

## 1. INTRODUCTION: THE IMPORTANCE OF THE SEVEN POWER SUMMIT TO THE UNITED STATES

In 1989, the seven power economic summit will enter its third cycle with the holding of the 15th such summit in France. The previous fourteen years have been witness to the gradual evolution of the summit into one of the most important forums for the conduct of international economic relations. Its ascent to such a status is in large part a reflection of the tremendous transformation the global economy has undergone since the Second World War. The most important aspect of that transformation has been the changing role of the United States within the international economy.

It has been only forty-three years since the United States became a truly hegemonic power. With its chief competitors decimated by the effects of World War II, the U.S. enjoyed a relative superiority in economic and military capabilities unmatched at any time in world history. As the only great economic power, it fell upon the United States to bear the responsibility for the creation, maintenance and enforcement of some form of order for the conduct of international economic relations. Its response to this challenge was to play the leading role in the creation of a set of international economic regimes<sup>1</sup> centering around such institutions as the International Monetary Fund (IMF), the World Bank (IBRD), and the General Agreement on Tariffs and Trade (GATT). Naturally, these regimes were structured in such a way that they reflected American interests and incorporated important American values and beliefs about economics. This set of values and beliefs has been labelled 'embedded liberalism' by the scholar John Ruggie.<sup>2</sup> At the time, it must have seemed that this new international economic order could last endlessly with the overwhelming power of the United States to support it. Yet, only thirty years after its creation the entire system appeared to be on the verge of collapse. Three major post-war developments explain the movement of the system into crisis.

The first, and most important, was a sharp decline in the United States' relative power vis à vis its major global competitors. On the military front, the Soviet Union achieved nuclear parity with the U.S. during the 1960s, while Japan and several West European countries made substantial gains relative to the United States in the economic sphere. This erosion of American hegemonic power ensured that the United States would be less able to support and preserve the international economic system it had created.

Secondly, the post-war period was witness to a growing interdependence of national economies. Increasingly rapid movements of capital across national boundaries, and increased levels of global trade and foreign investment, all helped to make national economies more dependent upon decisions taken by governments, firms, and consumers in other countries. Naturally, this weakened the ability of national governments to control the fortunes of their domestic economies. The United States was certainly not immune to this trend, and American hegemony was clearly diminished whenever the United States found itself unable to independently pursue its own economic goals, domestically or internationally.

Finally, the tranquillity that had characterized American domestic politics in the immediate post-war era was replaced by conflict and turmoil in the 1960s. The deep divisions in

American society caused by the civil rights movement and the Vietnam War posed severe challenges to the credibility of the American political system, in particular the office of the president. With the uncovering of the Watergate scandal in the 1970s, that credibility was for the most part destroyed. Accordingly, American governments became increasingly concerned with maintaining legitimacy in the eyes of their citizenry. These concerns not only weakened the ability of the United States to play the role of the hegemon. They also weakened the will to do so.

Over time, the combined effects of these evolving trends threatened to push the international economy towards a very severe crisis. That crisis arrived in the early 1970s and essentially was the product of two traumatic shocks to the international system. The first shock occurred in August 1971. At that time, the American dollar was grossly overvalued and the post-war fixed exchange rate system did not allow an adjustment to be made, because the dollar was the system's central reserve currency and had its value tied to gold. This overvaluation of the dollar made American exports more expensive and pushed the U.S. Balance of Trade into deficit. At the same time, the efforts to finance the Vietnam War had long ago pushed the Balance of Payments into deficit. This double deficit convinced the Nixon Administration that the dollar had to decline in relative value. To do that, the Nixon Administration suspended the convertibility of the U.S. dollar into gold, thereby abandoning the post-war exchange rate system. This threw the international monetary system into a crisis it could not escape until a new system for exchange rate determination had been created.

The second event occurred in 1973 when the Organization of Petroleum Exporting Countries (OPEC) cartel cut back oil supplies by 20% and raised the price of oil fourfold.<sup>3</sup> This had two distinct effects. Firstly, it forced most non-OPEC economies into recession because economic production decreased dramatically with the sharp rise in price of the most important energy input. On the other hand, that same price rise fueled substantial inflationary pressures because the oil input was not easily substituted. Thus, by 1973, the international economy was heading into the worst recession since the 1930s, inflation was on the way up, and no agreed upon international monetary system existed. Solutions to these problems had to be found if this economic crisis was not to lead to the complete collapse of the economic order created by the United States. The important question now became: who would provide these solutions?

The Nixon Administration in the United States was under no illusions as to the answer to this question. It recognized that the changes that had occurred in the international economy since World War II had made it quite impossible for the United States to support the international economic order alone. While the American government could continue to provide leadership, some form of burden-sharing was now seen as essential by the United States. Accordingly, the Americans sought to convince other leading economies to share responsibility for the maintenance and upkeep of the international economic system. Towards that end, U.S. Secretary of State Henry Kissinger attempted to inaugurate a system of high-level summitry on two different occasions in the early 1970s.

His first proposal, in 1971, called for a five power summit meeting amongst the leaders of the United States, Japan, West Germany, Britain, and France to deal with the international

primary focus of American international economic policy rests upon an annual cycle of multilateral economic meetings which includes meetings of the Organization for Economic Cooperation and Development (OECD), the IMF/IBRD, the trade ministers quadrilateral, culminating in the annual seven power summit. Within this cycle, the summit may well play the most important role, as the heads of government can, and do, provide political direction to the other organizations on the principal policy issues of the day. Indeed, one American government official called the summit the apex of the entire cycle.<sup>8</sup>

Clearly then, the seven power summit has become a central concern of American international economic policy. Moreover, as the 1980s draw to a close, it appears that the summit may be in the process of becoming the most important multilateral forum for all of U.S. foreign policy. Certainly, some bilateral relationships, such as that between the United States and the Soviet Union, remain of paramount importance. Yet, there can be little doubt that the two key multilateral organizations for the United States at the height of American hegemony, the United Nations (UN) and the North Atlantic Treaty Organization (NATO), have definitely become lower priorities for American foreign policy in recent years.

At the UN, the United States, frustrated by the Third World majority, has withheld funding, left some of the specialized agencies, and threatened to move the UN headquarters from the U.S. While the United States remains faithful to NATO, the seven power summit is displaying an increasing tendency to encroach upon NATO's policy domain. This is represented by the trend towards security issues playing an increasingly prominent role in summit discussions. It also can be seen in President Reagan's efforts to seek out advice from, and provide information to, his fellow summit leaders about his dealings with the Soviet Union. Such consultations are beginning to precede the discussion of these visits in NATO fora.<sup>9</sup>

This study charts the seven power economic summit's rise to prominence within American foreign policy by examining the history of U.S. participation in the summit. Only the executive branch of the American government is represented at the summit, and all summit preparations are dominated by the White House.<sup>10</sup> While the U.S. Congress does play a critical role in determining whether or not American commitments made at the summit will be met, it plays no role in making those commitments. Accordingly, a study of American participation in the seven power summits must concentrate on the role of the presidential administration.

Four different American administrations have attended the summit, and each has brought a unique set of expectations and a distinctive approach to the summit table. Of course, there has been some continuity across all four administrations. For example, the United States has always pushed for the discussion of political issues at the summit. It has also consistently expressed a great concern for issues of trade liberalization, while showing little interest in North-South issues. Yet, it is the differences between administrations which are much more interesting.

Accordingly, this study will examine American participation in the seven power economic summit by administration. Each section will begin with a brief synopsis of that

administration's approach to summitry. Did it seek an active or passive role at the summit? Was it more concerned with political or economic issues? Did it want a summit that simply generated discussion or made binding decisions? This will be followed by a detailed examination of each of the summits that administration attended, specifically focusing on the American role at the summit. It will examine whether or not the summit was a success or failure from an American perspective by comparing U.S. objectives entering the summit and U.S. results upon leaving. After proceeding through each of the administrations in this manner, this study will offer some brief conclusions about the importance of the United States to the seven power economic summit as a whole. In essence, it will examine how crucial the actions of the United States are in determining whether or not the entire summit is a success or failure.