

agreements.¹⁷

B. Puerto Rico, June 27-28, 1976

Just six months after the Rambouillet Summit, President Ford invited the six summit leaders, now including Prime Minister Pierre Trudeau of Canada, whose invitation had initially been opposed by the French government, to Puerto Rico for another summit. The stated purpose for holding another summit just half a year after the first one was to discuss ways to isolate from inflationary pressures the economic upswing that had taken place since December 1975. Furthermore, it was supposed to deal with the serious economic and political instability in Italy resulting largely from the collapse of the centre-right coalition after the 1976 election and the dramatic rise of the Italian Communist Party, as well as offering an effective forum to reassess the failed UNCTAD Conference on raw materials that had been held in Nairobi. Nevertheless, since 1976 was an election year both in the United States and West Germany, many analysts saw the real reason for calling this summit as an attempt by President Ford to use a successful foreign policy event to play a major role in the upcoming November election.¹⁸

¹⁷ Frankfurter Allgemeine Zeitung, November 24, 1975.
Die Zeit (R. Herlt), December 5, 1975.

¹⁸ Die Zeit (K. Becker), June 11, 1976.

In the weeks leading up to the summit the German government repeatedly expressed its unhappiness that neither the President of the European Commission, Gaston Thorn, nor the head of the European Council, Artoli, had been invited to Puerto Rico. Foreign Minister Hans-Dietrich Genscher sympathized with the smaller countries in the European Community who felt unfairly pushed to the sidelines when the German, French, British and Italian governments discussed issues at the summit that impinged on the authority of the Community. There was concern in Germany to play down this impression that a select 'directoire' of nations was developing policies that should be discussed by the Community. This explains the German attempt to get European Community participation not only at Puerto Rico but also at the OECD meetings that year. Nevertheless, largely due to French resistance, the Community was not invited to attend. It would only become a regular participant at summits one year later.¹⁹

The German delegation attending Puerto Rico (Chancellor Schmidt, Foreign Minister Hans-Dietrich Genscher and Finance Minister Apel) wanted to use the summit to emphasize its view that every country would have to begin any efforts at economic stabilization in their own economies before seeking multilateral action. Even though Schmidt was ready to concede that in certain instances domestic stabilization efforts might have to be taken in parallel with international action, especially in the area of currency and trade policy, he left no doubt whatsoever that he would resist

¹⁹ Frankfurter Allgemeine Zeitung, June 25, 1976.

countries pushing their own problems onto the international arena. In other words, determined policies at home were seen to be a fundamental prerequisite for any international action.²⁰ In many ways the Chancellor saw this argument as his main strategy in dealing with the question of the Italian economic problem at the summit.

In the other key issue of North-South relations and raw material pricing, the German delegation stressed that it was premature to decide on an approach to take. It called for a careful assessment of the situation. Its goal at the summit was to convince the other leaders to think about the issue and analyse the question in some detail before embarking on any new raw material policy. Furthermore, the Chancellor wanted to push for a further opening of western markets for goods from the Eastern Bloc and sought a commitment for a substitution of oil with other energy sources in order to gain some independence from Arabian oil and break the strong influence of the OPEC Cartel.²¹

At the summit itself, which was held at the exclusive El Dorado Beach Hotel, the first topic of discussion was the serious economic and political instability in Italy. As expected Chancellor Schmidt viewed the whole Italian question with considerable reservation and repeatedly pointed out that he saw no reason to give Italy a new credit since its balance of

²⁰ Frankfurter Allgemeine Zeitung, June 26, 1976.

²¹ Frankfurter Allgemeine Zeitung, June 26, 1976.

payments had developed much more favorably than expected in the last month and a half. Schmidt, furthermore, stressed that the Italian government would first of all have to bring its own economy in order before the other countries could even think about offering any new credit in the future. He specifically highlighted the necessity for decreasing the Italian money supply and consolidation of the budget deficit and called on the government to make a concerted effort to curtail the rate of inflation which had reached 15% in May.²²

The Chancellor was also able to convince his partners to join him in calling on the Italian Prime Minister Moro to have his party, the Christian Democrats, develop a strong economic and social programme, since it had come out of the 1976 election with the greatest number of seats in parliament. Only then should it ask other potential coalition partners to join a coalition government. All leaders insisted that the alternative of first asking possible coalition partners what programme they had to offer was not seen as a solution for Italy at a time which required firm and coherent leadership. These statements were not regarded as interference in domestic Italian affairs by Prime Minister Moro as he recognized that any future possible credit help by the large industrial countries would bring with it certain requirements, the most important of which was the need

²² Die Zeit (R. Herlt), June 25, 1976.
Die Zeit (R. Herlt), July 2, 1976.

for stability.²³

The leaders of France, Britain, the United States and West Germany also met secretly during the summit and discussed the future treatment of Italy. All agreed that the main prerequisite for western help for Italy would be that no communist minister would be invited to join an Italian cabinet. This meeting was only made public by Chancellor Schmidt three weeks after the summit and was met with an instant barrage of public criticism by most European governments who saw it as a direct infringement on the political sovereignty of Italy.²⁴ It is thus apparent that even though Italy and her political and economic difficulties were not mentioned in the final communique of the summit, this issue took up a large part of the leaders' deliberations.

On the question of the containment of inflationary pressures in the period of economic recovery that had begun in the first six months of 1976, Chancellor Schmidt had been able to exact a commitment from all participants on the need to "fight inflationary tendencies even in periods of economic growth."²⁵ Inflation had become a real problem and ranged from 18.4% in Great Britain and 15% in Italy to 5.2% in Germany. Nevertheless, there was some disagreement about the urgency of containing the inflationary pressures. Whilst Chancellor Schmidt, President

²³ Frankfurter Allgemeine Zeitung, June 28, 1976.

²⁴ Die Zeit (K. Becker), July 23, 1976.

²⁵ Final Communique of Puerto Rico Summit Article 10.

Ford and President Giscard were very fearful of new inflationary pressures and called for moderate but steady growth, both Prime Minister Moro and Callaghan were very concerned with achieving rapid growth.²⁶

Another major topic of discussion at Puerto Rico was the failure of the latest UNCTAD Conference that had been held in Nairobi. Chancellor Schmidt called for a realistic and fair dialogue between the industrialized and developing countries, and pointed out that after the failure in Nairobi both sides were just at the beginning of dialogue.²⁷ As expected, he presented a very detailed study of the potential results of various raw material agreements, ranging from a general price accord for all major commodities to specific case by case price stabilization and other forms of assistance. He pointed out that an across-the-board price stabilization for seventeen specific raw materials would benefit mostly the twelve largest developing countries, such as Brazil and Argentina, and would do very little to help the poorest. Even though Schmidt did not offer any specific conclusion about which approval to take, since he merely wanted to convince his partners to think further about this issue, he stressed that free market forces should prevail as much as possible and that any raw material agreement should not lead to another push of global inflation. The summit leaders were not prepared to reach agreement and deferred this question to further

²⁶ Frankfurter Allgemeine Zeitung, June 30, 1976.

²⁷ Frankfurter Allgemeine Zeitung, June 29, 1976.