## 5. PRESIDENT REAGAN'S SECOND TERM SUMMITS, 1985-1988

By the time of President Reagan's re-election, it had become clear that the administration's beliefs concerning international economics were flawed. Although economic recovery had taken place, the unexpected length and severity of the economic recession had hinted that economic interdependence did matter, and that national economic policy could no longer be conducted in a vacuum. Moreover, the second Reagan Administration came to power facing major economic problems (record budget and trade deficits) which it belatedly recognized could not be resolved solely through its own efforts to achieve economic growth. In essence, the experience of the Reagan Administration's first term had shown that a successful strategy of international economic policy convergence was not sufficient for the achievement of a healthy international economy. It was now clear that at least some degree of international economic policy co-ordination was required as well.

While changing economic conditions had certainly played a large part in contributing to this shift of opinion, at least some credit must go to the new Secretary of the Treasury, James Baker. Throughout his term, Baker continued to push for policy convergence at the microeconomic level through the advocacy of policies of 'structural adjustment'. Yet, even in his first year in office he demonstrated his own personal belief in the importance of policy coordination by unveiling a whole series of initiatives to further that end in all of the major multilateral economic institutions, including the summit. Whatever the cause, it is clear that this recognition of the value of international economic policy coordination led the second Reagan Administration to treat the economic summit much more favourably.

Indeed, the second Reagan Administration believed it should take a very active role at the summit, bringing forth initiatives in both the political and economic spheres and expecting binding decisions to be the result. The pursuit of this vision was undoubtedly helped by a growing division of responsibility within the summits, which has seen the finance ministers deal with questions of international economic policy while the leaders concentrate on political issues or issues that arise spontaneously. Certainly such a change has provided President Reagan with a greater interest in the process. In fact, this activist vision of summitry has been pursued consistently by the second Reagan team except on those occasions when domestic considerations (an election in 1988, the Iran-Contra scandal in 1987) have made it imperative to have a passive, non-controversial summit.

### A. Bonn II - May 2-4, 1985

President Reagan's second administration came to the Bonn summit having obtained a landslide victory in the elections of the previous November. The magnitude of that victory appeared to provide the administration with enough security to enable it to confidently undertake an active, leading role at the Bonn summit. Unfortunately, important components of this domestic support would weaken just prior to the summit when President Reagan fulfilled a long standing commitment and visited a West German Second World War cemetery at Bitburg. An outcry arose because the cemetery contained members of the former German SS, perpetrators of many of the war's worst atrocities. While this visit was distinct from the summit process, the American media made it the focus of their attention prior to the summit. Accordingly, there can be little doubt that it served as a formidable distraction to the American delegation, in particular the president. Even so, economic conditions in the United States were demanding that the American government take a leading role at the summit, and it certainly tried to do so.

Action was needed because it had become clear that the American locomotive which had served to pull the major industrialized countries out of recession in 1984 was hurtling off the track. GNP growth in the United States in 1985 fell to 3.0%, a dramatic drop from the previous year. To many observers, it appeared that several aspects of American economic policy which had come under severe criticism at previous summits bore the primary responsibility for derailing the U.S. locomotive. Importantly, key members of the new Reagan Administration felt the same way.

In particular, the new Treasury Secretary, James Baker, believed that some things had to change. His primary concern was the staggeringly high value of the American dollar which had appreciated by 60% between the beginning of 1980 and February 1985.[122] Naturally, the high value of the dollar had played a key role in the enlargement of the American trade deficit by making American imports cheaper and American exports more expensive. This figure would continue to worsen in 1985, reaching a record level of $122 billion. Moreover, Baker also foresaw that major problems would soon arise from the still-expanding American budget deficit, which also hit a record level of $198 billion in 1985. This deficit was increasingly being financed by external sources of funding, and the United States was well on its way to becoming the world's major debtor nation. Together, the trade and budget deficits illustrated that the American economy had become a weak one, increasingly dependent upon foreign economies and economic decisions taken beyond its borders.

As soon as Baker came into office, he began to take action against the two problematic deficits. On the budget deficit, he began negotiations with the U.S. Congress in an effort to have it lowered substantially in 1986. Regarding the trade deficit, his plan was to improve it by bringing the American dollar down and thereby changing the relative prices of traded goods in the United States' favour. By admitting that the U.S. dollar was grossly overvalued, Baker had moved to share the view which the other members of the G-5 had been emphatically voicing at all the summits since 1981. Accordingly, it did not prove difficult in January 1985 to obtain their agreement to undertake coordinated intervention in the exchange markets to bring the dollar down. By March, such intervention was already beginning to show some effects and the dollar began a long slide downward that would continue through the next three years.

Through his advocacy of such exchange rate intervention to bring the dollar down, Baker was abandoning the fundamental tenets of the international economic strategy preferred by Reaganomics. Convergence of economic policies, as advocated by the Reagan Administration since Ottawa, was no longer seen to be enough to guarantee international economic prosperity. The Reaganauts had finally come to the realization that some form of international economic policy coordination was indeed a necessary part of sound economic strategy in an increasingly interdependent world. Accordingly, they came to Bonn with three major economic goals, which reflected this newly accepted mix of economic strategies.

The first goal was based on Baker's recognition that the policies he had chosen to deal with the problem of the two deficits entailed some large risks for the United States. For example, lowering the value of the dollar threatened to increase inflationary pressures within the United States through the resulting rise in import prices. More importantly though, cutting the budget deficit was in essence a tightening of fiscal policy which threatened to slow economic growth further and help push the U.S. back into recession. This was something the United States desperately wanted to avoid.

The Americans felt it could be avoided if fiscal expansion took place in West Germany and Japan, the two countries that had racked up the huge trade surpluses to complement the American deficit. Such an expansion would, in theory, provide the United States with new export markets, thereby allowing continued growth and the avoidance of recession. Thus, the Americans made it a central priority to obtain the following tradeoff: German and Japanese expansion in return for American budget deficit slashing.

In pre-summit negotiations, it became very clear that neither the Germans, nor the Japanese, were very favourably disposed to such a package. The Germans, in particular, feared that fiscal expansion would lead to a renewal of the inflationary pressures only recently defeated. Indeed, Chancellor Kohl's government still maintained that the fiscal expansion demanded by the first such effort at policy coordination in Bonn I had been instrumental in making the inflationary effects of the second oil shock much worse than they otherwise would have been. No agreement could be reached before the summit, and none was reached at the summit.

In the final communiqué, the United States did pledge to "...achieve a rapid and substantial cut in public expenditures and thus a substantial reduction in the budget deficit".[123] This in itself reflects how much American attitudes had changed, as President Reagan had vetoed the inclusion of a similar statement at London the year before. Nonetheless, the final communiqué also reflects the complete failure of the first American objective as there not even vague references to fiscal expansion in West Germany and Japan. The Reagan Administration's first attempt at international economic policy coordination had proven quite unsuccessful.

The second major economic goal of the Reagan Administration at the Bonn summit met with more success. Essentially, the Administration hoped to convince the other summit countries to forcefully adopt the domestic structural adjustment policies they had shown some interest in at London. This aspect of Reaganomics stressed greater use of market mechanisms and a lesser role for government in the domestic economy. When President Reagan first advocated such policies at the Ottawa summit, his suggestions were more or less ignored by the other summit leaders. By the time of the London summit, the other summit leaders had become much less sceptical. The economic recovery in the United States, particularly the extent to which new jobs were created, did impress the other summit leaders.

At Bonn, it became clear that the other summit countries had been converted. In the final communique, each summit member committed itself to pursue at least some microeconomic policies of structural adjustment. This represented a clear victory for the United States, particularly when measured over President Reagan's entire term in office. As the New York Times put it, "... the endorsement of the free market, small government views ... marked a stunning ideological achievement".[124] Clearly, the United States achieved their goal in this regard, and they would build upon this success at the remaining economic summits of the second Reagan Administration.

The final major economic goal of the United States in Bonn once again centered on their desire to see a new GATT round of negotiations get underway. While the United States had supported such an objective throughout the Reagan presidency, they came to Bonn more determined than they had ever been to make progress on this issue. This was because the high American dollar had led to record numbers of price competitive imports entering the United States, and more and more American domestic producers were feeling the pinch. Accordingly, protectionist pressures in the United States skyrocketed. The Reagan Administration had begun to believe that it could only withstand these pressures by making progress on lowering trade barriers in other countries, particularly Japan. Thus, the United States came to Bonn determined to obtain agreement to begin a new GATT round in 1986.

As at London the previous year, the main opposition to such a proposal came from France, Italy and the European Community. While the Community had agreed before the summit that a new GATT round was necessary, it obstinately refused to commit itself to a date, claiming it was too early to do so. At the summit, both Britain and West Germany left this common position and argued for a start date of 1986. Nonetheless, the French and Italians, unable to secure a commitment that agriculture would not be discussed in such negotiations, refused to budge. The final result was a final communiqué which stated that a new GATT round should be held and that "most of us think that this should be in 1986".[125] This lack of consensus represented a clear failure for the United States, and both President Reagan and Secretary Baker publicly expressed their disappointment at post-summit press conferences.[126] At any rate, the failure was not total as the U.S. was at least able to obtain agreement for a preparatory meeting later in the summer that would lay out the framework for the next round of negotiations.

These mixed results for the United States in the economic sphere were to be duplicated in the political sphere. The German hosts had made it clear before the summit that only one official political statement would be permitted to come out of Bonn. This statement would commemorate the 40th anniversary of the end of the Second World War, specifically highlighting the fact that the war's major protagonists now were co-operating, through forums like the summit, to pursue a set of common objectives. The United States certainly had no qualms with the broad intentions of this statement, but they did want the statement to illustrate this spirit of agreement through the endorsement of two American policies in the military security sphere.

Firstly, the Soviet Union, which had been absent from the INF negotiations since the installation of the Euromissiles in 1983, had now decided to return to the negotiating table with the re-election of President Reagan. The Americans wanted to send a signal to the

Soviets that the solidarity of the summit countries on this issue had not weakened since it was first voiced at Williamsburg. Accordingly, the United States was determined to obtain summit approval in the political statement for their negotiating position at these talks in Geneva. This was obtained rather easily, and the final statement says that "we appreciate the positive proposals of the United States of America".[127]

While the Americans scored an easy success in this regard, their second goal would end in dismal failure. It centered on President Reagan's proposal to develop SDI, the Strategic Defense Initiative. This proposal, an important facet of his re-election platform, had generated intense debate both at home and abroad. There were serious concerns about the project's costs, workability, and effect on both arms control negotiations and nuclear deterrence strategies. Indeed, opinion amongst the summit countries ranged from Britain's outright approval to France's outright opposition, with most of the other countries sitting in between.

Recognizing the divisive potential of this issue, the German hosts sought to lessen its impact at the summit. Accordingly, they allowed President Reagan to make a presentation on the issue, but then allowed no real discussion or debate to follow.[128] While this avoided controversy, it also made it impossible for SDI to be mentioned in the political statement. Thus the U.S. clearly failed in the pursuit of this specific summit goal.

From an American perspective, the final key issue discussed at the Bonn summit was one not considered in any of the pre-summit preparations. President Reagan's wife, Nancy, had long used her public position to aid in efforts to counter drug abuse, a growing problem in the United States. At the first dinner of the summit, Britain's Prime Minister Thatcher casually inquired of President Reagan how these efforts were proceeding. Thus commenced a spirited discussion on the drug problem within all the summit countries, in which President Reagan played the leading role. In the end, a group of experts was created to study ways to deal with the problem. While this in itself represented a short term success for the U.S., its long-term implications were more important. It ensured that the illegal drug problem would become an item of discussion at future summits as well.

Clearly, the Bonn summit must be called a failure for the United States. The Reagan Administration had sought to do more at this summit than at any other summit it had attended, with the possible exception of Versailles. It had scored a few successes. Yet there were more numerous, and more important, failures. In particular, the Reagan Administration's inability to secure a major deal of international policy coordination was bad news in light of the worsening economic indicators within the United States. Even so, an editorial in the Washington Post on May 9th argued that American efforts at the summit had not been wasted, because such a coordinated package would eventually have to be agreed to.[129] Such a prediction would look like prescience within the year.

### B. Tokyo II - May 4-6, 1986

Entering the Tokyo summit, economic indicators in the United States once again reflected the contrasting strengths and weaknesses of the American economy. On the positive side, inflation declined to 2.0% in 1986, while growth remained fairly stable at 2.9%. Accordingly, the threat of a return to recessionary conditions had faded since Bonn. Yet, the danger had not been wholly eliminated. Indeed, the twin American deficits continued to cast an ominous shadow over the economic landscape. Both would again reach record levels in 1986 with the trade deficit climbing to $144 billion and the budget deficit reaching $221 billion. Nonetheless, the American administration was much more optimistic about its capacity to deal with these problems at Tokyo than it had been at Bonn.

The source of this optimism lay in a series of successful lower level initiatives by the Americans in the period between the two summits. In December 1985 the American Congress passed the Gramm-Rudman-Hollings Act which legally bound the U.S. administration to reduce the budget deficit in stages, such that it reached zero by 1991. This commitment by the Congress to deficit reduction was essential in generating international confidence about the administration's ability to reduce the deficit. Congressional resistance had undone past pledges for deficit reduction, such as that made at Bonn in 1985. Too late to have an effect in 1986, this new law began to have a substantial impact upon the U.S. budget in 1987.

More importantly, Treasury Secretary Baker obtained a major success at a meeting of the G-5 finance ministers at the Plaza Hotel in New York City in September 1985. Baker had called this meeting to secure two major goals. Firstly, he hoped to get an agreement upon the international coordination package deal rejected at Bonn by the Japanese and the Germans. Such an attempt was doomed to failure, however, as both Japan and Germany remained obstinate in their refusal to contemplate expansionary fiscal policies of any sort. Accordingly, no agreement was reached.

Yet, Baker did make considerable progress on his second goal - the furthering and formalizing of the cooperative efforts already underway in 1985 to bring down the value of the American dollar. While these efforts had met with some degree of success, the United States wanted the dollar to come down still further. After all, the changing exchange rates had not yet had any positive impact upon the American trade balance and this remained the primary goal of such a policy. At the Plaza Hotel, an agreement was reached amongst the G-5 to continue working for a lower dollar. Importantly, that agreement was made public. This represented the first time the G-5 finance ministers had made a public statement after years of secret meetings. The impact was immediate. The value of the U.S. dollar fell by over 4% the day after the statement was released and continued to fall at a rapid rate all the way to Tokyo.[130]

This clearly represents an important success for the United States, and one which had very beneficial side effects as well. By publicly indicating its intention to lower the overvalued American dollar, the G-5 ensured that import prices would rise in the U.S., thereby substantially lessening the intense pressures for protectionist measures encountered by the Reagan Administration. Naturally, not having to resort to such measures helped to maintain the integrity of the American bargaining position in the preparations for the commencement of a new GATT round, which began in that same month. This benefit cannot be overlooked in the light of the high priority accorded to the GATT negotiations by the Reagan

Administration.

While Baker was most certainly pleased with the Plaza accord, he nonetheless continued to hope that the international co-ordination of economic policy could be extended beyond the adjustment of exchange rate values. In many ways, Baker still accepted the traditional American position that economic problems should be corrected through changes in basic economic policy as opposed to simply realigning exchange rates. Nonetheless, he had accepted exchange rate coordination to this point because he could not obtain agreement to do anything else, and something had to be done. However he would not stop trying to obtain more.

At the next meeting of the G-5 in January 1986, Baker once again sought a German and Japanese commitment to fiscal expansion. Once again he was rebuffed. Yet, in an effort to further the international coordination of policy, the Japanese proposed that policies of monetary expansion be pursued through the lowering of interest rates, which all agreed remained too high. Such action would have to be cooperative because of the link between the interest rate and the demand for the American dollar. If the United States alone lowered interest rates, people would switch their investments to countries with higher rates, thereby lowering the demand for, and value of, the American dollar. The opposite would happen if only Japan and Germany lowered their interest rates. An agreement was reached, and in March 1986 a coordinated interest rate reduction successfully took place amongst the members of the G-5. The Germans, fearing the rekindling of inflationary pressures, ensured that no more coordinated reductions took place after the initial success. Nonetheless, the efforts of March 1986 represented another step forward on the path towards international economic policy coordination.

The United States' first economic priority at the Tokyo summit was to move that process even further along. Specifically, Baker came to Tokyo with a proposal to further such coordination by strengthening the multilateral surveillance procedure created at Versailles. In its current form, such surveillance was highly informal and geared towards ensuring that the summit countries pursued economic strategies that were non-inflationary. Baker hoped both to make the process more formal and to change the object of surveillance from the control of inflation to the pursuit of economic growth.

The heart of his proposal centered on the adoption of ten economic indicators (GNP growth rates, inflation rates, interest rates, unemployment rates, fiscal deficit ratios, current account balances, trade balances, monetary growth rates, monetary reserve levels and exchange rates) as tools in the surveillance procedure. Baker argued that whenever a summit country strayed a significant amount from its objectives or forecasts for these indicators, joint efforts should be considered by the summit countries to correct the difference. Importantly, Baker contended that such corrective measures could be either macroeconomic or microeconomic as long as they focused upon economic fundamentals and not simply exchange rate values. Securing acceptance of such a plan was the key economic goal for the United States at Tokyo.

In pre-summit preparations, Baker took great pains to ensure that this topic would not be dealt with by the sherpas. Instead, Baker discussed his proposals directly with his counterparts in the other summit countries. All countries were supportive, although the Germans and Japanese both feared that adjustment procedures might be considered an automatic response to deviation from indicator targets under the agreement.[131] When it became clear that this was not the case, it became relatively easy to reach agreement on the issue. At the summit itself, the proposal was again discussed principally by the finance ministers, with the leaders only providing their assent to the concluded agreement. This was an important precedent which ensured that at future summits, issues of international economic policy coordination would be the preserve of the finance ministers, leaving the leaders free to discuss other issues.

The final agreement at Tokyo was a very substantive success for the United States. Baker's proposal was accepted by the other summit countries with no real changes in content. There was, however, one important change regarding implementation. Baker had envisioned that the responsibility for multilateral surveillance would continue to rest with the G-5 and the IMF, as it had since Versailles. Yet, the growing importance of international policy coordination, as first evidenced by the Plaza accord, had made both Italy and Canada determined to have a say in these decisions which did, after all, impact heavily upon their economies. These two countries pushed the issue at Tokyo. The U.S., which had been publicly promoting such a change since January, provided support. After intensive discussions, countries opposed to this move, such as France, relented and a new G-7 was created. Importantly, the United States stood firm in these discussions and vetoed the inclusion of the European Community in this group because it did not have the status of a sovereign state. The new G-7 was, however, seen as only a supplement to the G-5, not a replacement, and the Tokyo communique makes a very ambiguous distinction between the roles these two groups would play in international economic policy coordination. Such ambiguity would lead to a major dispute within the year.

Nonetheless, it is clear that the United States got all that it asked for on this issue. Such success was to be replicated on the other major economic issue the United States pursued at the summit. That issue was agriculture. For many years the United States had criticized the price distorting effects of the European Community's Common Agricultural Policy (CAP), particularly the heavy use of subsidies in encouraging food production. These subsidies had led to the production of huge surpluses of agricultural products in Europe. Such surpluses forced down the international price of these products, making them much more price competitive vis à vis American produced goods. The competition had become so intense by 1985 that the United States government was forced to pass the Food Security Act which provided a similar support and incentive scheme for American farmers.

Although it passed this act, the Reagan Administration continued to view such subsidization programs as expensive and inefficient. Indeed, Alan Wallis, the American sherpa, remarked just before the summit that European protectionism in agriculture was "...probably the most disruptive factor in the world trading system".[132] The Americans came to the summit determined to obtain some formal recognition from all of the summit countries that this subsidization of production was indeed a problem that required immediate action. While the United States did not expect an agreement on how to deal with the problem, it felt it important to discuss possible solutions.

This enthusiasm was not shared by all of the summit countries. Hence the topic was not dealt with by the sherpas in the pre-summit preparations. At the summit itself though, British Prime Minister Thatcher brought up the issue, beginning what turned out to be a long and healthy discussion. In this discussion President Reagan played a leading role, and it has been noted that this issue is one in which he has a very strong personal interest in.[133] The end result was a paragraph in the final communiqué which certainly satisfied to at least some extent the goals of the Reagan Administration. It explicitly recognized that a problem existed and stated that "...action is needed to redirect policies and adjust the structure of agricultural production in the light of world demand".[134]

While such statements clearly represent a short-term success for the United States, the Americans had been correct to believe that there would be no agreement on precisely how the problem should be dealt with. Even so, it soon began to appear as if some beneficial long-term effects for the U.S. were going to be generated by the summit statement. Soon after the summit agreement was reached to discuss agriculture in the GATT round which began that October. Moreover, a truce was negotiated in the escalating subsidy war between the United States and Europe. Finally, the European Community publicly agreed in June to reform the CAP. These moves all were very positive steps from an American perspective. Nonetheless, the complexity and sensitivity of the agricultural issue ensured that solutions would be tough to find. Hence the problem remained a topic of discussion at future summits as well.

With regard to political issues, the United States came to the summit with one overriding concern: international terrorism. In the year preceding the summit, an unusually high incidence of terrorist acts had occurred in Europe, posing a threat to the citizens of all of the summit countries. This sudden increase, after years of relative calm, made it very clear that past summit actions on this subject were no longer having the desired effect. The Americans believed that most of these terrorist acts could be linked, through patterns of support or sponsorship, to the Libyan government.

Accordingly, after two such attacks in December 1985 in Rome and Vienna, the United States imposed economic sanctions upon Libya. The Americans looked for similar actions from the Europeans. But none were forthcoming, as the Europeans refused to see the situation in the same stark terms as the U.S. While the Americans argued that the root of the problem lay in Libya, the Europeans argued that the root resided in the fundamental Arab-Israeli conflict that characterized the entire Middle East. Thus, the Europeans (particularly the Italians and the French) wanted to avoid becoming involved in economic or military measures which threatened their diplomatic credibility in terms of this larger conflict. This difference of opinion once again raised the spectre of a major schism arising between the United States and Europe. By April, this seemed even more likely.

Further Libyan inspired terrorist incidents in early 1986 led the United States to consider more drastic actions. In April, the U.S. military launched a retaliatory bombing raid upon Libya. Once again, European support had been sought for this strategy, and although Britain allowed American planes to use British airfields for the attack, the French would not even allow the planes to fly through their airspace. As Putnam and Bayne point out, this bombing raid "...threatened to divide Europe and the U.S. as deeply as Afghanistan had done in 1980 or East-West economics in 1982".[135]

The success of the bombing raid, and the fact that it had proved to be very popular with the American public, provided President Reagan with the confidence to push the Europeans on this issue at the summit.[136] Specifically, the Americans made it quite clear before the summit that they sought a tough statement on terrorism which made specific mention of Libya and included joint measures to be adopted by all the summit countries against terrorism. Recognizing how determined the Americans were on this issue, the British foreign minister sought some grounds for compromise. Just before the summit, he succeeded in convincing his European counterparts to adopt a series of diplomatic punitive measures against Libya and any other states suspected of harbouring terrorists, in the hope that such measures would be enough to satisfy the Americans.

At the summit itself, the Japanese hosts presented to the other sherpas a draft statement on terrorism which did not even minimally meet American demands. The feeling that it was not strong enough was shared by other countries and the British sherpa was the first to refuse to accept it. Accordingly, when the leaders discussed the subject there was no agreed upon preliminary text. This allowed the leaders to partake in a much freer discussion of the issue than would otherwise have been the case. In that discussion, Prime Minister Thatcher and President Reagan played leading roles in pushing for a tough statement. The result was the strongest ever summit statement on terrorism.

The final statement condemned terrorism and specifically identified Libya as a state which sponsored and supported terrorism. Although there was no agreement to use economic sanctions or military measures against states like Libya, an arms embargo was declared against all states suspected of harbouring terrorists and the European's diplomatic sanctions were adopted by all the summit countries. For the United States, the absence of tougher punitive measures was more than made up for by the united summit stance upon the issue. Indeed, it was perhaps more than the Americans could have hoped for. There can be little doubt that they were pleased. In his press conference during the summit Secretary of Shultz displayed an uncommon exuberance as he declared to Libyan leader Gaddafi, "You've had it, pal! You are isolated. You are recognized as a terrorist".[137] Clearly, the United States had secured its objectives on this issue as well.

On issues with a lower priority, the United States also did fairly well. In particular, they obtained an explicit endorsement of their new approach to the Third World debt problem in the final communiqué. This strategy, called the Baker Plan, was unveiled in October 1985 by Secretary Baker during the annual IMF/World Bank meetings. It called upon debtor countries to undertake structural adjustment policies within their domestic economies in order to facilitate growth. In return these countries would be provided with greater loan assistance, primarily from the private banking sector, to help aid the growth which would ultimately allow them to pay back their debts. The summit's support for this strategy illustrated that the domestic policies of Reaganomics had obtained such acceptance within the summit countries that they could now be advocated for the Third World. While such a statement clearly represents a success for the Reagan Administration, the Baker Plan would not turn out to be a long-term solution for the Third World debt problem. Accordingly, the debt issue would soon regain its status as a central issue at future summits.

Even so, the Tokyo summit represented a major success for the United States. Indeed, Ronald Reagan claimed in his post summit press conference that it was the best and most successful summit he had attended.[138] This seems true. Even though it came to the summit with an ambitious set of objectives, the Reagan Administration had secured all of them. President Reagan himself had played an important role, as the leaders themselves had been instrumental in securing agreements on the key issues of agriculture and terrorism. However, President Reagan's ability to play such a role was severely diminished at the next summit. This had a crucial effect upon American prospects there.

### C. Venice II - June 8-10, 1987

In 1987, the United States experienced its fifth straight year of economic growth with a low inflation rate. More importantly though, the Americans finally appeared to be making some progress in removing the twin deficits which threatened continued prosperity. For example, the Gramm-Rudman-Hollings Act aimed to force the Administration and the Congress to come together and negotiate cuts in government spending in an effort to bring the budget deficit down. These efforts finally began to show some success in 1987. The budget deficit underwent a serious decline for the first time in the tenure of the Reagan presidency, dropping to $148 billion.

While such movement was cause for celebration, the figures on the trade deficit remained disheartening. By February 1987, the value of the U.S. dollar had fallen gradually by over 30% since the signing of the Plaza Accord in 1985.[139] Although this illustrates that coordinated efforts to bring the dollar down in a "soft landing configuration" had been very successful, the decline itself had little initial impact upon American trade figures perhaps due to the "J-curve" effect. Indeed, the U.S. trade deficit would increase for the seventh straight year in 1987, reaching a record level of $171 billion.

Treasury Secretary Baker had always believed that it would take more than a lower dollar to rectify the American trade deficit. He recognized that even if American exports were cheaper, they would not increase in volume unless new markets existed wherein they would be in demand. This helps explains the urgent U.S. desire to begin a new GATT round in the 1980s. The Uruguay Round had finally gotten underway in October 1986. But, such negotiations take time, and Baker therefore had also consistently sought fiscal expansion in the world's other leading economies, West Germany and Japan, to increase the demand for American goods in those countries more rapidly. At Bonn and Plaza these efforts had been firmly rebuffed. Even so, Baker remained determined. By late 1986 he had some real bargaining power for the first time.

Such power had developed over the previous year from two primary sources. Firstly, it finally appeared, after several broken promises, that the Americans would be able to fulfil commitments they made regarding the lowering of their own budget deficit. This gave the Japanese and the Germans more confidence that a deal like that proposed at Bonn could be successfully implemented.

More importantly though, both the Germans and Japanese had become quite concerned that any further decline in the dollar would serve to severely weaken the global position of their own economies relative to the American economy. Thus, they wanted the value of the dollar to stabilize at its current level. Baker's response to such a demand was to make it quite clear that the United States would only aid such a stabilization program if Japan and West Germany agreed to negotiate a package deal like those proposed at Bonn and Plaza.

In October 1986, the United States did negotiate such an agreement with Japan, wherein the Japanese agreed to stimulate domestic demand in return for American budget deficit cuts. Both countries also publicly stated their belief that the American dollar should not fall much further. Unfortunately, the consensus behind the agreement was highly tenuous and by January it had collapsed amidst charges from each country that the other country was not meeting its commitments. Even so, Baker demonstrated his perseverance by trying again at the Louvre meetings of the G-7 in February 1987.

At this meeting, the Americans were able to enter into serious negotiations with both the Japanese and the Germans. The final result was an agreement, the Louvre Accord, which called for American budget deficit reduction, as well as domestic demand stimulus in both Japan and West Germany. While the United States felt that the pursuit of such policies would play a large role in stabilizing the value of the dollar, it was agreed that the central banks of the G-7 would undertake co-operative measures towards that end if severe fluctuations continued. Thus, after numerous efforts, Baker had finally obtained the package deal he had first sought at Bonn. Despite the failure of the earlier Japan-U.S. deal, the Louvre Accord immediately raised hopes within the Reagan administration that the massive trade deficit would now be overcome.

While such progress on the economic front should have increased America's relative standing entering the summit, political events transpired to ensure that this was not to be the case. In November 1986, it became public knowledge that the United States had been selling arms to Iran for over a year in an effort to secure the freedom of American hostages in the Middle East. Since Iran was identified by many countries, including the United States, as a state which harboured various terrorist forces within its borders, such arms transfers were in clear contravention of the Tokyo agreement on terrorism. Naturally then, this finding raised doubts among the other summit leaders about the United States' ability to fulfil commitments made at the summit.

More importantly though, these events severely weakened the Reagan administration at home. This weakness was exacerbated revelation that some of the profits from these arms sales were being used to provide military supplies for the Contra rebels in Nicaragua at a time when the U.S. Congress had passed a law expressly forbidding such support. Not only had the Reagan Administration violated an international commitment, but it had also apparently broken domestic law. These findings caused President Reagan's personal popularity to tumble. Whereas the President had attended the Tokyo summit riding a wave of popularity in the wake of the Libya raid, he came to Venice a very weak president. Accordingly, the Reagan Administration came to Venice with few ideas or initiatives, hoping primarily to escape the summit without making things worse back home. The primary American goals were simply to avoid controversy and defend American interests against the initiatives of other countries.

Even so, the United States did come to Venice with two major concerns, one in the economic sphere and the other in the political sphere. Once again, the economic concern was agricultural subsidies. The optimism over the agreements that had followed the Tokyo summit discussions had proven to be misguided. In particular, the truce in the transatlantic agricultural subsidy war had broken down before the end of the year. The battle was once again in full swing in 1987. Although the summit countries had agreed at Tokyo that a problem existed with regard to the extreme level of subsidization accorded to agricultural products, the collapse of the truce made it quite clear that little progress was being made towards solving the problem.

One factor inhibiting the search for a solution was that there were some very important disagreements as to what the problem actually was. Indeed, these different viewpoints have persisted until the present. On the one hand, the Americans believe that the problem is simply the very existence of such subsidies. By interfering with the pure market mechanism, the subsidies only serve to make agricultural production less efficient and more expensive. Accordingly, the Americans argue that the solution must lie in the elimination of all such subsidies. On the other hand, the Europeans argue that the problem is not the subsidies per se, but rather the extreme level to which they have been utilized. They believe that some degree of subsidization is absolutely essential, in both political and economic terms, if European producers are to compete in the world economy. Thus, their proposed solution to the problem is simply a reduction in the level of subsidization.

At the OECD meeting of May 1987, the United States made an effort to win the Europeans over to their point of view. Specifically, they tried to get the Europeans to agree to a long-term timetable for the elimination of all subsidies. The Europeans, however, were unmoved. They continued to argue that the problem could be solved through immediate reductions which would lessen the extreme level of subsidization.

The final result of these discussions was an agreement to implement another truce, and begin a reduction of subsidies within the upcoming year. It has been noted that even these limited measures were only agreed to because of intense American pressure.[140] The agreement also stated that specific goals for subsidy reduction (ie. a timetable) should be negotiated at some point in the future.[141] Accordingly, the Reagan Administration made the attainment of such a timetable its major economic priority at the Venice summit.

The issue was raised at the summit by both the Canadians and the Americans, but the ensuing discussions soon made it very clear that no timetable would be agreed to. The Europeans, particularly the French and the Germans, refused to budge on the issue. Confronted with such staunch opposition, the Americans backed off in respect of their more important priority of obtaining a smooth non-confrontational summit. In the end, all that was agreed to was a reaffirmation of the OECD agreement. Clearly, the Americans had failed to meet their objectives.

Another economic issue that was dealt with substantially by the summit was not an American initiative, but a move that certainly impacted upon American interests. This was

Third World debt. Although the summit leaders had endorsed the Baker Plan at the Tokyo summit, the ensuing year had raised some important questions about the plan's practicality. Baker had hoped the private sector would provide the new loans necessary to rekindle economic growth in the Third World. By 1987 this hope seemed to be a pipe-dream. Indeed, it had become clear that the private sector was only lending the minimal amount necessary to ensure that debt payments could be met.

In response to this problem, the French proposed in pre-summit negotiations that the summit agree to increase the capital resources of the two major multilateral lending institutions, the IMF and the World Bank, such that public lending to the Third World could be increased. At this point the Canadians were the strongest supporters of the French proposal while the Americans were the toughest opponents. The Americans based their opposition on the argument that private lending was increasing and would soon reach a more adequate level. Whatever the merits of this argument, the Americans clearly were also opposed because they recognized that they would have to make the largest contributions to such capital increases.

At any rate, by the time of the summit the Americans were quite isolated on this issue. With little bargaining power and with the key priority of having a non-confrontational summit, the Americans were forced to give in. Yet this did not really represent a failure. For the Americans were able to obtain communique language which provided loopholes such that they would not have to meet the new commitments.

For example, the final communiqué does state that "we support a general capital increase for the World Bank...", but it adds the American-inspired language "when justified by increased demand for quality lending....".[142] Naturally, the term 'quality lending' is an ambiguous one, and the U.S. Congress has been able to proclaim a lack of such lending when justifying its continued refusal to support a capital increase. The story is similar in the case of the IMF. The final communiqué states that the summit members 'welcome' the proposals for "...a significant increase in the resources of the Structural Adjustment Facility over the three years from January 1, 1988".[143] Of course, to welcome something is not the same as committing to it. Thus another loophole exists.

The United States is the only country which has used this loophole to avoid making a contribution to the expansion of the IMF Structural Adjustment Facility. It is therefore clear that the Americans were able to successfully defend their own priorities in this issue area.

These examples appear to be typical of the American experience. Throughout the history of summitry the United States has found ways to 'agree without committing' when isolated on a policy it does not agree with, particularly with regard to Third World issues. While all summit countries have had similar experiences, the United States has been particularly successful in these efforts.

Even so, this particular case is reflective of the changing American role in the seven power economic summit. While the United States successfully got out of this commitment, the other summit members went ahead anyway. Such a move underscores the fact that the other summit members can now have a major impact on the global economy with or without the United States.

In the realm of political issues, the United States was becoming increasingly concerned with the fact that the Iran-Iraq war had spread to the Persian Gulf, and in particular, the Strait of Hormuz. This waterway was a crucial passage for the shipment of Middle Eastern oil to the summit countries, and these shipments had increasingly come under attack throughout the previous year. While the summit countries had decreased their dependence on such oil after the experience of the second oil shock, a major cut in supplies could still do considerable damage. Accordingly, the United States made it a high priority to achieve an agreement from the other summit countries to jointly protect all shipping in the Persian Gulf from attack.

In their preparations for the summit, the Americans found that their summit partners did not envision the threat to oil shipments as being as serious as the United States imagined. Thus, the reaction of the other summiteers to the U.S. proposal was cool. For example, the British and French were already using their own military forces to escort their own ships through the region. Even so, they were not at all eager to expand these efforts because they feared that to do so would expose them to greater risks than could be reasonably justified at the time.

Moreover, the other summit nations could offer little practical help to the American proposal either because of the size of their navies (Canada, Italy) or constitutional limitations on the use of their navy (Germany, Japan). Accordingly, they showed little interest in the proposal.

By the time of the summit, the United States realized that it would not be able to gain support for its proposal. Thus, the issue was only discussed for a few minutes by the foreign ministers.[144] The end result was simply a pledge to "...continue to consult on ways to pursue these important goals effectively".[145]

This represented a major policy failure for the United States. This failure was worsened by the fact that the US media had been led to expect that the US would push hard for an agreement. Accordingly, the US delegation suffered a very real collapse in credibility with American journalists at the summit.[146]

Indeed, the entire Venice summit can be labelled a major failure for the United States. Both of the major American policy initiatives were unsuccessful. The domestic weakness of the Reagan Administration contributed in some degree to that result. The United States was able to defend its priorities on the debt issue, but that defence stands as the American's only partial success at the summit. The aura of failure was perceived by many to extend beyond the United States to the summit as a whole. For example, the Venice summit was disparagingly referred to as the 'irrelevant summit' by the Washington Post, and the Economist headlined its summit story 'Deathly in Venice'.[147] Fortunately for the United States though, the following year's summit in Toronto would be somewhat more positive.

### D. Toronto - June 19-21, 1988

When the Venice summit was over, the major American economic problem remained its staggeringly high trade deficit. A real fear existed within the American financial and business communities that such massive global trade imbalances could return the world to recessionary conditions if they were not corrected. Yet despite the signing of the Louvre Accord in February 1987, the deficit continued to rise unabated. The Reagan Administration believed that one of the key reasons for the accord's ineffectiveness was that its provisions were not being stringently adhered to by the other signatories, in particular West Germany. Thus, when the Germans raised their interest rates (clearly not a move to increase domestic demand) in October 1987, Treasury Secretary Baker publicly accused the German government of ignoring its commitments under the accord. In response, he stated that the United States would no longer continue to aid efforts to stabilize the value of the American dollar, another aspect of the accord.

This very public debate did little to instill public confidence in efforts to rectify global trade imbalances through international economic policy coordination. When the debate was supplemented by American government figures that showed the American trade deficit to be worsening, this lack of public confidence was reflected in the world's financial markets.[148] The result was a catastrophic collapse of the stock market on October 19th, 1987, an event that many analysts forecast would throw the world into global recession.

When the G-7 next met in December 1987 (the G-5 had been less possible after the Louvre meeting in view of staunch Italian protests), it was forced to grapple once again with the problem of global trade imbalances. The result was an agreement which essentially "...reaffirmed their conviction that the basic objectives and policy directions agreed in the Louvre Accord remain valid and provide for a positive development of the world economy".[149] Accordingly, the United States again agreed to implement budget deficit cuts while West Germany and Japan pledged to make new efforts to expand their economies. Moreover, the summit countries reiterated their intention to keep exchange rates stable. It was hoped that the severity of the recent stock market crash would ensure that the members of the G-7 took these commitments more seriously than they had the last time around.

Indeed, this turned out to be the case. The results had the United States entering the Toronto summit in its most favourable economic position since the commencement of the Reagan presidency. Central to this improved position was a gradual decline in the American trade deficit throughout the early months of 1988. The processes of international economic policy coordination had finally made some progress on the issue of trade imbalances. But just as important, they had proven their value by keeping the industrialized economies from sliding into recession in the wake of the stock market crash. In fact, the United States seemed certain to experience its sixth straight year of non-inflationary economic growth in 1988. With the American budget deficit also continuing its long journey downwards, there could be little doubt that the American economy was returning to full health.

One might have expected that these very positive signals from the American economy would allow the United States to play an active role at the Toronto summit. This was not to be the case in an election year. In the upcoming election, the Republican candidate seemed almost certain to be Vice-President George Bush. Accordingly, the Reagan Administration sought to aid the Bush campaign by ensuring that the Toronto summit was both non-confrontational and non-committal, thereby placing the administration and its current policies in a positive light. Indeed, American officials hoped that the summit would in large part be "...a celebration of Mr. Reagan's presidency".[150] To achieve these ends, the Reagan Administration planned to adopt a very passive role at the summit, seeking to get what it could on non-controversial issues, while letting more controversial issues remain unresolved. This strategy was publicly expressed by President Reagan himself, in a pre-summit speech, when he indicated that "...no new agreements on major issues would emerge" at the summit.[151]

Nonetheless, the United States did come to the summit with some important goals and objectives. In the economic sphere, there were three major concerns, of which two were relatively non-controversial. The first was the microeconomic policies of structural reform that had been the cornerstone of Reaganomics throughout the entire Reagan presidency. While such policies had been ridiculed and criticized by the other summit countries when President Reagan first came to power, they had gradually been won over. Indeed, the summit had explicitly expressed support for such policies in each year of Reagan's second term.

What the Reagan Administration sought in Toronto was an acknowledgement that the summit countries would continue to pursue such policies even after President Reagan left office. The ideological consensus on this issue made such a commitment easy to obtain. The final communiqué in Toronto paid more attention to structural adjustment than any previous communiqué. Indeed, it included an annex wherein all the summit countries explicitly stated what policy options would be pursued to further structural reform in the coming years. Clearly, the United States got what it hoped for on this issue.

The second major concern of the United States in Toronto was trade. Here the United States had several goals. Firstly, it wanted the summit to provide a strong impetus to the Uruguay Round of multilateral trade negotiations underway in the GATT. The mid-term review of these negotiations was scheduled to take place in December 1988 and the United States hoped to see as much progress as possible made before that meeting. Such a position met some opposition from its traditional foes: France and Italy. Even so, the summiteers came to an agreement that the communiqué should state that "the greatest possible advance must be made in all areas of the negotiations....".[152]

Secondly, the United States had become convinced that the GATT dispute settlement mechanism system had to be strengthened for the GATT to retain its effectiveness. The existing system called for disputes to be settled by consensus, and that consensus seemed to be increasingly hard to find in international trading relations.[153] Accordingly, more and more disputes were being left unresolved, leading to a greater use of retaliatory trade measures. At the summit, the United States wanted the other summit countries to publicly recognize that this was a problem that had to be dealt with. Once again, the other countries did not require much convincing. The final communiqué stated that "GATT disciplines must be improved so that members accept their obligations and ensure that disputes are resolved speedily, effectively and equitably".[154]

Finally, the United States joined with Canada in seeking to have their recently negotiated free trade agreement supported by the summit as a positive example of trade liberalization. At the summit itself, the Europeans made clear that they had no problems with such a statement as long as the European Community's movement to a free internal market by 1992 was treated in the same manner. The Japanese, not being a member of a regional trading bloc, hinged their support upon the inclusion of phraseology which made clear that the agreement was meant to support the multilateral trading system, not break it down. The United States had no quarrel with either addition. The summit agreed to 'strongly welcome' the free trade agreement.[155]

Such success was not duplicated in the area of agricultural subsidies, the United States' final major economic concern in Toronto. This issue remained an important priority for the Reagan Administration for two reasons. Firstly, it was clear that past summits had done very little towards actually resolving the agricultural subsidy problem. Indeed, the truce in the subsidy war that had been reaffirmed at the Venice summit had once again failed to last the year. More importantly, the American Farm Security Act of 1985 was to expire in 1990, meaning that a new bill would have to be drafted in 1989. The Reagan Administration recognized that if little progress had been made in bringing the level of agricultural subsidies down by the time of drafting, the bill itself was almost certain to make US subsidies go much higher. Desperate to avoid such an outcome, the administration made the resolution of this issue an important priority for its final year and a half in office.

For example, having been unable to obtain a timetable for the elimination of agricultural subsidies at Venice, President Reagan proposed such a timetable in a speech on July 6, 1987.[156] Essentially, his proposal called on all countries in the Uruguay Round to agree to a framework which eliminated all subsidies on the pricing and production of agricultural products by the year 2000. It was made very clear in the speech that this new proposal would constitute the American bargaining position at future negotiations on the issue.

At the OECD meeting of May 1988, the United States brought its proposal to the bargaining table. Once again, European opposition to the notion of any sort of long-term framework for the elimination of agricultural subsidies was quite intense. The Europeans, led by the French, insisted that the negotiations on agriculture within the GATT could not be conducted separately from the negotiations on other issues. By keeping the negotiations within this broader framework, the Europeans recognized that their bargaining power would be greatly increased because of the linkages they could make between issues. Accordingly, they refused to give consent to the American proposal. What resulted instead was a vaguely worded statement which the Americans interpreted to mean that a timetable for the elimination of agricultural subsidies should be agreed to at the mid-term review of the Uruguay Round. Unfortunately, the Europeans did not share the American interpretation of this statement. Thus the issue remained unresolved at the time of the summit.[157]

Accordingly, the Americans made it a priority to get the Europeans to agree to the concept of a timetable for subsidy elimination at the summit. Indeed, in the later summit preparations, the Americans demonstrated some flexibility by making it clear that they were willing to waive their proposed deadline of the year 2000 if another mutually satisfactory deadline could be negotiated.[158] Yet, by the time of the summit, it was evident that the root concept of a timetable remained unacceptable to the Europeans. That this was recognized by the Americans was made clear in the first press briefing offered at the summit by the White House spokesperson, Marlin Fitzwater. He stated that "...we do not expect any sweeping conclusions or admonitions or directions on agriculture to come out of this summit".[159] This prediction certainly proved to be accurate.

In the end, the final communiqué reinforced the OECD declaration that a framework approach must be developed to deal with the agricultural subsidy problem. While this could be interpreted as a small victory for the Americans, further reading indicates that it clearly was not. For example, the communiqué states that such a framework should aim to reduce subsidies, not eliminate them. Moreover, it indicates that the framework should include short-term goals, but not long-term ones. It only requires that the short-term measures 'be in line with long-term goals'.[160] Clearly then, the Toronto communiqué reflects the European position much more than the American one. It thereby represents a major failure for American policy at the summit.

One other economic issue that was dominant in summit discussions was the debt situation of the poorest Third World countries. While these discussions were not the result of an American initiative, the U.S. played a key role in their development. Discussion revolved around the fact that low levels of economic growth in the world's poorest countries made any hope of eventual debt repayments on their part quite unrealistic. Since most of the debt of these countries was owed to governments or multilateral organizations, some of the summit countries felt that a special agreement should be reached among the summit governments to either lessen their debt burden or eliminate it entirely. Indeed, the French had presented a proposal along these lines at Venice. But the concept had run into the staunch opposition of the United States.

This opposition arose for two reasons. Firstly, the Americans felt the Baker Plan on debt could only work if all countries were treated equally, as had indeed been the case to that point in the Paris Club, the informal association of global Third World creditors. The Americans felt that equal treatment would ensure that those countries that worked the hardest to implement policies of economic rationalization (structural reform) would receive the greatest benefits in terms of the private lending needed to foster and maintain economic growth. While the Americans recognized that private lenders did not have much of a stake in the world's poorest countries, they did not wish to set a precedent for exceptions to the rule.

The second reason was that the U.S. administration faced very severe limitations upon its ability to comply with the requirements of such a debt relief proposal. Although the poorest countries of the world would certainly be aided by the outright cancellation of debt, or the negotiation of concessional interest rates, both of these options could not be pursued by an American administration without the support of Congress. Accordingly, the Americans could not support any proposal that only provided one of those options for debt relief. In fact, all the Reagan Administration could legally do by itself to decrease the debt burden of the poorest was extend the debt repayment period. This was probably the least helpful form of relief. These concerns led the Americans to make it clear at Venice that such a proposal would have great difficulty in securing their support.

Over the ensuing year, however, more and more countries came to share the French view that special treatment was required in this case. As one observer put it, Baker was becoming an "...internationally isolated intellectual...." on this issue.[161] In the preparations for the summit, France, Canada, Japan, West Germany, and Britain all made proposals on debt relief which argued that the poorest countries should receive special consideration. Importantly, several of these proposals suggested that the debt relief strategy could be drawn from a 'menu' of options. Such a feature was specifically proposed so that it would be possible for the United States to participate even if other countries chose a strategy such as debt cancellation.

As the summit approached, the United States came under increasing pressure from the other summit countries to end its isolation and come out in support of such a plan. The Americans collapsed under this pressure a couple of weeks before the summit, when Treasury Secretary Baker publicly announced that the United States would support a 'menu' plan. This cleared the way for an agreement to be reached at the summit. That agreement was probably the summit's most substantive achievement.

On the surface then, this appears to be a clear policy failure for the United States. Indeed, in his press briefing at the summit, Secretary Baker called the agreement to allow a differentiation of debt relief strategies within the Paris Club a "...rather significant change in the U.S. attitude....".[162] While the Americans did lose out on this issue, it is important to note that they did gain two significant qualifications which served notice that they were not prepared to go any further.

Firstly, it was agreed that these debt relief possibilities would only be made available to countries which had adopted an economic program of structural adjustment, monitored by the IMF. In other words, a country would have to be a product of the Baker Plan to qualify for a special deal. Secondly, it was made very clear that these menu options were to apply only to the poorest countries. For the remainder of the Third World debtors, the final communiqué stated that "the market-oriented, growth-led strategy based on the case by case approach (Baker Plan) remains the only viable approach for overcoming their external debt problems".[163] Thus, the American approach to the debt question was to remain the dominant approach, although the exception gained by the other summit countries was an important one.

On issues of lesser importance to the United States the results were varied. The Americans successfully played a role in efforts to get their summit partners to agree to adopt a commodity price indicator for use as an analytic tool in the G-7's multilateral surveillance process. It was hoped that such an indicator would serve as a guide to inflationary pressures within the global economy. This success was particularly gratifying because previous efforts at the April 1988 G-7 meeting had only resulted in an agreement to develop, rather than use, such an indicator.

Other initiatives were less successful. For example, President Reagan had stated in a pre-summit speech that the United States hoped the summit countries would agree to cooperate to help restore the economies of the Philippines and Afghanistan. The political declaration does state that, regarding the people of Afghanistan, "each of us confirms our willingness to make our full contribution to...the reconstruction of their country".[164] No such commitment is made regarding the Philippines. Indeed, the United States faced great opposition, from France, to having it specifically mentioned in the communiqué at all. It was only included when it was noted that countries in other regions of the world were also in situations that required the attention of the summit countries.

Finally, the United States had hoped that the final communiqué would include some criticism of the failure of the newly industrializing economies (NIES) of South-East Asia to recognize that their rapid growth required them to play a greater role in maintaining the health of the global economy. This American concern could be traced to the fact that the American trade balance with these countries had shifted downward by $60 billion since 1980, and was continuing to worsen.[165] Given the problem with the overall U.S. trade deficit, such a trend was quite disturbing. Yet staunch Japanese opposition, and the reserved attitude of other summit countries anxious to avoid NIE-bashing, toned down the message to the point that the communiqué contained no criticism, calling only for the beginning of a dialogue between the NIES and the industrialized countries.

In the realm of political issues, American successes abounded. Indeed, the U.S. came to the summit with two key goals in this area. The first was to obtain a statement on East-West relations that demonstrated both the support of the summit countries for the recently negotiated INF disarmament treaty and the fact that the summit countries remained united in the face of the massive changes taking place in the Soviet Union under General Secretary Mikhail Gorbachev. Both of these points were easily agreed to by the summit participants.

The Europeans went further by raising an issue that had often been a source of dispute amongst the summit countries: East-West economic relations. This renewed interest in the topic had arisen because the economic community of the Eastern bloc, COMECON, had formally recognized the existence of the European Community just weeks before the summit and now sought to expand the economic relations between the two groupings. This prospect excited the Europeans. But it was greeted with caution by the Americans, who wanted to see such interchange take place only under certain conditions. The Europeans agreed to respect the American concerns. The political declaration stated that such relations will only be expanded if they are commercially sound, consistent with security interests, and in accordance with the rules of the international economic system.

The other major American initiative in the political sphere was drugs. It appeared that this topic was going to be a major campaign issue in the American elections that fall. The Reagan Administration wanted to be seen as taking some action on the issue. Accordingly, the United States sought to move beyond previous summit declarations on drugs and obtain support for the establishment of a task force which would study ways in which international cooperation on this issue could be facilitated. Such support was forthcoming, and the United States scored another success.

Overall though, the Toronto Summit must be seen as having produced only mixed results for the United States. The Americans secured their objectives in all the non-controversial areas and some of these successes were not insignificant. Most importantly, the Toronto Summit made clear that the Reagan administration's vision of the conduct of international economic relations had become the accepted wisdom of all summit participants. This does represent an important achievement and it is clear that the Toronto Summit served to place the Reagan administration and its policies in a positive light in this election year.

On the other hand, the United States failed quite miserably in defending their objectives in two major issue areas: agricultural subsidies and Third World debt relief. In both cases, the initiatives of other summit countries achieved substantive success over American opposition. A passive American role in the summits is no longer enough to ensure that US interests are protected against the objectives of its increasingly equal summit partners.

This has some ominous implications for the United States because these issues are certain to be near the top of the agenda of future summits for years to come. It seems clear that any progress on these difficult issues will require the United States to concede that international economic cooperation must proceed even further. Accordingly, the Toronto Summit also served to indicate that the seven power economic summit is here to stay.