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REAGAN'S NINE POINTS FOR THE BONN SUMMIT

INTRODUCTION

The annual economic summit of the seven leading democratic industrial powers convenes this week in Bonn. The leaders of the United States, Japan, West Germany, France, the United Kingdom, Italy, and Canada will meet from May 2 to 4. Though the summit occurs at a time of economic improvement in the free world, steps are needed to ensure continuation of economic expansion.

Summiteers should be concerned about the domestic economic policies of some European countries, about growing pressures for trade protection, and about the economic problems of Less Developed Countries (LDCs). President Reagan should remind his colleagues that what many Western Europeans now describe as the "American Miracle," the Reagan boom, is based on sound economics--which other countries should emulate, not criticize. He also should be ready to present his own action agenda at the summit. This would:

1) Stress that he does not consider the dollar to be artificially high, or harmful to the rest of the world.

The strength of the dollar is a reflection of the relative strength of the U.S. economy compared with the economies of the other industrialized nations. The Western Europeans especially have blamed the strong dollar on U.S. budget deficits and have even said it is responsible for the capital flight from Europe. In recent months this criticism has been toned down, due primarily to a recognition that increased European exports, made attractive because of the dollar's strength, accounted for about half of Europe's meager growth of 2 percent in 1984.

Reagan has continued to push for a much-needed reduction in the federal budget deficit through spending cuts. But this reduction will not necessarily cause a major decline in the value of the dollar; indeed it may strengthen it by boosting confidence in the U.S. economy. If the U.S. economy remains buoyant and the economies of Western Europe remain stagnant, there is little likelihood of the dollar declining significantly. As such, the Europeans should look to the reform of their own economies for economic salvation. Reagan should resist those in Bonn who call for policies that would equalize growth rates among summit members simply by weakening the U.S. economy.

2) Encourage the Europeans to accelerate economic structural reform.

The scorn heaped on Reagan's supply-side policies by Western Europeans earlier in his Administration has turned to flattering imitation. Increasingly, tax cuts and stable monetary policies are seen as preferable to statist practices such as tax hikes and currency inflation.

Yet the Western Europeans have far to go. Unemployment, for instance, remains serious. While America has created over 23 million net new jobs since 1975, the number of Western Europeans at work has fallen by several million. The reasons for these job losses include so-called job security laws. They actually destroy jobs because they prevent management from utilizing labor efficiently, thus making employers reluctant to hire new workers. In addition, inefficient nationalized industries have wasted resources, denying capital to new private firms. Subsidies and trade protection, moreover, distort markets, while tax policies generally have discouraged capital accumulation and risk-taking.

Many Western European countries are attempting, slowly, to change these policies. Reagan should congratulate them on the steps taken so far to reform their economies and encourage them to follow the kind of market policies that have helped create new jobs in America. Taxes should be reduced, nationalized industries sold to the public, and trade barriers removed. Only if Western European entrepreneurs can reallocate quickly the various factors of production, including labor, can Western Europe trim its rate of unemployment. This would help overcome the structural economic crisis in Western Europe by phasing out declining industries and encouraging new industrial ventures. And it would be a pro-growth strategy to strengthen Western Europe's currencies.

3) Urge the Japanese to liberalize the international use of the yen.

Japan last year lifted some restrictions on the use of their currency, the yen, for international economic transactions. Greater numbers of foreign corporations in Japan, for instance, are allowed to issue yen bonds in the Japanese market. However, the U.S. and other industrial democracies want the yen traded freely on world markets. With low interest rates in Japan, the yen would be in great demand and its value would rise to reflect the strength of the Japanese economy. Restrictions on the free movement of currencies can create market distortions as serious as trade protection. The Japanese regulations keep the yen undervalued, harming not only countries seeking to export to Japan but the purchasing power of the Japanese consumer as well. The Japanese should be pressed to abandon remaining restrictions as soon as possible.

4) Resist trade protectionism and set a date for a new GATT round.

Free trade now seems threatened from many quarters. The current U.S.-Japan trade dispute is prompting many U.S. Congressmen to threaten protectionist retaliation against Tokyo. This plays into the hands of protectionists in all countries. The U.S., Canada, Japan, and Western Europe are all guilty of unfair trade practices. Rather than threatening one another, the summiteers should take steps to liberalize trade. One of the most important steps would be to schedule a new round of talks of the General Agreement on Tariffs and Trade (GATT) for late 1985 or early 1986.

Reagan also should seek preliminary agreement on the topics for discussion. They should include, among other things, trade in services (such as banking and insurance), strengthening patent and copyright protection and abolition of government subsidies to exporters that allow less efficient industries to compete with those more efficient overseas. Agriculture subsidies are especially market-distorting, and should be on the agenda, as should non-tariff barriers, such as quotas and discriminatory licensing practices. In addition, the GATT enforcement mechanisms must be tightened; many countries are able to circumvent the current agreement.

5) Seek ways to bring the Less Developed Countries into new GATT talks.

Currently, the LDCs are threatening to boycott a new GATT round, complaining that their key issues will be ignored by the industrialized countries. While demands by the LDCs for the transfer of wealth from developed countries must continue to be opposed, there are other issues on which to bring LDCs into the new round. For example, the textile trade is still heavily restricted by many industrialized countries, including the U.S. Textiles and apparel manufacturing are areas in which many LDCs can compete with the industrial nations. Currently, the GATT allows extraordinary restrictions on textile trade, through the Multi-Fiber Arrangement (MFA). Negotiations for renewal of the MFA begin in July. If the industrialized countries were to agree quickly to make the MFA less restrictive, the LDCs would have an incentive to join talks to liberalize world trade.

6) Urge restructuring the IMF and World Bank along market principles to promote economic growth in LDCs.

The foreign debt crisis eased somewhat in 1984 for several of the larger debtor countries. But it has become more serious.

for others as austerity measures, required as conditions for International Monetary Fund (IMF) loans often stifle LDC economic growth. In some countries, attempts to carry out IMF demands for austerity have triggered riots. Sudanese President Nimeiry's downfall, for instance, was attributed in part to IMF austerity measures. And in light of local opposition, President-elect Alan Garcia of Peru has announced his intention to bypass IMF conditions on loans.

Reagan should make it clear that it is the LDCs' socialist economic policies that are largely responsible for their continuing poverty. And IMF austerity measures often harm what little private enterprise exists in LDCs. Noted World Bank President A. W. Clausen recently: "There is evidence enough that the most rapid economic growth in the developing world has been achieved in countries where governments have recognized that private enterprise has a critical role to play." The fundamental policies of the IMF and World Bank should be changed to recognize this fact by encouraging private sector growth and denationalization of state industries.

7) Stress that free capital flows and direct foreign investment are essential for LDC prosperity.

A major cause of Third World poverty was well illustrated by the recent attempt of IBM to build a wholly-owned subsidiary in Mexico. With a debt nearing $100 billion, a serious lack of capital, and high unemployment, it would seem that Mexico would welcome enthusiastically IBM's plans to build a plant that would create jobs for Mexicans. Not so. Mexico followed its tradition of keeping out what it regards as foreign influence and effectively blocked the plant. The result: continuing poverty and stagnation.

Developing countries, especially in Latin America, have regulated direct foreign investment strictly by prohibiting majority ownership of local businesses by foreign companies, by restricting exports of capital and profits, and by other statist policies. These LDCs ignore the lesson that foreign investment and the free flow of capital are rarely issues in developed countries and that this is an important reason why they are developed. If LDCs are to prosper, they must abandon the policies that restrict investment and capital flows and integrate themselves into the world economy. Some debtor countries have experimented with market-oriented economic reforms. Mexico, for example, should be congratulated for attempting to slow inflation and government spending, for announcing its intention to sell off many nationalized companies, and for opening its market to U.S. pharmaceutical products. But it still has a long way to go. The summit participants should call on LDCs to change their self-destructive policies.

8) Encourage the summit to pledge relief for Africa's famine and help change those agricultural policies that turned the famine into a catastrophe.

Increased emergency food shipments are needed to deal with the African famine. The allies should make concrete aid commitments. They should also commit themselves to assure that the food is delivered to the famine victims, and not diverted by the Ethiopian government for political purposes.

More important, however, are long-term measures. The summit participants should press the African countries to abandon those agricultural policies that actually have discouraged food production. Restrictions on small private farmers and forced collectivization, for instance, which were imposed because of the dictates of socialist dogma, must be reversed since these have discouraged food output. Food price ceilings that keep food artificially cheap for city dwellers, while making it unprofitable for farmers to produce, must end, as should restrictions on the transportation of food.

While drought was a primary cause of the current famine, socialist agricultural policies turned a manageable bad situation into a human tragedy. The industrial nations meeting in Bonn must be wise and courageous enough to prevent future famines by opposing the policies that cause them.

9) Obtain a declaration on joint strategic defense technology research.

All summit nations were invited by the Reagan Administration in March 1985 to join the U.S. in research and development of advanced technologies related to President Reagan's Strategic Defense Initiative (SDI), popularly known as "Star Wars." The civilian economic potential of this research program is vast and could well lift the participants to new plateaus of industrial development, while enhancing technology changes and private sector cooperation. Having already addressed common security problems at the Williamsburg summit in 1983, the assembled leaders of the key industrial democracies should make a political commitment to share the costs and economic benefits of their defense industrial research efforts for SDI. Such a high-level endorsement would give the needed impetus to set aside narrow nationalistic interests, reaffirm the consensus reached by NATO military leaders at their Luxembourg conference, and signal private firms that their investment in SDI research will not be hampered by a lack of political commitment.

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