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TEN GUIDELINES FOR THE LONDON SUMMIT

The annual economic summit of the seven leading democratic industrial powers, the United States, Japan, West Germany, France, the United Kingdom, Italy, and Canada, will be held in London from June 7 to 9. In recent years these summits have yielded few important results--indeed, success has often been defined as the absence of a major dispute between the participants. Such mediocre results, however, are distressing in light of the major economic problems now facing the world.

President Reagan has an opportunity at the London summit to refocus attention on the underlying economic issues facing the allies. He should seize this opportunity by stressing ten key points to America's partners. Even if immediate action is not taken on these items, making a public issue of these matters at the summit would be a significant step toward the resolution of many international economic problems.

1. The President should make it clear that he will ignore pressure to bring down U.S. interest rates by the mistaken policy of raising taxes.

The allies will certainly complain about high U.S. interest rates. They will argue that these rates and an allegedly overvalued dollar slow the world recovery, and they will urge President Reagan to attack this problem by lowering the U.S. budget deficit--even if this means raising taxes. But the allies fail to understand that a key reason for the strong recovery has been Reagan's tax cutting policies, which provided incentives and capital to fuel expansion. Increasing taxes would only slow the U.S. recovery, hurting all the Western economies. The President should let the allies know that he will not adopt such a counterproductive policy.

2. <u>The United States should not accept blame for the slowness of the recovery in Europe, since it is in large part the fault of the statist economic policies of the European countries themselves.</u>

If the Europeans wish to understand why the recovery in their own countries is slower than in the U.S., they should look first to the state ownership and control of major industries. President Reagan should remind the European delegations that the economic problems of their countries are in large part their own making. He need not irritate the allies by lecturing them on the self-destructive nature of their domestic policies.[1] But he should not lose sight of this reality and should make the point firmly where appropriate during the discussions.

Nationalized or state-controlled industries are inefficient and unable to compete internationally. Government control of credit and financing and state planning make entrepreneurial activity and the development of new, profitable industries very difficult. The computer and telecommunications industries provide the latest cases in point. In Europe these state-supported industries have made little headway.[2] The free flow of capital, free entry into the market, and lack of government planning, on the other hand, have allowed American companies to take the lead and dominate the market, even surging ahead of Japan.[3]

If the Europeans wish to grow economically, they must appreciate that state control is no substitute for the efficiency and dynamism of a free economy. Britain's Prime Minister Margaret Thatcher instinctively recognizes this fact. French President François Mitterrand is now discovering it the hard way. President Reagan must keep in mind that the economic woes of the European countries are in large part a result of their less-than-free economic systems--he must not accept undeserved blame for their self-imposed plight.

3. <u>A strong commitment to resist the rising tide of protectionism should be sought from the summit.</u>

President Reagan and the other national leaders should state as strongly as possible their opposition to the rising tide of protectionism. Despite the statements of concern expressed at last year's Williamsburg summit, pressures to protect domestic industries have risen. For example, domestic content legislation now before the U.S. Congress threatens to reduce trade in automobiles, which would cause American auto prices to skyrocket and create unemployment among workers not lucky enough to have

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1 Scott Sullivan, "The Decline of Europe," <u>Newsweek</u>, April 9, 1984.
2 "Le défi Americain nouveau," <u>The Economist</u>, December 10-16, 1983.
3 Joel Kotkin, "In this New Age of Entrepreneurs, We're Number One Again," <u>The Washington Post</u>, April 29, 1984, p. B1.

"protected," overpaid auto jobs. Each national leader faces similar pressures. But by presenting a united front, with each leader pledging to fight a specific form of protectionism at home, the governments could make the case to their own people that fighting domestic protectionism is necessary in order to increase international prosperity and prevent protectionism by other countries.

4. Preparations should be started for a new GATT round.

As a further step to stem the tide of protectionism, the summiteers should set in motion preparations for another round of General Agreement on Tariffs and Trade (GATT) talks. Past rounds have led to important reductions in trade barriers. Quotas and so-called nontariff barriers, such as licensing and inspection requirements, need to be tackled. President Reagan should take the initiative in calling for a new GATT round.

5. The importance of private investment in the private sectors of other countries, especially in less developed countries, should be stressed.

The debt problem of the less developed countries (LDCs) will certainly be a topic of discussion at the summit. However, no effective solution to the problem is likely to be forthcoming--in part because the situation is so bad that no painless remedy exists. Rather than endorsing a politically palatable sham of a "solution," however, President Reagan would do better to focus attention on the true causes of the problem, and put forward ways to slowly eliminate these factors.

President Reagan should stress the need to facilitate more direct investment by private companies and banks in the private sector of the LDCs. American and European banks have lent billions of dollars to foreign governments on the mistaken assumption that sovereign lending is always safe because governments never go bankrupt. These billions, however, often merely have lined the pockets of corrupt state bureaucrats or been poured into inefficient state-owned or controlled companies. Content with this situation, the governments of many countries strongly resist direct private investment in private enterprises, labeling it "economic imperialism." But this rhetoric should not obscure the fact that the economic policies of many LDCs are the primary cause of the debt problem. President Reagan should challenge this prevailing statist and anticapitalist mentality head on, pointing out that free, private economic activity is necessary to increase productivity and repay debt.

6. The first steps should be taken toward a full review of the International Monetary Fund and the entire international monetary order.

The policies of the International Monetary Fund (IMF) are in part to blame for the LDC debt problem, but not for the reasons that most people think. Some suggest that the tight budget and fiscal policies required by the IMF as a condition for the loans are the culprits. This is not the case. If anything, requirements should be even tighter. The deeper problem concerns the nature of the IMF itself. Its original, albeit questionable, function was to deal with "temporary" balance-of-trade problems, which cause fluctuations in currency values and thus hinder trade. Now the IMF foots the bill for the irresponsible spending policies of the LDCs and shortsighted investment policies of certain major banks.

President Reagan should call for a general reexamination of the IMF and the entire international monetary order. From September 24-27, the Boards of Governors of the IMF and the World Bank will hold their annual joint meeting in Washington. Reagan should take the opportunity of the summit to raise the issue of international monetary reform, putting the IMF and World Bank on notice that bankrupt LDCs are in part the result of a bankrupt international monetary order.

7. The issue of allied agreement on seabed mining should be raised.

Since June 1980, the United States has sought to reach agreement on a free-market, nonstatist approach to future mining of the deep seabed, together with seven of its industrial allies--United Kingdom, Federal Republic of Germany, Netherlands, Italy, Belgium, France, and Japan. In December 1982, four of these allies, in addition to almost twenty other nations, joined the United States in declining to sign the United Nations Law of the Sea Treaty, which provides for a global regulatory mechanism for mining the seabed--one based on the anti-market and statist model of the Soviet bloc.

Final agreement on the Reciprocating States Agreement, as the non-U.N., market approach to seabed mining is called, would provide a firm international legal foundation for future seabed exploration and excavation by the major Western mining firms.

America's allies have delayed signing this treaty. President Reagan should use the opportunity of the economic summit to urge the allies to sign the Reciprocating States Agreement.

8. The U.S. Trade Representative should attend this and all future economic summits.

It is not normal practice for the U.S. Trade Representative, currently William E. Brock, to attend the annual economic summits. This is perhaps one reason why little is usually accomplished at these gatherings. The absence of the Trade Representative, to counsel the President and to confer with officials from the other participating nations, no doubt contributes to many lost opportunities. It should be recalled that, when then U.S. Trade Representative Robert Strauss accompanied President Carter to the

Tokyo summit, progress was made in trade liberalization. President Reagan should therefore include William Brock in the London delegation and make it standard practice for the U.S. Trade Representative to attend future annual economic summits.

9. State supported credits and loans to the Soviet Union should be eliminated, and the dangers of lending to the East Bloc should be made clear.

While the flow of investment and capital across national borders should in principle be free and unrestricted, such a policy should not include one nation--the Soviet Union. President Reagan should focus the attention of the allies on the folly of lending to the USSR. Currently the total debt owed to the West by the Soviets is $28.8 billion.[4] Recently, a consortium of 31 Western banks announced a new loan of $250 million. And 61 percent of the total outstanding loans to the USSR, or $17.67 billion, are subsidized by Western governments. This means that the risks of Western firms doing business with the Soviet Union are reduced artificially by government loan guarantees, direct subsidy payments, or even direct loans out of taxpayers money. Thus, up to $17.67 billion, which could be invested in the free economies, creating jobs and prosperity, is diverted to the USSR.

The economic foolishness of this policy, however, is far surpassed by the political dangers involved. The Soviet Union can use the $28.8 billion it owes as leverage against the West. Americans have recently witnessed the debtor nation of Argentina securing expensive favors from the U.S. government by threatening to default on its huge debt. There can be little doubt that the Soviets would drive an even harder bargain. President Reagan should raise the issue of the Western subsidies for loans to the USSR and begin the process of ending this suicidal policy.

10. The dangers of technology transfer to the Soviet bloc should be made clear and steps taken to cut the flow.

Finally, President Reagan should push for further limits on trade in strategic and dual-use technology with the Soviet Union. At earlier summits, steps were taken on this matter. However, at the Williamsburg summit last year the topic was not even raised. In the last year, Soviet attempts to gain Western technology through subversion have increased. For example, customs officials in Sweden recently seized two sophisticated computers, capable of use for missile guidance, which were bound for the USSR.[5] This episode indicates that it is high time to block Soviet access. President Reagan should push for a more effective policy toward this purpose.

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4 "Subsidizing the Soviets," Wall Street Journal, May 14, 1984, p. 26.
5 "KGB vs. Cocom," Foreign Report, April 19, 1984.