

MEMORANDUM

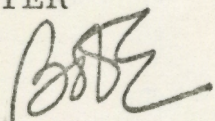
COUNCIL ON INTERNATIONAL ECONOMIC POLICY

October 7, 1975

MEMORANDUM FOR ROGER PORTER

FROM:

BOB EVERS



SUBJECT: Initiatives for International Summit

As discussed earlier today, enclosed is a draft summary paper of initiatives for the proposed international economic summit conference, tentatively scheduled for EPB Executive Committee consideration on Thursday, October 9th.

Enclosure

cc: L. W. Seidman  
J. M. Dunn





## INTERNATIONAL ECONOMIC CONFERENCE

### Background

In response to a press inquiry in flight from Helsinki to Burcharest on August 2, 1975, the President stated that:

"I am not going to discuss whether there will or won't be an economic conference. (The Europeans) wanted us -- and I agreed -- to recognize that there was this interrelationship, this interdependence, and in the months ahead, we will keep a very close liaison, because economic recovery of the free world -- this includes more than the four countries -- is vitally important to the political stability of the free world."

On September 1st, Business Week reported that George P. Shultz, President of Bechtel Corporation, will represent the U.S. at a meeting of eminent economic statesmen from industrial nations exploring the usefulness of a summit meeting at which President Ford and his British, French, West German and Japanese counterpart would meet to address mutual economic problems. Then, on October 5th, the New York Times reported that agreement in principle has been reached for an economic meeting of the heads of government (U.S., France, West Germany, Japan and the U.K.) in France before the end of this year.

### Purpose

The general objectives of the economic conference may be summarized as follows:

- 1) Fulfill President Ford's recognition of the industrialized nations mutual interest in setting a strong fundamental base for world economic recovery, while guarding against the threat of increased inflation;
- 2) Work toward common positions on the fundamental international economic problems currently being addressed in multilateral forums; and
- 3) Set priorities for closer cooperation to resolve mutual economic problems affecting the economic vitality of the free world.





## AGENDA TOPICS

The following working papers are suggested as the primary topics for consideration by the principals attending the proposed summit conference. They are presented here in terms of an issue raised either by one of the major powers and as a response or initiative of the United States.

The topics are:

- 1) Recession and Inflation
- 2) Finance
- 3) Trade
- 4) Energy
- 5) Food and Agriculture
- 6) Debt Rescheduling
- 7) International Economic Policy Coordination

As planned, based on priorities assigned by the Economic Policy Board/Council on International Economic Policy, each item will be staffed out to present respective positions, possible initiatives, U.S. talking points, and other appropriate factors.





## RECESSION AND INFLATION

### A. Issues other members might raise:

#### U.S. Expansionary Policies

The Europeans will most likely urge the U.S. to take more expansionary economic measures in order to hasten recovery, and with that, stimulate demand for European exports. They will argue that their own recovery hinges significantly on what the U.S. does, and that unless we adopt a more vigorous posture with respect to both fiscal and monetary policy, their own hopes for economic revival will be diminished.

In response, we should reiterate our concern about continuing high rates of price inflation, and that unless our recovery policies are attuned to the inflation problem we run a high risk of rekindling double-digit inflation. We should outline the steps taken to promote recovery and simultaneously continue the fight against inflation. We should emphasize responsible demand management policies, control of budget deficits, and recommend that other nations do the same.

### B. Issues the U.S. might raise:

#### Continuing the Fight Against Inflation

In various ways we should call others' attention and concern to the problem of inflation. For example, we should recall economic events following the 1971-72 period of stagflation. The U.S. was the first economy to begin recovery and others followed suit in 1973-74. The process began in an environment of what was then viewed as high price inflation despite the unusual amount of slack capacity that existed. The lessons of the past should be carefully studied so that we not repeat the process.

#### A Proposal to Prevent the Export of Domestic Inflation

The U.S. might propose a new kind of Trade Pledge in the OECD. The existing pledge binds members not to adopt balance of trade measures that would shift the burden of domestic unemployment and recession to other countries. The new pledge would be designed to prevent adoption of trade and payments measures that would in effect export domestic inflation abroad. Such a trade pledge would entail several desirable features: First, it would balance attentions between the twin problems of inflation and recession; second, it would mitigate against the international transmission of inflation by the developed countries; third, it would emphasize the importance of prudent demand management policies at home; fourth, it would put the burden of responsibility on primary producing countries (including OPEC) to show similar restraint by not artificially jacking up their export prices as recovery gets underway.





## FINANCE

### A. Issues other members might raise:

#### Future Exchange Rate Regime

The French may raise this issue at the Summit in hopes of getting a breakthrough in discussions already proceeding within the IMF. The French want a return to a system of fixed exchange parities as soon as circumstances permit. The slump in the private gold market following the provisional agreement on future arrangements for gold may have added a sense of political urgency for a French victory on the future exchange rate regime.

#### Stabilization of Exchange Rates

The French might cast the exchange rate issue in a more immediate context of how to stabilize rates between the dollar and EC currencies. One reason for this would be that the French might well be supported by the Germans and Japanese. The U.S. has already taken the position of being willing to discuss this problem in a spirit of cooperation (briefing paper for Chancellor Schmidt's visit).

The U.S. should seek to have these issues remanded to finance ministers for continued discussion and early agreement.

### B. Issues the U.S. might raise:

#### New York City Financial Problems

If this question has not been resolved by the time the Summit takes place, we should give our assurances that these problems will not be allowed to undermine the U.S. banking system or financial markets.





## TRADE

### A. Issues other members might raise:

#### New Wave of U.S. Protectionism?

All other members participating in the Summit will raise this issue in view of a spate of actions in the U.S. on countervailing, antidumping, and escape clause actions. Largest single issue is the antidumping investigation now under way on automobile imports. Other areas covered include antidumping actions on golf carts (Poland); countervailing actions on footwear (Korea), canned hams (EC); escape clause actions on specialty steel (Japan), metal fasteners (Japan) and shoes.

### B. Issues U.S. might raise:

#### Reaffirmation of U.S. Commitment to Freer Trade.

In response to the above the U.S. needs to point out that current actions are still investigations on the extent of injury to U.S. industry, as required by law.

Furthermore, the U.S. remains committed to freer trade. The U.S. would like to receive similar commitments from other Summit participants and avoid unilateral actions by any country seeking to export unemployment.

U.S. might seek a resolution urging redoubling of efforts at Geneva to move MTNs at faster pace more consonant with hoped for pace of economic recovery.





## ENERGY

### A. Issues other members might raise:

#### Minimum Safeguard Price (MSP)

Japanese may want to emphasize the tentative nature of their agreement to the MSP given at the official level in a May meeting of the International Energy Agency. Germans do not have any problem with an MSP at the level now being discussed informally (\$7.50/bbl.). UK, as a potential oil exporter, is in favor of high levels of border protection. France is not a member of the IEA.

U.S. response to Japanese would be to stress the fact that the long-term cooperation package being negotiated in the IEA will represent a balance between the MSP and more specific measures on R&D cooperation, conservation, and project-by-project cooperation which are important to the Japanese and other resource-poor countries such as Italy, Spain.

#### Status of Producer/Consumer Dialogue

Depending on the timing of the Summit, France may raise the issue of the "Conference on International Economic Cooperation." France has major political stakes in a successful conference and if progress has stalled for some reason, i.e. failure at the PREPCON II, we can expect France to put pressure on the U.S., Japan, Germany, and UK. Conversely, if the conference is underway France may move to middleman's role in an attempt to harmonize DC/LDC differences. In any case we should ensure through bilateral negotiations prior to the summit that Giscard cannot isolate any one of the Big Five on these issues.

### B. Issues the U.S. might raise:

#### Effects of higher oil prices on world economy

The U.S. President stood alone among the Big Five heads-of-state in condemning recent oil price increase prior to the September OPEC meeting. Others made statements late in the game and from the official or ministerial level. Big Five should, in the future, strive to:

- o Educate the non-oil producing LDC's on the fallacy of their un-natural alliance with OPEC. They are the most hurt by the higher oil prices.

- o Consistently, and in concert, condemn any anticipated action by OPEC to raise prices further in 1976. OPEC's recent price increase of 10% came about to some extent because the industrialized nations made OPEC feel they could "stand" a moderate increase.





## FOOD AND AGRICULTURE

### A. Issues other members might raise:

#### Implications of long-term grain agreements

In August USDA announced an informal agreement between the U.S. and Japan for Japan to buy 14 million tons of grains each year for three years. USDA has reached agreement in principle for a similar arrangement with Poland. The U.S. is currently negotiating an even firmer agreement with the Soviet Union. Other countries have expressed interest in establishing similar agreements. The EC has expressed concern about the implications. The Japanese may request as firm an agreement as we give the Soviet Union.

### B. Issues U.S. might raise:

#### U.S. is seeking to stabilize grain markets

The long-term grain agreement being negotiated with the Soviet Union does not represent a shift in U.S. grain export policy. The U.S. continues a policy of open grain markets. The long-term agreement with the Soviet Union is being negotiated to deal with a special problem, namely the erratic and greatly varying purchases of a state trading monopoly without advance notification which severely disrupt markets. No other buyer causes such disruption so there is no need for similar firm agreements. The informal agreements with Japan and Poland are primarily to indicate intentions which help to stabilize markets.

#### U.S. commitment to grain reserves

The U.S. remains committed to the establishment of an international system of nationally held grain reserves. The U.S. submitted a proposal for such a system to the International Wheat Council Preparatory Group on September 29-30. We would like to expedite those negotiations in order to further stabilize markets and better provide for LDCs. The U.S. would like to have commitments from other Summit participants to negotiate seriously in the IWC group in which the Soviets participate. The negotiated agreement would then be considered in the MTN context for final approval.





## DEBT RESCHEDULING

### A. Issues other members might raise:

#### General reluctance of U.S. toward participating in debt rescheduling exercise?

Members of the summit may raise this issue in response to a U.S. decision not to participate in the rescheduling of India's debts for 1975 along with the rest of India's Western creditor countries, and out of trepidation for the distinct possibility of a growing number of future necessary debt reschedulings in which the U.S. may not participate.

The USG extends credit on the basis of an explicit understanding that the credit will be repaid according to a schedule agreed upon between the USG and the borrower at the time the credit is signed. We therefore make no provisions for rescheduling and presume rescheduling will not be necessary. Other members of the summit make provisions for a certain amount of rescheduling annually. In addition, the Dutch and the Germans have expressed interest in proposing a moratorium on LDC debts.

We should respond by indicating that our budget procedure makes it very difficult to reschedule country debts, but that we will continue to examine each debt rescheduling request on a case-by-case basis as we have in the past to determine the severity of the problem in order to take necessary action. If the moratorium proposal is raised, we may indicate that present circumstances do not dictate the need for such action.





## INTERNATIONAL ECONOMIC POLICY COORDINATION

### A. Issues other members might raise:

#### Does Interdependence Require Closer Coordination?

Other members participating in the Summit are likely to raise this issue in view of their belief of a greater synchronization of the business cycles in industrialized countries. The French, and perhaps others, will probably attempt to institutionalize this type of Summit meeting.

### B. Issues U.S. might raise:

#### Reaffirmation of U.S. Commitment to Consultation

In response to the above, we should point out that the U.S. is continually consulting with its key trading partners, both bilaterally when requested and in multilateral organizations.

U.S. might agree to participating in an examination of the effectiveness of the numerous international economic institutions and the appropriateness of new institutions and/or alternative rules of international economic policy development as a result of growing international economic interdependence.

