London Protectionism To Aid 'Social Adjustment'

WORLD TRADE

The City of London's strategy for trade war was unveiled Dec. 12 in a commentary by *Times* of London editor William Rees-Moggs entitiled "Challenges from developing nations that could threaten our living standards." Prediciting a flood of exports from low-wage, labor-intensive industries in the developing countries into the industrialized sector, Rees-Moggs evoked an image of "teeming yellow hordes" descending upon Europe and the U.S. ". . . We have no chance — with or without protection — of maintaining our living standards now that a billion people prepared to work for less than $5 a day are claiming their rightful place in the sun."

Rees-Mogg leaves no doubt that the world's foremost economic power, the U.S., is the City of London's primary target: "American economic leadership has declined as a force and will continue to decline, as other countries catch up. . . . In the next American cyclical depression, probably in the second half of next year, the pressure for direct protection will become very strong, and they will also be very strong in Europe . . . Protectionism could have a rational purpose to control the rate at which economic adjustments are made so that social adjustments can keep pace with them. The temptation would be to use protection to defend the incompetent and to close markets to the poor."

Driving home the point, the *International Herald Tribune* ran a special 14-page supplement trumpeting the shakiness of the Eurodollar market and the big U.S. commercial banks that dominate it. The *Tribune* charged that the banks had been "unwitting sponsors of the protectionist tendencies" through their policy of restricting imports of borrowing countries and encouraging exports so that these nations can repay their Eurodollar debt. This policy has resulted in fewer exports for industrialized nations and the concomitant mammoth U.S. trade deficit.

The *Tribune* proceeds to outline the core of its recommendations for the declining industrialized economies, quoting from a report on "Investment, the Squeeze of Capital" prepared by the Hudson Institute's European arm: "The major political problem faced by governments is how to get labor to accept a smaller share of the pie . . . To provide the required investment, the share going to wages has to decline relative to the share going to profits. This implies a decline in real wages . . . (ranging) from 5 to 7 percent, depending on the country."

The Case of Alonzo MacDonald

Heavy British input into the Carter Administration — conduited through such figures as Vice President Mondale, U.S. Special Trade Representative Robert Strauss, and Assistant Treasury for International Economic Affairs C. Fred Bergsten — have accentuated the U.S. protectionist drive. At the multilateral trade negotiations in Geneva, Strauss' second-in-command Alonzo MacDonald has set up a leaderless group negotiating game. Rather than negotiate in plenary sessions which concentrate on reaching broad trade agreements and policies, MacDonald has split the participants into "plurilateral" groups discussing separate issues, with the object of setting up "multiple choice" formulas for the final negotiations.

Hardly representative of "U.S. industrial interests," MacDonald is a close friend of British Treasury Secretary Denis Healey and EEC Commission head Roy Jenkins and was formerly president of McKinsey and Co., a British-controlled U.S. management consulting firm. MacDonald ran the Carter transition team with Mondale aide Stuart Eizenstaat and recruited Robert Strauss as the chief U.S. trade representative, puffing his reputation as "conciliator" and "mediator."

One of the first fruits of MacDonald's efforts in Geneva has been an agreement among major producer and Consumer countries to extend the expiring International Multi-Fibers Agreement, which effects 80 percent of the world's annual textile trade totaling $50 billion. The "catch" is that the EEC succeeded, with Carter Administration support, in inserting a clause, which would allow the EEC to impose restrictions on imports whenever "exceptional circumstances" should arise — a "carte blanche" for protectionism, in the words of a Brookings Institution official.

Third vs. Fourth Worlds

As if heeding Rees-Mogg's warnings about developing country exports, Bergsten savagely criticized Brazil during his just-concluded visit to that country. Bergsten castigated Brazil for subsidizing exports while erecting import barriers and virtually threatened them with the Japanese treatment: "We are seeing how the policies and economic performance of an important country — Japan — could threaten the openness of the entire international trade system...Now is the hour to ask if Brazilian policies could have similar effects. It would be advisable that Britain...make its own concessions."

Bergsten's demands flatly contradict IMF policy, which has forced developing nations to curtail imports and expand exports to pay debt service. Simple reversal of that policy would entail a sharp reduction in their currency reserves, imperiling developing countries' ability to repay debt and threatening to bankrupt major U.S. commerical banks.

According to a source in Strauss's office, however, the "Anglo-American" strategy at the Geneva trade talks is not to shut off developing country exports completely. Rather, "special and preferential" treatment will be encouraged but only for "the most efficient" (read: "low-wage") producers and only in selected industries, cohering with British plans for world-wide rationalization of industry. Rees-Mogg was much more explicit, distinguishing in his article between countries which "are developing extremely rapidly," such as "South Korea, Brazil and Mexico," and countries "including all the poorest countries of Africa, Asia, and Latin America, where the conditions for development do not exist at present and can hardly be brought into existence before the end of this century at the earliest."

— Steve Parsons and Alice Blythe