

VERSAILLES, June 4-6, 1982

As in the previous summit at Ottawa, the preparations for the Versailles summit were again dominated by the issues of high US interest rates and the rise in the exchange value of the dollar and its impact on the other major industrialized countries. As Putnam and Bayne point out, when the American budget for 1982 projected drastic increases in the final deficit both the value of the interest rate and the dollar rose sharply.¹¹³ The reaction of the other industrialized countries was swift and a senior German government official publically complained: "We have never before seen an American administration that displayed this degree of indifference to the effects of its action on its allies."¹¹⁴

Most of the preparations by the Sherpas dealt with this impact of the US monetary policy on the foreign exchange markets and a strong disagreement between France and the United States developed. The conflict was over the question of promoting either convergence or intervention as macroeconomic strategy.¹¹⁵ France, which had traditionally sought a more disciplined monetary system called for coordinated intervention by the major central banks in order to offset erratic currency fluctuations.

¹¹³ Putnam and Bayne, Hanging Together, p. 132.

¹¹⁴ Ibid. p. 132.

¹¹⁵ Ibid. p. 133.

The United States argued that intervention in the exchange markets did not offer a long term solution and instead argued that exchange rate instability could only be avoided through policy convergence amongst the leading economies. The German government had basically held the middle ground in this disagreement, agreeing with the Americans that exchange market intervention did not offer any real solution but also agreeing with the French that long term currency instability was a serious problem. It was thus extremely relieved that some consensus was reached by the Sherpas going into the summit in which they recommended the setting of regular meetings of the finance minister of France, Britain, the United States and Japan (later named the G-5) to conduct multilateral surveillance of national economic and exchange rate developments.¹¹⁶

The other main issue preoccupying the preparatory process was the US decision to embargo energy related equipment and technology to the Soviet Union in response to the declaration of martial law in Poland and her push for a curbing of all commercial subsidies to East Bloc credits.¹¹⁷ The German government and its European partners were extremely concerned at this development, fearing the outbreak of economic warfare between the superpowers through the hostage of the Soviet gas pipeline to Western Europe. Schmidt and his colleagues were thus interested to use the summit

¹¹⁶ "Wirtschaftsgipfel: Hart bleiben" in Der Spiegel, May 31, 1982.

¹¹⁷ Frankfurter Allgemeine Zeitung, June 7, 1982.

to resist American pressures for a reduction in East-West trade and to prevent the stated pledge to further tighten the US trade embargo to the point where it might jeopardize the entire gas pipeline contract.¹¹⁸

At the summit the German delegation (Chancellor Schmidt, Foreign Minister Hans-Dietrich Genscher, Finance Minister Manfred Lahnstein and Economics Minister Graf Lambsdorff) had three major objectives: to once again convince the Reagan administration of the negative effect of the high interest rates and budget deficits on the other economies, to adopt the agreements reached by the Sherpas on macroeconomic surveillance and most importantly to try to convince President Reagan to move away from the use of trade as a political instrument in East-West relations.¹¹⁹ During the macroeconomic discussions the Chancellor once again tried to convince Reagan of the serious impact the budget deficit and high interest rates were having not only on the Federal Republic but also to the other European parties. Nevertheless, it appears that Reagan was not convinced by Schmidt's arguments and did not signal a willingness to alter his economic policies.¹²⁰

The summit leaders did agree to adopt the compromise that had

¹¹⁸ Ibid.

¹¹⁹ "Wirtschaftsgipfel: Hart bleiben" in Der Spiegel, May 31, 1982.

¹²⁰ Frankfurter Allgemeine Zeitung, June 7, 1982.

been reached by the Sherpas and agreed to set up the regular meetings for the multilateral surveillance of the economies and exchange markets. This in effect allowed them to avoid any discussion of the question of 'convergence or intervention' which had led to such serious disagreements in the preparatory stage of the summit, in effect agreeing to disagree on this point.¹²¹

Schmidt also strongly called on the other leaders to recognize that the ultimate responsibility of governments would be measured in the question whether or not they would be able to effectively contain unemployment. He also pointed out that if the West was not able to effectively solve the question of the thirty-one million unemployed then the young people would begin losing faith in the system. According to the Chancellor, new jobs could only be created if the interest rates declined and if inflation was no longer exclusively contained with monetary but also with fiscal policies (a reduction in the deficit). Nevertheless, the leader could not agree to offer any new signals to effectively deal with this serious problem.¹²²

In the leaders' discussions on the contentious question of East-West trade the Chancellor once again expressed strong opposition to the use of trade as an instrument to gain leverage in East-West relations. Schmidt pointed out that an embargo against the USSR would prove to be largely counterproductive and would

¹²¹ Putnam and Bayne, Hangqing Together, P. 137.

¹²² Die Zeit (R. Herlt), June 7, 1982.

further hurt the relations between the West and the East Bloc, which was in a very fragile state after the Soviet invasion of Afghanistan and the declaration of martial law in Poland. When the attention turned to the issue of credits to the East Bloc, the Chancellor stayed on the sidelines for the most part in the increasingly harsh debate between Mitterand and Reagan.¹²³ Schmidt pointed out that the Federal Republic, unlike her European partners, did not subsidize the interest for export credits and thus he did not feel himself compelled to take any action. When it was pointed out to him that the German government was offering state guarantees for credits, Schmidt immediately stressed that since these guarantees were not limited to trade with the East but to all such commercial agreements he insisted that this point was not germane to the issue being discussed.¹²⁴

The European summit leaders ultimately did agree to commercial prudence in limiting exports credits and argued to extend the OECD agreement to monitor the level of export credits. The United States, in turn, refrained from further extending the already existing trade embargo on energy related equipment and technology.¹²⁵

In his final press conference the Chancellor pointed out that the

¹²³ Ibid.

¹²⁴ Die Zeit (R. Herlt), June 7, 1982.

¹²⁵ Putnam and Bayne, Hanging Together, p. 137.

Versailles Summit had definitely not been able to remove all the problems facing the world and had not been able to rebuild it. he nevertheless did point out that these summits "never did change very much but were primarily helpful in preventing serious discord from getting worse."¹²⁶ Just as in the previous year at Ottawa, the German delegation could leave the summit feeling secure in the knowledge that it could continue in its basic economic policies. Even on the question of continuing trade with the East Bloc, it was pointed out by Finance Minister Lahnstein that the decisions reached at the summit in no way affected this trade.¹²⁷

Nevertheless, the Versailles Summit was and still is largely regarded by most analysts as a failure. Very little of substance was agreed upon and the events in the weeks after the summit seemed to cast serious doubt on the effectiveness of the summit agreements. This became most dramatically apparent when the White House announced that it was now unilaterally extending pipeline sanctions to cover US subsidiaries and licensees abroad. This seemed to directly contradict the understanding reached at the summit that if the Europeans agreed to reduce credits, the Reagan administration would agree to moderate its stand on the sanctions issue. Both the German and French governments expressed their dismay at the fact that the American government

¹²⁶ "Wirtschaftsgipfel: Hart bleiben" in Der Spiegel, May 31, 1982.

¹²⁷ Putnam and Bayne, Hanging Together, p. 137.