4. PRESIDENT REAGAN'S FIRST TERM SUMMITS, 1981-1984

Like its predecessor, the Reagan Administration had a very clear idea of how the United States should approach the economic summits, and it applied that strategy on a consistent basis in its first term in office. Yet, it would be hard to find another approach that differed from the one the Carter Administration pursued to the extent that Reagan's did. The differences were rooted in fundamentally different beliefs about how the modern international economy functioned.

Essentially, the Reagan Administration rejected the Carter team's assumption that many of the ills of the international economy could be attributed to the unintended wider effects of national economic policy generated by conditions of economic interdependence. In the eyes of the Reagan team, this economic interdependence explanation was a smoke screen which allowed countries to ignore the fact that "international" economic problems were really rooted within their own faltering national economies. Accordingly, the Reagan Administration believed that the most important requirement for a healthy international economy was the existence of healthy national economies. Essentially, if all countries have their own national economies in order, all will be well in the international economy.

The Reagan Administration defined a healthy economy as one wherein non-inflationary growth was taking place. It had a very clear strategy to reach that end in the context of the high-inflation, recessionary conditions they inherited upon coming to power. Indeed, the administration believed their strategy (tight monetary policy at the macroeconomic level and structural reform at the microeconomic level) was by far the best way to return a national economy to prosperity under those conditions. Accordingly, the Reagan Administration sought to encourage the other leading economies of the world to adopt the American strategy. In essence, what was sought was an international convergence of policy, rather than the international coordination of policy.

Naturally then, the seven power summit received a very low priority within the first Reagan Administration because its major purpose was to promote such policy coordination. This was made quite clear when President Reagan attended the first two summits quite poorly briefed and unprepared.[76] Such an outcome was probably aided by the fact that President Reagan has very little interest in issues of international economic policy.[77]

At any rate, these fundamental beliefs about international economics led the Reagan Administration to see its role at the seven power summits as a very passive one. It saw the summit as a forum for discussion, rather than as a decision-making body. The U.S. rarely brought initiatives in economic policy to the summit table, although it did occasionally take the lead on political issues, where President Reagan had a much greater personal interest. Indeed, the Americans mainly worked to ensure that the initiatives of other summit countries did not result in any form of decision which could be harmful to U.S. interests.

The choice of such a passive and defensive strategy was aided by external events. For example, the Reagan Administration sought a passive, non-confrontational summit in 1983 because the 1982 summit ended in a bitter conflict which threatened the entire process.

In 1984, the administration wanted a non-decisional summit so that it could avoid making any commitments in an election year. Even so, the underlying reason for the Reagan Administration's strategy lay in its preference for international economic policy convergence over policy coordination. The depth of this belief is revealed by the fact that policy coordination was not actively pursued even though the worst economic downturn since the great depression was underway. Yet, while international economic policy convergence did lead the industrialized world out of that recession, it created another set of problems which forced the Reagan Administration to change its approach to summitry in its second term.

A. Ottawa - July 20-22, 1981

When the Reagan Administration came to power, the American economy was still very much in the throes of the economic crisis generated by the second oil shock in 1979. Inflation, considered public enemy number one in the last year of Carter's term in office, was treated the same way by the Reagan Administration. Indeed, Carter's strategy for dealing with the problem, through extremely tight monetary policy, was also accepted by the new administration. This policy primarily involved increasing interest rates, which were to reach record high levels in the United States in 1981. Essentially, it was hoped that such high rates would lead individuals and businesses to favour savings over consumption, thereby slowing economic growth and dampening inflationary pressures.

By 1981, it was clear that this strategy was working, only very slowly. Although the inflation rate declined in 1981, it still remained at an extremely high 10.4%. Meanwhile, the recession that grew out of the adoption of this strategy in 1980 continued unabated. The Reagan Administration saw such a recession as a price that had to be paid in the effort to crush inflation. It was convinced that stable economic growth could not come about until inflation was brought under control. Accordingly, the new administration remained determined to ride the recession out. Indeed, they believed that the ride would not be a long one. Modest economic growth (1.9% in 1981) made the new administration optimistic that recovery was occurring and that inflation would soon be brought under control. Thus, the United States came to the Ottawa summit confident that it was already pursuing the economic policies best able to lead the United States and the world out of economic crisis.

This underlying attitude that the economic crisis was really under control allowed the new administration to treat its first summit primarily as a learning experience. Accordingly, the Americans came to Ottawa with no strong desire to press for any major policy initiatives, or to agree to those put forward by anyone else. This was made clear in statements by several key officials before the summit. For example, the American sherpa for the summit, Myer Rashish, informed the press that "...there will be no concrete conclusion, no numbers in the communiqué, no specific policy agreements".[78]

This certainly did not mean that the United States wanted nothing from the summit. Indeed, Secretary of State Alexander Haig, in his pre-summit press conference, stated that the United States' key goals at the summit were "...to get to know the other leaders personally...to explain US economic and foreign policy goals; (and) to demonstrate to the other leaders our determination to create a strong US economy with stable prices....".[79] Such goals clearly reflect the new administration's desire to explain and gain support for the new economic and foreign policy orientations it intended to pursue in its first term in office.

On the economic side, the administration hoped to convince the other summit countries not only to endorse the economic strategy pursued by the United States, but also to adopt similar programs themselves. On the surface this task did not look all that difficult. Virtually all of the summit members were agreed that inflation was the primary economic problem, rather than recession. The only exception was France, where the new socialist president, François Mitterrand, was pursuing expansionary fiscal and monetary policies in an effort to stimulate growth. Nonetheless, the Reagan team quickly found at the summit that agreement on ends did not necessarily lead to an agreement on the means to reach those ends.

Indeed, the Reagan administration was to find that all the other summit countries criticized one aspect or another of American economic policy. In particular, the American determination to combat inflation almost exclusively through a high interest rate policy came under concerted attack. For the most part, this attack was spearheaded by the Europeans, who found that such a policy was having severe repercussions in their own countries. Problems arose for the Europeans because high U.S. interest rates led to an increased demand for the American dollar, thereby pushing up its value substantially. This contributed to inflationary pressures in Europe because the price of imports went up with the relative depreciation of European currencies. To counter such developments, the Europeans could raise their own interest rates, thereby lessening the demand for American dollars. Unfortunately, this meant strengthening the hold of the recession upon Europe.

This perplexing situation led the Europeans to argue that the Americans should change their policy mix by making greater use of fiscal policy to battle inflation.[80] In this way, the Europeans were also able to express their growing concerns about American fiscal policy as well. President Reagan's domestic economic program, dubbed Reaganomics, essentially advocated the pursuit of an expansionary fiscal policy through two key elements. The first of these, tax cuts (decreasing government revenue) had been a central promise of his election campaign. The second, increased defence expenditures (increasing government expenditures) was a central part of Reagan's desire to restore American hegemony in the world. Naturally, the other summit leaders were worried about what the pursuit of such policies implied for the U.S. budget deficit. Nonetheless, at this point, the more immediate problem was that such an expansionary fiscal policy fueled inflation and made the American administration unusually dependent upon monetary policy to brake the economy.

While all these concerns were voiced at the summit table, the Reagan Administration remained unmoved. There is reference in the final communiqué to the dangers posed by high interest rates, rapidly fluctuating exchange rates, and budget deficits, but these references are vague and contain no specific mention of the United States. Indeed, the end result appears to have been an agreement amongst the other leaders to give Reaganomics some time to either succeed or fail. As an article in the Washington Post put it, " ...the leaders of the other major industrial countries, despite some misgivings, have crossed their fingers and gone along with Ronald Reagan".[81]

Indeed, because most summit countries did believe that fighting inflation was the number one economic priority, they soon found themselves forced to pursue high interest rate policies similar to those followed in the United States, in order to slow the rise in the U.S. dollar. Even France broke down within a year and began to tighten its monetary and fiscal policy. Thus, despite their doubts, the Europeans were to fulfil the American desire for policy convergence amongst the major industrialized countries. On this level then, the Ottawa summit was quite successful for the Americans. Unfortunately, such policy convergence was to have some unexpected negative effects which would become clear by the time of the next summit in Versailles. Accordingly, the basic differences of opinion outlined at the Ottawa summit on American fiscal and monetary policy remained far from resolved. Indeed, they would provide the central focus for economic discussions for all of the summits in Ronald Reagan's first term in office.

With regard to more political matters, the new U.S. administration wanted to impress upon its summit partners its seriousness about taking a tougher stance vis à vis the Soviet Union. Accordingly, the Americans hoped, in the words of Alexander Haig, that the summit countries would agree to the general idea of bringing "...our own economic relations with the Soviets; collectively, in alignment with our political and our security objectives".[82] This subject was of intense interest to the Reagan Administration because it felt the European countries were placing financial objectives in the Soviet Bloc ahead of strategic ones. Naturally, the Europeans did not share this view.

Even so, the Americans did not push very hard on this issue. In this they were true to their belief that this should be a get-to-know-you type of summit. Accordingly, discussion of this topic remained at a very general level. This, in the end, enabled the summit participants to reach agreement to review East-West trade and strengthen procedures for screening the export of strategic goods to the East. Indeed, the final communique stressed that the summit countries must ensure that "...our economic policies continue to be compatible with our political and security objectives".[83] This was very clearly a success for the United States in the short-run. Yet, as we shall see, when the Americans decided to move from generalities, and attempted to push for specifics at Versailles, success would be much harder to obtain.

On lesser issues, the United States also largely obtained what it wanted. For example, on North-South issues, the Brandt Commission the previous year had called for global negotiations to discuss possible solutions for Third World underdevelopment. The Carter administration had been quite sceptical of the value of such negotiations, and the Reagan administration was even more so. Nonetheless, Canadian Prime Minister Pierre Trudeau, in his pre-summit preparations, had obtained an informal commitment from President Reagan to attend the first precursor of such negotiations in Cancun, Mexico later in 1981.[84]

Even so, it was still evident that American support for such negotiations was less than lukewarm. At the summit itself, all countries aside from the United States sought to have the communique explicitly support the efforts to institutionalize such a set of global negotiations. Totally isolated, the Americans gave in when the other countries agreed to stress in the communiqué the importance of private capital in development.[85] This sacrifice was not a large one, however. When President Reagan attended the Cancun meetings, he made it very clear that the United States was not likely to support any future efforts at global negotiations. Without American support, the concept of global negotiations lost credibility. To this day Cancun remains the last serious consideration of the possibility.

Finally, the Americans sought, and obtained, agreement to hold a ministerial meeting of the GATT to discuss the subject matter of the next round of multilateral trade negotiations. This once again reflects the consistent American desire to use the summit forum to facilitate movement to freer trade within the global economy. While such an agreement represented a small success for the Americans, the sluggishness of some summit members, in particular France and Italy, delayed the actual holding of this meeting until November 1982.

Clearly then, the Ottawa summit was a success from an American perspective. The United States secured all its major goals, and the new administration essentially received an endorsement from the other summit countries. As one American spokesman concluded, President Reagan walked away with most of the prizes.[86] Yet, as in Puerto Rico, the Americans did not attempt to achieve very much in Ottawa. When the U.S. tried to do more the following year in Versailles, they were to find success much more elusive.

B. Versailles - June 4-6, 1982

By the time of the Versailles summit, it was clear that the economic policies promoted by the Americans at Ottawa were producing very mixed results. On the one hand, the high interest rate strategy was finally having a decisive effect upon inflation, which dropped to 6.1% in 1982. On the other hand, the resulting economic recession, which many administration officials had thought would be over by this point, was getting worse. Indeed, 1982 found the United States in the midst of the worst economic recession since the great depression, with GNP growth declining by 2.5% that year. Clearly, the fact that all the summit countries had mimicked the American strategy of tight monetary policy had led to an exaggerated effect upon the global economy.

Nonetheless, these depressed economic conditions did little to weaken the American belief that the course they were following was the right one. Entering Versailles, the Reagan Administration was pleased with the progress made against inflation, but felt that inflation still had to come down farther before a secure economic recovery could begin. Thus, the United States came to Versailles determined to stay the course. It brought no new economic initiatives to the summit table.

Unlike Ottawa, however, the United States did come to Versailles with a major high priority initiative, in the political sphere. In December 1981, the new Reagan Administration had faced the first major challenge to its tough rhetorical position on East-West relations with the declaration of martial law in Poland. True to its words, the administration immediately imposed a wide range of economic sanctions on the Soviet Union, including an embargo on U.S. exports of technology used in the pipeline then being constructed to bring natural gas from the Soviet Union to Western Europe. Naturally, the Europeans were not pleased by the latter action. Even so, the Americans came to Versailles with their top priority being to convince the other summit countries to undertake similar measures against the Soviet Union. This was not to be an easy task.

Unfortunately for the Americans, the first priority of the other summit countries was the discussion of economic policy, particularly American economic policy. The other countries had given Reaganomics a chance, and they were not pleased with the results. Continued high interest rates in the United States left Europe facing the same dilemma it had faced a year earlier. American fiscal irresponsibility continued to worry the other summit countries, as the U.S. budget deficit rose to a record level of $146 billion in 1982. Indeed, the other countries saw these two problems as linked because such a high budget deficit made it difficult for the Americans to lower high interest rates which were serving nicely as a means to attract the foreign funds required to pay for the deficit. For their part, the Americans were to consistently deny the plausibility of such a linkage.

The aspect of American economic policy that most unsettled the other summit countries was the continued strengthening of the American dollar. The French, in particular, were flustered by this monetary instability. Indeed, it had severe effects upon the French economy as the French government had been forced to devalue the franc within the European Monetary System in October 1981. It recognized before the summit that another devaluation was soon required.[87] As hosts for the summit, the French made sure that the question of monetary stability played the central role in pre-summit preparations.

As at Rambouillet, the key protagonists on this issue were the United States and France. The Americans continued to argue for flexible exchange rates, claiming that exchange rate stability could best be achieved through the international convergence of sound domestic economic policies. On the other hand, the French remained true to their beliefs by arguing for greater fixing of exchange rate values, or at least official intervention in exchange rate markets to overcome monetary instability.

Once again, a compromise was agreed to before the summit itself. Essentially, it entailed two distinct components. The first was an agreement to study the effectiveness of official exchange rate intervention. Clearly, the Americans gave in on this issue, although as Putnam and Bayne indicate, "...the US Treasury was convinced that careful inquiry would demonstrate the futility of intervention in currency markets".[88] Although the results of such a study could conceivably defeat long-term U.S. policy goals in this area, in the short term the Americans lost nothing. Indeed, the final communique states that intervention in currency markets will only proceed if it satisfies the conditions required for such intervention already listed in the IMF articles of agreement. Nonetheless, as Putnam and Bayne point out, the tenuousness of this compromise became evident when the French President "...hailed the agreement as initiating reform of the international monetary system...(and US Treasury) Secretary Regan ...suggested that the French President didn't read the fine print....".[89] Such differences of interpretation over the probable impact of the study on exchange rate intervention could only be settled by the passage of time.

The second component of the compromise was more directly a significant gain for the

United States. Essentially, the summit countries agreed to have the Group of Five (the United Kingdom, France, West Germany, Japan, and the United States) cooperate with the International Monetary Fund (IMF) in undertaking a multilateral surveillance of those countries' economies. This was a clear victory for the US because the objective of surveillance was to be the reinforcement of US style anti-inflationary economic policies across all the summit countries.[90] Indeed, the final communiqué states that the "...stability of the world monetary system...rests primarily on convergence of policies....".[91] Clearly, the interventionism versus convergence debate had been settled in favour of the latter option, and as such represented a victory for the United States.

Importantly, this agreement on multilateral surveillance constituted a justification for summitry. It was a clear acknowledgement of the fact that national economic policies had to be monitored as to their effects because of their often crucial international implications. Indeed, the agreement was substantially strengthened the following year at Williamsburg.

Unfortunately, for the Americans, this success was not to be matched on the East-West issue. The American pipeline sanctions had infuriated the Europeans who quite legitimately felt that they were being made to bear a large portion of the pain caused by these sanctions. Indeed, the issue was so divisive that the French tried very hard to keep it off of the agenda entirely. They did succeed in ensuring that the pre-summit negotiations on this issue were kept separate from all other issues and did not involve the sherpas. At these negotiations, the American representatives made it clear that they planned to use the pipeline sanctions as a bargaining chip with the Europeans. As Putnam and Bayne indicate, they stressed that "...moderating the President's action on the...pipeline sanctions would depend on summit action on East-West economic relations".[92] In particular, the Americans felt the Europeans could best aid their stance on Poland by curbing their export credits to the Eastern bloc countries. Such economic restrictions were opposed by the Europeans for the same reasons as had been the case for European hesitation on Afghanistan: a wish to preserve detente and a belief that economic leverage should not be used to obtain political concessions.

The absence of the sherpas from these preliminary negotiations resulted in a situation where the US officials involved were technically competent but had insufficient political clout to make a deal stick.[93] Thus, no agreement could be reached on this issue before the summit, and only President Reagan's vehement insistence that it be included on the summit agenda ensured that it would be.[94]

At the summit itself, the foreign ministers managed to negotiate a tenuous compromise wherein the Europeans pledged restraint on their export credits. While this compromise did end up in the final communiqué, it was, in George de Menil's words, "...so ambiguous that it raised fundamental doubts as to whether they had reached any agreement at all ..."[95] Of course, this in itself need not be a problem, as the communiqué often contains vague and imprecise language. The problem at Versailles was that French agreement to the compromise had only been achieved through an American promise to step in and help support the franc under certain conditions. In a bizarre twist of fate, US Treasury Secretary Donald Regan was unaware that this compromise had been reached when he gave a press conference reviewing the summit to that point. When asked whether the US had made any pledge to intervene in the foreign exchange markets, he answered with an emphatic no.[96]

Reaction to this denial was quick. Upon returning home, both German and French officials argued that the summit declaration entailed no change in policy regarding economic relations with the East. Such statements reflected the fact that American efforts on this issue, their primary concern entering the summit, had ended in complete failure. Accordingly, President Reagan responded by extending the American pipeline sanctions to US subsidiaries and licensees abroad on June 18th. The reaction in Europe was one of outrage, and US-European relations deteriorated drastically. As Putnam and Bayne indicate, "summitry had clearly exacerbated the conflict, not restrained it".[97]

Having failed in their major goal at the summit, the United States obtained only a little more success on lesser issues. For example, the Reagan administration did succeed for the most part in deflecting criticism directed against its economic policies. The communiqué, as in Ottawa, only spoke in general terms of the need to lower interest rates and lessen budgetary deficits.

Moreover, the Americans also found themselves isolated once again in their opposition to global North-South negotiations. At Versailles, they agreed to support such negotiations as long as the independence of such international institutions as the World Bank and the International Monetary Fund were safeguarded. While this appears to be yet another failure for the Americans, it actually represented a success. This was because the modification of such institutions, perhaps the major goal of the South, was being ruled out from the start. Thus, the South rejected such conditions and the concept of global negotiations essentially died.

Finally, the United States did fail in its efforts on trade. The U.S. came to the summit hoping to obtain a consensus on the issues to be discussed at the upcoming GATT ministerial meeting in November 1982. In particular, it sought to ensure that agriculture would be discussed at these meetings. Such a proposal was strongly opposed by the representatives of the European Community and its members, particularly France and Italy, who were equally determined to ensure that the Community's Common Agricultural Policy (CAP) would not be dealt with in the GATT. In the end, the Americans only came away with an endorsement of the meeting itself.

Clearly, Versailles must be considered a failure from an American perspective, as well as from the perspective of summitry in general. While the United States did manage to ensure that other countries' initiatives were modified to reflect American concerns, it failed dismally in the pursuit of its own major initiative. Indeed, the final result of those American efforts had been to bring American-European relations to a new post-war low. The Versailles summit had actually driven countries further apart rather than bring them closer together. Great pains were taken by the Americans to ensure that the same result would not arise at the Williamsburg summit the following year.

C. Williamsburg - May 28-30, 1983

The health of the American economy in 1983 had vastly improved. The primary root of this improvement was a loosening of American monetary policy in July 1982, soon after the conclusion of the Versailles summit. After years of harsh criticism of American economic policy at the summits, the other summit countries had finally gotten their way. Importantly though, as Putnam and Bayne have pointed out, "...there was no evidence that foreign criticism had any impact at all on US policy".[98] Indeed, while American economic policy did change, it was not in response to that policy's effect on the other summit countries, but rather its the effect on the U.S. economy.

That effect was devastating. The combination of severe economic recession and record high interest rates generated by the tight monetary policy had profound effects upon the U.S. economy, particularly the financial system. 1982 saw a huge spate of small bank failures as an increasing number of American debtors (eg. farmers) found themselves unable to meet their higher interest payments as a result of the recession. More importantly from the government's perspective, many large American banks found themselves in a similar situation vis à vis some of their largest creditors - developing countries such as Argentina, Brazil and Mexico. Indeed, the inability of these countries to pay their debts threatened not only the American banks, but the entire international financial system. By loosening their monetary policy, the Americans precipitated a steady decline in interest rates, thereby providing some limited relief.

Yet, the change in policy had other important effects upon the economy. Firstly, the tight monetary policy had succeeded in essentially destroying any real inflationary pressures within the economy by 1982. Thus, the change in policy did not hinder the battle against inflation, which continued to decline, dropping to a level of 3.2% in 1983. On the other hand, the new policy, coupled with the continued fiscal expansion resulting from the Reagan Administration's budget deficits, also allowed an economic recovery to begin. Indeed, by the end of 1983, the American economy had clearly left the recession behind. It grew at a rate of 3.6% that year.

While such figures were certainly cause for optimism, it was clear to some observers that new economic problems had been created in solving these older problems. For example, the U.S. federal budget deficit increased to a record level of $176 billion in 1983. Furthermore, the U.S. dollar kept getting stronger, making American imports cheaper and American exports more expensive. The economic recovery ensured that this change in relative prices would be reflected in the American trade figures, as import purchases increased dramatically when the United States left the recession. Accordingly, the American trade deficit nearly doubled, reaching a record level of $67 billion in 1983. Even so, the Reagan Administration refused to see these trends as indicative of structural problems in the American economy. It argued that they would disappear with economic recovery. Thus, the administration came to Williamsburg feeling vindicated by the successes of their economic policy. They remained determined to stay the course and ignore any criticism about where that policy might now be leading.

Indeed, it is probably safe to say that the key American priority at the summit was to avoid any public criticism, confrontation or conflict amongst the summit countries. This naturally was in response to the fiasco at Versailles, which had clearly weakened both the public's, and the participants', perceptions on the usefulness of the entire summit process. American officials hoped to revitalize the summit process with a success. The path to success was thought to involve three things.

Firstly, as in Ottawa, there was a deliberate effort to lower expectations for the event. In statements to the press, the new Secretary of State, George Shultz, claimed that the United States was aiming for a dull summit.[99] Alan Wallis, the new American sherpa, said that the summit would not do "...specific, concrete things".[100] Indeed, such efforts to create the image of a non-decisional summit in the public eye were complemented by similar efforts amongst the participants themselves. In particular, the Americans stressed in the summit preparations that the summit would be more informal. It made great efforts to ensure that no draft communiqués or statements were prepared before the summit itself. All these moves did serve to lower expectations for the summit, making it likely that any agreements that did arise would be viewed very favourably by all concerned.

Secondly, the Americans sought to avoid a confrontation on the divisive issue that had torn apart the Versailles summit - East-West economic relations. In pursuit of that goal, the Americans hoped to obtain an agreement on this issue before the Williamsburg summit began. The other summit countries shared this goal. Indeed, it was the Europeans who made the first move towards lessening the trans-Atlantic conflict after the fiasco in Versailles. President Reagan's move to extend the pipeline sanctions to American licensees and subsidiaries abroad had caught the Europeans by surprise. But despite their angry public reaction, they agreed within a matter of weeks to raise their interest rates on export credits to the Soviet Union. Taking this as a sign of progress, Secretary of State Shultz suggested that a series of studies be conducted which would assess all aspects of East-West economic relations. When the Europeans agreed, Shultz was able to convince President Reagan to withdraw his extension of the pipeline sanctions. This was done in November 1982.

By May 1983, these studies were completed. The Europeans agreed to greater restrictions on their export credits and technology transfer with the East, while pledging to avoid undue dependence on Soviet natural gas imports. These concessions were enough to satisfy the Reagan Administration. One week before the summit the President stated that there was now "peace among us" on the issue.[101] This was reflected at the summit itself. Little time was spent discussing the issue, and all that appears in the final communiqué is "...one cautiously worded paragraph on the matter, whose brevity contrasts with the importance attributed to the problem the year before".[102] Clearly, the Americans were successful in diminishing the negative impact this issue could potentially have had at the summit.

The third aspect of the American strategy was to not demand too much at the summit, and not push too hard for what was demanded. Accordingly, they came to the summit with only two real issues, one economic and one political. The economic issue was once again trade liberalization. At the GATT ministerial meeting of November 1982, the Americans had pushed for the start of a new GATT round which would deal with issues previously not dealt with in the GATT forum, notably, trade in agriculture and services. In particular, the ever-increasing subsidization of agricultural commodities by the European Community worried the Americans, who began in 1983 to retaliate with their own system of export subsidies on agricultural products. The GATT ministerial meeting had agreed only to further study of these issues, and the Americans wanted to move beyond that at Williamsburg.

Indeed, the Americans argued at Williamsburg that a new round of GATT negotiations had been made essential by the still emerging Third World debt crisis. They claimed that the Third World countries could only deal with their debt burden through increased exports to the North, and thus argued that North-South trade would have to be a major focus of such negotiations.[103] Such an interest in North-South relations, traditionally not an American concern, reflects how seriously Americans took the threat posed to their major banking institutions at this time. Nonetheless, the Americans also continued to insist that agriculture be dealt with in the next round of negotiations. On this point, some of the European countries, particularly France and Italy, refused to budge. The result was a standoff, and the Americans did not press the issue because of their efforts to maintain a harmonious summit. Indeed, the final communiqué illustrates what little progress the Americans made on this issue. It simply states that "we have agreed to continue consultations on proposals for a new negotiating round in the GATT".[104]

Fortunately for the Americans, they were to obtain a much higher degree of success on their other priority issue. This was the fulfilment of the NATO two track decision taken in 1979. Essentially, the Americans wanted a European commitment at the summit that they would proceed, as planned, with the installation of Euromissiles in the fall of 1983, if the ongoing negotiations for the reduction of intermediate nuclear forces (INF) between the United States and the Soviet Union ended in failure. American concern was warranted, because the outlook for the negotiations was not optimistic and most European governments faced severe domestic opposition to the installation of new missiles. The Americans wanted such a commitment made within the summit context because they hoped it would provide Japan with the opportunity to demonstrate support for the NATO strategy.

In preparatory negotiations for the summit, it was the Canadians who took the lead on this issue, proposing that the summit produce a statement on missile deployment and arms control. Although the proposal got U.S. support, the resistance of the French and the Germans ensured that no commitment to such a statement was made prior to the summit.[105] Accordingly, when the summit began, the Americans were unsure as to whether or not they should press for such a statement in view of their overriding concern for a harmonious and peaceful summit. To their good fortune, events transpired at the summit itself which made their decision much easier.

Most importantly, the Soviet Union released a statement on the eve of the summit threatening retaliatory measures if NATO went ahead with its decision to install the Euromissiles. This statement forced the issue onto the summit agenda, as there was a general recognition that it had to be responded to. While the Soviets ensured that the issue would be dealt with, it was Great Britain's Prime Minister Margaret Thatcher who pushed the issue at the commencement of the political discussions, beginning what was to be a rather protracted debate. In essence, events had conspired to allow the Americans off the hook. The debate was on through no efforts of their own.

After hours of intense discussion, President Reagan presented Secretary of State Shultz with eight pages of notes he had taken and asked that a joint statement be prepared.[106] The first draft proved unsatisfactory to the French and Japanese, however, and the leaders made some changes of their own. Specifically, the stress on efforts at arms control was heightened and all references to NATO were eliminated. While such changes represented minor defeats for the U.S., there is no doubt that the final statement must be considered an overwhelming success from an American perspective.

As finally presented, the statement makes very clear that the two track strategy will be followed through. Moreover, it declares that "the security of our countries is indivisible and must be approached on a global basis", thereby publicly recognizing Japan's responsibility for, and commitment to, Western military security for the first time.[107] Clearly, the United States achieved all that it wanted in this issue area. The statement on security represents the key achievement of the Williamsburg summit.

The other major topic of discussion at the summit was not an American initiative. Indeed, the Americans would have preferred that it not be discussed at all. Nonetheless, all the other summit countries once again came out and criticized aspects of American economic policy. For example, American fiscal policy, in the form of the huge American budgetary deficit, came under concerted attack. As at Versailles, the Europeans strove to prove to the Americans that a link existed between high interest rates and the budget deficit. Once again though, their efforts ended in failure. This was clearly shown in the post-summit press conference of Treasury Secretary Donald Regan when he stated that no one had yet been able to convince him that such a link existed.[108]

American monetary policy came under attack as well. In particular, the French argued that it was time to hold an international monetary conference and encourage increased central bank intervention in currency markets to promote greater stability in currency values. This traditional French position once again ran into stiff American opposition.

Nonetheless, the final communiqué does make reference to the French concerns. For example, it states there is a need to "...consider the part which might, in due course, be played...by a high-level international monetary conference".[109] It was quite clear, however, that the Americans interpreted in due course' to refer to a time still far away. On the other hand, the communique also calls for "...coordinated intervention in exchange markets in instances where it is agreed that such intervention would be helpful".[110] When asked what the ambiguous term 'helpful' really meant, Treasury Secretary Regan would only reply that the United States would act in accord with the statement.[111] In August 1983, an attempt was made by the G-5 central banks to slow the continuing rise of the U.S. dollar. It failed miserably.[112] This failure only strengthened the traditional belief within the Reagan Administration that 'helpful' meant only under exceptional circumstances. Thus, it is clear that the Americans got communiqué language on these issues that ensured that, despite French concerns, the international monetary system would remain much the same. This was made clear by the summit's endorsement and strengthening of the multilateral surveillance system devised at Versailles in line with American economic objectives.

In conclusion then, the Williamsburg summit must be seen as a glowing success from an American standpoint. They once again defended themselves successfully from criticism of their economic policies. Although the United States made little headway on the trade issue, they scored a major success on the security issue. Finally, they achieved their primary goal in obtaining a successful, publicly, non-confrontational summit. For all members of the summit grouping, with the important exception of the French, the summit had regained much of its credibility. As the Washington Post put it, Williamsburg reaffirmed that a collective approach was needed to deal with the problems of today, and that approach could work.[113]

D. London II - June 7-9, 1984

The economic recovery that had begun in the United States in 1983 had developed into a full-fledged economic boom by 1984. In that year, GNP growth was a stunning 6.8%, clear evidence that the recession was a thing of the past. Importantly, U.S. growth was continuing to increase the American thirst for imports, and thus was helping other countries, particularly West Germany and Japan, to pursue export-led paths to recovery. In other words, the U.S. was serving, alone, as the locomotive for world economic growth. As one critic of the Reagan Administration noted "...the much-maligned locomotive theory of international economic recovery has been justified with a vengeance".[114]

While this was certainly good news, the worrisome economic trends in evidence at Williamsburg continued to worsen. The American dollar continued the meteoric rise it had begun in 1980, and the American budget deficit maintained its record high 1983 level in 1984. Most shockingly though, the high dollar and boom conditions helped to virtually double the U.S. trade deficit for the second year in a row, increasing it to a record $113 billion in 1984.

Nonetheless, the Reagan Administration remained unperturbed by these figures. They saw the economic boom as clear proof of the validity of Reaganomics. At any rate, the economic boom had certainly increased the government's domestic popularity, and it had come at an opportune time, in an election year. In fact, early polls were predicting a Reagan landslide victory in November. Naturally, the Reagan Administration did not want to do anything to lessen the probability of such an outcome, and thus sought, as at Williamsburg, a harmonious, non-confrontational summit. This time though, the strategy pursued towards that end consisted simply of taking a very low profile at the summit. As Putnam and Bayne point out, "...the President's men took a less ambitious (and thus less risky) approach to this summit than ever before, eschewing any militancy in East-West economics, finance or trade".[115] Essentially, the Americans came to this summit ready to defend their interests against the initiatives of other countries, but with no real priorities of their own.

At the summit itself, American economic policies were once again a major topic of discussion. In particular, the Americans were once again pressed to gain control of their budgetary deficit. President Reagan, of course, was not going to undertake serious tax increases or spending reductions in an election year. Nonetheless, there is some evidence that he made a commitment to the other leaders in London that he would deal with the budget deficit after he was re-elected.[116] At any rate, all that got into the final communiqué was a broad statement noting that "public expenditure has to be kept within the limits of what our national economies can afford".[117] Clearly, the Americans weathered quite easily criticism of their economic policies arising from the other summit countries.

Importantly, the American economic boom was increasing support for other aspects of Reaganomics in the other summit countries. One such aspect was the Reagan Administration's emphasis on microeconomic policies of deregulation and privatization, labelled 'structural adjustment' policies. London represented the first time they were explicitly mentioned at any real length in the communiqué. This foreshadowed the increasingly important role such policies would play in the summit discussions of President Reagan's second term in office.

Another major topic of discussion at London was the debt crisis in the Third World. In fact, these countries specifically appealed to the London summit for help with what was becoming an ever more difficult problem.[118] To this point, the crisis had been handled by the creditor countries on a case-by-case basis, with limited forms of debt relief (new loans, more flexible payment schedules) being provided in return for the pursuit of tough austerity programs in the debtor countries. Such programs were causing severe hardship in the debtor countries and there was increasing talk of attempts to increase bargaining power through the formation of a debtors' cartel.

In response to these conditions, the French, along with the Italians and the Canadians, argued that the summit should set out a more generous approach to the problems of the debtor countries. Specifically, they argued that more funds should be provided to assist Third World countries through the International Monetary Fund and the International Development Association (soft loan affiliate of the World Bank). Such proposals ran into the opposition of the Americans, British and Germans, who all favoured the current strategy and feared the inflationary effects of such an increase in global liquidity. In the end, the American view won out, and no new funds were promised for the Third World in the final communiqué. There was an agreement to "...encourage more multi-year rescheduling of commercial debts....", but such a measure could only have a limited impact and did not represent a major concession by the Americans.[119] Here too then, the Americans successfully defended their interests.

The final major topic at London was trade liberalization. Once again, the United States supported calls for an agreement to commence preparations for a new GATT round which would begin in 1986. For the most part though, these demands arose from their traditional allies on this issue - the Japanese, as well as the Germans, who broke ranks with an accepted European Community position to take such a stand. The Americans themselves were unwilling to push hard on this issue because of their wish for a conflict-free summit. At any rate, their bargaining position had been substantially weakened by the Reagan Administration's approval of several protectionist measures in response to various constituency demands in this election year. Without substantive American support, the trade initiative had no chance of overcoming the opposition of the remaining members of the European Community. Accordingly, the final communiqué only stated that consultations would take place on the start of a new GATT round.

On lesser issues, the United States did secure agreement for a brief political statement supporting its current position in East-West arms negotiations. This was an important signal to a wary American public concerned with the collapse of INF negotiations after the installation of the Euromissiles in the fall of 1983. The United States also played a role in ensuring that the London communiqué would contain the first example of a publicly expressed lack of unanimity on an issue. The question was whether or not to implement a Common Fund for Commodities produced by Third World countries. As at past summits, the United States was relatively isolated in its opposition to such a proposal. Nonetheless, the proposal entered the final communiqué in the form of "some of us also wish to activate the Common Fund for Commodities".[120] Such a public display of disagreement is very rare, but it nonetheless would happen again the next year on a much more central issue. Finally, the Americans had their request for international participation in the construction of their proposed manned space station mentioned in the communiqué.

Clearly then, the Americans secured their primary goal at London: a summit that was harmonious and conflict-free. Yet, as Putnam and Bayne note, "harmony was achieved by the simple expedient of eliminating controversial issues, not by resolving them".[121] As at Ottawa, the Americans had played a passive role at the summit, only acting to defend their interests when they were challenged. When they tried to take on a more active role the following year at Bonn, they found success more difficult.