Japanese advising Carter to bring the U.S. into an economic "boom" by lining up with the Europeans.

U.S. and the European Fund

On the critical question of U.S. support for the European Monetary Fund, a top State Department official said on the eve of the U.S. delegation's departure for Bonn that the U.S. now has "no apriori reason to believe that the fund is harmful to U.S. interests" and will discuss with the Europeans how it can be used to stabilize the dollar. When asked about the fund, President Carter declared in an interview with Japanese television July 12 that he "didn't anticipate there would be any obvious effort to cause the decline of the dollar nor to work an adverse trade barrier against U.S. goods. I don't expect these to occur, so the strengthening of the European community is something we endorse. Politically too."

Administration circles connected to the Trilateral Commission and the Brookings Institution had hoped to have Carter destroy the summit by confronting the Europeans with demands that they reflate their economies and slash their exports. Carter will reportedly bring up the "stimulus" question, but will not demand any specific amount of stimulation from the Europeans as at previous summits, according to knowledgeable sources. Since the Bremen summit, U.S. opponents of the European "Grand Design" have been much more cautious in publicly airing their threats against Europe. One such official at a background briefing on the summit dropped his former demands against the Europeans and was noncommittal on all aspects of the summit.

The Brookings circle, nevertheless, is still hoping to enforce its program. Charles Schultze, chairman of the Council of Economic Advisors, told a recent OECD meeting that moderate economic growth for Europe must be coupled with a "desirable and necessary" slowdown in U.S. growth. Alice Rivlin, former Brookings staffer who now directs the Congressional budget office, told Congress July 11 that the Federal Reserve under William Miller, a major opponent of European economic development programs, should coordinate monetary policy and promoted her former associate at the Brookings Institution, Nancy Teeters, for a seat on the Federal Reserve Board.

How U.S. Officials Are Looking At Bonn

American political leaders have begun to perceive the reality of an export-led economic recovery being offered by the European Monetary Fund proposal. This perception, and the growing possibility of an appropriate, positive U.S. response at Bonn, was shaped despite an intense press campaign aimed at preventing such U.S. collaboration.

To indicate how both sides of the debate took shape in Washington, here is, first, an interview with a Commerce Department official active in preparations for the Bonn Summit, followed by several comments from other Administration officials.

Q: Is the Franco-German European Monetary Fund proposal aimed at more than monetary stabilization?
A: It clearly goes well beyond that. Its central function is to generate an export-led recovery in Europe by attracting Arab surpluses and Eurodollars and recycling them into credits for less developed countries (LDCs) and other markets.

Q: Are all the EEC countries behind the proposal?
A: Yes, all except Britain, including Italy.

Q: When the Europeans bring it up at Bonn, what will the U.S. response be?
A: Conservative. We will say that it sounds like a positive idea but we need time to study the details. We will definitely attempt to ensure that it does not become a priority. Our emphasis will be that the most pressing problems must be dealt with first and these are energy, the U.S. trade deficit, and the failure of the West Germans and the Japanese to efficiently stimulate internal demand. We will take the position that we cannot allow discussion of these problems to be substituted for something else.

Q: But Carter is going there empty-handed, without his energy program.
A: That's true. The Congress was not forthcoming and the Europeans and the Japanese know that. That's why they are pressing us on it. If we don't have a plan to reduce the deficit, how can we tell them to stimulate internal demand? That's why everyone is downplaying Bonn. The Europeans will probably offer minor fiscal concessions, thereby making the conference look like a success.

Q: Did the Commerce Department have a central hand in determining U.S. policy going into Bonn?
A: A tertiary role in determining international economic policy.

Q: What about Owen?
A: Owen is simply heading up the coordinating group. International policy has been largely determined by Bergsten and to some extent Cooper.

Q: And they would take a negative position vis-à-vis the Franco-German proposal?
A: I think so.

Q: So the U.S. would probably reject it?
A: No one rejects anything out of hand.

Q: Then how will the U.S. handle it?
A: The policy as it presently stands is that an export-led recovery in the traditional sense would have only a temporary effect. Therefore, the Europeans will have to stimulate internal demand....

Other policy-making level officials offered their views on the outlook the U.S. will have at Bonn.

A top aide to a leading economic advisor to President Carter: "The Bremen decision sounds good. It's a political response. It's very good on their part in terms of their relations with the U.S. and it is also a good signal to OPEC....but when Bergsten gets through with Carter, this may not be the approach Carter takes at the summit."

Secretary of State Cyrus Vance: "The Administration has looked with favor on European efforts to work out monetary arrangements but we will have to wait and see what the details are when we get to Bonn."

A State Department official who is attending Bonn with Henry Owen: (Questioned as he was about to depart for Europe, this official's remarks in this eleventh-hour interview reflected a significantly different outlook than his statements a week earlier.)

"Carter has determined to go to Bonn with an open mind." He did not believe, however, that Carter would have to respond to the European Monetary Fund initiative directly at Bonn since "all the guidelines have not yet been worked out." "The U.S. is going to Bonn with a strategy to gain concerted action on growth, and there is no *a priori* reason why the U.S. should think that the European proposals would be harmful to the U.S. economy.

"Unlike the last economic conference, the United States is definitely not going to this summit with a demand that our allies make specific cutbacks in their surpluses or that they put a figure on their expansion rate.

"We also want to have cooperation on energy and scientific research and development."

U.S. Press Pushes London's Line On Bonn Summit

The British government claimed "U.S. support" last week for its attempt to wreck the Bonn Summit and derail the Franco-German proposal for a European Monetary Fund. As shown below, its "U.S. support" consisted of American press outlets open to City of London influence, which peddled Britain's call for West German and Japanese reflation and export cuts and U.S. energy conservation.

New York Times *"French-German Money Plan is Debated" by Paul Lewis, July 7:*

A major quarrel was brewing here tonight among Western European leaders over a French-West German plan to create a zone of monetary stability in Western Europe early next year . . . .

The quarrel threatens the success of the Western economic summit in Bonn.

British Prime Minister James Callaghan was reported strongly attacking the plan . . . . In particular Mr. Callaghan is understood to be demanding that Germany and other rich European countries provide more direct financial assistance to Britain . . . .

Washington Post *"Common Market to Consider Mini-IMF," by Hobart Rowen, July 8:*

European heads of state yesterday announced agreement to study a new monetary stabilization system for Europe, but so far there is more cosmetics than substance to the scheme . . . . "There is an old German saying," an experienced hand here reminded, "that the devil is in the details." . . .

The plan is sufficiently far from a reality so that it can be a dominant factor in discussions at Bonn.

Washington Post, *Bernard Nossiter, July 8:*

Britain intends to block a German-French plan to stop currency gyrations. (Callaghan's) government, convinced that it has the support of the U.S., will resist the secret draft drawn up by Helmut Schmidt, and Valery Giscard d'Estaing. The draft is said to omit what London and Washington regard as a crucial element. This is a commitment that strong economies like Germany shall be compelled to take domestic action to reduce the surpluses in their foreign trade . . . .

Chicago Tribune, *July 9:*

(It is to be hoped) that the fact of the summit being held in Germany will put pressure on Schmidt to reflate Germany's economy.

Washington Post, *"The Carter-Schmidt Connection," by Hobart Rowen, July 13:*

The British argue that the entire delicate game of summitry for 1978 depends on whether Schmidt is willing to boost German growth by 1 percent of gross national product. And the price that Schmidt will exact for that is a Carter commitment to curb U.S. energy consumption.

"The Germans attach enormous importance (to a U.S. energy commitment), more than we do," says a British official. The British have tried to persuade the Germans that there is another side to the American trade-deficit picture — that created by the differential in growth rates that sucks in imports of manufactured goods from Europe and Asia . . . . The world outside Germany fears an economic bust if the Germans don't step forward and take the growth leadership . . . .

New York Times, *"Through the Clouds to the Summit," Editorial, July 13:*

The task facing the Western leaders assembling in Bonn this weekend has not changed much over the last 18 months, though the agenda has broadened. Essentially, the question is how to get West Germany and Japan, but expecially Germany, to expand their economies and to reduce their huge trade surpluses so as to assure healthy growth to the entire industrial community. Unwilling to jeopardize the low inflation rate on which he has staked his political future, Chancellor Schmidt insists that German growth requires more exports; more exports require a stronger dollar; a stronger dollar requires a balanced American trade; and such balance requires the United States to reduce its imports of oil. Heal thyself, he kept telling us.