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8 Years of Talk on Economics

By ROBERT A. BENNETT

The ninth economic summit conference is being convened in Williamsburg, Va., this weekend in an atmosphere strikingly different from that in which the previous eight sessions were held.

For the first time since the meetings began in 1975, inflation is not viewed as a significant problem. And the price of energy, rather than rising, has been falling.

The deep recession of the past two years lingers, but there are hopeful signs that economic growth is reviving, at least in the United States, West Germany, Britain and Japan.

There is even basic agreement among the seven participants about the need to provide assistance to the developing countries, especially heavily indebted third-world nations.

The Longer-Term Problems

But a look back at the earlier conferences indicates that the seven nations will have difficulty in coming to grips with their fundamental long-term problems. This meeting, like most of its predecessors, is likely to focus on immediate issues, often reflecting the day-to-day political problems of the participants.

"Since 1975, we have been whipsawed from one crisis to another, and that is unlikely to change," said Jay N. Woodworth, vice president of the Bankers Trust Company.

Yet, although there have been no major breakthroughs, it is generally agreed that the meetings are useful. Anthony M. Solomon, for example, who is president of the Federal Reserve Bank of New York, says that the talks frequently have strengthened the resolve of the world leaders to avoid protectionist policies, and the "heavy glare of media attention" helps focus attention on major economic issues.

Although energy has been a common thread, the seven heads of government have avoided a direct confrontation with the Organization of Petroleum Exporting Countries.

The meetings, in fact, were made possible only because the United States, under President Gerald R. Ford, gave in to French demands and abandoned its confrontational attitude toward OPEC. Only then did President Valéry Giscard d'Estaing call the first conference, which was held in 1975 at Rambouillet, near Paris.

The concept underlying the meetings has been that there is a need for harmonization of economic policy among the major nations. At Ottawa and Versailles, however, President Reagan seemed to have taken a different view: that his first responsibility was to restore the United States economy to health. Over the long term, in this view, an economically healthy America would lead to an economically healthy world.

Mr. Reagan's attitude may be different at the Williamsburg meeting.

Economic Summit Meetings — At a Glance

1975 **Rambouillet, France** — The first time Presidents and prime ministers gathered for multilateral discussions of economic problems. The leaders rejected any return to fixed exchange rates, but agreed to counteract "disorderly market conditions or erratic fluctuations in exchange rates." After the conference, however, there was sharp bickering among the countries about how far they were committed to individual action.

1976 **Dorado Beach, P. R.** — Monetary cooperation took a back seat to the problem of reducing inflation. At issue was how to reduce unemployment without creating a new wave of inflation. There was also an agreement to explore the establishment of a multinational credit facility to help developing nations. World economic growth in the following year was minimal.

1977 **London** — The first summit meeting for the Carter Administration marked the quick failure of the "Locomotive Theory." President Carter's hope was to prompt rapid growth in the U.S., West Germany and Japan, which would act as a locomotive to pull the world economy to a recovery. Some expansionary steps were taken, but actual economic growth the following year fell below expectations.

1978 **Bonn** — After much negotiating, the participants agreed to a diverse set of goals for each country. Germany agreed to a modest reflation, in return for U.S. efforts to reduce dependence on foreign oil and to bring down inflation. Canada and France agreed to stimulate their economies, while Britain and Italy concentrated on reducing inflation and Japan agreed to reduce exports. There was also broad agreement on the reduction of trade barriers.

1979 **Tokyo** — Energy dominated the talks when the Organization of Petroleum Exporting Countries announced a 50 percent increase in oil prices the day before the meeting. France and the U.S. joined forces to urge a general reduction in oil imports through 1985, which was accepted. But the increased supply of oil that followed, combined with the recession, made the stringent import limits seem not very stringent.

1980 **Venice** — Inflation was declared the "immediate top priority." But energy remained the central issue, with a number of global policies agreed upon, including the development of alternative fuels. Nonetheless, specifics were lacking. Helmut Schmidt of Germany said later that much of the conference was taken up by political issues, not economics.

1981 **Ottawa** — Many of the leaders were new — to their jobs and to each other. So this summit meeting, President Reagan's first, was a get-acquainted session, and few decisions were made. There were also major divisions: While Britain and the United States sought low, steady growth rates in the money supply, France was headed into a new round of deficit spending. The nations agreed to substantive North-South discussions, but disagreed on the level of aid to less developed nations.

1982 **Versailles, France** — The agenda was dominated by two issues: monetary stability and the Reagan Administration's effort to encourage the use of economic sanctions against the Soviet Union for political leverage. Discussions yielded ambiguous results. A study of the need for government intervention in currency markets was begun, but the participants later bickered over who was at fault for continuing monetary disorder.

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Also attached: article on "Economic Summitry" by George DeMenil and Anthony M. Solomon. Council on Foreign Relations, Inc.

Efforts have been made to eliminate tensions over such emotion-charged issues as East-West trade. There even seems to be a consensus on the need for more aid to developing countries, especially in Latin America.

Following are synopses of the previous economic summit conferences:

Rambouillet, France
Nov. 15-17, 1975

The first meeting was marked by a spirit of harmony. President Giscard d'Estaing and Chancellor Helmut Schmidt had had a close working relationship as finance ministers of France and Germany. And President Ford, trying to bring the United States out of the Watergate era, was eager to establish warm relations.

The similarities between the first meeting and the one this weekend are striking. Like today, recession was then the major concern of the participants, even though unemployment was half of today's level.

The first conference came during the worst business slump since the end of World War II, and there was widespread fear in Europe that a deepening recession could lead to political disruption and war.

The top priority at Rambouillet, thus, was economic recovery. But there were other themes.

For example, France agreed to accept the concept of floating exchange rates. But it was agreed that governments would act to "counter disorderly market conditions or erratic fluctuations in exchange rates." Eventually, however, France and the United States became deeply divided over the interpretation of this.

The participants also renewed their commitments to free trade and set 1977 as the date for completion of the so-called Tokyo Round of trade negotiations to reduce tariffs.

Dorado Beach, P.R.
June 27-28, 1976

With the American, German and French participants facing elections later in the year, there was a strong determination to duplicate the harmony of the 1975 conference. In fact, the meeting in Puerto Rico was dubbed Rambouillet II.

The theme was the need for sustained economic recovery without stimulating inflation. There was also agreement to consider new multinational credit facilities for countries suffering temporary payments problems, a plan aimed at helping Italy and some developing countries.

Little was said, at least publicly, about differences over exchange rate policies or export credits to Communist countries.

London
May 7-8, 1977

In a way, this meeting was a test of the new President, Jimmy Carter.

On economic issues, the focus was on recovery, even though there were clear indications that the 1973-75 recession had ended. Mr. Carter was in an awkward position: Once an ardent advocate of expansionary economic policies, he had recently abandoned his plan for a tax rebate and, at the meeting, he sided with the Germans and Japanese, who favored a cautious approach to growth.

It was agreed that the United States would seek 5.8 percent annual growth, Japan 6.7 percent and Germany 5 percent. There were also agreements to increase aid to the third world.

Bonn
July 16-17, 1978

The highlight of this meeting was European criticism of the weak dollar, of high inflation in the United States and of the apparent lack of an energy policy in Washington. The United States, on the other hand, demanded that Germany and Japan stimulate their economies.

More than any other summit session, the Bonn meeting produced a clearly articulated set of goals, specifying economic growth rates for each nation. The United States also promised to reduce oil imports, to establish a strategic oil reserve and to increase coal production.

Tokyo
June 28-29, 1979

Just before the summit meeting opened, the seven participants were jolted by the "second oil shock" — a 50 percent rise in OPEC oil prices.

Thus, United States energy policy, or the lack of it, again dominated the meetings. President Carter acceded to European demands and pledged to place a ceiling on oil imports. In turn, the Europeans agreed to specific limits on oil imports.

It was also agreed that the United States would allow domestic oil prices to rise to international levels to induce the conservation of energy.

Venice
June 21-23, 1980

The atmosphere was tense, because of both economic and political factors. Relations were especially strained between President Carter and Chancellor Schmidt over policy toward the Soviet Union after the Soviet intervention in Afghanistan.

And, following the oil price increase the previous year, the seven nations shifted their first priority to fighting inflation, even though the world seemed to be entering a new period of recession.

Ottawa
July 20-22, 1981

This was President Reagan's first summit meeting, and he sought to keep a relatively low profile, determined to eliminate inflation in the United States even if that meant well.

The Reagan Administration was far more eager to reach agreement on broad political issues. The President had been pressing the Europeans not to continue their support for the proposed Soviet gas pipeline to Western Europe, and for greater backing for United States policies in Central America and the Middle East.

Although Mr. Reagan did not accomplish much in terms of his political objectives, the announcement at the conclusion of the meeting reflected the conservative tone of American economic policies: expressions of support for reduced public borrowing, acceptance of the role of free markets, promotion of low and stable monetary growth and support for private as well as public capital for developing countries.

Versailles, France
June 5-6, 1982

In the grip of the worst economic slump since World War II, there were few signs that the global recession was approaching an end. Fears were growing that the recession would turn into a depression. Unemployment was expected to worsen. Inflation had slowly begun to decline, but underlying wage trends in France, Canada and Italy remained disturbingly high.

Just as this year, most participants were uncomfortable about large budget deficits in the United States and the relatively high level of American interest rates. But their criticisms were more muted then. And with the exception of France and Canada, which had been following expansionary monetary policies, the leaders agreed with Washington on giving first priority to reducing inflation.

But the Versailles meeting bogged down in matters that were more political than economic. President Reagan tried to get the other leaders to place more economic pressure on the Soviet Union, calling for curbs on subsidized export credits and an end to the construction of a natural gas pipeline from Siberia to Western Europe.

The summit meeting ended in disarray.

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ECONOMIC SUMMITRY

GEORGE DE MENIL
and
ANTHONY M. SOLOMON

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INTRODUCTION

In early 1982, the Council on Foreign Relations invited a group of international economic policy specialists from the United States and elsewhere to exchange views on economic summitry. There had already been seven economic summits, an eighth was planned, and it seemed reasonable to study carefully the impact of the process and future implications. The group included several people with personal experience in helping to organize past summits, a few involved in the preparations for the upcoming Versailles summit, and a number of knowledgeable outside experts. The common denominator was an interest in evaluating the record of past summits and making suggestions for the future.

The chairman of the group was Anthony M. Solomon, President and Chief Executive Officer of the Federal Reserve Bank of New York. As Under Secretary of the Treasury for Monetary Affairs in the Carter Administration, he helped to prepare and attended three summit meetings. The director of the group was George de Menil, a distinguished economist, on leave from his position as Director of the Center for Quantitative and Comparative Economics at the Ecole de Hautes Etudes en Sciences Sociales, in Paris, and a visiting fellow at the Council since the autumn of 1981. The chairman presided over several animated discussions, spaced out over five months, three coming before, and one after, Versailles. There was a wide range of opinions on many of the technical aspects of the summit process—how often they should be held, what countries should attend, the need for a specialized bureaucracy just for preparation and follow-through, the desirability of comminiqués, the relationship with the media, etc. Beyond these detailed considerations, however, there was a large measure of general agreement in favor of economic summitry, and a clear sense that summits should continue.

As the meetings progressed, plans were made for Mr. Solomon and Dr. de Menil to put into book form their individual perspectives on the role that meetings of the summit leaders have played and their significance for cooperation among the major industrial states. Surprisingly little had been published before 1982 on this new practice. It seemed useful to produce a succinct synthesis of the record of the past summits and a brief survey of the current debate about the course they should take in the future. The intention was to draw on the experience of members of the study group, but not to provide a rapporteur's account of their diverse views and suggestions. Nor was the purpose to write a definitive history or analysis of the economic events of the last decade or of all the major issues considered at the summits. Instead, each of the authors sought to give his personal views on both the limitations and opportunities of these high-level meetings so as to provide the general public with an overview of a phenomenon which is still largely misunderstood.

Shortly after the Council group completed its study came publication of President Jimmy Carter's memoirs, which contain numerous insights into the issues and personal accounts of the events of the economic summits which he attended.* Similar accounts of the views of the non-American participants were not available. However, Dr. de Menil was able to interview President Valéry Giscard d'Estaing, Chancellor Helmut Schmidt, and Prime Minister Raymond Barre, all of whom played major roles in past summits. Those interviews enriched and enhanced the book. Of course, if time had permitted, recollections and views of other participants would have been sought.

The book begins with an account of the origins and development of the summit process. The first chapter, by Dr. de Menil, focuses on economic events and policy issues facing the leaders of the industrial democracies at the economic summits between 1975 and 1982. The second chapter provides Mr. Solomon's personal evaluation of the record of the summits in dealing with some of these issues. He considers the merit of the substantive achievements as well as the way that the summit process has worked, why certain issues, particularly monetary policy, have been difficult to deal with through this process, and offers some suggestions on how to improve future summits. In the third chapter, Dr. de Menil analyzes two alternative models for summits and considers options for strengthening procedures for consultation and coordination of economic policy outside the summits as well as for streamlining summit meetings themselves. Finally, the fourth chapter includes personal observations by each author on the potential for improved policy harmonization at the Williamsburg summit and beyond.

In the Council's judgment, the duality of authorship adds vitality to this book. Each brings something quite different to the work—one, the personal views and insights of an experienced public servant and participant in past summits, the other, the in-depth, theoretical analysis that a scholar removed from the fray is able to undertake. Two authors inevitably have different styles and, occasionally, different views. Those differences are clearly identified. But they share a common belief in the importance of summitry as a process for helping the major nations make their economic policies more compatible and in the need to have the process of policy coordination strengthened.

We at the Council are pleased to have provided the setting for stimulating discussions of these issues. Our thanks go to the authors for

* Jimmy Carter, *Keeping Faith: Memoirs of a President*, (New York: Bantam Books, November 1982).

their commitment and creativity in preparing this study. We believe it will contribute significantly to the understanding of economic summitry and its contributions to cooperation among the major industrialized nations.

Winston Lord
President
Council on Foreign Relations

Authors' Note

Our thanks go first to the members of the Council Study Group on Economic Summitry without whom this book would not have initially been conceived:

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George de Menil

Anthony M. Solomon

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FROM RAMBOUILLET TO VERSAILLES

George de Menil

In times of international economic instability, when the welfare of their countries appears not to respond to traditional measures, national leaders are characteristically confronted with the choice between two alternative courses of action: persistence in the pursuit of autonomous policies behind protectionist defenses, on the one hand, or the search for greater stability through international agreements with their major trading partners, on the other. The history of the economic summit meetings of the heads of state and government of the major industrial democracies from 1975 through 1982 is a record of efforts to follow the second of these paths.

During the first two decades of the postwar period, international economic order was assured by the Bretton Woods agreements and the stabilizing influence of U.S. hegemony. The pivotal rôle of the United States was perhaps most evident in the international monetary system. The fact that the dollar was the principal reserve currency and the United States the dominant trading partner reduced the danger of cycles of competitive parity changes reflecting conflict between other members of the system. As long as the United States kept its rate of inflation low and managed its own external balance responsibly, stability was assured.

Under the aegis of this system, the economies of the free world experienced unprecedented economic growth. The war-torn countries of Europe and Asia recovered and prospered. Two of the defeated nations, Germany and Japan, developed industrial power rivaling that of the United States. Political integration through the Common Market (EEC) offered the countries of Western Europe the prospect of a voice in international deliberations commensurate with their renewed economic strength.

Paradoxically, the very developments which the Bretton Woods agreements had fostered brought with them new challenges to the stability of the system. Rapid and synchronous growth in the industrial economies stretched the availability of natural resources, notably of oil, and engendered increasing inflationary pressures. The emergence of the German mark and the Japanese yen as potential reserve currencies altered the balance of forces underlying international monetary relations.

Two global crises unfolding between 1971 and 1973 engulfed the old international economic order and demonstrated the need for a new one. The first was the devaluation of the dollar in August 1971 and the subsequent generalization of floating currency rates. The second was the oil shock triggered by the Yom Kippur War in 1973.

THE IMPLICATIONS OF MONETARY DISORDER

The counterpart of European and Japanese growth in the 1960s was a secular decline in the U.S. share of world trade. Imprudent macro-economic management by the Johnson Administration during the Vietnam War exacerbated the underlying trend toward deterioration in the external balance of the United States. The strains which resulted from the failure to pay for the war with higher taxes eventually proved too great for the international monetary system. President Nixon's dramatic devaluation of the dollar in August 1971—forcing as it did a major realignment of currencies[1]—appeared initially to have preserved the system. But inconvertibility of the dollar into gold led eventually to a second devaluation and generalized floating by March 1973.

According to the theoretical models of the advocates of floating rates, in such a system parities are determined by anonymous market forces which compensate automatically for differences in inflation among countries. The system thus preserves the stability of international prices even as it allows individual countries complete freedom in setting their monetary policies and choosing their domestic rates of inflation. In practice, however, generalized floating has proved to be destabilizing, and differences in rates of inflation which have been allowed to persist have tended to grow, even to accelerate. Moreover, since the number of relevant actors is small (the principal ones being the central banks of five major currencies), the forces which determine parities, far from being anonymous, are embedded in a complex political game whose players are highly conscious of their interdependence. Four successive cycles of depreciation and appreciation of the dollar between 1973 and 1982 have dispelled the hope that generalized floating would enhance rather than detract from international stability. Increasingly, observers, many of them initially advocates of floating, have come to the view that new forms of collective management are required to preserve the stability of the system.

RESPONDING TO THE OIL CRISIS

The quadrupling of the price of oil in 1973 abruptly intensified the interdependence of the non-oil-producing countries. More dramatic proof of the common destiny of the industrial democracies could not be

found. The manifest dangers of their mutual dependence on OPEC clearly pointed to the desirability of collective or at least mutually reinforcing policies. As evident as the need for cooperation was, the initial responses of the governments of the principal democracies engendered more acrimony than harmony.

Latent differences in underlying policy with regard to the Middle East had surfaced with a vengeance during the course of the October War. West Germany and several other European countries publicly denied the United States the authorization to use NATO bases on their territory to supply Israel, and similarly protested the global alert with which Washington responded to Moscow's threatened intervention. When the Arab members of OPEC instituted a discriminatory embargo against the United States and the Netherlands for their support of Israel, the principal European governments acquiesced, despite the fact that Common Market agreements committed them to the free movement of goods between the Netherlands and the rest of the Community.

After the conclusion of the Egyptian-Israeli disengagement agreement in January 1974, there might have been reason to expect that tensions between the United States and its allies would subside. But, instead, tensions persisted, and the focus simply changed to differences over economic policies. Some of the measures which European and Japanese governments had adopted in response to the dramatic oil price increases were of a mutually reinforcing character. Notable among these were decisions to pass the rise in oil prices rapidly on to consumers, to increase excise taxes on oil products, and to accelerate nuclear and coal programs. In each of these areas, its allies acted far more decisively and energetically than the United States did. Each barrel of oil thereby saved reduced global demand, and contributed to restraining the world price.

But, in other areas, the industrial democracies acted at cross-purposes. As soon as the hostilities were over, European and Japanese governments scrambled for bilateral deals with the oil-producing states for guaranteed long-term supplies of oil in exchange for industrial goods and arms.

Conflicting conceptions of an appropriate strategy for relations with OPEC and its new-found economic power proved to be a particularly intense source of public acrimony. Washington supported the prompt formation of a common front of the major consuming nations. Europe, more dependent than the United States on OPEC for its oil, distrusted Washington's motives and was skeptical about the strength of U.S. domestic support for international energy-sharing. Reluctant to engage in what might be considered a direct confrontation with OPEC, it preferred a global dialogue, involving producers as well as consumers, and not limited to energy issues alone.

These differences came to a head at the Washington Energy Conference in February 1974. The participants decided to form a new International Energy Agency under the auspices of the OECD to promote collaboration in conservation and sharing. France, represented by Foreign Minister Michel Jobert, objected strenuously and subsequently vetoed EEC participation in the project.

To some extent the difficulties besetting relations between the allies in 1973 and early 1974 were a reflection of several coincident crises of leadership paralyzing the governments of the United States and certain European countries at that time. The most devastating of these was the Watergate scandal, which from early 1973 on progressively engulfed the Nixon presidency and eventually crippled Washington's effectiveness in foreign policy. But, in West Germany, a political scandal also precipitated the fall of Chancellor Willy Brandt in May 1974. France's President Georges Pompidou was physically disabled by an illness which claimed his life in April 1974. In some instances the economic crisis itself had precipitated or intensified political instability. The convergence of oil shortages, rising unemployment, and a protracted coal miners' strike had brought down Edward Heath's government in the United Kingdom in February of the same year.[2]

The conjuncture of internal crises and external disarray was such that by the spring of 1974 it was by no means obvious that the dynamics of acrimony would not prevail over the difficulties of cooperation in the relations of the United States with its allies. Conditions did not favor a search for compatible policies, either by the leaders of the industrial democracies conferring at the summit, or by officials at lower echelons of their governments.

THE SEARCH FOR COMPATIBLE POLICIES

Six months later, the climate had changed dramatically. In the United States, Gerald Ford was applying himself to healing the wounds of Watergate. In West Germany, Helmut Schmidt had succeeded Willy Brandt, and, in France, Valéry Giscard d'Estaing had been elected to replace President Pompidou. These two former finance ministers were to play a major role in the quest for compatible international economic policies in the years that followed. Operating within the framework of the Franco-German entente whose foundations had been laid by de Gaulle and Adenauer, and enhancing it with their personal friendship of long standing, they turned the ties between their two countries into an instrument for leadership within Europe and a factor of strength in relations with America and Japan. A combination of personal authority and constitutional mandate was to secure for each man a longer term of

office than that enjoyed by any other leader of the major industrial democracies during the decade. Giscard d'Estaing was to be president for seven years, and Schmidt, chancellor for eight.

Under the new leadership, America, Europe and Japan entered a period of several years of remarkable rapprochement. The seven-nation economic summits were to be a notable manifestation of the new spirit in relations between the United States and its allies.

The first step was a resolution of the principal European and American differences concerning international energy policy and the functioning of the monetary system. Agreement on energy cooperation was achieved in December 1974.

Following consultations with President Giscard d'Estaing, Chancellor Schmidt proposed a compromise synthesis of the U.S. and European approaches, during a visit to Washington, December 4-7. The industrial countries, he argued, should indeed cooperate on energy conservation and reasonable emergency measures,[3] but they should also engage in a non-confrontational dialogue with the oil-producing nations. The Chancellor endorsed the notion of a three-way conference involving industrial, oil-producing, and other developing nations which the French President had first advocated at a press conference on October 24.[4]

Immediately after Schmidt's visit to Washington, at a European Community summit held in Paris, December 9 and 10, France signaled its willingness to cooperate by dropping its veto of EEC participation in the International Energy Agency (IEA). Broad agreement along the lines suggested by Schmidt was publicly consummated at a meeting between President Ford and President Giscard d'Estaing in Martinique, December 16-17. The two presidents endorsed a phased approach, which was to begin with consumer cooperation, and proceed promptly with a preparatory meeting of oil-consuming and oil-producing nations with a view to organizing a large conference later in the year. Throughout the process the industrial nations would consult actively to ensure that their positions were consistent.[5]

In keeping with the Martinique agreement, the French proceeded to participate in IEA deliberations through the EEC representative, a preliminary producers' and consumers' conference was held in April 1975, and what came to be known as the Conference on International Economic Cooperation convened for the first time in December 1975. This gathering of 27 different OPEC, other Third World and industrialized nations was to meet twice again during the following two years.

The dynamics of give-and-take between the German Chancellor, the French President and the American President, which characterized the negotiations leading up to the Martinique agreement, was a harbinger o the way in which they were to use the summit process in subsequent years.

Agreement having been reached on the parallel pursuit of European and American approaches toward relations with OPEC, the definition of new rules of conduct for the international monetary system remained the single most important economic issue still dividing the United States and Europe—with France as its spokesman.

By the end of 1974, the world's principal trading nations had settled de facto into the continuing practice of generalized floating. However, no official agreement had been reached on the status of these procedures. Floating was still viewed simply "as a useful technique in special circumstances."[6] The need for both a more lasting understanding on the continuing role of floating and clear criteria for its orderly conduct had become pressing.

The French, who persisted in advocating a rapid return to fixed exchange rates, were finding themselves increasingly isolated on the subject. The United States, also originally a defender of stable rates, was progressively becoming an advocate of permanent floating.

The future role of gold in the monetary system was still unsettled. Valued at a virtually meaningless official price at which no transactions were permitted, central bank gold reserves were, in fact, frozen. In the turmoil following the OPEC price increases, the now free market price had soared into the 150-200 dollar range, high above the official 42 dollar level. France and a number of other countries were pressing their partners for an agreement permitting central banks again to exchange gold among themselves and to buy and sell it on the free market. They were willing to forgo return to an officially pegged dollar price of gold—which would have been difficult to achieve in a period of great uncertainty and general floating—in exchange for the freedom to engage in transactions in what was, in many cases, a substantial part of their reserves.

The United States advocated putting an end to the official price of gold and progressively liquidating all official central bank and IMF holdings of the metal. It wanted to see gold eventually disappear as a reserve asset in the system. At a minimum, it was determined to obtain from its partners strict agreements limiting gold purchases to specified ceilings, country by country.

During the course of 1975, Washington moved toward the French position on gold. On the eve of the August 31 meeting of the Interim Committee of the IMF, Treasury Secretary William Simon, together with his counterparts from the four other major reserve countries,[7] engineered a compromise which was essentially a three-part solution to the problem: (1) There would be no further official price of gold; (2) Such

transactions as central banks engaged in would not increase the total volume of official holdings of gold held by the central banks and the IMF; (3) After two years, the agreement would lapse unless renewed, and any party to it could opt out of it.[8] In short, transactions between central banks and with the market were permitted as long as the sum of all purchases by central banks did not exceed sales by the IMF. After two years, that limitation would be allowed to lapse. The United States had clearly accommodated at least the minimum demands of the position voiced by the French.

On the issue of exchange rate adjustment, accommodation went in the opposite direction. At about the time the gold agreement was made final, Washington and Paris began a series of intense negotiations aimed at revising Article IV of the IMF agreements governing exchange rate adjustments.[9] The French dropped their objections to legitimizing floating as a desirable procedure for determining exchange rates, and both parties turned their attention to a new general statement of the responsibility of participants in the international monetary system to pursue national policies consistent with the maintenance of external balance.

The draft of Article IV which eventually emerged authorized floating arrangements, but also emphasized the "obligations of members" to ensure the "orderly underlying conditions that are necessary for financial and economic stability" and "to collaborate with the Fund and other members to assure orderly exchange arrangements . . ."[10]

It further granted the Fund the authority to exercise "surveillance" over members' national policies to ensure their consistency with these objectives. As they negotiated the new text, Washington and Paris also concurred on an additional agreement committing the major currency nations to intervene in exchange markets, in concert with one another, for the purpose of preventing "disorderly market conditions."

This comprehensive accord was publicly announced at Rambouillet, November 17, at the first of the economic summit meetings.

THE NECESSITY FOR A NEW DIALOGUE

Successful resolution of important outstanding differences in the major areas of energy and monetary relations cleared the way for a broader effort to impart new direction to economic relations between the United States, Europe and Japan.

New political energies had to be mobilized to resolve the problems still facing the industrial democracies. Sacrifices were required to preserve free trade and to ensure that the major nations followed compatible strategies in their struggles with inflation and unemployment. In order to justify those sacrifices, it was necessary to reaffirm the community of shared values and interests in whose name they were to be made.

Moreover, the traditional channels for multilateral economic consultations were inadequate to the task. The OECD had developed a useful practice—originated by its predecessor the OEEC—of mutual surveillance of the fiscal and monetary policies of its members. The economics and finance ministers of the member countries met regularly in the OECD's Economic Policy Committee (EPC) and their deputies met in its standing committees to exchange views on macroeconomic policies. The Chairman of the Council of Economic Advisers generally led the U.S. delegation to the EPC. The most important of the standing committees of the EPC was "Working Party Three" whose purpose was to facilitate exchange of views on the balance-of-payments adjustments of member countries. The United States was generally represented at "WP3" meetings by the Undersecretary of the Treasury for Monetary Affairs and a senior Federal Reserve official. The potential for effectiveness of these OECD meetings was, however, circumscribed by the large number of participants and the limits of their political authority.[11]

Multilateral consultation on macroeconomic policy were also conducted under IMF auspices. These were generally but not always related to lending decisions to be taken by the Fund or a related organization. During the 1960s the privileged forum for such discussions had been the meetings of the finance ministers of the nations ("Group of Ten") who had been party to the supplemental balance-of-payments financing arrangement known as the General Agreement to Borrow. The heyday of the influence of the Group of Ten had been the negotiation of the Smithsonian Agreements in Washington in December 1971. But U.S. dissatisfaction with the preponderance of European influence in G-10 contributed to a subsequent waning of its influence.[12] After 1972, the main forum for the discussion of international monetary issues has been principally the Committee of Twenty and its successor, the Interim Committee—two groups whose constituency roughly paralleled that of the Executive Board of the Fund. In practice, many major decisions were probably initiated in secret, informal meetings of finance ministers and, subsequently, of central bankers from the United States, the United Kingdom, France, Germany and Japan. These officials later came to be known as the "Group of Five."[13]

Neither the committees of the OECD nor those of the IMF, nor the informal meetings of the finance ministers of the Group of Five, were suited to generating the political momentum the economic problems of the post-oil-shock period required. What was needed was a new series of consultations at the highest level. The increasingly complex and inter-

locking 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.

The initiative for the next step came from Europe.[14] Again, President Giscard d'Estaing and Chancellor Schmidt worked in tandem. During the European Security Conference meetings in Helsinki, July 30-August 3, 1975, the French President suggested privately that the British, French, German and American leaders hold a summit meeting with the Japanese on monetary matters later in the year. In the course of the following month, the German Chancellor, meeting bilaterally with the U.S. President and British Prime Minister Harold Wilson, urged that they respond positively to the French proposal. President Ford, wary of submitting himself and U.S. economic policies to a chorus of criticism, hesitated at first, and asked George Shultz—who had resigned his position as Secretary of the Treasury in the Nixon Administration and returned to private life during the preceding year—to undertake a mission to Europe to confer with President Giscard d'Estaing, Chancellor Schmidt and Prime Minister Wilson in order to ascertain the prospects for success of such a gathering. Reassured by Shultz's initial report, President Ford gave his support to the initiative, and authorized Shultz to proceed with preparations for the meeting.[15] By then the concept had been broadened from a meeting on monetary matters, to a general discussion of the major economic issues. An informal group of personal representatives of the leaders involved was formed to prepare the way. It consisted of three individuals in private life—Raymond Barre, a professor at the University of Paris; George Shultz, by then president of the Bechtel Corporation; and Wilfred Gut, a German banker—and two officials with close ties to the leaders of their governments—Sir John Hunt and Nobuhiko Ushiba. Working informally and without publicity, these first "sherpas"—as the organizers of summits came to be called—laid the groundwork for the Rambouillet summit meeting in less than two months.[16]

In taking the initiative of calling for a summit meeting of the leaders of the major industrial democracies, President Giscard d'Estaing, in one sense, was simply elevating to a higher level the informal consultations of the Group of Five at the IMF, of which he, Chancellor Schmidt, and former Secretary Shultz had been founding members when they were finance ministers in the early 1970s.

But in another sense, something similar to de Gaulle's notion of a directorate for political coordination among the allies was perhaps lurking in the conceptual frame of reference of Giscard d'Estaing, if not Schmidt. De Gaulle, rejecting the proposition that the harmony of the Western alliance depended on the dominance of the United States, had proposed instead a process of "consultation and cooperation among independent states."[17] Similarly, his views concerning the political organization of Europe—reflected in his ill-fated Fouchet proposals for frequent regular meetings to promote coordination of European foreign policies[18]—balanced a respect for national sovereignty with the requirements of international cooperation.

Giscard d'Estaing and Schmidt also had, close at home, the example of meetings at the summit of the leaders of the EEC. Fourteen years after the failure of the Fouchet proposals, the President and the Chancellor agreed, at the EEC Summit in Paris, December 1974, to a proposal, very much resembling the Fouchet plan, to increase the frequency and regularity of European summit meetings. The nine heads of state and government were henceforth to meet three times a year in the Council of Europe, the chairmanship and secretariat of which rotates among the member countries every six months.

THE LAUNCHING OF THE SUMMIT PROCESS— RAMBOUILLET AND PUERTO RICO

The importance of the meeting at the Chateau de Rambouillet, November 15-17, 1975, of Presidents Ford and Giscard d'Estaing, Chancellor Schmidt, and Prime Ministers Takeo Miki, Aldo Moro and Harold Wilson exceeds the significance of the monetary agreement announced on that occasion.[19] Never before had presidents and prime ministers met multilaterally to discuss economic matters. From the Bretton Woods conference in 1945 to the Smithsonian Meeting in 1971, delegations to multilateral economic negotiations had been led by finance ministers and central bank officials. The role of presidents had been limited to occasionally paving the way, as Nixon and Pompidou had done in the Azores, a few months before the Smithsonian Meeting.

Thus the presence together at Rambouillet of the heads of state and government of the six largest industrial democracies carried much symbolic significance. It was a tangible demonstration of what President Ford called "a new spirit, a spirit of cooperation and confidence stemming from a deeper understanding of our common destiny and our joint conviction that free peoples can master their future."[20]

During their three days of meetings, the six leaders conducted a broad review of the international economic situation. The discussions were launched with a sequence of initial presentations by each participant on one of six major problem areas: monetary cooperation, macroeconomic

management, trade, East-West relations, energy, an relations.

The most notable of their agreements was that c management of exchange rates. The joint communiqué of the note of the "rapprochement . . . between the views of the U.S. and Fra on the need for stability that the reform of the international monetary system must promote,"[21] and endorsed ratification at the next meeting of the Interim Committee of the IMF, January of the following year in Jamaica, of the Franco-American draft of the language in the Articles of Agreement of the Fund concerning exchange rate adjustment. Meeting simultaneously, the finance ministers of the Six, led by Treasury Secretary William Simon and French Finance Minister Jean-Pierre Fourcade, signed an agreement which remained unpublished, but which, in the words of the summit communiqué, committed their monetary authorities "to act to counter disorderly market conditions or erratic fluctuations in exchange rates." Though differences were to arise later over the meaning of this commitment, the overall monetary package paved the way for subsequent developments in the international monetary system. Seven years later, the new procedures for multilateral surveillance agreed to at the Versailles summit were to constitute a further step along the course originally charted at Rambouillet.

The second major issue on which the Six jointly endorsed a common position was the strengthening of the open trading system. Their agreement had two parts. The first part was emphatic support for the Tokyo Round of trade negotiations. Resisting minimalist approaches, the communiqué called for "the maximum possible level of trade liberalization" and "completion of the negotiations" within two years. The Tokyo Round negotiations in fact continued for three-and-a-half more years. But the political endorsement which the presidents and prime ministers gave to the process at Rambouillet, and which they and their successors were to repeat and intensify in subsequent summits, was to prove an important factor in bringing those negotiations eventually to a successful conclusion. The second part of the free trade agreements reached at Rambouillet was a reaffirmation by the Six of the "principles of the OECD pledge" and a general commitment to avoid "resorting to measures by which they could try to solve their problems at the expense of others." The trade pledge was a declaration signed by the 24 members of the OECD in May 1974 in which they mutually agreed to avoid new trade restrictions.

The reaffirmation of the OECD pledge, which was also to prove a repeated leitmotif of subsequent summits, is generally considered to have strengthened the resistance of the governments of the summit countries to protectionist pressures. The limited character of selective controls of imports of certain textiles, clothing and shoes imposed by the British government one month after the Rambouillet summit is sometimes pointed to as an example of the influence of the pledge and its reaffirmation by the summit countries. Throughout the summer and fall, dramatic deterioration of Britain's trade balance had generated considerable pressure from the left wing of the Labour Party for the Wilson government to implement import restrictions. The most extreme proposals were for comprehensive tariffs and quotas on a broad array of industrial goods. Prime Minister Wilson had successfully warded off those suggestions by the time of the Rambouillet summit, but he was still being pressed for restrictions on a list of major, sensitive items that included automobiles and television sets. The selective import controls Wilson's government subsequently announced on December 17, 1975, affected only certain textiles and clothing from Spain and Portugal and shoes from Eastern Europe. Pressure from the European Community and the United States for the British government to uphold the spirit of the Rambouillet communiqué is credited with some of the responsibility for the government's decision to hold down the scope of these restrictions.[22]

The year after Rambouillet, President Ford hosted another summit meeting in Puerto Rico. Announced only a month before it convened, this second summit was less ambitious than the Rambouillet gathering. It was intended to be an occasion for general discussion by the participants of their "common aim" of "avoiding a new wave of inflation." Whereas prior to Rambouillet the French and British had been quietly urging the United States to reflate more vigorously, all participants arrived at the Dorado Beach more or less in agreement about the high priority to be given to reducing inflation. The communiqué, which led the *San Juan Star* to announce in a headline, "Summit Leaders Endorse Ford's Economic Policy," reinforced this pre-existing consensus.[23]

In each subsequent year, a different country has invited its summit partners[24] to attend another meeting on its soil: London (1977), Bonn (1978), Tokyo (1979), Venice (1980), and Ottawa (1981). In 1982, a new cycle began, with the French again as the hosts, this time at Versailles. The 1983 summit is to be held in the United States at Colonial Williamsburg. In each case, the host has acted as unofficial chairman of the meeting. The emphasis has varied from year to year, but much of the focus has concerned the main topics at Rambouillet—macroeconomic management, trade, East-West relations, energy, and North-South relations. Monetary cooperation, the trademark of Rambouillet, is a subject that over the ensuing years has remained largely notable for its omission.

THE LOCOMOTIVE THEORY

When the Carter Administration came into office in January 1977, it arrived with a comprehensive strategy on international economic problems. President Jimmy Carter, Vice-President Mondale, National Security Adviser Zbigniew Brzezinski, Secretary of State Cyrus Vance, Secretary of Defense Harold Brown, and Secretary of the Treasury Michael Blumenthal, as well as seven sub-cabinet officials of the new government, were all recent members of the Trilateral Commission,[25] a private unofficial body dedicated to promoting better coordination of the economic policies of the nations of North America, Western Europe and Japan. Many members of the Commission, including several of those who entered the new Administration, placed high priority on restructuring international economic relations around new, strengthened versions of the International Monetary Fund, the World Bank and the GATT.[26] They perceived the industrial democracies of the trilateral region as the critical actors on whom rested the responsibility for carrying out its global reform program.

Upon coming to office President Jimmy Carter very naturally seized on the idea of an economic summit as a means to advance his international objectives and quickly endorsed the idea of an early meeting. During the four years that followed, he was to demonstrate a commitment to the summits that substantially enhanced their potential for effectiveness. Though observers criticize some of the policies he advocated, most agree that it was during the period of his Administration that summitry became the process that it is now.

Preoccupation with the weakness of worldwide recovery from the 1975 recession led President Carter to place primary emphasis in his short-run macroeconomic program on the promotion of global economic expansion. Specifically, his Administration became an advocate of the "locomotive theory," which called for an asymmetric mix of different policies in countries with balance-of-payments surpluses and deficits.[27] The argument was that the large current account deficits of the weakest industrial countries acted as a constraint on world economic recovery, and that the way to loosen that constraint was for the stronger, surplus countries to expand differentially and accept a larger share of the total OECD deficit. To be specific, Germany and Japan should join the United States in a joint program of budgetary expansion so that the three together would act as "locomotives" for world recovery.[28]

In the first days of his Administration, President Carter dispatched Vice President Mondale and Under Secretary of State for Economic Affairs Richard Cooper to Bonn, London, Paris, Rome and Tokyo to generate support for this strategy. The Germans and the Japanese, wary of kindling additional inflationary pressures, rejected the U.S. call for supplementary expansionary measures.

The London Summit. The first summit meeting of President Carter with the other leaders of the Seven, held in London, May 7 and 8, 1977, proved a disappointment to U.S. policy makers. Washington was unable to obtain agreement on additional expansionary measures from its allies. The strength of the Administration's argument had been weakened a few days before the summit convened when it announced a cut-back of some of its own planned budgetary stimulus. (A scheduled rebate of $50 per taxpayer was cancelled.)

At the summit, the participants were willing to go no further than jointly to commit themselves to realizing their official targets for real GNP growth in 1977 (6.7% in Japan, 5.8% in the United States, and 5.0% in Germany). The meaning of that commitment was questionable, since the year was by then almost half over, and it was highly improbable that any economic measures could still have altered 1977 growth rates. As it happened, during the following months the world economy weakened further, and actual growth fell below the official forecasts. The Japanese and German governments did implement additional expansionary measures in September, but they had a minimal effect on actual real GNP growth that year (5.4% in Japan, 2.6% in Germany, and 5.3% in the United States).[29]

The image of the London summit was further tarnished by disagreement over the development and sale of nuclear breeder reactors. In a reversal of previous American policy, the Carter Administration had stopped the U.S. breeder reactor program and was putting pressure on France and Germany to cancel sales of breeder reactors to Pakistan and Brazil. France and Germany rejected the U.S. insistence on new safeguards against proliferation and expressed anxiety, unofficially, lest the United States interrupt its supplies of uranium to Europe. At the summit the issue was shelved and a technical group asked to make a study of "terms of reference for international fuel cycle evaluation."[30]

The major positive achievement of the London summit was a reaffirmation of the commitment of the Seven to a prompt and positive resolution of the Tokyo Round of trade negotiations. Launched at a ministerial meeting of the GATT in Tokyo in September 1973, when economic activity was expanding rapidly worldwide, these negotiations had already lasted a year longer than the Kennedy Round and were still far from successful completion. The recession of 1975 and the weakness of the subsequent recovery had hardened the natural resistance to further trade liberalization. Important differences remained to be resolved between the European Community and the United States concerning, among other things, the scope of the negotiations, the relative emphasis to be placed on cutting tariffs versus harmonizing tariffs, and the importance of reducing non-tariff barriers. The communiqué affirmed undifferentiated support for the major objectives of both the Europeans and the Americans and called upon the negotiators to achieve substantial progress during the remainder of the year. Henry Owen, President Carter's personal representative in the preparations for the London summit has written, "Without this high-level agreement on goals and timing, the Multilateral Trade Negotiations would almost certainly not have been concluded successfully. . ."[31]

The Bonn Summit. The relative weakness of growth in Europe and Japan in 1977 intensified the pressure for reflation in 1978 on the part of the countries with current account surpluses and low rates of inflation—namely, Germany and Japan. The United States, which had come closer to reaching its growth target in 1977 and was experiencing accelerating inflation, an increasing oil deficit, and substantial depreciatoin of the dollar in the first half of 1978, was under increasing international pressure to enact a comprehensive energy policy. The President's program, which called for decontrol of the price of natural gas, and various incentives to conserve oil and other forms of energy, was blocked in Congress. Even that did not call for the one measure which all the other industrial nations had taken within months of the first oil shock—raising the price of oil internally to the world market level.

The months which preceded the Bonn summit saw intense and sometimes strained discussions take place between the summit countries over their respective macroeconomic and energy policies. The negotiations between Washington and Bonn were at the center of this dialogue. In January of 1978 Chancellor Schmidt issued an invitation to his partners to attend a summit in Germany. President Carter indicated his interest but conditioned his approval of a specific date on the results of a preparatory meeting in Bonn at the end of March at which he was represented by Henry Owen, whom he had just designated as "Special Representative for Summit Preparations" with the rank of ambassador.[32] Carter and his international economic advisers (Under Secretary of State Richard Cooper, Ambassador Owen, Chairman of the Council of Economic Advisers Charles Schultze, and Under Secretary of the Treasury for Monetary Affairs, Anthony Solomon) were intent on convincing the Germans and the Japanese of the necessity for additional reflation. Their efforts at persuasion were focused more on Germany than on Japan. The expansionary budgetary and monetary measures taken by the Japanese government in the fall of 1977 were showing early signs of generating a rapid growth of domestic demand in that country.

But the budgetary stimulus enacted in Germany at about the same time was proving less effective than had been expected.[33]

Washington enjoyed the active support of London in its campaign for German reflation. During a visit to the United States before the end of March, Prime Minister James Callaghan called for a "plan of action" featuring demand stimulus on the part of the stronger industrial countries enjoying balance-of-payments surpluses and low rates of inflation.[34]

Chancellor Schmidt, who was himself under domestic pressure to propose additional reflationary measures, provided sufficient assurances to warrant proceeding with preparations for the summit, but demanded compensating concessions from the United States in the field of energy. Perceiving that he was in a position of bargaining strength, Schmidt suggested that he would consider additional budgetary stimulus, if Washington would be more forceful in its efforts to enact a comprehensive energy program. He was, just before the summit convened, to describe the implied trade-off in the following words to an American reporter: "Governments of some participating countries believe that they have a recipe for me and for Germany. By way of compromise, if others would bring about some sacrifices or tackle some domestic hardships, I would be ready to do the same in my country."[35] In calling for greater oil conservation in the United States, Schmidt had the unanimous support of all the other summit participants in Europe and Japan.

As the months passed, Bonn and Washington moved toward a compromise. The heart of the agreement that emerged was a commitment by the Germans to reflate and by the Americans to reduce inflation and step up their efforts to conserve oil. International pressure played a significant part in convincing President Carter that the time had come to push for decontrol of the price of oil. Carter recalls in his memoirs that he held an important meeting with Congressional leaders a month before the summit, at which "I got all of those who would speak out to advise me . . . to tell our partners at the Bonn economic summit meeting that if Congress did not act to raise the domestic price up to the world level by 1980, then I would act administratively."[36]

The other summit countries were also to contribute to the program, each in a different way. Italy and the United Kingdom were to emphasize reducing their inflation rates. Canada and France were to enact modest additional stimulus. Japan was to limit the volume of its exports in 1978 to their level in 1977.[37] Some aspects of the package, though not all, corresponded to a "program for concerted action" originally proposed by the Secretariat of the OECD in February and approved, in modified form, at a ministerial meeting of the organization's Economic Policy Committee in June.[38]

Final agreement on some of the most important, specific aspects of the program was not reached until the summit meeting itself, July 16-17. On the first day, President Carter proposed to deregulate the price of domestic oil in the United States, but did not initially set a time limit for this action. Chancellor Schmidt proposed, in turn, to submit a program of budgetary expansion to the Bundestag, but did not commit himself to the magnitude of the program. Each side objected to the imprecise, qualitative nature of the proposal advanced by the other. It was not until the second day that agreement was reached on the end of 1980 as the ultimate delay for freeing the price of oil and on 1% of German GNP as the measure of the stimulus package Schmidt was to propose. In the final communiqué each country's commitment was expressed in precise quantitative terms. (See Appendix.)

Some of the joint commitments were to increased, multilateral and national development aid. The Seven agreed, notably, to support the efforts of the World Bank and the three regional banks to increase the resources at their disposal for soft loans. The Japanese government also announced that it would double its official development assistance program in three years.

The Bonn summit was further responsible for a major breakthrough in the trade area, which was actually achieved before the meeting convened. After the London summit, armed with its endorsement of the Tokyo Round of multilateral trade negotiations, Ambassador Robert S. Strauss, the chief U.S. negotiator, proceeded to set the Bonn meeting as a deadline for reaching an agreement. He threatened to take all the outstanding issues into the summit meeting at Bonn if they had not been resolved by then. He reasoned correctly that none of the negotiators wanted to take the risk of seeing their heads of state or government become involved in the specific details of those negotiations. The threat was supported by a commitment to devote one of the sessions at the Bonn summit to a discussion of the status of the Tokyo Round negotiations.

As the deadline approached, Tokyo Round negotiators from the Seven and other participating countries agreed to a compromise formula for determining tariff reductions and made substantial headway on the reduction of tariff and non-tariff obstacles in specific sectors. Compromises were made within governments as well as between governments. In the United Kingdom, the pressure of the impending summit helped Prime Minister James Callaghan to overcome an important anti-liberalization faction, backed by the left wing of the Labor Party, within his government.

Most outstanding issues were finally resolved in a major negotiating session in Geneva three days before the Bonn summit, which produced agreement on a Framework of Understanding for completion of the negotiations. "You can't judge summits just by what happens at the summit itself," Richard Cooper, then the U.S. Under Secretary of State for Economic Affairs commented several years later. "Summit meetings also serve as an important focal point for other negotiations."[39]

After the Geneva meeting, Ambassador Strauss decided that sufficient progress had been achieved for the United States not to take the few remaining issues into the summit. Instead he pushed to have the special summit session on trade devoted to a report by the trade negotiators on what they had achieved, and to agreement by the leaders on a call for prompt finalization of the process. The communiqué set December 15 as the deadline for completion of the negotiations.[40]

At the summit, each of the trade negotiators from the seven countries took the place of his government's finance or foreign minister for the duration of the special session devoted to trade. At one point, one of the political leaders present is reported to have asked Ambassador Strauss whether the trade negotiators were not taking too much credit for themselves. Strauss' characteristic reply was: "As Dizzy Dean, a famous American baseball player, once said, 'If you done it, it ain't boasting!' "

One of the notable merits of the whole program of national and multinational commitments made at Bonn was that it was well-balanced politically. No participant had imposed his priorities unilaterally on the others. Each government contributed to the overall outcome in a manner that respected the specific circumstances of its own economy.

Moreover, each of the major participating governments fulfilled its commitments. One month after the summit, Chancellor Schmidt successfully passed a budgetary package of the announced magnitude through the *Bundestag*. Japanese exports remained under the previous year's level, and Tokyo substantially increased its foreign aid. Despite powerful domestic opposition, President Carter eventually ordered a phasing-out of domestic oil price controls in the United States, to begin in June of the following year.[41]

Unfortunately, the merits of the program were rapidly overshadowed by external events. Six months after the summit, the Shah was overthrown by revolution in Iran, and the world economy thrown into disarray by the second major oil shock in five years. Trade deficits deepened and inflation accelerated in all of the non-oil-producing economies of the free world. Germany itself experienced in 1979 its first current account deficit since 1965 and saw its inflation rate rise above 5%.

The misfortunes of the two following years gave the Bonn summit a

bad name. Attention came to be riveted in Germany and elsewhere on that country's expansionary budget package, to the exclusion of the program's other elements. Much of the blame for the country's deficit and increased inflation was attributed to the expansionary measures. Political leaders claimed that Germany had been made the victim of international pressures, and vowed that they would never allow this to happen again.[42] Some of this reaction was perhaps a reflection of nostalgia for the more favorable circumstances under which Germany had confronted the first oil shock.[43]

On a more subtle level, other critics in Germany and elsewhere argued that the budgetary stimulus enacted by Bonn in the summer of 1978 was "a prime example of the classic 'fine tuning' mistake of organizing a reflation when none was required."[44] According to this view, autonomous forces were already producing a recovery and a readjusment of trade disequilibria, and would have done so without the benefit of the Bonn program, if the second oil shock had not intervened.

Whether one judges the reflationary measures undertaken by the German government in the summer of 1978 favorably or unfavorably, one must not lose sight of the fact that the agreements also included decontrol of the price of oil in the United States. Implementation of some parts of the program but not others would not have been politically feasible. The benefits to the international community of the decontrol of oil in the United States should weigh in the balance against the reservations of the skeptics regarding the German budgetary measures.[45]

On a more general level, whatever the merits of its substance, the agreement reached at Bonn stands as a striking example of the use of the summit process to promote the coordination of economic policies. In 1978 the emphasis was on fiscal policies and energy. But the same political give-and-take could also be used to achieve greater harmonization of monetary policies. The political moral of the exercise is perhaps more profound than its economic lessons. And that is that, under appropriate circumstances, sovereign nations can, through compensating concessions, achieve a global outcome which is more favorable to each than the best that it could achieve on its own.

In an interview with the author in February 1983, Chancellor Schmidt, who had for several years after the second oil shock been a critic of the Bonn agreements, returned to his original support for the program: "The Bonn summit was successful because all the participants had a real desire to achieve concrete results. That required give-and-take. Any negotiation does, whether it be with the Soviet Union or domestically between different political groups. At Bonn, as host, I made sure that each government contributed to the total package."[46]

The Iranian revolution and the second oil shock cast a long shadow over the economic summits of Tokyo (1979) and Venice (1980). The doubling of the price of crude oil during the course of 1979, and the ensuing worldwide economic disruption, focused the attention of policy makers in every major country on energy conservation and the reduction of oil imports.

The day before the Seven met in Tokyo, June 27, 1979, OPEC increased the price of crude oil by another 50%. The reaction of the leaders of the industrial democracies was a far cry from the response of their predecessors to the first oil shock five-and-a-half years earlier. They did not hesitate to issue a forceful statement "deploring the decisions taken by the recent OPEC conference."[47] More importantly, the Seven proceeded to hammer out a country-by-country agreement on quantitative targets for oil imports in 1979, 1980 and 1985.

It was the French government which had taken the initiative two months earlier of calling for an international program to conserve oil. As the price of crude oil spiraled upward on the spot market in Rotterdam and successive waves of official price increases followed, Paris responded more firmly and decisively than it had in 1974. Internally, it implemented stringent national conservation measures, and, internationally, it called for concerted action by its industrial allies. Specifically, it advocated quantitative targets for oil imports, coordination of emergency stockpiling programs, and joint control of prices on the spot market in Rotterdam. It also called, with all its partners in Europe and Japan, on the United States to eliminate the "entitlement" subsidy which it was then paying to domestic companies for crude oil purchased on the world market, particularly a special entitlement for Caribbean-based oil, recently introduced.[48]

During a two-day visit to Washington, June 4 and 5, 1979, France's Foreign Minister Jean François-Poncet urged President Carter and other U.S. officials to support a coordinated program to reduce the industrial democracies' dependence on imported oil. He also argued that "the West will be committing energy suicide" if it failed to control oil prices on the spot market in Rotterdam.[49] The President, who had recently announced his decision to decontrol the price of oil administratively, and had proposed the second phase of his legislative energy program, responded favorably. The Foreign Minister was given assurances that major portions of the French initiative coincided with Washington's own objectives for the Tokyo summit.

On June 20 the French government announced its own national targets for energy consumption and oil imports in 1980 and 1985, and put into effect a number of measures to implement these targets, notably a program to ration purchases of home heating oil. A meeting of the European Council, which convened the following day in Strasbourg, was to produce the first step (and the Tokyo summit the second) in a phased implementation of France's international plan. Strasbourg proved to be a relative setback. The EEC leaders agreed to monitor but not to control sales on the Rotterdam market, and refused to commit themselves to prompt, individual national targets for oil imports. Instead they announced a quantitative ceiling on Community-wide imports in 1985. The unstated conjecture on everyone's mind was that the production of North Sea oil by Britain might allow the EEC to meet this 1985 target without additional saving by other member countries.

At the Tokyo summit, June 28-29, President Carter and President Giscard d'Estaing were able, by joining forces, to obtain more stringent commitments from the Seven than the French President had obtained from the EEC. The first day of the meeting, President Giscard d'Estaing formed a common front with Prime Minister Giulio Andreotti, Chancellor Helmut Schmidt, Prime Minister Margaret Thatcher, and Roy Jenkins, President of the EEC Commission, in support of the Strasbourg decision. Though relatively isolated, President Carter pressed nonetheless for prompt, individual national targets. Specifically, he advocated that each country set quantitative ceilings for its oil imports in 1979, 1980 and 1985. He wrote in his diary that evening that this "was one of the worst days of my diplomatic life."[50]

The second day, President Giscard d'Estaing broke the EEC front and joined President Carter in support of individual country targets. Together they were able to convince Prime Ministers Masayoshi Ohira, and Joe Clark, together with the other European leaders, to accept the greater stringency implicit in the more specific objectives. The compromise, which saved face for the EEC, was that, whereas Canada, Japan, and the United States were to announce their ceilings at the summit itself, the four European countries were to agree to arrive at comparable individual ceilings in concert with their EEC partners at the first reasonable opportunity.

The final communiqué of the Tokyo summit also recorded agreement in a number of other energy-related areas. The Seven accepted the obligation to consult before taking major decisions regarding purchases of oil for government stockpiles. In view of the rising pressure on prices, the United States specifically committed itself to stop filling its Strategic Petroleum Reserve. The Seven agreed in principle to set up a "register of international oil transactions" and to improve their procedures for gathering information on the prices of imported crude and on oil company profits. The United States concurred in the necessity to "minimize and finally eliminate" entitlement programs.[51] By the fall of 1979, the special Caribbean entitlements had been discontinued. Full dismantlement of all elements of the entitlement program had to await final deregulation of the price of domestic oil. Finally, the Seven called for increased reliance on coal and nuclear power, and cooperation in the development of new, alternative energy technologies.

A notable feature of the Tokyo agreements was the institution of a quasi-automatic mechanism for following up on summit commitments. During the year which followed the summit, a special, high-level group of representatives from the Seven met almost monthly to review their countries' individual and joint progress in the achievement of the energy targets and objectives which had been set. The group met once at the ministerial level in October 1979. A hotline was established to facilitate rapid communications when conditions required urgent consultation. The International Energy Agency, which cooperated extensively with this special summit group, was given the responsibility for the technical monitoring of the performance of each of the seven countries.

The oil imports of the Seven proved to be roughly consistent with their targets in 1979. But in 1980 and in subsequent years, partly because of the success of the conservation measures undertaken, but partly also because of the depth of the ensuing recession, oil imports fell well below the announced targets. On a number of occasions the special follow-up group attempted to revise the targets downward, in order to maintain their original degree of stringency. The last of these coincided with a general review of OECD oil import targets by the International Energy Agency at the outbreak of the Iran-Iraq war in September 1980. Partly because of the increasingly depressed conditions of world oil demand, the leaders of the Seven did not make the political commitment that would have been required for implementation, and the recommendations became a dead letter. The follow-up group itself was allowed to lapse after 1981.

The greatest, lasting importance of the Tokyo summit was the demonstration of political commitment that the Seven made.[52] Given the pressure of events, a declaration of intentions such as the one that was made was as much as could be expected at the time. The logical sequel was for the Seven to discuss more concrete and effective measures to promote oil conservation at their next summit meeting in Venice, June 21-23, 1980.

Energy, in fact, remained the central issue on the economic agenda at Venice, and the emphasis did shift from targets to policies. Twelve of the twenty paragraphs of the particularly lengthy communiqué issued at the

end of the meeting concern energy. Several of them go into considerable detail. (One, for example, prohibits the construction of new base-load oil-fired electricity-generating stations.) In one sense, the switch from targets to policies constituted a step in the direction of greater effectiveness. But that potential was dissipated by the fact that most of the agreements were global rather than country-specific and qualitative rather than quantitative.

The credibility of the exercise was further undermined by the mounting difficulties of the Carter Administration both domestically and internationally. The crisis created by the seizure of hostages eight months earlier at the U.S. Embassy in Teheran had come to dominate the last year of an increasingly beleaguered presidency. The Soviet invasion of Afghanistan seven months before the summit, by bringing détente to a chilling halt, had reopened the Pandora's box of conflicting allied perceptions of relations with the Communist Bloc. In the minds of many of the presidents and prime ministers who were there, Venice is, in fact, remembered more for the political discussions they held than for the energy conservation measures they called for in the communiqué.

In the years since 1975, it had increasingly become the practice of the Seven to take advantage of their two-day meetings to hold informal political discussions during the time not taken up by scheduled economic negotiations. Generally, neither the substance of these discussions, nor even the fact that they had occured, was made public at the time. Their importance is only now beginning to be appreciated, thanks to the observations of some of the principals. "You don't realize how much time we spent exchanging views on political issues," Chancellor Helmut Schmidt told the author in the interview cited earlier. "The Middle East, relations with the Soviet Union . . . We didn't mention the discussions we had on these issues in the communiqué, but they were very important. In NATO, there are many members. It is important that the members who bear the greatest responsibility have occasion to meet among themselves and exchange views. Since there cannot be a restricted 'political and security' committee of NATO, the summits have provided an opportunity for these exchanges."

At Venice the tone of these informal political discussions appears to have been acrimonious. President Giscard d'Estaing, returning from a meeting with Chariman Brezhnev in Warsaw, arrived in Venice bearing information, which subsequently appeared to have been partly cosmetic, about partial Soviet troop withdrawals from Afghanistan. Chancellor Schmidt announced his determination to proceed with his planned trip to Moscow. Both visits had been opposed by the United States. In his memoirs, President Jimmy Carter recounts that he and Chancellor

Schmidt had, in addition, two bitter exchanges, during two separate private meetings, concerning the deployment of theater nuclear forces in Germany. At issue was a memorandum the President had sent the Chancellor regarding statements to the press in which Carter felt that Schmidt had backtracked on his commitment to deployment.[53]

Though the Seven finally issued a joint declaration calling for permanent and total Soviet troop withdrawal from Afghanistan and protesting the taking of diplomatic hostages, the summit was, in the end, characterized more by political divisiveness than by economic cooperation.

Nonetheless, taken as a whole, the four summits of President Carter's Administration had established economic summitry as a stable, new process of international consultations. During this period, all the participants came implicitly to accept that these meetings had a recurring, annual character, and increasingly greater attention was devoted to the preparations for the summits.

Presidents Giscard d'Estaing and Ford had entrusted the preparations for Rambouillet to prominent individuals outside of their respective bureaucracies, who acted strictly as their personal representatives. The practice of placing preparations in the hands of individuals who depend directly on their head of state or government and do not owe their authority primarily to rank or position has persisted. However, by the time of the Bonn meeting, all of the "sherpas" were nonetheless members of their respective governments. Moreover, they devoted increasingly more time to coordinating their actions with their foreign and economic ministries. They developed a pattern of meeting three or four times between summits: once in the fall to follow up on decisions taken at the previous summit, twice more in the winter and spring to prepare for the next summit, and once just before the summit to make the communiqués as final as possible. In time, those three or four meetings grew to five or six, and it became common practice for each "sherpa" to be accompanied by one representative from the foreign ministry and another from the finance ministry.[54]

THE SECOND GENERATION

A combination of coincident electoral cycles and convergent political reactions to the dislocations of the second oil shock combined to bring about a major change in the identities and political profiles of the leaders of the Seven at the beginning of the 1980s. The most important of these changes was the election, in November 1980, of Ronald Reagan, carried to office, in part, by a popular surge of resentment at the frustrations of stagflation. Under similar circumstances in the United Kingdom a year

earlier, Margaret Thatcher, leading the Conservative Party to a major victory in national parliamentary election, had herself become Prime Minister. In France, a protest vote fed by economic frustration resulted in the election in May 1981 of a Socialist, François Mitterand, whose domestic political philosophy was diametrically the opposite of President Reagan's. Two years after Ronald Reagan's election, a political malaise generated by continuing economic uncertainties created the context in which Helmut Kohl was able to unseat Helmut Schmidt as Chancellor in the German *Bundestag*. Almost simultaneously, Japanese Prime Minister Zenko Suzuki, operating under a cloud of protests over his economic policies, as well as in the context of a complex internal struggle within his party, announced his intention to resign. Yasuhiro Nakasone was elected his successor in November 1982.

Though these political changes occurred in stages over a three-year period, their impact was already unmistakably evident at the summit meeting which the Seven held in Ottawa, July 20-22, 1981. Five of the leaders at that meeting—Presidents Mitterrand and Reagan, Prime Ministers Giovanni Spadolini and Zenko Suzuki, and Gaston Thorn, President of the EEC Commission—were new to the process.

A change of this magnitude in the collective personality and political vision of the leaders of the Seven was certain to have a profound effect on the direction and effectiveness of their dialogue. The natural position of leadership of the United States makes the character and personal authority of its president a particularly important factor in the relations among the Seven. The broad popular mandate with which President Reagan arrived at Ottawa was thus a major potential asset for effective relations between the United States and its allies. The other new leaders also brought, in varying degrees, similar new political strengths to the process.

The new actors, however, also brought remarkably divergent philosophies to the negotiating table. Ideological views on the efficacy of market forces and the desirability of government intervention ranged from the conservative *laissez-faire* convictions of President Reagan and Prime Minister Thatcher to the socialist, interventionist beliefs of President Mitterand. The divergence of views on the proper objectives and instruments of economic policy was greater than it had ever been since the Yom Kippur War and the first oil shock. The United States and Britain expressed firm commitment to policies of low, steady rates of growth of their money supplies. The new French government committed itself in the weeks preceding the Ottawa summit to a program of deficit spending to promote popular consumption. The divergence of views of the new leaders was such that some observers wondered whether the summit process itself could survive the strains.

The record of two years and two summits in this new phase of the relations of the Seven is marked by the convergence of policies in some areas and the exacerbation of conflict in others. It has been in the area of macroeconomic policy, where initial philosophical differences were among the greatest, that efforts at convergence have been notable. Where differences have persisted—i.e., concerning economic relations with the Soviet Bloc—conflicting perceptions of the fundamental economic and security interests of the alliance are at stake.

INTEREST RATES AGAIN

In most of the industrial democracies, governments responded to the second oil shock with macroeconomic policies that were characteristically more restrictive, and remained restrictive for a longer period of time, than had been the case after the first oil shock. In some cases, restrictive measures were taken in the wake of the electoral changes mentioned above. In others, they preceded these changes by months or even years.

The turning point in the United States was the decision of the Federal Reserve Board, taken in November 1979 under the direction of its new chairman, Paul Volcker, to adopt stringent targets for the growth of monetary aggregates. This policy was maintained and reaffirmed after the election of President Reagan. The severity of the targets and the persistence with which they were followed caused both nominal and real interest rates in the United States to rise to unprecedented heights.[55] The trading partners of the United States—none of whom was yet pursuing a monetary policy quite as stringent as that of the Federal Reserve Board—were forced either to raise their interest rates, or to watch their exchange rates depreciate dramatically. Many governments opted for a mix of higher interest rates and lower parities. All protested that the high interest rates were destroying hopes of recovery, and that the high dollar was both exacerbating internal inflationary pressures and subjecting their countries to a third escalation in the price of oil as expressed in their domestic currencies. At the Ottawa summit, July 20-22, 1980, President Reagan defended U.S. policy, arguing that high interest rates were the temporary cost of necessary reductions in inflation, without which economic recovery would never prove durable. The allies listened, measured President Reagan's resolve, agreed on the priority to be given to bringing down inflation, and collectively concluded that the new policies had to be given more time to bear their fruits.[56] Some of them went home and made some adjustment to Washington's policies that constituted a form of de facto coordination.[57]

Though the debate over interest rates attracted substantial media attention at Ottawa, the summit, in fact, also produced tangible agreements on new procedures for addressing outstanding issues in the areas of North-South relations, East-West trade, and free trade generally.

The first attempt at a new North-South dialogue after the oil shock of 1973 had been the Conference on International Economic Cooperation, which had taken form and been organized roughly simultaneously with the first economic summit of the industrial powers. Launched at a meeting December 16 and 17, 1975, attended by ministers from the 27 participating countries, the Conference had continued its deliberations for two years in working commissions devoted to energy, raw materials and trade, development, and finance. The Conference had ended inconclusively after a conflictual, final minsterial meeting, June 3, 1977. Though the Western industrialized countries had committed themselves to substantial increases in official development aid and had agreed to continue discussing other areas of concern to the developing countries, the developing countries had, nonetheless, rejected repeated Western proposals for initiating a new series of consultations specifically devoted to energy.[58] Since the promotion of this dialogue had been one of the basic objectives of the countries which launched the Conference—notably France, Germany and the United States—that rebuff put a major damper on North-South discussions for several years. The second oil shock and the call in early 1980 for a "program for survival" by an independent international commission on economic development chaired by former Chancellor Willy Brandt generated a new willingness, which became more manifest later in 1980, to revive the North-South dialogue. Modest encouragement was given during the meetings of the United Nations General Assembly in September 1980 to the demands of the developing nations for extensive negotiations under U.N. auspices on the creation of a new international economic order. The United States and most Western countries continued, nonetheless, categorically to refuse the demand of some of the developing countries that the prospective United Nations conference be given authority to mandate changes in the organization and structure of the major, existing international organizations, such as the IMF and the World Bank.

Though the Reagan Administration reacted coolly to the whole notion of "global negotiations" when it first came to office, it took a progressively more flexible position on the issue as it prepared for the Ottawa summit, at which it knew that Canada, the host country, and France and Germany would press for revival of the North-South dialogue. The United States finally agreed to a statement in the Ottawa communiqué in which the Seven affirmed their readiness "to participate in preparations for a mutually acceptable process of global negotiations in circumstances offering the prospect of meaningful progress."[59]

The opening of this door to further dialogue, which can be considered one of the accomplishments of the Ottawa summit, contributed to the success of a summit meeting later in the year of the leaders of 21 selected industrialized and developing countries at Cancún, Mexico. It also made it possible, at Ottawa itself, for the United States to overcome European resistance to a review of East-West trade and a strengthening of COCOM procedures (for screening exports of strategic goods), and to obtain endorsement for new initiatives in the trade area, notably a ministerial meeting of the GATT (finally held in November 1982).[60]

Robert Hormats, U.S. Assistant Secretary of State for Economics and Business Affairs at the time, commented later on the significance of the fact that some North-South dialogue was maintained, even though substantive achievements were difficult to point to. "Among most of the leaders of the Seven, there was a strong feeling of the need to discuss North-South issues at the seven-power summits and with the developing countries. Many really wanted to find more constructive ways of improving relations with the South, though this admittedly proved to be an elusive goal. Unfortunately, the dialogue tended to move too quickly from substance to procedure and thus to get bogged down."[61]

During the year that followed the Ottawa summit, inflation subsided and interest rates began to come down, though more slowly than had been expected. The dollar remained exceptionally high by almost any standards. As the date of the next summit—to be held at Versailles—approached, European leaders voiced increasing criticism of what they considered to be the unbalanced mix of monetary and fiscal policy in the United States. International critics joined the chorus of voices in the U.S. financial community calling for reductions in the federal budget deficits projected for fiscal 1983 through 1985. Officials within the Administration began speaking of the need for some convergence of the anti-inflationary strategies of the Seven.[62]

When the Seven convened at Versailles, June 4-6, 1982, the U.S. Congress was moving slowly toward legislative action to reduce the federal deficit for fiscal 1983, and other forces were at work which were eventually to lead to a temporary loosening of monetary policy by the Federal Reserve Board.[63] But neither process had matured sufficiently for there to be any advanced sign of these developments. Unable to announce concrete achievements, the negotiators preparing the summit focused instead on procedures to encourage the process of convergence and to help avoid future episodes of overshooting.

At Versailles, the Seven committed themselves to "intensify . . .

economic and monetary cooperation" and "work toward a constructive and orderly evolution of the international monetary system by a closer cooperation among the authorities representing the currencies of North America, of Japan, and of the European Community, in pursuing medium-term economic and monetary objectives."[64] This commitment was further developed in a "Statement of International Monetary Undertakings" in which the Seven acknowledged a "joint responsibility to work for greater stability of the world monetary system" through "convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth." To this end the communiqué called for a process of "multilateral . . . surveillance" in "cooperation with the IMF . . ." by the five countries whose currencies determine the value of the SDR (Britain, France, Germany, Japan, and the United States).[65] Meeting separately, the finance ministers of the Seven concluded a parallel agreement to conduct a joint study of the effectiveness of official intervention in currency markets, and to review their policies in the light of the conclusions of the study.

The agreement to study, and therefore implicitly to consider, changes in intervention policy received the most public attention because of its symbolic value, but the institution of new procedures for multilateral macroeconomic surveillance in conjunction with the IMF carried greater promise of addressing the underlying causes of exchange rate divergence. The multilateral character of this new process distinguishes it from the IMF's traditional one-on-one procedures for surveillance of member countries' economic policies. Though the participants may very well be the same, the new meetings also differ from the continuing consultations of the finance ministers and central bank governors in the Group of Five (G5). At Versailles, the leaders of the Seven gave their finance ministers a clear mandate to work toward greater convergence of their macroeconomic policies. The nature and the source of this mandate contrasts with the *ad hoc* and unofficial character of the G5 meetings, which by their nature tend to focus on current problem areas (i.e., the difficulties of sovereign debtors threatened by default), or specifically IMF matters (magnitude and distribution of quota increases, etc.).

Major economic, political and institutional obstacles stand in the way of any endeavor to bring about some degree of convergence of domestic monetary policies among the industrial democracies. In the following chapter, Anthony Solomon points out that, partly because of these difficulties, in the seven years that followed the Rambouillet meeting, neither the summit participants nor their governments or administrations at other levels have made much effort to coordinate their monetary policies. The difficulties remain as great after Versailles as they were before. But a forum for addressing them has been established, and if there is a pragmatic political will to use it, the finance ministers and central bankers who participate in this new surveillance process can begin, in a discreet and pragmatic fashion, to address the problem.

SOVIET CREDITS AND THE PIPELINE DISPUTE

The focus of media attention at Versailles was, however, to be on economic relations with the Soviet Bloc, and not on multilateral surveillance procedures under IMF auspices.[66]

The Soviet strategic build-up, the presence of Cuban forces in Africa, the invasion of Afghanistan, and repression of the Solidarity union in Poland had led to a progressive deterioration in relations between the United States and the Soviet Union. Inevitably, this development had divisive effects on the relations between the United States and its allies. From Yalta to the present, Western Europe, with strong cultural and historical ties to Eastern Europe, has been more reluctant than its protector, the United States, to accept the isolation of the two halves of the continent from one another. During the height of détente, Washington contained the desires of its allies for good relations with the Soviet Bloc by pre-empting them, "getting to Moscow" first.[67] The demise of détente revived a broad range of divisive issues.

After an initial period of unsuccessfully advocating a new tough economic strategy toward the Communist countries, the Reagan Administration sought to prod its allies into support for a more hardline approach through a combination of incentives and threats. The imposition of martial law in Poland in December 1981 provided the occasion. President Reagan's response to the repression of Solidarity was to order an embargo of supplies of equipment for the Siberian gas pipeline, whose construction he had opposed on its own merits since the beginning of his Administration. Though European governments supported his decision in principle, they remained committed to the project, both for its potential contribution to alleviating their countries' energy needs and for the employment and earnings they expected from contracts to build the pipeline. The embargo provided the Administration with an issue which it could use alternatively as a carrot and a stick to support its arguments. The carrot was the prospect that the embargo would be lifted if Washington's allies agreed to new forms of collective restraint, notably concerning credits to the Soviet Bloc. The stick was the threat that Washington would maintain and perhaps broaden the embargo if they refused to tighten the terms and restrict the scope of these credit flows.

Washington's emphasis on credit flows resulted from a combination of economic and political factors. Many of the Soviet Bloc countries, notably Poland, were clearly already overburdened with debts from a strictly economic perspective. The fact that public authorities in a number of European countries were nonetheless continuing to support lending on preferential terms to the Bloc struck the White House as a sign of political weakness and economic laxity. Early in 1982 President Reagan therefore entrusted Under Secretary of State James Buckley with a mission to convince the U.S.'s European allies to agree to a stringent program of rationing of credits to the Soviet Bloc.

Buckley met strong resistance on his several trips to the major European capitals. All rejected the basic premise that economic leverage should be used to obtain political concessions from the Soviet Bloc. All sought rather, with varying degrees of intensity, to preserve their economic relations with the Bloc from the consequences of the deterioration in political relations. They remained as hostile to stringent credit limitations as they were to blocking other economic transactions.

The presidents and prime ministers of the Seven thus arrived at Versailles in fundamental disagreement on economic relations with the Soviet Bloc in general and on what to do about credit flows to the Bloc in particular. Though they returned to the issue more than once at the summit itself, they did not succeed in resolving their differences. The language they finally settled on in the communiqué was so ambiguous that it raised fundamental doubts as to whether they had reached any agreement at all: The participants commit themselves "to handle cautiously financial relations with the U.S.S.R. and other Eastern European countries, in such a way as to ensure that they are conducted on a sound economic basis, including also the need for commercial prudence limiting export credits."[68]

The speed with which European officials then hastened to claim that the communiqué would in fact not alter their financial dealings with the Soviet Bloc heightened the public perception that Washigton had been rebuffed,[69] and precipitated President Reagan's dramatic decision, June 18, to extend the embargo to subsidiaries and licensees of U.S. corporations.

The capitals of Europe and Japan reacted with alarm, protesting the extraterritorial and retroactive character of President Reagan's order. During the four months of diplomatic and judicial conflict that followed, certain countries appeared to exploit the conflict in order to reap the domestic political benefits of anti-American posturing.[70] It seemed at times that the summit process had come to an end, and that the alliance would suffer lasting damage.

As both sides perceived the dangers of escalating conflict, the politics of consensus eventually prevailed. Under the influence of newly appointed Secretary of State George Shultz, Washington initiated an intensive review with its European allies of all economic relations with the Soviet Bloc. The emphasis was shifted from the specifics of the pipeline issue to the broader question of the definition of a general strategy for economic policy towards the Bloc. A series of discrete, low-key consultations through NATO and bilateral channels produced an agreement to proceed with a detailed review of certain major areas of East-West economic relations, notably, trade in strategic goods (including possibly oil and gas equipment), energy supplies, and credits. Washington's European allies agreed to monitor official and private credits to the Soviet Bloc with the help of the OECD, to refrain from any new contracts to purchase Soviet gas or oil pending the results of a joint study of alternative sources, and to broaden the list of trade restrictions administered by COCOM. On November 13, President Reagan announced this accord and declared that it constituted sufficient strengthening of allied economic strategy *vis-à-vis* the Communist countries to warrant his totally lifting the embargo on the sale of oil and gas equipment.[71]

Thus the crisis was resolved and a step taken in the direction of a more coherent allied economic policy toward the Soviet Bloc. However, difficult questions remained to be resolved, and the potential for future tensions was still great. The pipeline conflict had revealed the depth of the differences in the alliance over East-West economic issues and demonstrated that, if these differences are not managed, they are capable of severely disrupting economic cooperation in other areas.

EPILOGUE

And so the process continues. A new group of political leaders, some of whom were initially skeptical about the usefulness of this "rich man's club," has become committed to maintaining the dialogue. Summitry has survived the strains of ideological differences. The resolution of the gas pipeline conflict has coincided with initial preparations for another meeting at Colonial Williamsburg, May 28-30, 1983, with the United States as host.

The broad outlines of the main problems which will confront the Seven at the Williamsburg summit are clear—the need to ensure balanced economic recovery, the vulnerability of the international financial system to the possible default of one of the heavily indebted developing countries, the increasing dangers of protectionism. No summit can provide easy solutions to any of these problems. But it is critically important that the Seven demonstrate a unity of purpose and

the political will to act in concert if necessary. In early February, Chancellor Helmut Schmidt ended an interview with the author with the following warning: "It is terribly important that Williamsburg be a success. If it produces anything like the bickering that followed Versailles, the psychological effect could be disastrous. It could plunge the world into a real depression. The summits themselves would not survive a second failure like that of Versailles. That would be regrettable because the world needs that regular dialogue. It is a factor of stability. But it is a consideration of only secondary importance next to the possible economic implications."[72]

II. A PERSONAL EVALUATION

Anthony M. Solomon

For well over a decade it has been generally accepted—sometimes in substance, but at least, at the level of rhetoric—that because we live in an interdependent world, some degree of cooperation in setting the general direction of economic policies is desirable, indeed necessary. We have seen the gradual development of fairly sophisticated mechanisms to make some greater degree of coordination possible. They include ongoing discussions and negotiations in a variety of international institutions. There are also repeated contacts at the Cabinet level and the sub-Cabinet level on specific issues where views can be exchanged, and where in a few cases commitments to complementary policy measures have been made.

But clearly the centerpiece of these mechanisms has been the series of seven-nation economic summits, which have been held regularly since 1975. They have been used for setting out common objectives, sometimes meaningful, sometimes not. They have provided a means for reaching agreement—usually expressed in broad terms, more rarely in specific detail—on joint courses of action. Because of the heavy glare of media attention that surrounds these summits, they have focused public opinion in an unusually direct way on the common economic issues facing the industrial world. And despite their imperfections and the inherent difficulties of reaching specific agreements, they have nevertheless symbolized the commitment of the summit nations to try to deal with these issues collectively rather than through narrowly nationalistic policies.

In the preceding chapter George de Menil has provided an account of the way the leaders of the Seven dealt with these issues at each of the last eight summits. In this chapter, I will present my personal evaluation of this record. It will be based largely on my experience during the previous Administration as one of the senior officials responsible for summit preparation, but it will also draw on the views of others, and in particular on the discussions of the 1982 Council on Foreign Relations Study Group. It concentrates on what has been most important about the past summits and what impact economic summits have on the process of interchange and coordination among governments that goes on outside summits. And it comments on one aspect of policy that has, for a number of reasons, been generally left outside the summit process, and discusses the difficulties of coordinating domestic monetary policies.

An evaluation of the summit process may be particularly timely because of the second thoughts we have heard expressed about the general concept of policy coordination. In most countries there have been doubts that existing government policies were capable of resolving the economic problems they face. Yet at the same time, there also has been skepticism that other governments have the answers, or that any plausible coordinated effort would be very successful. To the contrary, the public has been aware of splits among the major industrial countries, both on economic philosophies and on specific difficult issues—for example, the question of sanctions on Soviet trade. And there has been criticism all around that countries, particularly the United States, are not taking sufficient account of the international implications of their policies. As a result of these stresses and strains, even some traditional supporters of a cooperative, international approach to economic policy have begun to doubt the benefits of the processes we have, have raised questions about what has been accomplished, and have become more pessimistic about whan can be achieved in the future.

It is true that there is always a reluctance to admit that national authorities by themselves cannot solve what superficially appear to be national problems. There is always some unwillingness to let domestic actions be constrained by international factors. All governments—regardless of where they stand on the political spectrum—want to feel they are autonomous and to project an image of national sovereignty that the public beleves in and is comfortable with.

These are long-standing sentiments. But what has been different is that we occasionally hear an argument claiming that the world might actually be better off if countries did not seek to coordinate policies. The notion underlying this view is that if each country pursues a set of policies that is best for its own domestic economy, while permitting markets to operate freely, then the operation of free markets will ensure that the end result is better than if each nation's domestic policies and priorities are evaluated and, where appropriate, modified in light of the policies and priorities of others. According to this view as it appears in its most extreme form, coordination entails compromises, and compromise is a sign of weakness and inconsistency. Moreover, compromises can be misinterpreted by domestic critics seeking to show that the government doesn't have complete faith in its own domestic strategy. The conclusion of this kind of argument is that to reach domestic goals a government ought to follow an autonomous national program undiluted by international considerations.

My view is that this prescription is wrong and self-defeating. Full national autonomy does not exist anymore. It is an illusion, and because of that we would be far better off if governments would be honest and try to develop a better public understanding of the realistic limits of national action. People have to understand that national policies are apt to work badly when the actions of other countries are ignored; that without coordination, policies can be contradictory and mutually defeating; and that in some areas collective actions are often the only way to make it possible for each country to become better off. Beyond that, on specific economic issues of key political importance, say, the issue of imposing sanctions, unilateral approaches are bound to be ineffective. A high degree of coordination is essential for concrete success. So, on the basis of principle and on pragmatic grounds, we should seek to strengthen our mechanisms for interchanging views, discussing options, and reaching consensus—but always recognizing the realistic limits in today's world on what internationally coordinated actions can be successfully implemented.

Doing that well requires a credible summit process. Essentially, it is the active participation of heads of government in searching for solutions to common economic issues that provides the basic endorsement for the efforts at the Cabinet or lower levels of government that must go on more or less continually if coordination is to be feasible.

Looking back over the record of eight economic summits, I would say that the summit process has worked reasonably well but can be improved. In a positive sense, the summits have helped governments to forge a greater degree of consensus, notwithstanding the fact that fully developed packages of agreements, capable of being implemented, were produced by only a minority of the actual summit meetings. They also have been instrumental in demonstrating a continuity of shared principles and values.

I think we see this most strikingly in the area of trade policies. The summit process has been an important force behind the preservation of basically free trade principles. It is not merely that the final communiqué of the various summits have all contained familiar language in favor of an open, liberal trading system and warning of the dangers of protectionism. That is important. But the key point is that the participants, the presidents and prime ministers themselves, were able to learn first-hand of the common pressures each of them is under from protectionist forces at home. So they had to take back to their repsective capitals a better appreciation of the unpopular decisions each must make when special protection is sought by one group or another. I personally have seen how this can carry weight later when a U.S. president is confronted with a specific decision, for example, on shoe-import quotas or voluntary export arrangements or some special subsidy request. It makes him think twice

about the economic efficiency loss involved, and think again of the kinds of options others will be forced to consider if he decides the issue on purely domestic grounds.

In general terms, then, the summit process, together with the knowledge that the heads of government have to face each other again at the next meeting, has been an important impediment to adopting narrowly nationalistic policies which might otherwise have been taken to appease domestic political forces. And this legacy is just as significant as the formal agreements made or endorsed at the summit meetings.

The summit process has had other positive effects that help to improve the overall process of policy coordination. It has improved internal governmental mechanisms, helped to educate public opinion, and helped to strengthen personal relationships among the heads of government.

On the governmental side, the intense preparation that's needed to get a prime minister or a president ready for a summit meeting has a tremendous animating effect on the bureaucracy. Tucked into every government, there is a core of people who by instinct or by job are responsible for taking a broader view of economic policy and for bringing to the table a sense of the international dimension of issues. In an era of constituency politics and bureaucratic turf protection, these people are not always successful in pressing their particular agenda. But, the certainty that there is a summit meeting up ahead, where the head of government is going to be confronted with tough questions from peers, compels the internationally oriented section of the bureaucracy to consider domestic needs, exposes the domestic bureaucracy to international factors, and forces the government as a whole to resolve internal splits on the relevant issues. Thus, the process can help prod a government to take decisions on difficult domestic issues that it might otherwise duck or try to delay as long as possible. At the same time, to the extent that an economic summit produces a formal agreement, it can limit a government's ability to change its mind on a difficult issue later on. Clearly, that can be a valuable element of the process. So economic summits provide a useful and unique discipline on internal governmental decision-making.

The public education aspect of the summit process should also not be minimized. Public awareness of economic issues, particularly those in an international context, is notoriously weak in many of the major industrial countries. But the enormous media blitz at the summit meeting itself and the stream of articles and commentary that is largely conditioned by the summit agenda have a lot to do with what the public learns is important and has to try to understand. The symbolism of the summits is equally important. They are a force for unifying public opinion. And they also have the potential to help relieve concern and disillusionment. While economic problems may seem intractable and beyond any government's capacity to resolve, the economic summits can both reassure the public that governments are actively seeking solutions and not giving in to defeatism, and also counter the natural political desire for non-existent, or ultimately perverse, "quick fixes."

On a personal level, the summits obviously provide a valuable means for government leaders to get to know and take the measure of their colleagues. More and more, they are also becoming a vehicle for private discussion of political and security issues. This discussion takes place in an informal context, outside the strictly economic agenda of the summit itself. And it's all the more useful because of the particular countries involved and because there is no pressing need to come up with any kind of formal agreement or communiqué outside the economic area. Most heads of government would prefer to talk about political and strategic questions than about economics, where detailed technical arguments often get in the way of understanding the basic points. But, in fact, it is the economic agenda that provides the opportunity to talk about other things as well. And those discussions can actually lead to concrete results. For instance, at the Bonn summit, the presidents and prime ministers reached agreement on a strong statement against international terrorism, backed up by specific countermeasures against the airlines of those countries offering sanctuary to terrorists. That was a subject that never appeared (and probably never would appear) on a formal agenda.

The overall reception of the various summits has been broadly favorable. The criticisms have focused on narrow themes—for instance, whether a summit needs to have concrete agreements as its end product in order to be considered a success. There have naturally been concerns that false hopes would be raised among the public that the summits would produce more than they could reasonably be expected to. And there have been concerns that the participants would seek to satisfy the appetite of the press and the public for concreteness by coming up with agreements that either were not well thought out, or could not be implemented because the governments didn't have the tools to carry them out—which was the case with the quantitative oil import targets adopted at the Tokyo summit. If there is agreement on an important substantive issue, it can add to the credibility of the summit process—but only so long as it is handled in a way that does not weaken the top priority of permitting a broader exchange of views and policy consensus and therefore does not create unwarranted expectations that every summit must produce specific agreements to be successful.

In tallying up the pluses and minuses of the previous summits, it's

worthwhile to focus on two summits that have come to be seen, for different reasons, as controversial. One is the Bonn summit of 1978; the other is the Ottawa summit of 1981. I will explain why I think they are seen to be controversial, and where I think that controversy stems from.

The Bonn summit has an exceptional place among the eight summits. It was the only summit where the final agreement clearly represented a coordinated package, in which actions were pledged by each country in return for specific undertakings by others—all of which were capable of being implemented. In that sense, it was unique because it meant that countries were willing to make commitments that they hadn't necessarily planned to make on purely domestic grounds, but they were willing to undertake as part of an overall deal. The circumstances of 1978 were especially suited to this kind of package. Therefore, the potential benefits from the package as a whole appeared to far outweigh any of the potential costs.

However, to some participants and their advisers, what looked then like a fair, balanced and mutually beneficial deal, subsequently appeared tarnished. In Germany, particularly, a number of commentators and high government officials stated that they regretted having made the agreement. They apparently felt that the degree of stimulus that they agreed to was too great and carried too many inflationary risks. They also felt that the United States would eventually have had to face up to the compelling need for oil price decontrol. So, they believed the specific *quid pro quo* was not a major plus.

My view is that the agreement was sound in principle and was a significant contribution. It led to action that improved economic performance and helped bring about a better pattern of surpluses and deficits among the major industrial countries. And the concept of mutual undertakings was absolutely essential in spurring President Carter to move on the oil decontrol issue. Whether or not economic realities would have eventually forced the Administration to override opposition to price decontrol is hard to say. But valuable time was gained by getting that condition into the Bonn agreement. Also, by specifying the energy undertaking in the agreement, there was very much less room for the Administration to backtrack later on and to withdraw its support for decontrol.

As for the inflationary impact on Germany, the evidence is ambiguous. But as I look at it, the balance of evidence does support the view that, in itself, the stimulus package had little adverse impact on German inflation. Without the severe disruption in the oil market following the Iranian revolution, there is good reason to believe that the German inflation rate would not have risen following implementation of the stimulus package, because monetary policy was basically prudent and German wage settlements remained moderate. The oil price shock was clearly the major inflationary burden for the German economy after 1979, not the Bonn summit agreement.

There is a good argument, though, that the major lost opportunity of the Bonn summit agreement was that not enough pressure was put on the United States to face squarely its inflation problem and take stronger measures early enough to bring inflation under control. To be sure, there was some language in the Bonn communiqué reaffirming a commitment by the United States to several modest anti-inflationary measures. But a more specific program of action, mirroring the quantitative undertaking of the countries which agreed to stimulate demand, should have been proposed. And it might very well have gone through. The result would have been to have speeded the adjustment of U.S. inflation, and perhaps to have avoided some of the disturbances that subsequently plagued the financial markets.

So my view is that the Bonn summit, coming when it did under the circumstances that prevailed, and given the economic analysis that supported the package of quantitative undertakings, was a success. But it should not necessarily be taken as a model for other summits because underlying circumstances will always differ. And it's not every year that economic analysis can point so clearly to a set of actions each of a number of countries ought to be taking that will make all of them better off. More frequently, we are faced with tougher dilemmas and options the potential impact of which is more obscure.

The Ottawa summit of 1981 has also spurred considerable controversy. For one thing, there were few specific undertakings that could be expressed in quantitative terms and that could be implemented later on. For another, there was a sense that the publicity aspect was detracting from the collegial atmosphere of the summit meeting.

I think that these kinds of criticisms are understandable. It should come as no surprise that those who are most enthused by the kind of package agreement that was reached in the Bonn summit would be somewhat let down by the generality of the Ottawa communiqué. And no one wants media coverage to overshadow the substantive discussion. But, when you look at the Ottawa summit carefully, you see that it yielded substantial benefits. It provided a needed forum for a searching analysis of national policies and a means for countries to record their doubts and criticisms about other countries' programs. The participants were able to confront their peers with their own views about what was right about their own policies, and what was wrong about others'. The outcome reaffirmed that every country was interested in the United States getting the inflation rate down, because they recognized the long-term benefits that it yielded for everyone. There was the opportunity to raise questions about the short-term costs and to argue that the burden on monetary policy was too heavy. That kind of exchange is useful and not duplicated in other forums.

Some feel that the inability of certain heads of government to convince President Reagan to change his fiscal program weakened them domestically. But others have argued persuasively that, resigned to the fact that they were not able to get a commitment from the U.S. Administration to change fiscal policy, they were in a better position to go home and put in place the kind of measures that they judged were most compatible with the U.S. approach. This meant that while broad consensus was not achieved, a measure of coordination of policies did have to be fashioned, and probably could not have been done effectively without the interchange and debate of the Ottawa summit.

The principal danger in the economic summit process is that when there are sharp disagreements on policy issues among governments, a summit can leave an impression of disarray and make it more difficult to find grounds for consensus. There is no controversy over the fact that the cleavage that developed at the Versailles summit of 1982 over the issues of sanctions on trade with the Eastern Bloc and of subsidized export credits to those countries tended to overshadow the positive aspects of that summit—and there were several important new initiatives in the area of expanded IMF surveillance of national policies and in the area of North-South discussions. The East-West issue has never been a promising one for economic summit discussions because it is virtually impossible to divorce the economic issue from the broader strategic issues, and several countries are basically unprepared to deal with opposing elements at the same time. But the degree of acrimony that surfaced after Versailles taught a hard lesson: summits cannot be used as a wedge to spur concession. Their force is that of consensus and mutual understanding of different viewpoints. They do not do a good job of forcing a reconciliation when there are existing and very real frictions.

In perspective, while individual economic summits have differed widely in the degree of consensus achieved and the impact they have had on subsequent domestic actions, the summit process has been valuable because of the cumulative results, which have justified the expenditure of time and prestige to the series of meetings. On substance, the process has solidified a common recognition that inflation must be brought down before adequate economic growth can resume and that oil conservation, induced by the realities of market prices, is essential for reducing our collective energy vulnerability. The process has made it unrespectable to fall back on extreme forms of protectionism and has lowered the risk of an outright trade war in the face of high levels of unemployment throughout the industrial world. It made a successful outcome of the multilateral trade negotiations (the MTN or Tokyo Round concluded in 1979) far more likely; and it provided badly needed support for the GATT ministerial meeting in November 1982 (at which severe damage was nonetheless only narrowly averted, as it turned out). Much of the benefit has occurred in subtle ways, but in at least the case of Bonn, the summit was the catalyst for a decisive policy shift that was on balance an important achievement in my view. And the summits have provided a means for discussing political and security issues outside the limelight of a special summit that would set off high public expectations of a major initiative in the foreign policy/national security area.

To be sure, there have been missed opportunities. Pressure on the United States to deal effectively with inflation should have come earlier and more forcefully. Ideally, the issue of energy conservation and avoidance of a second oil shock should have received far more attention than it did during the 1976-78 period—although the Iranian revolution could not have been realistically anticipated. And the issue of how to reconcile opposing attitudes toward East-West trade and toward competitive export credit subsidies to the Communist countries should have been faced earlier, more explicitly, and more often.

Some people feel that another missed opportunity has been the absence of any meaningful attempt to address seriously the problem of coordination of domestic monetary policies, or the international consequences of divergent monetary policies. When questions about monetary policies have arisen at summits, it has generally been in the broad framework of discussions of demand management, rather than in the explicit context of what might be done to improve coordination.

In my view, there are essentially three reasons why coordination of domestic monetary policies has been a hard issue to address explicitly, not only by heads of government through the summit process, but also by central banks themselves.

The *first* reason why monetary coordination is hard to discuss at the summit level is institutional. Heads of government are not normally responsible for monetary policy, central bank governors are not normally invited to summits, and if they were invited, questions might be raised about central bank independence from political influences. The independence of central banks from the executive obviously varies from country to country. It's probably greatest in the United States and Germany, but there is a meaningful degree of independence in most major industrial countries, and preserving the appearance of independence is a necessary precondition for preserving the fact. This does not mean that discussion of monetary coordination is structurally impossible, only that the subject has to be approached carefully, with a full appreciation of the institutional setting. Otherwise, there is a considerable risk of ending up with a bad reaction in financial markets if it looked as though monetary policy was in danger of being subordinated to other goals that heads of government want to emphasize. A perception that monetary policy can be conducted independently is a necessary (though certainly not sufficient) condition for sustaining confidence that monetary policy will not be inflationary in the long run.

A *second* and more fundamental obstacle to monetary policy coordination internationally is the logically prior need to coordinate domestic monetary policy with domestic fiscal policy. That need represents a powerful constraint on the flexibility to make monetary adjustments that may appear warranted from an international perspective but might cause considerable damage, for instance, to the goal of lowering domestic inflation. Moreover, it is unclear whether there are many lasting benefits from monetary coordination unless there is a parallel coordination of fiscal policy at the international level as well.

Ideally there is a mix of fiscal and monetary policies in each country that yields the best global result. But in the real world opinions differ sharply on what it might look like. The international coordination of either monetary or fiscal policy is thus made more difficult by the concurrent need to ensure the compatibility of each at the national level.

A *third* reason why monetary coordination is hard to discuss, and harder to achieve, is that the approach to formulating and then conducting monetary policy differs so much from one country to the next. It is fair to say that the central banks of all the major industrial countries give weight to monetary aggregates as an instrument of policy. Most, though not all, set formal targets. A few (like the Federal Reserve) set targets for more than one definition of the money supply. Some set targets for measures of credit or impose credit ceilings of various types. But whatever the intermediate target or indicator chosen, each central bank differs in how strictly it views the target and how it responds to unanticipated movements in the monetary or credit aggregates in actually implementing policy.

More importantly, each differs in how much attention is paid to interest rate levels or short-term movements in rates. Likewise, the attitude toward the interrelationship between the exchange rate of the national currency and monetary policy varies widely among the major industrial countries. So the basic questions of what to coordinate and over what time spans are difficult to answer in specific terms when there is such a wide array of targets, tools, and tactics.

To illustrate this flux and diversity, take the Japanese situation. There one has a fairly informal way of looking at the monetary aggregates, grafted onto a strict system of direct credit controls (called "window guidance") and a slow and uneven process of financial deregulation. There's no obvious way of disentangling the role each of these elements (and, in addition, attitudes toward the yen exchange rate) plays in determining the thrust of monetary policy.

In the German case, one has a much more central role for monetary targeting. In practice, the process of debating and setting annual targets for what is called central bank money feeds into a broader discussion of domestic demand management and wage-price determination. But while the authorities set the targets with great care and broadly try to achieve them, other factors, including interest rates and exchange market considerations, have from time to time been given substantial weight either in influencing the timing of overt monetary actions or in accepting deviations from the targeted growth path. And like other central banks the German authorities have also experimented with a range of new technical devices to improve their control.

And when we turn to the United Kingdom, we have seen active debate over every element of monetary policy—objectives, regulatory framework, including reserve requirements, and operating techniques. While this debate still goes on, the authorities and many outside experts are converging on the view that there should be no single yardstick against which to judge monetary policy. Instead a whole range of indicators—and recently, exchange rate policy in particular—should be considered.

When we come to the core question—what would count as monetary coordination under this broad diversity of strategies and tactics?—I think we are hard pressed to go beyond some vague notions about the general direction of monetary policies and into any rigorous, quantitatively oriented, version of monetary coordination. Even within a set of closely connected countries, like the European Monetary System (EMS), where one has explicit exchange rate commitments influencing action, the authorities have still not found a successful formula for coordinating their domestic monetary policies. How much more difficult it is to contemplate doing that on a broader scale, without the anchor of an exchange rate relationship.

In short, there are compelling reasons why it will remain difficult to achieve any greater degree of coordination of domestic monetary policies over the immediate horizon. Looking ahead to a period when the inflationary pressures are reduced and overall economic performance begins to improve, some of the obstacles may be removed. But even

under those more favorable circumstances, we are likely to be confronte with large differences of view on how monetary policy works. An unless there is a major analytical breakthrough that helps spur substantial narrowing of those differences, full-fledged coordination i not likely to be feasible.

This conclusion should not be taken as entirely pessimistic. We ca take some steps together to help lessen the adverse consequences o volatile interest rates and exchange rates. We can continue to work o making our national mixes of fiscal and monetary policies mor compatible and complementary. In fact, for this reason, it is importan that the heads of state and government of the Seven keep frequent extensive exchanges of views on the broad direction of their economi policies high on the agenda of their summit meetings. At Versailles, IM surveillance procedures were strengthened and the question of exchang rate intervention was put squarely on the agenda. Neither of these step can be expected to contribute much to overcoming the obstacles t coordination which I have described. But each provides an opportunit for the kind of consultation that will be increasingly required. Thoug the economic summits may be limited in what they can contribute in a concrete way to the area of monetary policy, their continued politica endorsement of the principles of consultation and cooperation remain essential.

Returning more generally to the summits, my personal conclusion is that they are an imperfect but useful tool. In the following chapter, George de Menil reviews the proposals which different participants and observers have made for strengthening the summit process, and makes several specific suggestions of his own. He goes further in a few areas than I think it is desirable to go. But we are in broad agreement that the summit process needs to continue and can be improved; that vaguely worded agreements which cannot be implemented later on have to be avoided; that the number of agenda items can and should be reduced to focus public attention on what is the most important at the time; and that the emphasis should be clearly on pragmatic questions rather than on differences of doctrine or ideology. Otherwise the basic grounds for cooperation get called into doubt. Appropriate means for following through on summit declarations have to be put in place as well.

No one who has been associated with past summits would want to over-rate what the summit process can promise, even functioning at its best. Truly, the economic problems which the industrial democracies face are formidable, and no forums for discussion are going to find magical solutions to these intractable problems. But we have to take advantage of any reasonable opportunity, and enlisting the attention and commitment of heads of government conveys a strong sense of reassurance to the public that we can get moving in the right direction.

My strong belief is that each country has a concrete interest in other countries doing well. We benefit from the success of others through higher levels of trade and through reduced worldwide inflationary pressures. By the same token, when other countries do less well, we suffer. And no country can expect for long to achieve high growth, expanding exports and lower inflation if others are failing to achieve satisfactory economic performance. I am convinced that this general theme that summits are in countries' own self-interest is broadly appreciated. And because of that we can safely predict that economic summits will be a feature of the coordination process for some time to come.

III. THE PROCESS OF ECONOMIC SUMMITRY

George de Menil

Most participants in the summit process agree with Anthony Solomon's basic proposition that better coordination of national economic policies will become increasingly necessary and that the economic summit meetings will continue to provide useful opportunities for the leaders of the Seven to promote such coordination. There is less agreement, however, on what could and should be done to enhance the effectiveness of these encounters. Some have argued for giving the economic summit meetings more structure and embedding them in a continuum of institutionalized coordination. Others have advocated simplifying the summits so as to provide the leaders of the Seven with more opportunity for unfettered discussion. These alternative views about the organization of the summits and their relationship to other channels of consultation have their origins in opposing conceptions of their basic function.[1]

The "Library Group" Model. At one pole lies the concept President Giscard d'Estaing had in mind when he organized the Rambouillet summit. His precedent was a series of informal, secret meetings of finance ministers from the United States and Europe between 1973 and 1975. In the wake of the American devaluation of 1971, the governors of the International Monetary Fund had established the Committee of Twenty, to examine the problems of the monetary system and formulate proposals for its reform. At the time, Valéry Giscard d'Estaing, Anthony Barber, Helmut Schmidt, and George Shultz—respectively finance ministers of France, Britain, Germany and the United States—began to consult privately about the agenda for reform. They dubbed themselves "the Library Group" in reference to the library of the White House, where they held their first meeting. During the two years that followed, they held several secret meetings, at irregular intervals, and the Japanese finance minister joined the group.

By late 1974, Valéry Giscard d'Estaing was President of France and Helmut Schmidt, Chancellor of the Federal Republic. When, early in 1975, President Giscard d'Estaing sought to foster an economic dialogue between the leaders of the key industrial democracies, what he proposed was an extension to the level of heads of state and government of the

"Library Group" in which he and Chancellor Schmidt had previously participated as finance ministers.

In an interview with the author seven years later, President Giscard d'Estaing described the purpose of these meetings as providing the leaders of the major countries of the free world with an opportunity to exchange ideas about their common economic problems.[2] The emphasis, he explained, was intended to be on the strategic aspects of these problems. The intention was that the leaders "determine whether or not there existed a basis for agreement on what is to be done."[3] If the elements of a consensus were present they could then take note of its broad implications, but should leave to the traditional bureaucracies the task of hammering out the details.

In President Giscard d'Estaing's mind, there was no presumption at the outset that these would be regular, periodic meetings. His intention was that the leaders should gather when they felt the need for a strategic review of an important problem. If conditions were not ripe, or if positions were already frozen and there was nothing further to discuss, convening a meeting would not serve a useful purpose.

In the interview, President Giscard d'Estaing emphasized that it was his opinion that, for the dialogue to be effective, it had to be free and open. It was essential that the deliberations be private and the format flexible. The number of participants had to be strictly limited and bureaucratic preparations kept to a minimum. Ideally, press coverage was also to be limited. Though it was impossible, and even illegitimate, to impose a mantle of secrecy on a meeting of heads of state and government, the media could be kept at a distance to avoid excessive expectations, and official pronouncements limited to brief statements by the participants after the close of the meeting.

"The purpose of these meeting," explained President Giscard d'Estaing, "was neither to produce declarations, nor to improve the functioning of the economic bureaucracies. The latter is something that national governments do very well on their own."[4]

In a separate interview with the author in Bonn in February 1983,[5] Chancellor Helmut Schmidt also traced the origins of the summits to the "Library Group" and echoed President Giscard d'Estaing's emphasis on informality and flexibility. "We had to get the bureaucracies out of it," he said, speaking with conviction. Then, casting his eyes around his modest office in the *Bundestag*, he commented, "At Rambouillet, we met in a room not much bigger than this one . . . After Rambouillet, we then had the idea of meeting regularly. The summits became important occasions for the Europeans, the Americans and the Japanese to discuss problems in depth."

The Atlantic Council Model. At the opposite pole from the "Library Group" model of President Giscard d'Estaing and Chancellor Schmidt, lies an alternate conception of the economic summits as steering committees for the harmonization of national policies. The clearest public statement of this ideal was made in a study initiated by Henry H. Fowler and chaired by W. Randolph Burgess for the Working Group on Economic Policy of the Atlantic Council, in 1977. The thesis of the study is that the principal purpose of the summit should be to provide better coordination for the making of economic policy. The emphasis is on the procedural aspects of the problem. "What is important is that such meetings become part of a continuous process of harmonization at all levels."[6] The preparations which precede a summit and the consultations which follow it are seen as being almost as significant as what happens at the meeting itself. Within each country, these negotiations should be an occasion for rationalizing the views of the departments with overlapping jurisdictions. Between countries, they should be used to develop a network of formal and informal relations between the officials who actually prepare and conduct economic policies. The support of the existing international organizations—OECD, IMF, IBRD, GATT—should be enlisted and their secretariats mobilized to provide preliminary studies and exercise monitoring functions.

This view of summits implies that they should be held at frequent and regular intervals and that participation at the meetings should be broad enough to ensure comprehensive treatment of all relevant issues. The Atlantic Council study advocates that the directors of the OECD, the IMF and the World Bank participate regularly in the meetings, and that leaders from other countries who are not among the Seven participate occasionally. The study suggests specifically that a leader from Saudi Arabia attend when the issue is oil and Australia when the focus is on food and grain.

Proponents of the Atlantic Council view argue further that the educational potential of summit encounters complements their institutional function. These meetings provide an important occasion to raise the level of public understanding about international economic problems. Ample press coverage should be encouraged to ensure that the opportunity is fully exploited.

Two more apparently different conceptions of the same event would be difficult to imagine. The "Library Group" model of economic summits is one of personal and informal encounters in which the emphasis is on the strategic exchange of ideas. The Atlantic Council model is one of structured meetings of a steering committee providing directives to, and evaluating the performance of, the principal national and international economic bureaucracies.

Neither of these ideals accurately describes the historical reality. Over the past seven years, summit meetings have simultaneously been more structured than President Giscard d'Estaing thinks they should have been and more *ad hoc* than the authors of the Atlantic Council study would have them become. Though preparations have tended to become increasingly complex and extensive, procedures for monitoring decisions reached at the summit have remained limited and only partially effective. The OECD, which was initially very much involved in summit preparations, has subsequently been somewhat excluded. The IMF has remained largely outside of the summit process.

Annual summit meetings have become an established practice, but the participants have consistently avoided committing themselves beyond the next meeting. At one of the sessions of the Council on Foreign Relations Study Group on Economic Summitry in 1982, a seemingly innocuous suggestion that the leaders of the Seven declare their intention to continue meeting for the duration of the economic crisis elicited a surprisingly unanimous critical reaction from government officials who had been closely involved in the process. The experienced "sherpas" responded that formal acknowledgment of any degree of permanence would generate pressure for the creation of an international secretariat and would rapidly encumber the process with bureaucratic rigidities.

At the same time, most members of the Study Group felt that the regular annual periodicity of the summits should be maintained. If meetings were isolated and irregular, their announcement would inevitably be interpreted as indicative of a conjuncture of special circumstances. It would prove even more difficult than it is now to avoid creating false expectations. Moreoever, public opinion, in its appetite for "winners" and "losers," would focus inordinately on the competitive aspects of the play. The power of the summits to enhance consensus and improve understanding would be diluted. The recurring nature of the meetings has created an awareness of the significance of the process itself, and has come to symbolize the continuity of the problems and the policies of the participating nations.

Informality is also perceived as one of the strengths of the process. It attenuates the demands for representation on the part of excluded countries. It permits a useful ambiguity to persist about the scope of the meetings. Nominally, and in fact principally, devoted to economic matters, the summits have nonetheless, in the words of Richard Cooper, Under Secretary of State for Economic Affairs in the Carter Administration, provided a convenient "cover"[7] for informal discussions of political issues ranging from the invasion of Afghanistan and the future of the Middle East to the war in the Falklands. Explicit reference to such questions in a formal agenda, would have given the summits the flavor of meetings of a "trilateral" alliance, and might have created substantial obstacles to Japanese participation. Officially informal, and yet relatively structured in practice, the summit meetings have embodied a blend of the ideals of the "Library Group" and Atlantic Council models.

Those two visions continue, nonetheless, to provide alternative organizing principles for the conduct of future economic summits. President Giscard d'Estaing's prescription is to undertake less in order to accomplish more. He argues that the presumption of regularity of the summit meetings should be dropped, that there should be fewer participants, and less press coverage. Chancellor Schmidt offers a very graphic image of what future summits should be: "Ideally, the next summit should be on an island, like one of the small islands of Venice. Each participant should be allowed to bring only one aide. Communications with the mainland should be blocked for two days. The press should absolutely not be allowed on the island."[8]

The prescription of the authors of the Atlantic Council study is to strengthen the structure so that the process may increasingly justify itself. They argue that economic summits should be embedded in a continuum of expanded consultations at lower levels covering more subjects and involving more participants.

On a deeper level, these two sets of prescriptions are not as contradictory as they first appear to be. My view is that the lightening and leavening that President Giscard d'Estaing and Chancellor Schmidt advocate are what the summit meetings require, but that parallel efforts should be made to encourage the development of more structured international consultations at other levels.

STREAMLINING THE SUMMITS

One of the forces of the summits is that they can help governments to forge a greater degree of consensus. However, for them to be maximally effective in promoting consensus, the meetings themselves must be streamlined, relieved of secondary considerations, excessive details and unnecessary formalities.

Some of the leaders who will attend the Williamsburg summit, eager to avoid the mistakes of Versailles, have already advanced several proposals for simplifying future summits, many of them inspired by a desire to revive the original spirit of the "Library Group." President François Mitterand was himself the first to suggest publically a radical change of style. As an American journalist travelling with him in September, 1982 reported, it was the President's view that, if there was to be another summit at all, it should be restricted to the principals and removed from the press. He evoked the image of a conclave of cardinals, in secluded deliberation.[9]

The practice has been for the two days of meetings to be allocated to four plenary sessions, two morning sessions and two afternoon, separated by meals. Social events or private meetings, some bilateral and some multilateral, absorb the rest of the time. At the plenary sessions, each political leader has been accompanied by his foreign minister, his finance minister and a note-taker (generally his personal representative). Thus each delegation has consisted of four individuals. Since there are seven national delegations (and a smaller one from the European Community), the total number of participants sitting around the table has been 30.

One of the recommendations considered by the "sherpas" preparing the Williamsburg summit has been the proposal that the number of participants at the plenary session be reduced. Last year, advocates of this proposal—who included President Giscard d'Estaing, Chancellor Schmidt, and Prime Minister Raymond Barre—suggested that each head of state or government be accompanied at the plenary sessions by only one other individual. This could reduce the count of people around the table to 16. It is argued that the smaller number would be more conducive to informal exchange and would enhance the effectiveness of the dialogue. However, bureaucratic rivalries and the fear that agreements might be reached behind the back of the excluded minister or ministers have generated substantial resistance to this proposal. In some cases, political differences between ministers in a coalition government mean that a diversity of representation at the summit enhances domestic support for the agreements reached.

My opinion is that allocating more time to private meetings between the heads of state and government at which no ministers are present is at least as important as reducing the number of participants at the plenary sessions. In the past, conversations that the principals have had over lunch or dinner have sometimes produced a breakthrough in a difficult negotiation. Tokyo provides an example. Intimacy has not always succeeded in resolving differences—it did not at Versailles—but opportunities for these restricted and privileged discussions should be maximized.

Another of the proposals considered by the "sherpas" preparing for Williamsburg is that the Seven refrain from publishing a communiqué after the summit. This idea was floated at one of the meetings of the Council on Foreign Relations Study Group on Economic Summitry

before Versailles. It has received increasing attention in the aftermath of the acrimony triggered by conflicting official interpretations of the Versailles communiqué. The argument is that if the principal purpose of the summit is the exchange of ideas, a communiqué is not required, and its elimination would spare the participants the burden of arguing over wording at the meeting, and remove the potential for acrimony over conflicting interpretations afterwards. There is a temptation for civil servants managing more issues than their political leaders can give attention to, to use the communiqué of a summit as an opportunity to generate an expression of support for policies which are otherwise politically peripheral. The result can well be to detract from the impact of what should be, in my opinion, a short, concise statement of the principal subjects treated by the leaders. Rambouillet demonstrates that a long communiqué is not required for there to be important, substantive agreements. The official declaration issued at the end of that notably consequential summit is one of the shortest of the last eight years. Important negotiations which have been concluded prior to the actual summit can often be acknowledged in a sentence or two.

Sherpas for Williamsburg have also debated the advisability of restricting and channeling the coverage of the summit by the media. Extensive press coverage of the summits is necessary and useful for the symbolic and public education aspects of the process. However, it is equally important that the image conveyed be one of serious purposefulness rather than of a public relations event.

The contrast between media coverage at Rambouillet and Versailles is instructive in this regard. Between 200 and 400 reporters covered the Rambouillet summit. None of the participants made any statements to the press until the concluding press conference, which was held in a meeting room with a capacity of less than 200 people in the municipal hall of the town of Rambouillet, not in the chateau. Reporters were not allowed on the grounds of the chateau while the meetings were being held. The difficult conditions under which the media worked at Rambouillet did not prevent them from presenting that summit to the public as an overall success.

Between 2,000 and 4,000 reporters covered the Versailles summit. Individuals from nearly every country systematically briefed the press after almost every session. Robert Hormats, former Assistant Secretary of State for Economic and Business Affairs, who was the U.S. sherpa for Versailles, has described the result as "a sort of running circus, with media events interspersed every three or four hours."[10] Moreover, the press was in the chateau on a continuous basis. Cameramen recorded everything from the principals' private meals to a number of lavish ceremonial functions. The public display was not a little responsible for the pervasive, and in the end harmful, impression that there was more appearance than substance to the summit as a whole. As Prime Minister Raymond Barre put it in an interview with the author, the spectacle at Versailles was that of "Vanity Fair."[11]

None of the above suggestions for streamlining the actual conduct of summit meetings should be taken to imply that any less attention should be paid to the preparatory process. It is the preparatory process which is largely responsible for the useful influence summits can have on national bureaucracies and international negotiations. Moreover, careful preparations are even more important for private exchanges than they are for more formal exchanges. "The trouble is that private discussion sometimes tends to be meandering," Assistant Secretary Robert Hormats has commented; "Therefore the preparatory process is particularly important for private meetings."[12] In general, thorough and careful preparations remain an essential requirement for a successful summit. If the emphasis on informality at Williamsburg results in downplaying the preparatory process, an important opportunity for focusing the energies of the governments of the Seven on the major economic problems facing them will have been lost.

SUMMING UP

Of the two prescriptions for reforming the summits which I have presented, the first, the one inspired by the "Library Group" model, is the most radical. It implies breaking the natural tendency of any regularly repeated official event to become embedded in bureaucratic structure. Progressive enhancement of the organization of economic summits such as that envisioned by the Atlantic Council goes in the direction of this tendency. Simplification may be what is required now for the Seven to recover some of the sense of urgency and significance which characterized their early meetings.

On the other hand, a radical break need not be incompatible with a concommitant response on other levels to the prescriptions of the Atlantic Council model. The need for more coherent management of international economic policy (particularly in the United States) is real, as are the needs for more extensive consultations between countries in many areas, and the strengthening of existing international organizations.

In the following chapter Anthony Solomon and I address some of the major substantive problems which face the leaders of the summit countries as they prepare for Williamsburg: avoiding an international

debt crisis, promoting coordinated economic recovery, warding off protectionist pressures, promoting greater exchange market stability. In each case, achievement of lasting and significant results requires better procedures for cooperation between governments and stronger international organizations.

However, the cause of cooperation will not be advanced by unnecessarily encumbering the privileged, and inevitably rare, encounters of heads of state and government. The summit leaders should preserve the flexibility and openness of their exchanges. In the last analysis, whether or not the major industrial democracies implement compatible policies depends, in the words of President Giscard d'Estaing, on whether or not their leaders concur on "what is to be done."

IV.
WILLIAMSBURG AND BEYOND: TWO PERSPECTIVES
The Responsibilities of Leadership

George de Menil

Ecoonomic conditions facing the summit countries over the next two years are likely to be more favorable than they have been during the last two years. A declining price of oil opens new prospects for greater growth and less inflation worldwide. This improvement in the outlook should make modest coordination easier to achieve. Two kinds of actions are called for. The first involves quick response to immediate dangers. The second entails measured progress on the inevitably arduous path toward necessary long-term structural reforms.

The most pressing objective of the Seven in the period immediately ahead should be the maintenance of the free trading system. Whatever the pace of economic recovery, the growth of employment will lag behind that of output and will be insufficient to reduce present record levels of unemployment for some time. For this and other reasons, the pressure for protectionist measures will persist beyond the first stages of the recovery. At Williamsburg, the leaders of the Seven must, as their predecessors have in the past, again clearly demonstrate the international implications of yielding to these domestic pressures. They must strengthen the partial commitment made at the GATT ministerial meeting in November 1982 not to introduce new trade restrictions. They should agree to seek resolution of their outstanding trade conflicts—notably concerning agricultural subsidies—through use of the general procedures provided by the GATT.

The debts of the developing and Soviet Bloc countries constitute another major area of concern for the Seven and their trading partners. It has been estimated that in 1982 the external debt of non-oil developing countries was $640 billion.[1] Twenty-five percent of the export earnings of all non-oil developing countries was required to meet debt-service payments. In some regions, the percentage was much higher, and several countries—notably Argentina, Brazil, Mexico and Venezuela—spent more than the year's export earnings on debt-service payments. Loans to vulnerable sovereign debtors were nearly as great as, and in some cases larger than, the stockholder's equity of many of the large banks. Loans to Argentina, Brazil and Mexico were reported to amount to 130% of the equity of the nine largest U.S. banks.[2]

The immediate problem is to avoid a financial crisis before servicing burdens and the liquidity difficulties of the major debtors can be alleviated by significant economic recovery. Successful implementation of emergency refinancing packages for Mexico and other sovereign debtors has indicated the existence of a remarkable willingness on the part of central bankers, finance ministers and private bankers to cooperate, with the help of the IMF and the Bank for International Settlements (BIS), to avoid serious disruption. If other specific liquidity problems with major implications for the international system arise, similar rapid and flexible response will be required.

It will take more than a succession of stopgap measures to restore confidence to the international banking system. The first requirement is that the industrialized economies recover from the present recession. Without renewed growth, private banks are unlikely to continue lending the funds that developing countries will need simply to finance their current account deficits. The maturities of the loans that private banks have outstanding to non-oil developing countries should be lengthened. Too much of their debt is short-term and too much of the burden of interest variability is on the debtors. Partial, phased write-offs may be called for in instances where the best efforts of debtors may be insufficient to meet debt-service payments even in a favorable economic environment. Existing arrangements for the supervision of international banking by national regulatory authorities and by the BIS must be strengthened.

Public authorities will have to play a central role in this process. Extensive cooperation between central banks, finance ministries, bank regulatory authorities, the relevant international institutions and the private banks themselves will be required. It is time to capitalize on the willingness to cooperate which these parties have demonstrated in the past year and to apply it to devising longer-term solutions. I tend to agree with the economists and bankers who argue that this does not require the creation of new institutions for the purpose of taking over at discount large portions of the debts of the banks.[3] More pragmatic legal and administrative solutions can be found. If it proves necessary for public authorities to assume responsibility for a larger portion of the short- and long-term debt of the developing countries than they do at present, this can be achieved over time by expanding the lending of the IMF and the World Bank. The effort should rather be to strengthen these institutions and provide them with additional resources.

At Williamsburg, the leaders of the Seven have an opportunity to endorse the spirit and practices of cooperation which have emerged during the preceding year. They should jointly support the legislative action—notably in the United States—that is required to increase the resources available to the IMF.[4] They should also seek to increase the resources of the World Bank. They should further review their common interest in the long-term stability of financial relations between debtor and creditor nations, and commit themselves to support such changes as may prove necessary to ensure that stability.

In the macroeconomic area, the first priority of the Seven must be to ensure that economic recovery materializes in 1983 and 1984, and to guard against the danger that it rekindle inflationary expectations. The easing of monetary policy in the United States in the second half of 1982 has already gone a long way to provide needed stimulus. The White House and the Congress must now demonstrate a firm commitment to further reducing federal budget deficits in 1985 and subsequent years. Governments in the surplus countries, Germany, Japan and the United Kingdom, should, as some have begun to do, accompany the U.S. lead by providing additional fiscal stimulus. At Williamsburg the leaders of the Seven should support these different measures.

Whatever policies are followed, they should be implemented on an internationally coordinated basis. An analysis published by the Institute for International Economics at the end of 1982 is particularly eloquent on this point:

> The international spillover effects of macroeconomic policy are too strong for it to be sensible for individual countries to believe that they can rationally plan their own actions independently of what is happening elsewhere. There are now a host of examples of countries that attempted to maintain growth rates higher than warranted by the international norm, and failed . . . Even if U.S. policy were set on a sufficiently expansionary course for the United States to constitute a locomotive to the rest of the world economy . . . there would be no grounds for complacency, for the chances are that the expansion would again be aborted by an excessive dollar depreciation before any export-led boom developed in the rest of the world.[5]

As one looks beyond the immediate future, the prospects for a more coordinated balance of macroeconomic policies in the medium term hinge on two considerations which, in the broadest sense of the word, are of a political nature. The first is the willingness of the leaders of the major industrial democracies and of their electorates to accept the implications of interdependence. This means accepting the fact that none of the major countries can achieve economic success alone for long. The second condition is the willingness of the United States to fulfill, and of

its partners to accept, the role of leadership to which it is destined by its overwhelming economic and political strength.

The first and foremost responsibility of leadership is for the United States to conduct a stable anti-inflationary monetary policy and a resonsible fiscal policy. When the United States pursues unbalanced policies in either area, the entire world suffers. At present, the international economy as a whole is bearing some of the burden, in the form of excessively high real interest rates, of the large U.S. budget deficits projected for 1985 and beyond.

Leadership also means that when other major industrial democracies pursue irreponsible policies, condoning, for instance, high rates of inflation, the United States should not adapt its policies to their weakness. It should instead espouse firm anti-inflationary policies on its own. This is essentially the course U.S. monetary authorities have followed for the last four years. The United States was not the first to reduce its rate of inflation after the second oil shock, but it has been the anti-inflationary commitment of U.S. monetary policy which has made the decisive difference from a global point of view. Since the summer of 1982, U.S. monetary policy has again taken the lead, this time in promoting recovery.

When the United States is following responsible macroeconomic policies and providing enlightened leadership, its partners should be willing to follow. The burden of coordination should be on them, and they should adapt their policies to those of the United States. Moreover, Washington cannot afford to take a disinterested view of their response, because, if coordination is not achieved, its own initiatives will not be successful. Even the United States cannot successfully conduct a fully autonomous monetary and fiscal policy. Therefore Washinton must convince its partners to follow its lead. One of the responsibilities of leadership is to forge a consensus on what needs to be done and to generate collective support for the necessary policies. The responsibility of the other major industrial democracies is to be "reliable partners" and to accept U.S. leadership when it is going in the right direction.

Do these basic political considerations imply any need to reform existing international rules governing the conduct of macroeconomic policy, notably arrangements governing the movement of exchange rates?

It has often been noted that nominal and real exchange rates have been subject to larger major swings since the advent of floating than most economists and economic officials had thought would be the case.[6] This has been at least partly a reflection of the divergence of underlying macroeconomic policies.

Numerous proposals have been made over the last decade for a return to a system of more rigid governance of exchange rates, more flexible than the old Bretton Woods system, but less flexible than the present system of floating. One of the more widely discussed of these proposals has been that calling for the establishment of broad "target zones" for exchange-rate movements.[7]

It would indeed be desirable to attenuate the extent and frequency of the episodes of "overshooting" which asymmetries between countries and lags in policy-making processes and economic response make somewhat inevitable in a system of free floating. If maladjustments could be financed to a greater degree rather than allowed to manifest themselves predominantly in exchange-rate movements, price stability would be enhanced and pressures for protectionism reduced.

However, I do not think that a system of "target zones" linking the major countries of America, Europe and Japan is feasible. I agree with the economists and policy makers who argue that the degree of uncertainty in the world is too great for governments and central banks to make any formal commitments to specific ranges for the evolution of their exchange rates even a year or two ahead. I also agree that, even if officials were capable of forecasting equilibrium rates better than the market, the volume of reserves that they would have to be prepared to commit to defend those views far exceed the limits of what is realistic or desirable.[8]

In my view, the only realistic way to achieve greater stability of exchange rates is through more active efforts to coordinate the monetary and fiscal policies of the key industrial countries. To the extent that the key countries are successful at these efforts, real exchange rates will tend to become more stable. This does require a willingness on the part of those countries to let exchange-rate considerations influence their macroeconomic policy decisions.[9] Policy makers should actively seek to avoid prolonged divergences between real exchange rates and their equilibrium levels. They should be willing to adjust monetary and fiscal instruments in the light of such considerations.

At Versailles, the Seven instituted a new mechanism of consultations intended to promote more active coordination of macroeconomic policies. A series of regular meetings between the managing director of the IMF and the finance ministers and central bank governors of the five summit countries whose currencies are included in the Special Drawing Rights (SDR) basket was initiated.[10] At Williamsburg, the Seven should renew their support for this mechanism. The basic decisions on which the harmonization of macroeconomic policies depends will remain essentially political. Heads of state and government will have to provide direction themselves. But consultations such as those initiated at

Versailles can pave the way, and are necessary for successful implementation, once the political decisions have been made.

Maintenance of the free trading system, management of the large debts the developing and Soviet Bloc countries have accumulated in recent years, improvement of the coordination of the monetary and fiscal policies of the major industrial democracies—these are all critical areas calling for a combination of short- and long-run measures on the part of the Seven. To be successful, their response must be coordinated. No single nation, not even the United States, can engineer a satisfactory outcome alone. It is in the enlightened national interest of each to seek to forge with its partners a consensus in support of cooperative solutions. That task requires a continuing, strong, and effective dialogue at the summit.

Toward Realistic Cooperation

Anthony M. Solomon

The economic summit of 1983 comes at the time of widely diverging perceptions and attitudes about where the world economy is heading and what can and should be done to improve the outlook. It is also fair to say that there are, here and there, misperceptions about the current situation and about the policy stance and intentions of different governments. Under the circumstances, this year's summit offers an opportunity for developing no more than a better understanding of how policies are evolving and of what kinds of changes governments might consider making in order better to harmonize their national policies. Realistically, it is only a long shot that the summit participants could come together on a fully articulated, coordinated approach to dealing with today's problems of inadequate growth and high unemployment. But achieving a somewhat greater degree of cooperation is not out of the question and actually may be easier now than in the recent past.

The differences in perceptions and attitudes fairly accurately reflect the constrast in current economic circumstances. Broadly speaking there is a growing sense in the United States—but not in Europe, in my impression—that the turning point has been reached. There are definite signs that recovery has begun in this country. It is most likely to be moderate in strength, at least compared to the more vigorous postwar rebounds. But that in itself need not be a source of concern for the moment, because it raises the chances that the recovery can be sustained and it lowers the chances that the considerable progress made against inflation may be jeopardized. So the United States will be hosting the summit with a reasonably favorable prognosis despite only gradually declining unemployment over the next two years as well as some continuing internal imbalances and weak spots in the economy.

Many European experts do not share a sense of promise. Although Europe generally is also benefiting from an improved inflationary environment and, importantly, from less costly oil, it appears that not as much comfort is being taken of that fact. Instead, Europeans are worried about whether their recovery will get going or if it will bring down unemployment at all. They are deeply concerned that major structural forces at work in their economies—in terms of such issues as wage rigidities, elaborate social benefits, the relative roles of government and the private sector, a waning of entrepreneurial energies, and a broader

lack of confidence among segments of both the general population and the business community—will be lasting impediments to expansion. In this atmosphere, there is a yearning for a better outcome, for a return to earlier periods when optimism and enthusiasm went unquestioned. But this yearning has apparently not yet been translated into a vigorous seeking out of potential solutions and a search for consensus within Europe on policy initiatives which could help bring about that better outcome.

These contrasts in economic circumstances and perceptions have important implications as we look ahead to the Williamsburg summit and beyond. To begin with, it has to be recognized, especially by Europeans, that with the United States in a somewhat better position to emerge from the recession with a reasonably good recovery, there is little incentive for this country to strain to come up with new initiatives for joint action. As we have seen in the past, the United States is capable of taking on a strong leadership role—in fact, this country has a unique comparative advantage in getting out front with new ideas. But the United States does not usually play that role effectively unless there is a sense of common ground on where we and the other major industrial countries want to go. Therefore, it would seem that a precondition for successful international economic policy coordination now is that the European governments themselves reach internal consensus on objectives, on policy approaches they will be willing to consider, and on new directions they will be willing to take.

This cannot be an easy assignment, and it is one which European governments are likely to view with ambivalence. There are obvious attractions to new initiatives. There is always the hope that they might capture the attention and the imagination of the public. But no one has found a line of economic analysis that reveals a set of measures sure to yield better results—and generate those results quickly, without adverse effects on inflation. And it is obviously pointless to invest considerable amounts of domestic political capital in fashioning a joint European package that in the end may not do much to help solve immediate problems.

The conclusion, harsh as it may sound to some, is simply this: if the European industrial countries are incapable of devising a set of objectives and an approach to achieve them—either because they disagree on ends or because they agree on ends but see no means that can be reasonably predicted to work—then criticism of the United States for failing to cooperate adequately is going to be taken, rightly, as disingenuous. In fact, such criticism is potentially harmful, for it leaves the impression that a package of coordinated actions could be put forward that would work, if only the United States would come along. The truth is that such packages are very rare. Normally, what can be feasibly accomplished by cooperative action is more modest.

Thus, in my view this year's economic summit—indeed, all of them—ought to be launched with a strong sense of realism. We have learned much from past summits and from the experience of recent years. We have learned that the authorities of the main industrial countries are good at responding to a crisis—responding rapidly and skillfully with full communication and close cooperation. We saw it with the British and Italian financial programs back in 1976, with the dollar support package of November 1978, and with the Bonn summit agreement itself. Lately, we have seen an excellent cooperative response to the international debt-servicing crisis that has enveloped countries like Mexico, Brazil, Argentina and Yugoslavia. Strictly speaking, these recent efforts have been outside the actual summit process, but they do derive from the common interest in cooperative efforts—the principle that ultimately underpins the concept of having economic summits at all.

Where we have done less well is in those areas where longer-term structural reforms are involved. There is a recognition that a problem exists. But the nature of the structural reform needed to deal with it is unclear. Economic analysis does not yield a consensus of unambiguous recommendations under real world assumptions. Ideology and doctrine strongly color what options can be considered. The time horizons are long, and instant gratification, a desirable attribute from the domestic political standpoint of most leaders, is almost always impossible. And there is impatience and frustration with a sequence of incremental, often seemingly technical, steps that are difficult enough to implement, even when national legislatures can be convinced to pass them. A good example would be the case for stand-by authority to impose an oil tax when prices decline sharply and to do it on a coordinated international basis so that relative trading competitiveness is not distorted. In short, where there is a crisis, action does not wait for the next economic summit; but the fact that there will be a next summit provides legitimacy to the process of cooperation in a crisis. By comparison, where there is not an obvious crisis but there are long-term problems, it is all too easy to overlook the kind of contribution summits can make, even when results fall short of a bold new departures.

My own sense is that, under present circumstances, it is exactly this type of low-key approach that is needed to help nudge the economies of the industrial countries toward sustainable recovery and to help achieve a greater degree of stability in financial markets domestically and internationally. It would not accomplish miracles, but it would relieve

concerns that the seven summit countries are incapable of cooperative efforts.

In substance, a useful set of joint undertakings would include a U.S. commitment to reducing longer-term federal deficits in order to maintain an overall medium-term policy course that would be moderately restrictive and consistantly anti-inflationary. For Germany, Japan, and probably the United Kingdom, which have reasonably strong current account positions and tolerable inflation rates, it would include some stimulus to private sector spending, most sensibly (in view of the exchange rate situation) through a temporary easing of fiscal policy. In addition, in the area of international trade policy, the Seven should agree among themselves on the most meaningful set of commitments they can effectively implement to put a stop to the drift toward protectionist measures. And they should give concreteness to this by setting up a monitoring group drawn from the seven summit governments to follow through on those commitments—not to supplant the GATT, but to provide a mechanism that can act fast and without bureaucratic encumbrances.

Finally, the time may be right for laying out a common understanding among the Seven on the importance of exchange rates for their economies and the need to avoid periods of overshooting in one direction or the other. In fact, there has probably been more convergence of views among the financial authorities of the major countries, and something like a pragmatic consensus might emerge. But not all have recognized the movement that has occurred. And there are misperceptions on several sides about what other countries are prepared to do in terms of exchange market intervention. What I would contemplate would go beyond the level of platitudes—that exchange market stability is good and instability is bad. But it would be modest in intent. There is no support for a formal program of massive concerted intervention at this time, and I don't see support for that approach developing now. A limited approach would also avoid exciting-sounding but basically unrealistic schemes for a return to some version of fixed or target zone exchange rates. No one knows what those rates should be or how they would be enforced. Instead, I would envisage the outlines of an understanding that effective intervention, coordinated among the major monetary authorities, could be undertaken when exchange rates were judged to have clearly gone beyond levels that are consistent with the economic fundamentals and which endanger the preservation of free trade.

This kind of intermediate approach has the advantages of flexibility and reversibility. It does not require huge amounts of resources to be put in place ahead of time in order for it to be effective. But it also has great symbolic value, by putting to rest a source of irritation and demonstrating an ability to reach a middle ground position on an issue that had seemed impervious to compromise not too long ago.

To conclude, a successful economic summit ultimately depends on two things. First, the personalities of the participants and the key people advising them must jell in a way that makes cooperation seem natural and also valuable. Second, analysis must have some predictive power, yielding a real sense of certainty that positive results will follow a proposed course of action. Not every summit will be lucky enough to have both elements present. But if they are there, the summit can be a powerful tool and a strong force for improvement in the world economic outlook.

APPENDIX
A Summary of the Main Points of Eight Summit Communiqués, 1975-1982

RAMBOUILLET SUMMIT
Nov. 15-17, 1975

Participating Leaders

President Gerald Ford, President Valéry Giscard d'Estaing, Prime Minister Takeo Miki, Prime Minister Aldo Moro, Chancellor Helmut Schmidt, Prime Minister Harold Wilson.

Principal Agreements

Statement of determination "to overcome high unemployment, continuing inflation and serious energy problems."

Renewed commitment to free trade. Call for completion of Tokyo Round negotiations in 1977.

Agreement to accept floating as a legitimate exchange-rate regime to be placed under IMF surveillance, and concurrent commitment by authorities in participating countries to intervene in exchange markets "to counter disorderly market conditions or erratic fluctuations in exchange rates." Both sides of the understanding to be ratified at the forthcoming IMF meeting in Jamaica.

SAN JUAN SUMMIT
June 27-28, 1976

Participating Leaders

Prime Minister James Callaghan, President Valéry Giscard d'Estaing, President Gerald Ford, Prime Minister Takeo Miki, Prime Minister Aldo Moro, Chancellor Hellmut Schmidt.

Principal Agreements

Statement of common purpose "to manage effectively a transition which will reduce the high level of unemployment which persists in many countries and will not jeopardize our common aim of avoiding a new wave of inflation."

Agreement to consider creating a new multinational credit facility, possibly within the IMF, to aid developed nations experiencing temporary payments problems.

LONDON SUMMIT
May 7-8, 1977

Participating Leaders

Prime Minister Giulio Andreotti, Prime Minister James Callaghan, President Jimmy Carter, Prime Minister Takeo Fukuda, President Valéry Giscard d'Estaing, Chancellor Helmut Schmidt, Prime Minister Elliott Trudeau.

Principal Agreements

"We commit our governments to targets for growth and stabilization which vary from country to country" (Japan 6.7%, U.S. 5.8%, Germany 5%).

Agreement to exchange experiences with programs to combat youth unemployment.

Endorsement of agreement of interim committee of IMF to seek additional resources.

Call for "broadest possible" tariff reductions, "a significant reduction of non-tariff barriers," and "a mutually acceptable approach to agriculture" in the context of the Tokyo Round negotiations.

Approval of increased reliance on nuclear energy. Agreement to undertake "a preliminary analysis" of non-proliferation safeguards, "including the study of terms of reference for international fuel cycle evaluation." (This masked a deep disagreement between the U.S., on the one hand, and France and Germany on the other, over policy regarding breeder reactors.)

Pledged fulfillment of fifth replenishment IDA.

Agreement to support negotiations to create a Common Fund for individual commodity buffer stock agreements.

BONN SUMMIT
July 16-17, 1978

Participating Leaders

Prime Minister Giulio Andreotti, Prime Minister James Callaghan, President Jimmy Carter, Prime Minister Takeo Fukuda, President Giscard d'Estaing, Roy Jenkins, President of the EEC Executive Commission, Chancellor Helmut Schmidt, and Prime Minister Pierre Elliot Trudeau.

Principal Agreements

Agreement on a program of "different actions by countries that face different conditions":

Canada:	output growth "up to 5%";
Germany:	government will propose to legislature "additional and quantitatively substantial measures up to 1% of GNP" before end of August;
France:	government agrees to increase its deficit by 0.5% of GNP in 1978;
Italy:	government pledges output growth in 1979 1.5 percentage points higher than 1978;
Japan:	government pledges to achieve target real growth in fiscal 1978 1.5% higher than in fiscal 1977;
U.K.:	government pledges to "continue the fight against inflation" (a new fiscal stimulus of over 1% of GNP had been announced prior to the summit);
U.S.:	government reaffirmed its commitment to several anti-inflationary measures (reduction of 1979 tax cut by $10 billion, reductions of government expenditure projections for 1978 and 1979, implementation of voluntary wage and price program).

Commitment by the U.S. to "have in place by the end of the year a comprehensive policy framework . . . that will result in oil import savings of approximately 2.5 million barrels a day by 1985." Specific pledges to establish a strategic oil reserve of 1 billion barrels, increase coal production by two-thirds, maintain ratio between growth of GNP and growth of energy at or below 0.8, restrict the volume of oil imports in 1978 and 1979 to less than the figure for 1977, to raise the domestic price of oil to the world level by the end of 1980.

Approval of EEC agreement reached at the Bremen summit on the following objectives for 1985:

reduction of dependence on imported energy to 50%, limitation of net oil imports, and reduction to 0.8 of the ratio between the rate of increase of energy consumption and the rate of increase of gross domestic product.

Joint pledge to further the "indispensible" further development of nuclear energy.

Strong commitment by the United States and Canada "to continue as reliable suppliers of nuclear fuel within the framework of effective safeguards."

Suggestion that the World Bank explore ways to help developing countries finance hydrocarbon exploration.

Support expressed for the framework of understanding on the Tokyo Round of multilateral trade negotiation made public in Geneva, July 13, "even though . . . some difficult and important issues remain unresolved."

Japanese government agrees to work for the increase of imports into Japan and "to take a temporary and extraordinary step of . . . keeping the total volume of Japan's exports for the fiscal year 1978 at or below the level of fiscal 1977."

Japanese government announces the intention to double its official development aid in three years.

Joint pledge to support replenishment of IDA on a scale that would "permit its lending to rise annually in real terms."

Agreement to pursue actively negotiations on a Common Fund for commodity stabilization.

Note was taken of the EEC decision at the recent Bremen summit to constitute a new European Monetary System.

TOKYO SUMMIT
June 28-29, 1979

Participating Leaders

Prime Minister Giulio Andreotti, President Jimmy Carter, Prime Minister Joe Clark, President Valéry Giscard d'Estaing, Roy Jenkins, President of the EEC Executive Commission, Prime Minister Masayoshi Ohira, Chancellor Helmut Schmidt, Prime Minister Margaret Thatcher.

Principal Agreements

Commitments regarding oil import ceilings for 1979 and 1980:

France, Germany, Italy and the U.K. reaffirmed the EEC decision to restrict the Community's 1979 oil consumption to 10 million barrels a day and to maintain its oil imports between 1980 and 1985 at an annual level not higher than that of 1978. In addition, they agreed to recommend to the EEC that each member country's contribution to these annual levels be specified.

Canada, Japan and the U.S. reaffirmed their commitment to their individual IEA oil import targets for 1979 and agreed to hold 1980 imports at or below these 1979 levels.

Commitments regarding oil import targets for 1985:

France, Germany, Italy and the U.K.: the 1978 figure

Canada: 0.6 million barrels per day.

Japan: between 6.3 and 6.9 million barrels per day.

The U.S.: 8.5 million barrels per day (the 1977 level).

Agreement on constitution of a high-level group of representatives to review oil import and energy conservation results.

Agreement on setting up a register of international oil transactions, and on examining feasability of requiring certification of purchase price at the time of unloading of crude oil cargoes.

Agreement on maintaining or raising domestic oil prices to world level and eliminating subsidies or other administrative action that might put upward pressure on world prices.

Agreement to create an international energy technology group.

Statement "deploring" the decisions taken by the recent OPEC conference.

Statement of support for the World Bank's program for hydrocarbon development.

VENICE SUMMIT
June 21-23, 1980

Participating Leaders

President Jimmy Carter, Prime Minister Francesco Cossiga, President Valéry Giscard d'Estaing, Chancellor Helmut Schmidt, Prime Minister Margaret Thatcher, Prime Minister Pierre Elliott Trudeau, and cabinet ministers from a caretaker government replacing deceased Japanese Prime Minister Masayoshi Ohira.

Principal Agreements

Joint statement calling for permanent and complete withdrawal of Soviet troops in Afghanistan and deploring the taking of diplomatic hostages.

Statement that "the reduction of inflation is our immediate top priority."

Recognition of the IEA secretariat's estimate that the collective sum of its members' net oil import targets for 1985 could be reduced by 4 million barrels a day. (No agreement was reached on individual country commitments toward further reduction.)

Broad range of general agreements to conserve oil and foster the development of the equivalent of 15-20 million barrels of oil per day of alternative forms of energy by 1990:

> Agreement not to construct any new base-load, oil-fired generating stations;
>
> Agreement to encourage conservation and substitution away from oil in industrial, residential and transportation usages;
>
> Statement of intention to double coal production by 1990;
>
> Statement of support for increased use of nuclear energy;
>
> Statement of support for conclusions of the international nuclear fuel cycle evaluation group launched at the London summit of 1977;
>
> Agreement to exchange technological information on new synthetic fuels plants and other technological innovations and to project production potentials of these new technologies through the year 2000.

Statement that the above comprehensive strategy is intended to reduce the ratio between increases in collective energy consumption and economic growth in the Seven to 0.6 by 1990, and further to reduce the share of oil in total energy demand from the present 53% to about 40% during the same decade.

Call for the World Bank to consider the possibility of a new affiliate or facility to increase its lending programs for energy assistance.

Statement of support for the principle of global negotiations in the framework of the United Nations regarding a new international development strategy.

Commitment to strengthen international arrangements on export credits with a view to reaching an agreement by December 1, 1980.

Commitment to work in the United Nations toward an agreement prohibiting illicit payments.

OTTAWA SUMMIT
July 20-22, 1981

Participating Leaders

President François Mitterand, President Ronald Reagan, Prime Minister Giovanni Spadolini, Prime Minister Zenko Suzuki, Prime Minister Margaret Thatcher, Gaston Thorn, President of the EEC Executive Commission, Prime Minister Pierre Elliott Trudeau.

Principal Agreements

Expressions of support for reducing public borrowing, encouraging productive investment, and accepting the role of markets.

Expression of support for "low and stable" monetary growth and acknowledgement of the desirability of greater stability in foreign exchange and financial markets.

Support for the forthcoming Cancún North-South summit.

Agreement to participate in preparations for "a mutually acceptable process of global negotiations."

Support for the encouragement of private as well as public capital flows to developing countries.

Expression of willingness to cooperate with OPEC in financing development, especially of energy sufficiency, in non-oil-producing developing countries.

Endorsement of efforts to reach agreement by the end of the year on the reduction of subsidy elements in export-credit schemes.

Agreement to consult to improve the system of controls on trade in strategic goods with the U.S.S.R.

VERSAILLES SUMMIT
June 5-6, 1982

Participating Leaders

Prime Minister Wilfred Martens, President of the Council on European Communities, President François Mitterand, President Ronald Reagan, Chancellor Helmut Schmidt, Prime Minister Giovanni Spadolini, Prime Minister Zenko Suzuki, Prime Minister Margaret Thatcher, and Gaston Thorn, President of the Commission of the European Communities, Prime Minister Pierre Elliott Trudeau.

Principal Agreements

Commitment to "work toward a constructive and orderly evolution of the international monetary system." This was further developed in an additional "Statement on International Monetary Undertakings," which included the following points:

> Acceptance of "a joint responsibility to work for greater stability of the world monetary system" through "convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth . . ."
>
> Agreement to cooperate with the IMF "in its work of surveillance . . . on a multilateral basis taking into account particularly the currencies constituting the SDR . . ."
>
> Affirmation of willingness "to use intervention in exchange markets to counter disorderly conditions, as provided under Article IV of the IMF Articles of Agreement."

Endorsement of the GATT Ministerial Conference (which was eventually held in November, 1982).

Agreement "to pursue a prudent and diversified economic approach to the U.S.S.R. and Eastern Europe." The agreement had three aspects: (1) a commitment to strengthening the international system for controlling exports of strategic goods, (2) an agreement to exchange information in the OECD on all aspects of economic relations with the Soviet Union and Eastern Europe, (3) an agreement to "handle cautiously" financial relations with the Soviet Union and the Eastern European countries.

Commitment to launching "global negotiation." Agreement on a joint response to the latest draft resolution of the Group of the 77 toward that purpose.

Support "for special temporary arrangements to overcome funding problems for IDA VI," and for "an early start" on IDA VII.

Decision to set up a working group of representatives of the Seven and of the European Community to develop, in consultation with the OECD, proposals relating to President Mitterand's report on new technologies.

NOTES

Chapter 1. From Rambouillet to Versailles

1. Ratified by the Smithsonian agreements in December 1971.
2. In Japan, Prime Minister Fukuda was soon to suffer from the effects of a political scandal which eventually toppled his government in November 1974.
3. Schmidt had himself, in fact, been an early staunch supporter of the International Energy Agency when he was still Finance Minister. See Henry Kissinger, *Years of Upheaval* (Boston: Little Brown, 1982), p. 909.
4. "Straight Talk to the U.S.: Interview with West German Chancellor Helmut Schmidt," *U.S. News and World Report*, December 9. 1974, p. 32.
5. The details of the agreement are described in "Communiqué issued following the meetings of the President of the United States of America and the President of the French Republic in Martinique," *Department of State Bulletin*, January 13, 1975, pp. 42-44. The U.S. also dropped its suggestion that the emergency financial safety net proposed earlier in the year by Secretary of State Kissinger be administered by the International Energy Agency, and suggested instead that it could be coordinated by the IMF. See Secretary of State Kissinger's press conference after the Martinique summit, *Ibid*, p. 40.
6. Communiqué of the meeting of the Committee of Twenty in Washington, D.C., March 26-27, 1973. Quoted by Robert Solomon, *The International Monetary System, 1975-1981* (New York: Harper & Row, 1982), p. 248.
7. France, Germany, Japan and the United Kingdom.
8. See Robert Solomon, *op. cit.*, pp. 274-80, for a careful and incisive analysis of these negotiations.
9. These were conducted by U.S. Under Secretary of State for Monetary Affairs Edwin Yeo and his then counterpart in the French Ministry of Finance, Jacques de la Rosière. Karl Otto Pohl, then State Secretary in the German Ministry of Finance, played an important role in the negotiations that immediately preceded the Rambouillet meeting.
10. Article IV of the revised IMF Articles of Agreement. Quoted in Robert Solomon, *op. cit.*, p. 272.
11. Various efforts were made to overcome the inhibiting effect of numbers. Membership in Working Party Three was restricted to representatives from the nations of the "Group of Ten." All 24 members of the OECD belonged, however, to the Economic Policy Committee. The U.S. representative on the EPC eventually initiated the practice of informal meetings of the representatives of a few key nations in what came to be known as the Committee's "Bureau." Nonetheless, neither the EPC nor WP3 were adequate to the problems at hand. For an eloquent statement of the limitations of OECD consultations as they existed in 1975, see Miriam Camps, *First World Relationships: the Role of the OECD* (Atlantic Institute and Council on Foreign Relations, 1975).
12. See the discussion of the relationship between G-10 and C-20 in Miriam Camps and Catherine Gwin, *Collective Management: The Reform of Global Economic Organizations* (New York: McGraw-Hill, 1981), p. 225.
13. See Brian Tew, *The Evolution of The International Monetary System, 1945-1977* (New York: John Wiley, 1977).
14. Fifteen months earlier, Secretary of State Kissinger had proposed that President Nixon and his European and Japanese counterparts hold a special summit meeting to reaffirm a common sense of purpose and give new political direction to their foreign policies.

But Brandt, Heath and Pompidou, burdened with internal difficulties and concerned with their perceptions of Europe's need for independence, did not want to identify themselves with an American president whose prestige was plummeting. The "Year of Europe" fizzled. Henry Kissinger, *op. city.*, Chapters 5 and 16, gives an incisive analysis of the logic behind his initiative and the reasons for its failure.

15. George Shultz describes his initial contacts with President Giscard d'Estaing, Chancellor Schmidt, and Prime Minister Wilson in George P. Shultz and Kenneth W. Dam, *Economic Policy Beyond the Headlines* (New York: Norton, 1977), pp. 12-14.
16. These five men were subsequently joined by Renaldo Ossola, as Prime Minister Aldo Moro convinced his partners that the inclusion of Italy in the summit meeting would strengthen his nation's beleaguered democratic processes, whereas its exclusion would bring considerable harm. Six nations were finally represented at the summit at Rambouillet: the United States, France, Germany, Italy, Japan and the United Kingdom.
17. Lois Pattison de Menil, *Who Speaks for Europe? The Vision of Charles de Gaulle* (London: Weidenfeld and Nicolson, 1977), p. 49.
18. The origins, development and failure of de Gaulle's effort to promote political consultations within the European community are described in Lois Pattison de Menil, "Europe for What? Integrated *Volapuk* and the Fouchet Fiasco," Chapter Four, *op. cit.*, pp. 60-77.
19. The Appendix lists the participants and summarizes the principal agreements reached at each of the past eight summit meetings.
20. Remarks by President Ford at the close of the Rambouillet Conference, *State Department Bulletin*, December 8, 1975, p. 805.
21. This and other quotations from the communiqué are taken from "Text of Declaration of Rambouillet," *State Department Bulletin*, December 8, 1975, pp. 805-807.
22. See *London Times*, December 15, 1975. There were typically also domestic forces operating in this direction. Parliament's vote a day earlier of a substantial aid package for Chrysler's British subsidiary had alleviated some of the pressure for protection of the automobile industry.
23. *San Juan Star*, June 28, 1976, p. 1.
24. Despite strenuous objections on the part of the French, Canada was admitted to the initial Group of Six in 1976 and the President of the European Commission was added in 1978 "for discussion of matters within the [European] Community's competence." (The quotation is from the declaration issued at the Bonn summit of 1978, *Department of State Bulletin*, September 1978, p. 2.) Since then, the EEC has also been represented in principle by the European leader who has happened at the time of each summit to be the president of the Council of Europe. At Versailles, this was, for the first time, a leader who did not represent one of the seven major industrial countries, namely the prime minister of Belgium.
25. Other alumni of the Trilateral Commission in the Carter Administration included Under Secretary of State for Economic Affairs Richard Cooper, Assistant Secretary of State Samuel Huntington and Assistant Secretary of the Treasury Fred Bergsten.
26. See C. Fred Bergsten, Georges Berthoin, Kinhide Mushakoji, "The Reform of International Institutions," 1976, a task force report of the Trilateral Commission.
27. The notion that countries with a strong balance-of-payments position should undertake expansionary policies in order to promote a return to global equilibrium has many antecedents. The specific term "locomotive" as attributed to this strategy may have been inadvertently coined by Richard Cooper. See Richard N. Cooper, "Global Economic Policy in a World of Energy Shortage," in J. Pechman and J. Simler (eds.), *Economics in the Public Service* (New York: Norton, 1982), p. 98. A particularly influential statement of the theory was produced on the occasion of a conference at the Brookings Institution, in November 1976: "Economic Prospects and Policies in the Industrial Countries; a Tripartite Report by Sixteen Economists from the European Community, Japan and North America" (Washington: Brookings Institution, 1977).
28. The Secretariat of the OECD had originally advocated a more coordinated and less purposefully asymmetrical approach. At a ministerial meeting in June of 1976, just before the Puerto Rico summit, the Organization called for a program of "concerted action" by all of the major industrial countries. This strategy came to be referred to as the "convoy" approach. See OECD *Economic Outlook*, July 1976, including supplement.
29. See David R. Francis, "Japan, West Germany Grab Economic Pump Handle," *Christian Science Monitor*, September 6, 1977.
30. The deliberations of the group formed to study this question were prolonged by a year at the subsequent Bonn summit, at which the United States and Canada committed themselves to guarantee supplies of uranium to their partners, in exchange for agreed safeguards.
31. Henry Owen, "Don't Let This Summit Be the Last," *The New York Times*, July 19, 1981, See. III, p. 4, col. 3.
32. *The New York Times*, March 13, 1978, Sec. IV, p. 1, col. 1, Clyde H. Farnsworth, "U.S. Getting Ready for a Bonn Summit on Economic Issues."
33. See OECD *Economic Outlook*, July 1978, pp. 62, 66, 67, 68 and 72, and December 1978, pp. 75-77. Unexpected increases in tax receipts were offsetting the expansionary effect of the German government's September 1977 package. Despite significant efforts on the part of the Japanese government to expand domestic demand and restrain net foreign demand, that country's current account surplus continued, nonetheless, to be substantially larger than Germany's.
34. *The New York Times*, March 24, 1978, Sec. IV p. 1, col. 1, Graham Hovey "Anti-Recession Plan at Summit Meeting Urged by Callaghan."
35. John Vinocur, "Schmidt Says U.S. Holds Key to Economic Accord," *The New York Times*, July 14, 1978, Sec. I, p. 3, col. 1.
36. Jimmy Carter, *Keeping Faith: Memoirs of a President* (New York: Bantam Books, 1982), p. 104.
37. The additional budgetary stimulus which was to be enacted by the Japanese parliament in December, five months after the summit, was not officially linked to the Bonn agreement.
38. See OECD, *Economic Outlook*, July, 1978, pp. xii-xv.
39. Private discussion with the author, February 1983.
40. The agreement was finally officially signed in Tokyo, April 12, 1979.
41. President Carter announced his decision on April 5, 1979.
42. In an interview in *The Economist*, September 29, 1979, pp. 47-50, Helmut Schmidt remarked, "I think that this ridiculous little 'locomotive theory' has withered away now. And correctly so . . ."
43. In 1973, Bonn had been pursuing contractionary budgetary and monetary policies at a time when its major trading partners were all experiencing varying degrees of excess demand. It was consequently able to realize a large enough surplus in trade for manufactured products to more than offset its increased oil deficit in 1974. See G. de Menil and U. Westphal, "Le deficit petrolier et la balance commerciale: France-Allemagne," *Revue Economique*, March 1980, pp. 287-312.
44. This view was expressed by Sir Kenneth Couzens, former Deputy Finance Minister of the United Kingdom, in private correspondence with the author in December 1982. See also Marina v. N. Whitman, "The Locomotive Approach to Sustaining World Recovery: Has It Run Out of Steam?", *Contemporary Economic Problems*, William Fellner, ed., American Enterprise Institute, 1978; also, Marina v. N. Whitman, "A Year of

Travail: The United States and the International Economy," *Foreign Affairs*, Vol. 57, No. 3, 1979.

45. See George de Menil, "De Rambouillet à Versailles: un bilan des sommets économiques," *Politique Etrangère*, No. 2, June 1982, pp. 403-17. See especially p. 408.
46. This interview was held in Chancellor Schmidt's *Bundestag* office in Bonn, February 1, 1983.
47. Declaration of the Tokyo Summit, *Department of State Bulletin*, August 1979, pp. 8, 9.
48. The intention of the entitlement program was to compensate those U.S. companies which did not have as much access as others to cheap, controlled domestic oil for the higher prices they had to pay for imported oil. Its effect was to subsidize imports.
49. *The New York Times*, June 6, 1979, Sec. I, p. 19, col. 3, "French Official Expresses Doubt on Middle East and Arms Pact."
50. Jimmy Carter, *op. cit.* President Carter recounts his version of the summit negotiations on pp. 111-14.
51. Declaration of the Tokyo Summit, *op. cit.*, p. 8.
52. Immediately upon his return from Tokyo, President Carter went to Camp David for what was to become a 12-day retreat during which he conferred with a succession of prominent American individuals on the nature of his energy policy and on his general conduct of government. He emerged on July 15 to give what he considers "one of my best speeches," which called for renewed confidence in the government and ended with a brief outline of his new energy proposals. Jimmy Carter, *op. cit.*, pp. 114-21.
53. See Jimmy Carter, *op. cit.*, pp. 537, 538.
54. The meetings of the sherpas also came increasingly to overlap and mesh with other channels of international consultation. Specialized international agencies focused on specific areas of the agenda. The OECD played a significant role in the process for a time. Between 1977 and 1980 preparatory discussions of the macroeconomic part of the agenda were pursued by the Bureau of the Economic Policy Committee of the organization. Similarly, the International Energy Agency participated in preparatory discussions of the portion of the agenda devoted to energy. Robert D. Putnam provides an extensive description of the process of summit preparations and follow-through in "The Western Economic Summits: A Political Interpretation," paper prepared for the Workshop on Summitry and European Policy-Making, European Institute of Public Administration, Maastrict, the Netherlands, No. 18-20, 1982.
55. Anthony Solomon disagrees with this interpretation of the consequences of the U.S. monetary policy.
56. The wording of the communiqué reflected extensive agreement with U.S. positions on a broad range of issues from the crucial role of monetary policy to the importance of free markets. See "Declaration of Economic Summit," *Department of State Bulletin*, August 1981, pp. 8, 9.
57. See Anthony Solomon's discussion of the Ottawa summit, Chapter 2, p.-
58. Reginald Dole, "'Rich-Poor' Talks End Inconclusively," *The Financial Times*, June 3, 1977.
59. See "Declaration of Economic Summit," *Ibid*, p. 9. President Reagan was to express the U.S. position eloquently in a remark to reporters later in the year: "If there are those, and possibly there are, who by global negotiations interpret that to mean some gigantic new international bureaucracy to be in charge, we would be opposed to that. If global negotiations mean that we continue negotiations as to how all of us can help resolve these problems, we're perfectly willing to." These remarks were made during the subsequent North-South meeting in Cancún, Mexico, in October 1981. Hobart Rowen and Lee Lescaze, "North-South Conference Nears End," *Washington Post*, October 24, 1981.

60. Reginald Dole and John Wyles, "The Ottawa Summit: Tangible Progress in the Fields of Trade and Aid," *The Financial Times*, July 23, 1981.
61. Private discussion with the author, February 1983.
62. See Beryl Sprinkel, "International Economic Policies of the Reagan Administration," speech delivered to the Ninth International Trade Conference, Houston, Texas, April 9, 1982, Department of Treasury release. Secretary Sprinkel, a firm advocate of the monetary policies of the Federal Reserve, noted then that "we are fully aware that the demands of international cooperation sometimes require a country to forego its immediate self-interest in pursuit of fundamental common goals."
63. The U.S. Congress passed a budget resolution intended to reduce the deficit for fiscal 1983 by $40 billion on June 23, 1982. Some of the reductions were to come from additional revenue to be provided by a tax bill which was passed on August 19. Two months later, Federal Reserve Board Chairman Paul Volcker announced that, for technical reasons, the Board would temporarily disregard its M1 targets. The more fundamental implication of this decision, in this author's opinion, was that the Board would pursue a less restrictive monetary policy until the economy began to recover.
64. "Economic Summit, Final Communiqué," *Department of State Bulletin*, July 1982, p. 5.
65. *Ibid*, p. 6.
66. See Georges de Menil, "Si le sommet de Versailles n'avait pas eu lieu . . .", *Commentaire*, No. 20, Winter 1982-1983, pp. 571-79.
67. On tension between the United States and its allies over détente, see Henry Kissinger, *The White House Years* (Boston: Little Brown, 1979), Chapters 4, 5, 11 and 29.
68. Economic Summit, *op. cit.*, p. 6.
69. Immediately after the close of the conference, West German Finance Minister Manfred Lahnstein declared, "We will continue to work with East European countries and the Soviet Union as usual . . ." Axel Krause, "Allies to Seek Limits on Soviet Export Credits," *The International Herald Tribune*, June 7, 1982, p. 1. In a press conference three days after the close of the summit, President François Mitterrand described the U.S. position on credits as "much ado about nothing" (". . . l'énorme boeuf s'était dérangé pour casser cet oeuf-là! . . ."). Extraits de la conférence de presse du président de la République, *Le Monde*, June 11, 1982, p. 11.
70. The French, in particular, sought to take advantage of the Atlantic conflict to detract attention from internal dissatisfaction with the return to austerity which accompanied a 10% devaluation of the Franc with respect to the Deutschemark June 14. In a somewhat dramatic television interview, July 11, Foreign Minister Claude Cheyson claimed that "a progressive divorce" was developing between the United States and Western Europe. Quoted in Flora Lewis, "France Defies Ban by U.S. on Supplies for Soviet Pipeline," *The New York Times*, July 23, 1982, p. 1.
71. "Transcript of Reagan Speech on Soviet Union," *The New York Times*, November 24, 1982, p. A24. The French initially demurred from the reputed agreement, but acknowledged later that they had reached a meeting of the minds on basic principles with Washington on East-West economic relations. See joint press conference of Foreign Minister Claude Cheyson and Secretary of State George Shultz in Paris, excerpts quoted in Maurice Delarue, "Nette Détente Franco-Américaine," *Le Monde*, December 16, 1982, p. 1.
72. See note 46. In an article which appeared subsequently in British, French, German and Italian publications, Chancellor Schmidt called further for concerted action at Williamsburg: "At the economic summit in Williamsburg . . . concerted action by the seven summit participants must be the central theme. We cannot afford a repetition of quarrels over third-rate issues forcing major issues off the agenda." *The Economist*, February 26, 1983, pp. 19-30.

Chapter III. The Process of Economic Summitry

1. Originally little discussed and analysed other than in the media, economic summitry has become the subject of increasing professional and scholarly commentary. An early contribution to the literature is a series of Atlantic Council studies on collective leadership and economic summit meetings. In the opinion of former Secretary of Treasury Henry Fowler, who participated actively in this work, the "seedbed" for the ideas behind these studies was *Beyond Diplomacy: Decision Making in an Interdependent World, An Interim Report of the Special Committee of the Atlantic Council on Intergovernmental Organization and Reorganization*, The Atlantic Council, 1975. The two studies specifically devoted to summitry were Henry H. Fowler and W. Randolph Burgess, *Harmonizing Economic Policy: Summit Meetings and Collective Leadership; Report of the Atlantic Council's Working Group on Economic Policy*, The Atlantic Council, 1977; and Charles Robinson and William C. Turner, co-chairmen, Harald B. Malmgren, rapporteur, *Summit Meetings and Collective Leadership in the 1980's*, The Atlantic Council, 1980. A critical article by J. Robert Schaetzel and H. B. Malmgren, "Talking Heads," *Foreign Policy*, No. 39, Summer 1980, pp. 130-142, addresses some of the implications of the economic summits. Dieter Hiss, "Weltwirtschaftsgipfel: Betrachtungen eines Insiders" in *Empirische Wirtschaftsforschung: Konzeptionen, Verfahren und Ergebnisse*, Festschrift für Rolf Krengel aus Anlass seines 60. Geburtstages, edited by Joachim Frohn and Reiner Staglin (Berlin: Duncker & Humblot, 1980), is a general analysis of the summitry process with specific comments on the Bonn and Tokyo summits. Henry Owen, "Don't Let This Summit Be the Last," *The New York Times*, July 19, 1981, is a condensed survey of the first seven summits by a key actor at four of them. Miriam Camps and Catherine Gwin have discussed the place of economic summitry in the overall institutional structure of international coordination in their book *Collective Management: The Reform of Global Economic Organizations* (New York: McGraw-Hill, 1981), pp. 226-36. George de Menil, "De Rambouillet à Versailles: un bilan des sommets économiques," *Politique Etrangère*, No. 2, June 1982, pp. 403-417, analyses the treatment of macroeconomic and energy policy coordination in the first seven summits. Since the beginning of the second cycle of summits, a new body of work has begun to appear on the subject. A series of papers was prepared for the Workshop on Summitry and European Policy Making, European Institute of Public Administration, Maastricht, The Netherlands, November 18-20, 1982: Kurt Becker, "The Role of the Media"; Gianni Bonvicini, "European Community Participation at the Summits of the Seven"; Guido Garavoglia, "The Summits of the Seven from Rambouillet to Versailles: A European Perspective"; Dominique Moisi, "Crisis Management"; Jacques Pelkmans, "Western Economic Cooperation and Summitry"; Robert D. Putnam, "The Western Economic Summits: A Political Interpretation"; William Wallace, "Political Issues and (Atlantic) Summitry/ A New Concert of Powers?" A German book-length study of summitry was published in 1982: Rainer Hellman, *Weltswirtschaftsgipfel Wozu?* (Baden-Baden, May 1982).
2. The interview was held at President Giscard d'Estaing's office in Paris, October 27, 1982.
3. "... Voir si ils ont une idée sur le sujet, ou si ils sont decidés à ne pas en avoir une ..."
4. Remarks made during the interview mentioned earlier.
5. The interview was held February 1, 1983, in Chancellor Schmidt's office at the *Bundestag*.
6. Henry H. Fowler and W. Randolph Burgess, *op. cit.*, p. 28.
7. Remark made by Richard Cooper in private discussion with the author.
8. Quotation from the interview cited in note 5.
9. John Vinocur, "Mitterand Asks Streamlining of Annual Economic Meeting," *The New York Times*, October 12, 1982.

10. Comment made in private correspondence, February 1983.
11. The interview was conducted October 26, 1982, in Prime Minister Barre's office in Paris.
12. Comment made in private correspondence, February 1983.

Chapter IV. Williamsburg and Beyond

1. William McChesney Martin and Frank A. Southard Jr., co-chairmen, and Jacob J. Kaplan and Charles L. Merwin, rapporteurs, *The International Monetary System: Exchange Rates and International Indebtedness*, The Atlantic Council of the United States, Policy Papers, Washington, D.C., February, 1983, p. 18.
2. Estimate taken from "The Debt-Bomb Threat," *Time*, January 10, 1983, pp. 42-51, particularly p. 43.
3. Felix Rohatyn has proposed the creation of an institution that would be a substitute creditor for banks. Felix C. Rohatyn, "A Plan for Stretching Out Global Debt," *Business Week*, February 28, 1983, pp. 15 ff. Peter B. Kenen suggests the creation of what he calls an International Debt Discount Corporation in "A Bailout Plan for the Banks," *The New York Times*, Sunday Business Section, March 6, 1983. G. W. Mackworth-Young, Chairman of the Morgan Grenfell bank in London, and other London bankers have also proposed the creation of an international institution to discount some of the existing bank debt to developing countries. See Alan Friedman, "The Search for a Banking Lifeboat," *Financial Times*, March 15, 1983, p. 21. However, most private bankers are opposed to the creation of such an institution. William Ogden, Vice Chairman of Chase Manhattan Bank, has said, "The problem is liquidity, not solvency ... It is temporary ... Fundamentally the institutions [we need] are in place." See Lawrence Rout, "Foreign Debt Difficulties Prompt Proposals for Drastic Restructuring," *Wall Street Journal*, February 8, 1983.
4. The emphasis which I believe should be placed on strengthening the IMF parallels in some ways the general argument of Miriam Camps and Catherine Gwin on *Collective Management: The Reform of Global Economic Organizations* (New York: McGraw-Hill, 1981). My comments regarding the IMF have been influenced in particular by Chapter Six in that book. We conclude, however, with a different emphasis as regards summits. Camps and Gwin suggest that they should fade in the shadow of a strengthened IMF. I see them providing political direction to an organization in whose importance we concur.
5. John Williamson, "Global Macroeconomic Strategy," in *Promoting World Recovery*, Institute for International Economics, Washington, D.C., December 1982. This was the background paper for a statement by 26 economists from 14 countries gathered at the Institute calling for a program of concerted actions to promote global economic recovery.
6. Dr. Otmar Emminger, former president of the German Bundesbank, analyses the implications of what he describes as "excessive medium-term fluctuations" in *Exchange Rate Policy Reconsidered*. Occasional Paper No. 10, The Group of Thirty, New York, 1982.
7. The literature on proposals for reform of the monetary system in general and reform of the exchange rate regime in particular is too vast to be summarized here. A recent survey is Thomas D. Willet's, *Floating Exchange Rates and International Monetary Reform*, American Enterprise Institute, Studies in Economic Policy, Washington, D.C., 1977. One of the earliest proponents of a system of "target zones" was Robert V. Roosa. For his recent views on the subject see "The Parametric Function of Exchange Rates in a Market Economy," *Challenge Magazine*, March-April 1978, and "The Multiple Reserve Currency System" in Robert V. Roosa *et al.*, *Reserve Currencies in Transition*, The Group of Thirty, New York, 1982. Another recent statement favoring such a system is to be

found in William McChesney Martin and Frank A. Southard Jr., co-chairmen, and Jacob J. Kaplan and Charles L. Meërwin, rapporteurs, *op. cit.*, pp. 23-28.

8. Thomas D. Willett, *op. cit.*, makes these arguments forcefully. See also, the statement by Steven W. Kohlhagen, pp. 21-26, in Peter Kenen, ed. *From Rambouillet to Versailles: A Symposium*, Essays in International Finance No. 149, Princeton University, December 1982.

9. Otmar Emminger argues that "The very fact that monetary and other economic policies are part of the forces influencing the foreign exchange markets makes it unavoidable that those responsible for these policies 'have a view' on the exchange rate and take the possible impact of their policies on the exchange rate into account." *op. cit.*, p. 13.

10. The implications of the Versailles agreements for the evolution of the international monetary system are analysed by C. Fred Bergsten, Rudiger Dornbusch, Jacob A. Frenkel, Steven W. Kohlhagen, Luigi Spaventa and Thomas D. Willett in Peter Kenen, ed., *op. cit.* This is a sequel to Edward M. Bernstein *et al.*, *Reflections on Jamaica*, Essays on International Finance, No. 115, Princeton University, April 1976.