

But American officials say essentially the same thing. The guess here is that the French felt more isolated than the Americans, given the conservative tilts in recent elections in Germany and Japan and the remarkable popularity of conservative Prime Minister Margaret Thatcher of Britain. In socialist France few signs of recovery are to be found — this at a time when even the down-and-out Canadian economy shows signs of stirring.

The issue over which tempers flared at last year's summit was trade with the Soviets. This year's wording was similar to last year's: "East-West economic relations must be compatible with our security interests." Substantive.

In truth, there is growing talk among NATO nations of easing sanctions against Poland. And remember those sanctions we imposed, then lifted, against companies selling pipeline technology to the Soviets? It now appears that the decision to lift them was based largely on CIA underestimations of how much hard currency the Soviets would rake in as a result.

Now the Western Europeans are stuck with having to pay inflated prices for the "Gulag gas" the Soviets will pump to them through a pipeline they're building with slave laborers. Obviously, there is more to diplomacy than "the spirit of cooperation."

Los Angeles Times

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Williamsburg: What Now?

President Reagan and leaders of six other major industrial countries kept their disagreements within the bounds of civility at Williamsburg, Va. The final summit communique proclaimed a collective determination to deal with such problems as high interest rates, protectionist pressures in world trade and the economic drag created by the Third World's enormous unpaid debts.

As the negative reaction of the currency markets quickly demonstrated, however, it is far from clear that concrete actions will be taken to carry out the lofty aims outlined in the Williamsburg Declaration.

Administration spokesmen consider the summit to have been a great success. And indeed some positive results were achieved.

There was a lively debate over the wording of a summit statement on arms policy, but the final declaration was approved by all seven nations—including, for the first time, both Japan and France.

The leaders committed their governments to halt the trend toward protectionist trade policies and to give expanded trade opportunities to developing countries. In a passage clearly aimed at the United States, the participants underscored the importance of reducing high interest rates and large budget deficits.

The problem uppermost on everybody's mind at Williamsburg was unemployment, which totals 32 million in the countries represented at the summit. There is general agreement that, while other factors are involved, the best single cure for unemployment is world economic recovery.

Reagan's view is that the U.S. economy is on the mend and that world economic recovery will follow

if other countries pursue non-inflationary spending policies. Not a single other leader at Williamsburg believed that things were that simple. The Europeans, the Japanese and the Canadians all are reported to have told Reagan that sustained world economic recovery is unlikely until something is done about the United States' huge budget deficit and the high U.S. interest rates that the deficit produces.

Most U.S. economists agree. High interest rates in this country serve to depress the values of other currencies, impeding world trade. They also force other nations to keep their own interest rates at levels that tend to choke off economic growth.

Neither Reagan nor other U.S. officials, however, gave the slightest hint that the straight talk that they heard at Williamsburg would make a dent in the Administration's determination to resist higher taxes and meaningful restraints on the growth in defense spending.

The Williamsburg summit had barely ended before a senior Administration official was telling newsmen that the Federal Reserve Board may have to restrict credit in order to curb the brisk expansion of the U.S. money supply. That would mean more upward pressure on interest rates instead of less.

Maybe the direct exposure to other views that the President received at the summit will pay off in the long run. Maybe complacency will give way to sober recognition that the United States does have an obligation to itself as well as to other countries to reduce the potentially ruinous gap between the federal government's income and outgo.

So far, however, the signs are not reassuring.

WASHINGTON, May 31 — What will the Russians make of the Williamsburg summit meeting of the industrial nations? In the economic field, they probably wish they had our problems rather than their own. In the strategic field, they are now confronted with a fundamental decision on the future of the arms race.

They have been gambling that the anti-nuclear movement would compel the European nations to reject the deployment of new U.S. Pershing 2 and low-flying nuclear cruise missiles on their territory. But the major European nations, which requested this deployment in the first place, sustained it at Williamsburg, joined for the first time by Japan.

This debate is clearly not yet over, but the Soviet hope of psychological and political disarmament in Europe was clearly rejected at the summit meeting. The industrial leaders gave President Reagan's policy a vote of confidence, and the advance party of U.S. technicians is already in Europe looking over the sites where the new nuclear weapons will be based.

Moscow now has two options: It can come forward at Geneva with new compromise proposals of its own, or it

can wait until the U.S. missiles are in place and negotiate for their withdrawal, which would be harder. Much will depend on how the Soviet leader, Yuri Andropov, analyzes this problem. If he follows the usual Soviet procedure, the outlook will be bleak.

Several times since World War II, America has made proposals to the Soviet Union for a more peaceful world order. It asked Moscow to join the Marshall Plan. It proposed in the Baruch, Acheson, and Lillienthal plans abolition or international control of nuclear weapons, even at a time when the U.S. had a monopoly. The Russians not only rejected these proposals but mocked President Eisenhower's suggestions for mutual inspection of military arms and a transfer of half the cost of military weapons to the development of hungry nations.

These facts seem to have been forgotten by many of the well-meaning leaders of the anti-nuclear movement, who urge the West to set an example by refusing to maintain a nuclear balance.

But the trend of recent history in East-West relations is fairly clear. As the U.S. has reduced its nuclear ar-

WASHINGTON

Moscow And the Summit

By James Reston

senal, the Soviet Union has added substantially to its own, and in the last 10 years almost every Soviet military or political aggression has been followed by proclamations of peace and offers to negotiate new arms agreements.

Accordingly, the leaders at Williamsburg insisted that Moscow either come forward with new proposals for establishing a verifiable nuclear balance at a lower level or accept the emplacement of U.S. missiles in Europe to restore the balance.

Moscow's first reaction, as expect-

ed, was negative, but not totally. Tass described the Williamsburg arms communiqué as an effort to "camouflage the unbridled and dangerous arms race," but it added that the Western leaders' offer "to cooperate with the Soviet Union on arms reduction" would be "welcomed if the words of the Western leaders accorded with their deeds, if they were really referring to the finding of just accords . . . observing the principle of equality and equal security."

It will be interesting to see how Mr. Reagan responds to this. President Kennedy got equally mixed signals from Moscow during the Cuban missile crisis: threats on the one hand, and vague suggestions of compromise on the other. Kennedy chose to ignore the threats and explore the possibility of compromise, and finally persuaded Khrushchev to turn the missiles back from Cuba rather than face a naval blockade.

Moscow's present threats to move its intermediate nuclear missiles into Eastern Europe if Washington puts Pershing and cruise missiles in Western Europe has limited force, since the Soviet missiles can now hit every European capital. So it may still be

possible to talk about a compromise, as the Soviet and U.S. delegates in Geneva discussed briefly last July.

A distinction should be made between the public pronouncements out of Williamsburg and the private conversations. For there is reason for reporting here that the Western leaders, while supporting President Reagan's nuclear policy, also urged him to go on to another summit meeting with Mr. Andropov to discuss U.S.-Soviet relations in general before the two major nuclear powers reach a crisis when the U.S. missiles are deployed beginning this autumn.

The President has accepted such a meeting in principle and talked vaguely about arranging such a conversation next year. But the missiles will be in place then if nothing happens, and the 1984 Presidential election will be in progress — not an ideal time for objective discussion.

The summit meeting has been praised as evidence of Mr. Reagan's leadership, but he is home from the make-believe world of Williamsburg now and back in the real world of power politics, where the Soviet nuclear arsenal increases by three warheads every day.

REAGAN PREDICTS BETTER SOVIET TIES IN PARLEY'S WAKE

ASSESSES SUMMIT TALKS

He Asserts Allies' Backing on Arms Will Help Persuade Moscow to Negotiate

By STEVEN R. WEISMAN

Special to The New York Times

WILLIAMSBURG, Va., May 31 — President Reagan, assessing the results of the seven-nation summit conference that ended Monday night, predicted today that Soviet-American relations would improve because of the support he had received for his Administration's positions on arms control.

In an interview with eight correspondents at Providence Hall, the 18th-century clapboard house he used as his personal headquarters, Mr. Reagan said the improvement "may not be visible in the rhetoric in the immediate future, because there's an awful lot of rhetoric that is delivered for home consumption."

Asked whether he expected better or worse relations with the Soviet Union, the President replied, "I see better because I think all of us together have a more realistic view of them."

The Path to Negotiations

He said the conference showed that the best way of persuading the Russians to negotiate limits on medium-range nuclear missiles in Europe was to convince them there was broad-based support for the deployment of American missiles there this year.

"Frankly, my own opinion is that the negotiations won't really get down to brass tacks until they see that we are going forward with the scheduled deployment," Mr. Reagan said.

He said "we're going to try" to reach an arms agreement with the Soviet Union in Geneva even before the deployment. But he added: "I am just anticipating from the Soviet side, they have based their entire propaganda campaign, everything they've been doing, on seeking to prevent beginning deployment. And we have a schedule of deployments, the request of our NATO allies, and we're going to follow that."

The North Atlantic Treaty Organization plans to deploy the first of 572 American cruise and Pershing 2 missiles before the year's end.

Security Issues Prominent

Although the three-day conference at this restored colonial city was the ninth annual conference on economic issues, many American and European officials agreed that its most significant achievement was a statement Sunday evening on security issues. In that statement, the allies backed the attempt to negotiate equal limits on medium-range missiles and called on the Soviet Union to come forward with constructive proposals.

On Monday night, the conference closed with an agreement that, despite "signs of recovery," further steps were needed to reduce trade barriers and to lower inflation, interest rates and budget deficits.

Participating in the conference were the elected leaders of the United States, West Germany, Britain, France, Canada, Japan and Italy, and the president

of the European Community's Commission.

Mr. Reagan bade farewell to the last of the participants this morning at the driveway of the Williamsburg Inn, a replica of a 19th-century resort hotel. Each leader boarded a helicopter accompanied by soldiers in Revolutionary-style scarlet jackets, white breeches and three-cornered hats.

'Great Kinship' Noted

Mr. Reagan told Williamsburg employees and residents that the leaders "felt a great kinship and a part of American history" by being here. He flew back to Washington early this afternoon.

For Administration officials, the conference was a vindication of Mr. Reagan's preference for informality and a show of support for his economic and political positions.

However, some of the leaders did suggest that the allies needed to exhibit more urgency on the arms talks. Prime Minister Pierre Elliott Trudeau of Canada told reporters so in

unusually blunt terms Monday. And Prime Minister Margaret Thatcher of Britain said before leaving Sunday night that proposals for arms talks "have not been pursued as vigorously as they should."

Mr. Reagan said today that he had received "total support" for his attempts to negotiate the withdrawal of Syrian, Israeli and Palestine Liberation Organization troops from Lebanon.

On economic issues, he said no participant's views changed "in any major way" as a result of the conference. "You would be amazed at how much our thinking was alike on so many of the things discussed," he said.

Asked if he himself had changed any of his views, Mr. Reagan replied, "Not really."

He said it was especially significant that the allies agreed on "the whole idea of convergence" of economic policies and that they "are going to monitor each other closely on how we are progressing on this."

"There were no winners or losers," Mr. Reagan said, explaining that "there was no vote taken" on each ele-

ment of the final statement. "Before we settled on it, all seven were in agreement," he said of the statement.

On relations with the Russians, Mr. Reagan said, "If there is an increase of tension, it will be the Soviet Union that causes it." He emphasized that the nations represented at the conference had overcome "terrible deep wounds" of war among themselves and wanted peace with the Soviet Union.

Mr. Reagan's interview today was with eight correspondents selected by the White House press office. The correspondents were Lou Cannon of The Washington Post, Saul Friedman of Knight-Ritter Newspapers, Jerome Watson of The Chicago Sun-Times, Dean Reynolds of the Cable News Network, John Hall of Media General, Robert Sole of Le Monde, Mauro Lucentini of Il Giornale and Carola Kaps of Frankfurter Allgemeine Zeitung.