

Carter Goes To Bonn With 'Questions, Not Reactions'

Brookings demand for European export cuts pushed into background

Last week's EEC proposal for the establishment of a European Monetary Fund and the statements of West German Chancellor Schmidt and others declaring that such a fund will be aimed at stabilizing the dollar and

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expanding U.S. exports has given a profound shock to the Carter Administration and provoked a rethinking of what the U.S. position will be at the western economic summit opening in Bonn, West Germany on July 16.

As of last week, the predominant thinking within the White House was to follow the suggestions of Brookings Institution advisors to the Administration, particularly U.S. summit coordinator Henry Owen, Assistant Treasury Secretary C. Fred Bergsten and Undersecretary of State for Economic Affairs Richard Cooper. This triumvirate urged that President Carter should confront the Europeans with outrageous demands that they reflate their economies and cut their exports, a policy aimed at financially aiding only the City of London.

Carter is now going to the Bonn summit, in the words of one top State Department official, "with an open mind. . . . We have a lot of questions, not a lot of reactions." One Washington-based Democratic Party insider declared that "Bergsten and Cooper are not controlling the summit now, it's up for grabs." Compared with the European proposal offering dollar stability and trade for the U.S., the Brookings line no longer carries the same weight within the Administration.

Sources now report that there is a group within the Administration which wants to support the European Monetary Fund, including Special Trade Negotiator Robert Strauss and Secretary of State Cyrus Vance. Last week Strauss was reported to be furious over the European refusal to make more compromises to ensure a General Agreement on Trade And Tariffs (GATT) agreement, warning that if the Europeans did not want to give the U.S. a share of the markets the U.S. would do the same.

Educating the Carter Administration

The Bremen summit has now forced Strauss, and others who wanted a strong U.S. exports policy — but

viewed such a policy as dividing a fixed number of markets — to reevaluate their thinking. But while these key sections of the Administration and White House are open to the European proposals it is clear that they do not understand the overall Grand Design for the agreements that came out of the Bremen summit; nor do they fully comprehend how the United States should proceed to collaborate with the Europeans on this.

A large measure of the education of President Carter and others on these questions will take place during his upcoming two day state visit to West Germany July 14 and 15. The positive potential of Schmidt's influence on Carter is already clear. In an interview with West German television July 12, Carter stressed cooperation between the U.S. and West Germany while declining to fall into the various traps reporters laid for him on "human rights" and other controversial issues. Asked about U.S. opinion of the ongoing Moscow trials of Soviet dissidents, Carter replied that the U.S. did not have the right to interfere in USSR internal matters. The President also said that he has had a number of meetings and telephone conversations with Chancellor Schmidt, including a long discussion July 7, which were very useful.

In a flanking maneuver, the German and French press have been running major articles and ads from the

Carter Stresses Friendship with Schmidt, Nonintervention Toward Soviets

From our Wiesbaden Bureau

In a July 12 pre-Summit interview with West German television, President Carter was careful to stress his close relationship with Chancellor Schmidt, who briefed Carter on the content of the Franco-German program and reported that he won the President's approval of it. Pressed on relations with the Soviet Union, a key element of the Schmidt-Giscard Grand Design for world economic recovery, Carter stressed non-intervention in internal affairs of other countries although deploring the Soviet policy towards dissidents. More important, he said, "is that our two governments concentrate on the areas where an improvement is likely to be reached in our mutual relations. SALT, MBFR, are progressing issues, although on Africa and human rights there are controversies between the U.S. and the USSR."

Japanese advising Carter to bring the U.S. into an economic "boom" by lining up with the Europeans.

U.S. and the European Fund

On the critical question of U.S. support for the European Monetary Fund, a top State Department official said on the eve of the U.S. delegation's departure for Bonn that the U.S. now has "no apriori reason to believe that the fund is harmful to U.S. interests" and will discuss with the Europeans how it can be used to stabilize the dollar. When asked about the fund, President Carter declared in an interview with Japanese television July 12 that he "didn't anticipate there would be any obvious effort to cause the decline of the dollar nor to work an adverse trade barrier against U.S. goods. I don't expect these to occur, so the strengthening of the European community is something we endorse. Politically too."

Administration circles connected to the Trilateral Commission and the Brookings Institution had hoped to have Carter destroy the summit by confronting the Europeans with demands that they reflate their economies and slash their exports. Carter will reportedly

bring up the "stimulus" question, but will not demand any specific amount of stimulation from the Europeans as at previous summits, according to knowledgeable sources. Since the Bremen summit, U.S. opponents of the European "Grand Design" have been much more cautious in publicly airing their threats against Europe. One such official at a background briefing on the summit dropped his former demands against the Europeans and was noncommittal on all aspects of the summit.

The Brookings circle, nevertheless, is still hoping to enforce its program. Charles Schultze, chairman of the Council of Economic Advisors, told a recent OECD meeting that moderate economic growth for Europe must be coupled with a "desirable and necessary" slowdown in U.S. growth. Alice Rivlin, former Brookings staffer who now directs the Congressional budget office, told Congress July 11 that the Federal Reserve under William Miller, a major opponent of European economic development programs, should coordinate monetary policy and promoted her former associate at the Brookings Institution, Nancy Teeters, for a seat on the Federal Reserve Board.

How U.S. Officials Are Looking At Bonn

American political leaders have begun to perceive the reality of an export-led economic recovery being offered by the European Monetary Fund proposal. This perception, and the growing possibility of an appropriate, positive U.S. response at Bonn, was shaped despite an intense press campaign aimed at preventing such U.S. collaboration.

To indicate how both sides of the debate took shape in Washington, here is, first, an interview with a Commerce Department official active in preparations for the Bonn Summit, followed by several comments from other Administration officials.

Q: Is the Franco-German European Monetary Fund proposal aimed at more than monetary stabilization?

A: It clearly goes well beyond that. Its central function is to generate an export-led recovery in Europe by attracting Arab surpluses and Eurodollars and recycling them into credits for less developed countries (LDCs) and other markets.

Q: Are all the EEC countries behind the proposal?

A: Yes, all except Britain, including Italy.

Q: When the Europeans bring it up at Bonn, what will the U.S. response be?

A: Conservative. We will say that it sounds like a positive idea but we need time to study the details. We will definitely attempt to ensure that it does not become a priority. Our emphasis will be that the most pressing problems must be dealt with first and these are energy, the U.S. trade deficit, and the failure of the West Germans and the Japanese to efficiently stimulate internal demand. We will take the position that we cannot allow discussion of these problems to be substituted for

something else.

Q: But Carter is going there empty-handed, without his energy program.

A: That's true. The Congress was not forthcoming and the Europeans and the Japanese know that. That's why they are pressing us on it. If we don't have a plan to reduce the deficit, how can we tell them to stimulate internal demand? That's why everyone is downplaying Bonn. The Europeans will probably offer minor fiscal concessions, thereby making the conference look like a success.

Q: Did the Commerce Department have a central hand in determining U.S. policy going into Bonn?

A: A tertiary role in determining international economic policy.

Q: What about Owen?

A: Owen is simply heading up the coordinating group. International policy has been largely determined by Bergsten and to some extent Cooper.

Q: And they would take a negative position vis-à-vis the Franco-German proposal?

A: I think so.

Q: So the U.S. would probably reject it?

A: No one rejects anything out of hand.

Q: Then how will the U.S. handle it?

A: The policy as it presently stands is that an export-led recovery in the traditional sense would have only a temporary effect. Therefore, the Europeans will have to stimulate internal demand....