

2. PRESIDENT FORD'S SUMMITS, 1975-1976

The Ford Administration attended only two of the economic summits, and events external to the administration forced it to approach each one quite differently. Accordingly, it is difficult to generalize about the administration's approach to summitry. At any rate, it seems unlikely that there was any overall strategy because there were deep divisions within the Ford Administration about how the United States should approach the summit.

On the one side was George Shultz, the personal representative of the President (sherpa) in summit preparations. As a former U.S. Treasury Secretary, Shultz had been a participant in the 'Library Group', an informal gathering of national finance ministers which had also included the new President of France, Giscard d'Estaing, and the new Chancellor of Germany, Helmut Schmidt. This group had not been a decision-making body, but rather a forum for discussion of economic issues amongst people in similar positions with similar problems. These three men had found the experience to be a valuable one, and attempted to recreate the experience in the economic summit.

These efforts were subverted to some extent by President Ford himself. Not having been a former finance minister like many former leaders, Ford "...doubted his own ability to handle the economic questions with sufficient knowledge to prevent himself from being outwitted".¹¹ Accordingly, he insisted that foreign ministers, finance ministers, and note-takers also attend the summit, ensuring that the summit would be much more formal than the Library Group had ever been. Moreover, because he was not comfortable with his grasp of economic issues, Ford wanted to include political topics in the discussions. In this area he had the full support of Secretary of State Kissinger, who argued in a speech just before Rambouillet that the summit should become a permanent decision-making institution that dealt with both economic and security issues.¹²

These contradictory visions were never reconciled, but they were overcome by other events. In 1975, the chaos in the international monetary system made it virtually imperative that some agreement be reached on a new monetary accord. Thus, the United States took a very active role in the Rambouillet summit preparations and was determined to get an agreement. This clearly leaned towards Kissinger's vision of summitry. On the other hand, the 1976 summit was held in an election year where President Ford was behind in the polls. What he needed was a non-controversial summit wherein he would not have to make any real commitments. Thus, the experience in Puerto Rico was much closer to the Shultz vision. This ambiguity about the American approach to summitry would be quickly eliminated when the Carter Administration came to power.

A. Rambouillet - November 15-17, 1975

The dramatic increase in the price of oil wrought by the OPEC cartel in 1973 led the United States to immediately pursue restrictive monetary and fiscal policies in an effort to

stem the ensuing inflationary pressures. By 1975, such policies had driven the United States into economic recession, and GNP growth actually declined by 1.3% in that year. Moreover, inflation remained stubbornly high, at 9.1% in 1975. Nonetheless, by the time of the Rambouillet summit, monthly economic figures began to indicate that an earlier loosening of fiscal policy by the American government was slowly beginning to have an effect. Inflation rates were decreasing and recovery was clearly underway. Accordingly, the United States government was cautiously optimistic that it had successfully manoeuvred through the first oil shock.

Yet, the oil shock was only one aspect of the global economic crises of the early 1970s that had occasioned the creation of the Rambouillet summit. While energy policies were not a primary concern of the United States at Rambouillet, the Americans were distressed by the continuing chaos in international monetary markets brought about by the collapse of the Bretton Woods system of fixed exchange rates. They also were extremely worried about the increasing pressures for trade protectionism, both in the United States and abroad. Accordingly, the United States came to Rambouillet with progress towards the resolution of these specific problems areas as its major priority.

The collapse of Bretton Woods had led to an intense international debate about how exchange rates should be determined within the international monetary system. International negotiations aimed at creating a new system to replace Bretton Woods had been ongoing since 1971, when the United States suspended the convertibility of the American dollar with gold. These talks received some impetus from the fact that the lack of a uniform international system of exchange rate determination ensured that relative currency values were no longer accurately reflected within international monetary markets. This was proving to be problematic for both the international transfers of goods and capital. Even so, by 1975, these efforts at negotiation had produced no agreement on a new set of rules. The major American priority for Rambouillet was to obtain such an agreement.

Naturally, the United States wanted a new set of rules which reflected their own preferences. Originally, the Americans had pushed for a system of fixed rates, such as had characterized Bretton Woods. The early international negotiations had been primarily concerned with what these fixed rate currency values should be. Over time though, the United States dramatically changed its position on this issue. It came to believe that the economic and financial conditions underlying exchange rate values were now changing so rapidly that fixed rates would be forced to change quite often to reflect true currency values. They would do so so often in fact, that the rates would not really be fixed at all. Thus, they now strongly advocated a flexible or 'floating' exchange rate system, where the value of the currency would be determined by the supply of, and the demand for, that currency. Accordingly, the success of the international negotiations in 1975 hinged on the resolution of the debate between advocates of flexible exchange rates (the United States) and advocates of fixed or highly stable exchange rates (who were led by the French at this point, and have been ever since). Until these two nations reconciled their views, there could be no universal system for the determination of exchange rates.

In the two months preceding the summit, senior officials of the French and US Treasuries held an intensive series of meetings in an attempt to secure agreement on the exchange rate

issue in time for the summit. Their efforts proved to be successful as an agreement was reached. This bilateral agreement between the French and the Americans was presented to the other summit leaders at Rambouillet and received their endorsement. Two months later, the agreement was incorporated into the Articles of Agreement of the International Monetary Fund. As Henry Kissinger noted after the summit, "...the monetary agreement...is perhaps the single most significant thing that happened there".¹³

The final agreement must be considered a success for the United States as it in essence legitimized a system of floating exchange rates. The Rambouillet communiqué makes clear that international monetary stability is to be achieved primarily through "...efforts to restore greater stability in underlying economic and financial conditions in the world economy...."¹⁴ not through fixing exchange rates. Although the bilateral agreement recognized the possibility of returning to fixed exchange rates, it made such a move dependent on "...adoption by an 85 percent majority in the IMF, which would give the United States a veto".¹⁵

On the other hand, the agreement also legitimized intervention in the exchange markets (managed, or dirty, floating) when fluctuations in exchange rates did not accurately reflect underlying economic factors. This clearly represented a weakening of the American desire for exchange rates to be determined wholly by free market principles. Yet, this portion of the agreement was to have little practical effect. While there were some attempts at coordinated intervention in early 1976, it soon became quite clear that the Americans were not going to participate in such efforts.¹⁶ This ensured that most of these attempts would end in failure because the overwhelming capital resources under the control of the U.S. Federal Reserve Bank were necessary components of any intervention effort.

Yet, while the agreement must be considered a success for the Americans, it was far from ideal for the future of the international monetary system. The agreement did represent a break from strictly fixed exchange rates, but it did not clearly specify a new set of rules. Indeed, it permitted a wide range of different exchange rate regimes to exist. This has led at least one observer to argue that the agreement codified a non-system.¹⁷ Surprisingly, this 'non-system' held firm until 1985. Nonetheless, until that time, the ambiguity as to exactly how much exchange rates should be allowed to float ensured that questions concerning the international monetary system would still be a key agenda item at the seven power summit. For the most part, the majority of these discussions would continue to centre on the French-American exchange rate debate. In 1985, the Americans would again shift their position, this time closer to that of the French, with the result being a series of important changes in the international monetary system.

On trade issues, the United States wanted to reverse the protectionist trend arising within the industrialized countries as a result of the recession. Indeed, in 1975 alone, the volume of world trade contracted by five percent.¹⁸ In these efforts, the Americans had the support of the Germans and the Japanese, and they jointly encountered the resistance of the French, the British and the Italians. While the former group of countries argued that one had to liberalize trade to ensure economic prosperity, the latter group felt one had to have economic prosperity before trade could be liberalized. These opposing points of view have structured the trade debate at all subsequent summits, and the United States has

consistently argued for trade liberalization as a means to economic prosperity.

At Rambouillet, the Americans were primarily concerned with the fact that the Tokyo Round of multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT) had gotten quite bogged down since their inception in 1973. Accordingly, they hoped the summit would show strong support for these negotiations and urge them on to conclusion. Once again, their efforts proved largely successful. The summit communiqué advocated 'the maximum possible level of trade liberalization' and called for the negotiations to be completed by the end of 1977.¹⁹ Although this deadline was not met, the Tokyo Round was completed in 1979, and it now seems quite clear that this statement by the leaders did provide some impetus to the negotiating process.

There was some irony to be found in the American success, however. Secretary of State Henry Kissinger, in his post-summit press conference, claimed that the leaders had also committed themselves to bringing down trade barriers in agriculture, with "...no attempt to hide behind (European) Community mandates or other obstacles".²⁰ This pledge was not to be fulfilled, and agriculture would eventually become a key issue by itself at the summits of the late 1980s.

Overall then, the United States achieved its main objectives at the Rambouillet summit and considered the summit a success. On issues of less importance to the Americans, some concessions were made. For example, on North-South relations, the Americans did agree to support the global conference on international economic cooperation that was to begin that year. This commitment was made despite a strong scepticism about the potential benefits of such a conference. Indeed, the U.S. has been consistently wary of entering such negotiations throughout the entire summitry period. Yet, within the summit forum such a position has often left the Americans isolated, and in 1975, the Americans gave in to avoid such isolation.

Regarding energy, the United States agreed to language in the communiqué supporting dialogue and cooperation between oil-producing and oil-consuming countries. Once again, the U.S. was sceptical about what could result from such efforts. Throughout the 1970s, the United States would consistently argue that the key solution to future energy problems lay in lessening the summit countries' dependence upon OPEC, not cooperating with it. Thus, the Americans actually scored a small victory here because the Rambouillet communiqué's major emphasis in this area centered upon the importance of energy conservation and the creation of alternative energy sources.²¹ Unfortunately, American governments were hindered in their efforts to actively undertake such actions by domestic opposition in the Congress. It would be several years before U.S. actions matched their rhetoric in this issue area.

Finally, two low key goals of the United States at Rambouillet met with total failure. Firstly, the Americans had pushed for Canadian attendance at the summit. There is little doubt that the United States wanted the presence of its close North American ally in the European-dominated summit forum. Nonetheless, French opposition to the concept proved too intense to overcome.

Secondly, the Americans wanted to make the summit an annual event, not simply an oddity in international politics. Yet, despite Japanese support, the Americans failed to obtain a written commitment from the European leaders to meet again. Even so, these two objectives would be achieved soon enough. Indeed, on the flight home from Europe, Secretary of State Kissinger was already predicting another summit would be held within a year.²² His forecast was correct.

B. Puerto Rico - June 27-29, 1976

The economic recovery which had begun in the United States in late 1975 had accelerated at such a rate that by 1976 the recession seemed a thing of the past. GNP growth in 1976 exploded to 4.9%. Indeed, while inflation had finally come down to 5.8% in 1976, there were now serious fears among US policy makers that the rapidly expanding economy made a revival of inflation imminent. Accordingly, the United States once again began to tighten its fiscal and monetary policies to slow down the rate of growth. Ostensibly, the Americans called this summit meeting to encourage other countries to undertake similar sets of economic policies and avoid a rebirth of global inflation.

Yet, there can be little doubt that President Ford's electoral concerns also played an important role in the decision to hold the Puerto Rico summit. After all, Ford's performance at Rambouillet had generally received very good press in the United States. There may well have been a feeling that another summit could only aid his campaign, and the polls seemed to indicate that his campaign did need some help. Evidence supporting this view includes the fact that the summit was only publicly announced one month before it was held, as well as the fact that it lasted little more than twenty-four hours. Indeed, it is now clear that the Puerto Rico summit was the least well-prepared of all the summits.

Whatever the motivations for calling the summit, the Americans were sincerely interested in obtaining a consensus wherein the prevention of a renewed outburst of inflation would be the primary goal of economic policy. Indeed, this clearly was their major concern at this summit. Yet, while economic recovery had been rapid in the United States, it was still very much in progress in other summit countries such as Italy and the United Kingdom. Naturally, these countries wanted to make economic growth and recovery a higher priority than the containment of inflation. Clearly, these views would come into conflict at the summit. The Americans recognized their task would not be an easy one. As US Treasury Secretary William Simon noted, "preaching moderate (economic) growth is like trying to sell leprosy".²³ Yet, the Americans did have some powerful allies, including the Germans, who, for a variety of historical reasons, have always been the summit country most concerned with the control of inflation.

In the end, the Americans succeeded in overcoming the opposition of Great Britain and Italy. The summit communiqué stated that "sustained economic expansion and the resultant increase in individual well-being cannot be achieved in the context of high rates of inflation".²⁴ This public statement was clearly a victory for the Americans, and it was viewed

as such by the American press. As the San Juan Star noted in a headline, it showed that the "Summit Leaders Endorse Ford's Economic Policy".²⁵ More importantly though, the summit countries did implement such policies, as economic growth amongst the seven slowed from an annual rate of 6.9% in the first half of 1976 to 3.2% in the second half.²⁶ Once again, the Americans had achieved their primary goal within the summit forum.

A secondary goal of the Americans at the summit was not at all economic in nature. The breakup of the Italian coalition government in January 1976 had led to a unique situation. In an effort to prevent the immediate collapse of his government, Prime Minister Moro negotiated an agreement with the Italian Communist Party which allowed them a formal consultative role in government without actually being part of the governing coalition. In return, the Communists promised to help the government survive until elections were held in June. Coupled with the fact that the popularity of the Communist party in Italy appeared to be on the rise, these events served to heighten US fears about the strength of Eurocommunism. Indeed, it has been argued that the timing of the summit (one week after the June Italian elections) reflects the extent of this concern.²⁷

Naturally, the US wanted to do what it could to stop this trend and there is little doubt that the Americans wanted to discuss the Italian situation at the summit. In this respect they were united with their major European allies. Indeed, it now appears that substantive discussions of the situation did take place in Puerto Rico, even though no mention is made of this issue in the final communiqué. Importantly, these talks only involved the leaders of France, West Germany, the United Kingdom and the United States. In their discussions, they agreed to "...make concession of a large loan to Italy conditional upon exclusion of the Communist Party from government responsibility....".²⁸ Italy's troubled balance of payments situation ensured that such a threat would have to be taken very seriously. Fortunately for Moro, the Communists had not done as well as expected in the June elections, making his decision somewhat easier. Accordingly, the Communist party was once again shut out of the governing coalition, and the US had achieved another of its major policy goals at the summit.

Nonetheless, the fact that such discussions took place in Puerto Rico served to introduce two contentious issues which would be a source of conflict in the summits of the next few years. Firstly, to what extent should economic summits concentrate on political issues?. In the ensuing debate, the United States would play a leading role in pushing for the inclusion of such issues upon the summit agenda. Even so, the most intense support for this position would come from the smaller summit members, Italy and Canada. Opposition to such a move would rest primarily with the key summit founder, France, who was to remain true to its vision of a summit wherein membership is as limited as possible and only economic issues are dealt with.

The second issue revolved around the extent to which hierarchies should exist within the summit seven itself. The United States would play a much less active role on this issue, passively opposing the existence of such hierarchies, but not taking an active role in breaking them down. That task would once again fall mainly to the Canadians and Italians, who again would face concerted French opposition in their efforts to take part at all levels of the summit discussions.

With regard to issues of less concern to the United States, the results of Puerto Rico were mixed. For example, the Americans were beginning to show some concern about the rapidly growing trade surpluses of Japan and West Germany. Accordingly, they sought to obtain commitments to efforts to bring these surpluses down. While the communiqué does contain some very general phrases about the potential danger of trade imbalances, it was clear in the summit discussions that the Japanese and Germans were in no mood to take such action.²⁹ As a result, the imbalances represented by these surpluses, and corresponding American trade deficits, would continue to grow in future years and would become a key American concern at future summits, particularly in the 1980s.

On the other hand, the Americans allied successfully with West Germany to ensure that the summit did not endorse Third World proposals in the United Nations conference on Trade and Development (UNCTAD) for a 'common fund' to stabilize international commodity prices. Such a position is naturally based in the American liberalized trade ideology. Indeed, the United States would continue to fight, both within the summits and in other fora, any Third World efforts to move elements of the international economy from market-oriented means of allocation to more command-based methods. On the issue of summit membership, the US, using its prerogative as host, did succeed in overriding French objections to Canadian participation in the summit.

Thus, the United States did achieve the majority of its major goals at this summit, and the summit must be classified as an American success. Yet, it is also clear that the US had not attempted to achieve very much. There can be little disagreement with the statement that Puerto Rico was the least substantial of all the summits.³⁰ Indeed, the United States was the only country in which the summit was given any extensive media coverage.³¹ Even so, that coverage was not enough to boost President Ford's election prospects, and the next summit would be the first for the new Carter administration.