W. Allen Wallis expounds the lunacy he will take to the Tokyo summit

The following is excerpted from the transcribed remarks of W. Allen Wallis, Undersecretary of State for Economic Affairs, before the American Enterprise Institute in Washington on April 7, 1986. Wallis exemplifies the "free market, free market, free market" economic lunacy of the Reagan administration. A strong advocate of Hitler's racial theories and "eugenics" during the 1930s, Wallis also advocates the monetarist economics of Hitler's economics minister, Hjalmar Schacht. Wallis was Secretary of State George Shultz's monetarist mentor at the University of Chicago, and he will accompany President Reagan to the May summit of the industrial nations in Tokyo. After praising the "freedom of international trade" and the "growth" being experienced in all the industrial nations thanks to the "economic recovery," Mr. Wallis stated:

We are concerned, however, about some aspects of the economic performance of certain of the summit countries.

There are serious structural barriers to growth of employment in Europe. Unemployment rates in Europe which historically have been much lower than ours, are now much higher than ours and are well into double digits and if anything rising. And there's no improvement in sight. The essential problem in Europe is deeply rooted resistance to change. That thwarts the efficient use of economic resources and those structural barriers are particularly troublesome in labor markets where they distort both the supply of and the demand for workers. Labor market rigidities, as I'm calling them, are usually referred to include high minimum wages, limitations on rights to hire and fire, subsidized housing programs which reduce availability of housing and reduce the mobility of labor, and in some countries, excessive unemployment and welfare benefits reduce . . . the economic incentives to work.

And although such rigidities are the most serious in Europe, Japan also is saddled with inefficiencies. One of the major reasons that Japan has such a large trade surplus is that there are so few good opportunities for investment there, aside from a few export sectors. Much of Japan's domestic savings which are large are invested in other countries and especially here in the United States. And although we benefit from the inflow of Japanese capital, it would be healthier if Japan's economy were more efficient and then more of Japan's capital would be invested at home. Its trade surplus with us would be less and trade between Japan and the United States would be more beneficial to both countries.

The recent decline in oil prices, which is the result of the dictates of the marketplace, will no doubt be discussed at the summit. In the interaction of consumers and producers in the market, high prices have induced consumers to cut down sharply on their use of oil and producers to increase capacity. Capacity now exceeds consumption by a substantial margin, and the price of oil has declined toward the operating cost of production. And as a result, real growth in the major industrial countries may rise by as much as a full percentage point in 1986, and inflation may fall by as much as two percentage points, unless, of course, it's offset by monetary policies. And permitting the benefit of low oil prices to pass fully to oil consumers will increase consumption and investment and thereby strengthen growth and employment.

Well, the second of the objectives I mentioned is strengthening the growth prospects of the rest of the world, including the heavily indebted developing countries. Secretary Baker advanced a U.S. proposal for a program of sustained growth last October at the annual meeting of the IMF and the World Bank in Seoul. That U.S. initiative is designed to improve growth for heavily indebted middle-income debtor countries through economic reforms supported both by more effective lending by the multilateral development banks and by additional lending from commercial banks.

The initiative envisions that the World Bank, in close coordination with the IMF, will make more structural and sectoral loans rather than project loans in order to help debtor nations adopt market-oriented policies. The IMF, however, is still central to our strategy. While we expect programs supported by the two institutions to be consistent and mutually supportive, each does have a distinctive role and distinctive technical expertise.

The fund is a monetary institution. . . . Its particular challenge will be to ensure that its programs and policies help to promote structural reforms without which the money will be mostly wasted.

While the U.S. initiative envisions an important increase in lending by both the World Bank and commercial banks, that lending will be provided only in support of strong, economic adjustment programs. Secretary Baker emphasizes that point first and foremost. Without such reforms as the development of more efficient capital and equity markets, rationalization, and privatization of public enterprises, liberalization of foreign trade and investment policy, reduction of subsidies, price controls, corruption, no amount of external financing can ensure sustained growth.

The third objective I mentioned was preserving the open trading system. International trade and investment are essential to global prosperity, but events of recent years threaten the open international trading system. It has become increasingly difficult for the United States, which for half a century has been the leading champion of free trade, to keep its own markets open in the face of a growing trade deficit and a perception that others are taking advantage of our openness but are not reciprocating.

Last September, President Reagan announced a comprehensive strategy for strengthening the open trading system. That strategy has three essential elements. First was vigorous pursuit of U.S. rights and interests in international commerce under both U.S. law and under the General Agreement on Trade and Tariffs, the GATT, and also in bilateral negotiations. The second element was encouraging a new round of multilateral trade negotiations in the GATT. The third was cooperative international efforts to promote stronger and more balanced growth in the major economies and to strengthen the exchange value of other currencies.

We have made progress in each part of that program. Unfair trade cases initiated by the administration have sent an important message to our trading partners and indeed, some cases that we were planning were not filed because the mere prospect prompted other nations to remedy the practices to which we were objecting.

Under Prime Minister Nakasone's leadership, Japan is making an unprecedented effort to open its trade and financial markets. That is an effort which has yielded significant new opportunities for U.S. firms. The so-called MOSS talks, despite frequent assertions to the contrary, have in fact achieved significant success in opening Japan's markets for telecommunications, pharmaceuticals, medical equipment, and forest products. Improved access to Japan's markets is a desirable goal, but a significant reduction of our bilateral trade imbalance requires more fundamental changes.

Prime Minister Nakasone is making an effort to launch a basic restructuring of the Japanese economy. . . .

Discussions of trade at the Tokyo summit will focus on a new GATT round of multilateral negotiations. That's the most promising way to achieve fairer trade, to increase access through exports, to provide more effective resolution of disputes, and to strengthen the fabric of the international trading system. . . .

The United States has six major objectives in the new round. First, strengthening the GATT procedures for settling disputes; and second, improving discipline over so-called safeguards which are the emergency actions that can be taken by governments to protect domestic industries from surges in imports; and third, ending the chaos in trade in agriculture. Of course here, the United States is a sinner as well as sinned against. Both we and the rest of the world would benefit greatly by putting agriculture on a more market-oriented basis, by eliminating export subsidies and reducing barriers to imports.

The fourth objective in the GATT negotiations is to improve discipline over non-tariff barriers to trade, including issues in government procurement, aircraft trade, and subsidies.

The fifth is improving market access in traditional areas of trade and merchandise through lower tariffs and less restrictive quotas; and the sixth is to extend the GATT to new areas, especially services, investments, and intellectual property.

Returning finally to the international monetary system--the fourth of our main topics of the summit. President Reagan, in his State of the Union message in early February, called for greater coordination of the economic policies among the major industrial countries in order to improve the stability of exchange rates. He also asked Secretary Baker to recommend whether the nations of the world should convene to discuss the role and relationship of our currencies. Now, that statement by the President has excited a great deal of speculation, and it has given a new sense of urgency to discussions in the International Monetary Fund and other institutions.

Exchange rates are the principal links between economies, and the exchange rate of a country's currency is perhaps the most important price in its entire economy. As we consider international action to improve the stability of exchange rates, we must be clear about the causes and functions of changes in rates and about what cooperation can and cannot do.

There is little serious disagreement about the reasons for changes in exchange rates during this past decade. No matter what institutional arrangements governments contrive, the fact is that markets will determine exchange rates on the basis of assessments of underlying economic conditions and prospects.

Most observers welcome the exchange rate movements which have taken place during the last 14 months, as well as the spirit of cooperation among monetary authorities [to drive down the dollar]. . . .

We need to explore whether this tendency can be strengthened through changes in institutional arrangements. If so, that would, of course, be beneficial. But we must not lose sight of the fact that in the final analysis better exchange market performance can come only from better economic performance and more consistent policies among the major economies.

Well, in conclusion, we expect the Tokyo summit to continue the recent trend toward closer and more effective cooperation across a wide range of economic and political issues, and indeed that trend has not been limited to the summit countries. Both democracy and free markets are spreading throughout the world. Both developed and developing nations share our desire to find solutions to problems of growth and trade and of peace and security. Free nations pursuing sound economic policies have accomplished a great deal already. The United States can be proud of its contribution, indeed, of its leadership in these accomplishments. At the summit President Reagan will make it clear that we stand ready to help lead the world to a still better future.

Wallis was asked: "Do you think that trade frictions with Europe will overtake the traditional trade frictions with Japan during this summit?" He replied:

I'd hesitate really to predict. . . . The Japanese yen has skyrocketed and that'll begin to have an affect on our balance with Japan in about a year or so. In addition, Japan has been doing a lot to open its markets. They're the only country in the world that has. Of course, they had an awful lot more to open than anybody else did, and still have--a tremendous number of barriers--but they're moving that way. . . . Whereas Europe is becoming somewhat more protectionist, [and] probably is really the most disruptive factor in the world trading system now. And it may be that over a year or two . . . there are these elements that might build in that direction, but whether they actually will, I don't know.

We would hope that the new round will get going. In fact, it seems like a good time for the new round, while things are about to subside--problems with Japan may be edging off prior to their really getting more acute in Europe, and it may be an ideal time to get it going, and it may be able to forestall that trouble with Europe.

"What degree of sensitivity in summit preparations have the representatives from the other countries shown to the growing pressure from Congress on trade--the growing heat of the issue here?"

The Japanese are certainly very acutely aware of that and well informed on it, and I believe the Europeans probably are maybe not quite as acutely sensitive to it. But what happens is that the Europeans talk all the time about protectionism in the United States as one of the major problems in the world economy. And, of course, there is a lot of protectionism in the United States, but the truth is, there hasn't been a lot of protection. . . .

"I'm not sure I understand your introductory comment about there being a fair amount of agreement at this point. Are you suggesting that there is agreement simply on the agenda, or the substance of the talks? I mean, there's obviously disagreement on trade issues. There's obviously disagreement on monetary issues. Where is the agreement that you're talking about?"

Well, I don't know what disagreement you'd say there is on trade issues. When you're talking about principles, what ought to apply, what should we aim for--if you're talking about practices, we don't even claim that we conform to ideal practices in all respects and neither does anybody else. I think what you have is general agreement on the fundamentals.

"What about Japan's 'inefficiency'?"

Well, they have all kinds of government regulation and intervention, intrusion, and all the basic industries are classified as depressed industries and that means the government gives them various handouts and special privileges, and they try to preserve these depressed industries that they ought to get rid of. They are going into a state of decline. They are unwilling to let them decline and move resources where they would be more efficient. So they've got some 21 basic industries that they classify as depressed and the government then attempts to keep them alive. It is the same kind of thing that happens in Europe, but it is more extreme in Japan, who has a remarkably inefficient economy. I mean, what we focus on is the part that is efficient, the export industries. The rest of it is encrusted in a thousand years of tradition and custom and you will note that where they are efficient is mostly on brand new things that weren't around a thousand years ago or a hundred years ago to get encrusted with all of these pasts and traditions and permanent customs and ways of doing things. I think they need--they have a long way to go. . . .

"What effect do you see with the oil price situation?"

Well, as I said in my remarks earlier, we think the fact of the falling oil prices will be very beneficial to all of the summit countries. If you look at the United States, you know, it is uneven. Some parts of the United States are rather hard hit by that. In fact, the lady next to me is from Houston and you can ask her about it if you have any doubts. And summarily around the world. Some countries, the producing countries, will be hurt. But in general the net effect will be very beneficial by making energy more available and almost everything in the economy is based on energy and having to use up less of resources. I think that there will almost certainly be some discussion of that at the summit, but I don't know how much. . . .

I should emphasize again, as we've tried to every year, that the very nature of a summit--at least as it's been in the last six or seven years--is not really a newsmaking event. The only thing that's really newsworthy about it is that you've got the heads of the seven largest industrial democracies all together so you can take their pictures and things like that. . . .