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cc: The Honorable Donald Regan

Honeywell

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April 14, 1986 FO DDB-10

EDSON W. SPENCER
Chairman and Chief Executive Officer

The Honorable Ronald Reagan
The White House
Washington, D.C. 20500

Dear Mr. President:

As you finalize preparations for the Tokyo Summit, The Business Roundtable offers these suggestions for topics that we believe should be included in economic discussions at this year's meeting:

1. Significant progress has been made since September toward addressing the severe misalignment of the world's currencies. It is important for the Summit to build upon this success by agreeing on further coordination in the area of domestic economic policies. In particular, further efforts are needed by Japan and the EC in accelerating domestic demand.

The report of the Maekawa Study Group in Japan contains important recommendations for transforming the Japanese economy to one oriented to international coordination through greater internal economic growth. The report should be applauded and the Japanese government should be urged to adopt a schedule for its implementation.

At the same time continued efforts are needed by the G-5 countries to further correct the value of the dollar. Talks on strengthening the international monetary system are also needed. The Business Roundtable is submitting the attached statement to Secretary Baker on issues that should be addressed in any monetary discussions.

2. A new round of multilateral trade negotiations addressing a broad agenda should receive strong support at the Summit. It is important that a new trade round address both: (a) methods to bring greater discipline to the trade system; and (b) new issues that were not covered in past negotiating rounds.
3. The Summit leaders should commit support to the recommendations of Secretary Baker to address the debt problems faced by the lesser developed nations.

Sincerely yours,



Chairman, The Business Roundtable
Task Force on International Trade
and Investment

EWSpencer:dr
Att.

Honeywell Inc., Honeywell Plaza, Minneapolis, Minnesota 55408, Telephone 612/870-5200

THE BUSINESS ROUNDTABLE

STATEMENT ON INTERNATIONAL MONETARY POLICY

President Reagan, in his State of the Union address on February 4, 1986, directed the Secretary of the Treasury to undertake a study of the need for a multilateral conference on the international monetary system. The Business Roundtable is greatly encouraged by this action of the President that builds on the Group of Five consensus of last year, and urges the Secretary of the Treasury to complete the study quickly.

This action of the President signals an important recognition that currency misalignments in recent years have been a major cause of unprecedented deficits in the U.S. trade and current account balances. Improvements in the international monetary system are needed to ensure that the severe currency misalignments that have characterized the free floating exchange rate system are reduced in the future. The floating exchange rate system has permitted both extreme dollar overvaluation from 1981 through 1985, and severe dollar undervaluation in 1978 and 1979. Reduced currency volatility and misalignments would not only contribute to more stable global economic conditions, but would greatly reduce the risk of trade and capital controls that could result from unsustainable trade and current account imbalances among the major industrialized countries.

The Business Roundtable believes that improvements in the international monetary system are essential to maintaining both noninflationary world economic growth and an open international trading system.

As the Treasury undertakes its study, the Business Roundtable recommends the following as issues that need to be addressed if the international monetary system is to be improved.

A. Issues for International Monetary Talks

The ultimate objective of any international monetary talks must be the development of a system which encourages and facilitates the achievement of appropriate and sustainable current account balances of the major industrialized countries. To accomplish these objectives, any international monetary talks on improving the monetary system must address the following issues, among others:

1. Identification and implementation of domestic economic policies that are necessary to achieve sustainable balances in current accounts.

Major steps toward policy consistency have been taken by the Group of Five with its efforts, among other domestic policy actions, to reduce interest rates; to further narrow interest rate differentials; to pursue aggressive federal budget deficit reduction in the U.S.; to pursue domestic economic growth in Japan and West Germany; to remove restrictions which inhibit greater use of the yen as an international currency, and to remove restraints to trade among nations. These efforts must be continued if fundamental improvement of the monetary system is to be achieved.

2. Identification of mechanisms to: (a) encourage consistent domestic policies; (2) strengthen procedures for multilateral surveillance to increase policy consistency; (3) promote greater symmetry in the international adjustment process; and (4) reinforce disciplinary pressures within the system.

These mechanisms are essential to ensure that domestic policy goals, once identified, are effectively implemented. Such multilateral mechanisms could include continued policy coordination by the Group of Five or other appropriate groups of countries; enhanced surveillance by the International Monetary Fund; or a more direct role for the Economic Summit meetings in reviewing and promoting domestic policy consistency.

3. Improvement of the exchange rate system to achieve greater stability in exchange markets and to attain exchange rates which more fully reflect fundamental economic conditions.

It is essential that the exchange rate system have the capability to address severe misalignments of currencies and to support appropriate movements of fundamental domestic economic policies through multilateral coordination; interventions by the Group of Five or other countries; or other appropriate safeguards that may be developed.

- B. During review of the international monetary system, current efforts toward correcting the value of the dollar and more closely coordinating domestic economic policies should be continued.

C. Other Supportive Actions.

In addition to reviewing the international monetary system, the Group of Five countries should implement procedures that encourage and support broad public and private sector debate over international economic and monetary policies. For the United States such procedures could include the following:

1. Existing annual reports to the Congress by the Secretary of the Treasury, the Board of Governors, and the Council of Economic Advisors should be expanded to include assessments of the international monetary system, and periodic testimony before the Congress should be required. They should include:
 - an analysis of recent exchange market developments, including the role and effectiveness of intervention;
 - an analysis of the causes of such developments in terms of the economic policies of the U.S. and foreign countries;

- an analysis of the implications of such developments for the external accounts of the United States, including the sustainability of any imbalances, prospects for balanced, non-inflationary expansion of the U.S. economy; and
 - a statement of policy intentions, within the area of responsibility of each agency, with respect to the overall objective of achieving a sustainable pattern of U.S. international transactions.
2. The Secretary of the Treasury in his Annual Report in addition should provide:
- an assessment of the results of any formal international negotiations, meeting, or conferences during the previous year concerning the long-term improvement of the international monetary system; and
 - a summary of any consultations by the International Monetary Fund with the United States under Article IV of the Fund's Articles of Agreement.

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

FO 006-10
APR 15 1986

INCOMING

DATE RECEIVED: APRIL 16, 1986

NAME OF CORRESPONDENT: THE HONORABLE EDSON W. SPENCER

SUBJECT: ON BEHALF OF THE BUSINESS ROUNDTABLE OFFERS
THREE LISTED SUGGESTIONS FOR TOPICS IT
BELIEVES SHOULD BE INCLUDED IN ECONOMIC
DISCUSSIONS AT THE TOKYO SUMMIT

ROUTE TO: OFFICE/AGENCY	(STAFF NAME)	ACTION		DISPOSITION	
		ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
MERLIN BREAUX		ORG	86/04/16	MB	A86 104/28AB
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COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES:

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*                       *                       *CORRESPONDENCE:  *
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*C-COMMENT/RECOM       *B-NON-SPEC-REFERRAL *           OF SIGNER  *
*D-DRAFT RESPONSE      *C-COMPLETED        *           CODE = A   *
*F-FURNISH FACT SHEET  *S-SUSPENDED        *COMPLETED = DATE OF *
*I-INFO COPY/NO ACT NEC*                       *           OUTGOING *
*R-DIRECT REPLY W/COPY *                       *                       *
*S-FOR-SIGNATURE       *                       *                       *
*X-INTERIM REPLY       *                       *                       *
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LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS
MANAGEMENT.

THE WHITE HOUSE

WASHINGTON

April 28, 1986

Dear Mr. Spencer:

Thank you for your letter to the President on behalf of the Business Roundtable regarding the agenda for the Tokyo economic summit. We appreciate the suggestions you made.

As you may know, many of the topics you list are scheduled to be included in the President's agenda at the summit. I am enclosing a copy of a speech the President made prior to his departure for the summit, which eloquently explains his outlook on these talks.

Again, thank you for taking the time to write.

Sincerely,



Merlin Breax

Special Assistant to the President
for Public Liaison

Mr. Edson W. Spencer
Chairman/Chief Executive Officer
Honeywell Inc.
Honeywell Plaza
Minneapolis, Minnesota 55408

Enclosure

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M. Breary

Honeywell

April 14, 1986

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The White House
Washington, D.C. 20500

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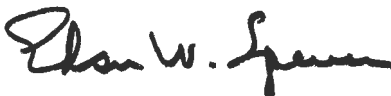
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- an assessment of the results of any formal international negotiations, meeting, or conferences during the previous year concerning the long-term improvement of the international monetary system; and
 - a summary of any consultations by the International Monetary Fund with the United States under Article IV of the Fund's Articles of Agreement.

THE WHITE HOUSE
~~NEW~~ CORRESPONDENCE TRACKING WORKSHEET

F0006-10

INCOMING

DATE RECEIVED: APRIL 17, 1986

APR 17 1986

NAME OF CORRESPONDENT: MR. ANTHONY HARRIGAN

SUBJECT: WRITES REGARDING HIS CONCERN AND SUGGESTIONS
ABOUT THE UPCOMING TOKYO ECONOMIC SUMMIT,
IN PARTICULAR, PROBLEMS OF INTERNATIONAL
TRADE

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION		DISPOSITION	
	ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
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COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES: _____

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THE WHITE HOUSE

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April 28, 1986

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Again, thank you for taking the time to write.

Sincerely,



Merlin Breaux

Special Assistant to the President
for Public Liaison

Mr. Anthony Harrigan
President
Business and Industrial Council
7000 Executive Center Drive, #200
Brentwood, Tennessee 37027

Enclosure



389828

UNITED STATES
BUSINESS AND INDUSTRIAL COUNCIL

NASHVILLE EXECUTIVE OFFICES: 7000 EXECUTIVE CENTER DRIVE, SUITE 200, BRENTWOOD, TENNESSEE 37027 • TELEPHONE 615 377-4790
WASHINGTON OFFICES: 1330 NEW HAMPSHIRE AVENUE, N.W., SUITE 112, WASHINGTON, D.C. 20036 • TELEPHONE 202 822-9840

April 11, 1986

M. Breaux

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- PRESIDENT**
ANTHONY HARRIGAN
- EXECUTIVE VICE PRESIDENT
AND GENERAL MANAGER**
KIRK C. McALEXANDER
- DIRECTOR, WASHINGTON OFFICE**
JOHN P. CREGAN

*on government service

President Ronald Reagan
The White House
Washington, D.C. 20500

Dear President Reagan:

The United States Business and Industrial Council, representing a cross-section of American companies, is concerned about the upcoming Tokyo Economic Summit.

Certainly—from the American standpoint—problems of international trade should be the central focus of the conference inasmuch as the U.S. has suffered an unprecedented string of huge trade deficits. As a consequence, many U.S. industries are in trouble—even on the threshold of disaster. The U.S. is exporting major industries offshore to low-wage nations.

Yet, though we believe that our allies and trading partners should be confronted with these facts, we doubt that the U.S. is ready to make proper use of the Tokyo meeting as a forum for this vital discussion. U.S. government actions and statements to date don't suggest that the United States has an appropriate strategy in hand to deal with this problem which is of immense importance.

Multilateral conferences serve important purposes, and this conference certainly should be used to give notice of forthcoming U.S. declarations and actions on trade. But it's necessary for the American people to realize that our trade problems require bilateral as well as multilateral negotiations. It isn't to be expected that the Tokyo summit could deal adequately with the subsidies, preferential financing, wage policies, and non-tariff barriers that are being employed in such a way as to severely impact the United States, especially as the principal problem country is Japan. As former Deputy Secretary of Defense David Packard told the Subcommittee on Trade of the House Ways and Means Committee last September, "We need a strategy for dealing specifically with Japanese trade over the short and long term."

Clearly, the United States doesn't have such a strategy in place. There's no indication that there is understanding in the Executive Branch of the need for a strong national interest trade policy.

Mr. Packard also testified that the United States needs "a program of specific goals and timetables" for bringing under

President Ronald Reagan

Page 2

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control our current trade imbalance with Japan, including "import quotas that would be applied to limit access to the U.S. market if the timetables were not met."

A thorough revamping of U.S. official attitudes on trade is needed to effect the changes recommended by Mr. Packard. Part of our current difficulty is the official outlook which regards the world as a global market system to be reformed rather than as an arena of competing national economies seeking their own interests. In the absence of a realistic understanding, a joint communique would not be relevant to our national situation. However, the Tokyo summit could serve a useful function if it were a setting for giving notice to America's allies that an authentic reformation in American trade policy is in progress and will be presented to them as soon as possible.

To be sure, the Tokyo summit will be counter-productive if the United States attempts to force on Japan and other nations trade concepts which aren't in their national interest. Specifically, an attempt to force the Japanese to become large-scale buyers of foreign-made manufactured goods undoubtedly would be pointless; it would cause animosity. Japan's aggressive, national interest trade policy is just that—in the Japanese national interest. It can't be dealt with by more demands to "open markets to our goods," but with tough national interest trade policy of our own. The aim of the American trade policy should be nothing less than balanced trade with Japan—trade that is truly beneficial to the United States.

Certainly, the United States should not attempt to interfere in Japan's internal affairs by suggesting changes in domestic policies as to savings, taxes and wages. That would be gross interference in Japan's internal affairs. Because an economic philosophy is embraced in the United States, there is no reason why another nation should also accept it wholesale.

Moreover, it should be understood that if other nations were to adopt pure free trade policies, which is unlikely, this would not solve the trade problems of the United States with the less-developed countries, but would only tend to set trade and policy in a mold that will prove to be counter-productive. Under pure free trade conditions, imports from low-wage nations—less-developed countries or Third World competitors with a comparative advantage in labor—would continue to capture markets from important American domestic industries and destroy American jobs, causing the United States to run a trade deficit and, most importantly, lower the standard of living in the United States.

President Ronald Reagan

Page 3

April 11, 1986

The United States must take whatever steps are necessary to avoid a situation whereby its industries are forced into offering a global wage for employment as this would shatter the U.S. standard of living and render Americans unable to purchase goods associated with a middle class way of life.

With regard to trade discussions at the Tokyo summit, we hope that the discussions will go beyond the prejudice-laden formulation of the choice as one of "free trade" versus "protectionism." In truth, there isn't any free trade in the world today, apart from America's unilateral free trade which is causing us to export major industries to low-wage countries. The word "protectionism," on the other hand, is loaded with emotional overtones that are designed to be unfavorable. The use of these words, then, eliminate the possibility of realistic discussion of trade as it exists in the world today.

The U.S. presentations at the Tokyo summit also should help America's allies and trading partners become more aware of the growing congressional and public desire to safeguard vital industries and the jobs they offer and also for ensuring America's economic, industrial and technological future. To that end, America's principal allies should be given to understand that new approaches to the trade problem are likely to be utilized in the year ahead.

One new legislative tactic is likely to be the utilization of the Gramm-Rudman approach. Since the customary machinery of government has failed to produce a new trade policy that prevents the deindustrialization of the United States, Congress may well turn to what it has done in the case of the federal deficit problem, namely pass a law which defines a default procedure for reducing the trade deficit.

The Gramm-Rudman approach might be implemented in this fashion: a trade deficit reduction schedule would be enacted into law—say, by something on the order of \$30 billion a year. A quota would be imposed on those nations that contribute to the overall trade deficit, limiting imports sufficiently to achieve the \$30 billion reduction on an automatic basis.

Another likely development is that Congress will be persuaded to pass a bill that will broaden the terms of reference and the powers of the U.S. International Trade Commission so that its stated mission is not only the safeguarding of particular industries that are being destroyed by imports but the broader

President Ronald Reagan
Page 4
May 1, 1986

mission of maintaining a suitable industrial base for the United States in terms of strategic industries.

In the absence of these approaches, America's trading partners have no incentive to negotiate; they have nothing to fear in the way of counter-action to their targeting and trade offensives. They believe that, regardless of their actions or the balance of trade, the United States will adhere to a purely doctrinal notion of trade.

Diplomacy is the same whether the subject is economics or arms control. What brings parties together to make mutually beneficial arrangements is the fear that without such arrangements, their positions will be worse. The U.S. understands this quite well today when talking with the Soviets. One would not expect to gain concessions from Moscow if funding for all new weapons programs were vetoed before the arms talks opened.

The U.S. should be able to speak at the Tokyo Summit from a position of strength. The American market is the largest and most affluent in the world. It is the market everybody wants to reach. An administration willing to exercise control over that market would have enormous leverage in trading access for concessions. Historically, U.S. policy was based on the assumption of closed access unless reciprocal trade agreements could be reached which were beneficial to American business. That was one reason the U.S. has normally run trade surpluses rather than deficits. Trade diplomacy sought to control imports while it opened new avenues for exports. Today, those principles seem to have been discarded. America's power lies unused.

To regain a credible position of strength will take time. U.S. policy must demonstrate a willingness to retaliate against foreign trading partners who use "unfair" methods such as targeting or who threaten the survival of vital American industries.

Of course, even a strong policy might not gain desired concessions. The U.S. has experienced this with the Soviets and have realized that unilateral actions to defend the nation from military attack must be pursued. That is the idea behind your Strategic Defense Initiative (SDI). The same holds for economic threats. It is doubtful that Japan or other surplus nations, will agree to abandon the trade policies which have contributed so much to their economic growth. Thus the U.S. Business and Industrial Council recommends that the U.S. devise a Trade Defense Initiative (TDI)—a mix of unilateral actions including tariffs and quotas—

President Ronald Reagan
Page 5
April 11, 1986

to defend its industrial base from economic attack.

We admit to being concerned that in the absence of a strong bargaining position, the U.S. will be forced to make concessions which will further weaken the U.S. industrial base. It has been reported, for instance, that in order to break down non-tariff barriers blocking the expansion of certain service industries, such as stock brokerage, insurance and advertising, the administration is prepared to surrender what little protection American industry now has, such as reductions in tariffs on textiles, steel and petrochemicals. Nothing could be more dangerous than this sort of "bargain." Though such service industries may prove profitable to their owners, their expansion can in no way substitute for the jobs and the strategic value lost to the nation from the sacrifice of heavy industry.

The concerns outlined above stem from the same root. The administration simply does not seem to be taking the trade imbalance seriously, despite the loss of over two million industrial jobs, slow economic growth and the annual transfer of over \$100 billion of wealth to foreigners. The Tokyo Summit will probably accomplish little in itself. However, it could set the stage for future trade talks. But between now and then, the administration needs to signal to the American people that it is heading in the direction of a national interest trade policy.

Respectfully submitted,


Anthony Harrigan
President

AH/dc

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

F0006-10

INCOMING

DATE RECEIVED: APRIL 17, 1986

NAME OF CORRESPONDENT: THE HONORABLE SAM GIBBONS

SUBJECT: REQUEST THAT THE PRESIDENT CONSIDER INCLUDING
THE U.S. TRADE REPRESENTATIVE AND THE
SECRETARY OF COMMERCE AMONG HIS ADVISORS AT
THE SUMMIT DISCUSSIONS IN TOKYO NEXT MONTH

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION		DISPOSITION	
	ACT CODE	DATE YY/MM/DD	TYPE RESP	C COMPLETED D YY/MM/DD
WILLIAM BALL	ORG	86/04/17	WBA	86/04/22
REFERRAL NOTE:				
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COMMENTS: *Letter sent to ball*

ADDITIONAL CORRESPONDENTS: 4 MEDIA:L INDIVIDUAL CODES: 1230 1240
MAIL USER CODES: (A) (B) (C)

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|--------------------------|----------------------|----------------------|---|
| *ACTION CODES: | *DISPOSITION | *OUTGOING | * |
| * | * | *CORRESPONDENCE: | * |
| *A-APPROPRIATE ACTION | *A-ANSWERED | *TYPE RESP=INITIALS | * |
| *C-COMMENT/RECOM | *B-NON-SPEC-REFERRAL | * OF SIGNER | * |
| *D-DRAFT RESPONSE | *C-COMPLETED | * CODE = A | * |
| *F-FURNISH FACT SHEET | *S-SUSPENDED | *COMPLETED = DATE OF | * |
| *I-INFO COPY/NO ACT NEC* | | * OUTGOING | * |
| *R-DIRECT REPLY W/COPY * | | | * |
| *S-FOR-SIGNATURE | | | * |
| *X-INTERIM REPLY | | | * |
- *****

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE
(ROOM 75, OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING
LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS
MANAGEMENT.

April 22, 1986

Dear Mr. Pease:

Thank you for your April 9 letter to the President, cosigned by four of your House colleagues, urging that the U.S. Trade Representative and the Secretary of Commerce be included in the Summit discussions in Tokyo.

We appreciated receiving your recommendation in this regard. Although the offices of the U.S. Trade Representative and the Secretary of Commerce have participated in the preparations for this summit, they will not be part of the delegation attending these discussions. Historically, topics discussed involve a broad range of domestic and international economic affairs, and summits have included only the heads of governments, their secretaries of the Treasury and State and their staffs. This is true of the delegations of the other countries attending the Tokyo Summit, and accordingly, this practice serves to limit our own delegation despite certain advantages in doing otherwise, as so well-stated in your letter.

With best wishes,

Sincerely,

William L. Ball, III
Assistant to the President

The Honorable Donald Pease
House of Representatives
Washington, D.C. 20515

WLB:BS:KRJ:MDB
WH RECORDS MANAGEMENT HAS RETAINED ORIGINAL INCOMING

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Congress of the United States
House of Representatives
Washington, D.C. 20515

April 9, 1986

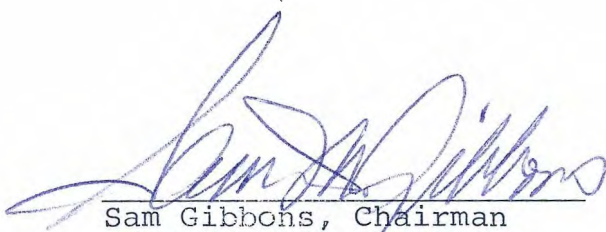
The Honorable Ronald Reagan
The White House
Washington, D. C. 20500

Dear Mr. President:

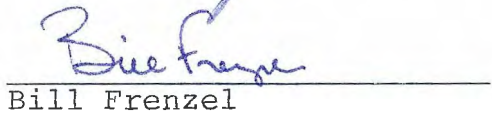
Since trade issues are playing an increasingly important role in international economic decision-making, we respectfully request that you consider including the U.S. Trade Representative and the Secretary of Commerce among your advisors at the Summit discussions in Tokyo next month. In our judgment, these two Cabinet officials, because they deal with trade on an everyday basis, are appropriate Summit Team members.

We realize there are necessary limits on the numbers of persons who attend these economic Summits. But in light of the profound and pervasive impact which trade is having on all international policies today, we will appreciate very much your consideration of our proposal.

We wish you great success at the Summit meeting.



Sam Gibbons, Chairman
Trade Subcommittee



Bill Frenzel

Yours very truly,



Philip Crane
Ranking Minority Member



Richard Schulze



Donald Pease