

Was the Summit a success?

By any measurement we have to say -- yes. The declaration of the seven Heads of State and Government made several points which indicate the degree of success. But regardless of what the Heads of State have to say, the question is, what does the man in the street believe, should he view it as a success, and what does it mean for the average citizen not only of the countries involved, but also those in the many nations not present at the Summit.

The first part of the declaration, or communique, says growth and employment must be increased, and goes on to say they are doable only if we are successful in our continued fight against inflation. That's a statement that any housewife could agree with. But how to stop inflation is a problem for all nations. The Heads of State say they will commit themselves to a further reduction of inflation and intend to get at it through domestic policies. The United States has gotten its inflation down to reasonable terms, but it has not done the same with interest rates. The Summit focused on the reason for the high rates of interest in the U.S. and elsewhere declaring that the fight against inflation will help to bring down interest rates which are now "unacceptably" high. We recognize in the United States that interest rates are unacceptably high and so does the rest of the world. They want us to get those rates down -- so does the man in the street. We feel, of course, that this can be brought about by keeping our Federal budgetary deficits down. What is needed quite obviously is

for the Congress to pass a resolution signifying that the deficit will be coming down for the years 1983, 1984, and 1985 and that 1983 not exceed 1982. The Heads of State approved and applauded our trying to work with the Congress to get our deficits down. They even asked if they could be helpful to us by making a statement about it. President Reagan replied that he thought a general statement on deficits and high interest might be helpful, but not a specific one directing attention to the United States deficit and what it was doing to interest rates around the world. Accordingly a sentence was put into the statement which goes as follows:

"In order to achieve this essential reduction of real interest rates we will as a matter of urgency pursue prudent monetary policies and achieve greater control of budgetary deficits."

In the monetary field the statement went on to say -- "We will work towards a constructive and orderly evolution of the international monetary system" and indicated if this could be done "by a closer cooperation" among the currencies of North America, Japan and the European Community in pursuing medium term economic and monetary objectives, and a statement concerning monetary objectives was attached to the declaration.

What does all that mean to an average person? It simply means that we have taken a step along a road that could lead eventually to a more stable realignment of international currencies. Ever since the United States finally abandoned the gold standard in 1971 and cut loose the dollar to float

against the other currencies we have had more fluctuations in the market than in previous decades. As free market people, we have not wanted to intervene in that process, except at a time of disorderly markets. Our partners at the Summit are almost desperate for us to intervene in the market. We feel that what they mean is that when we have a very weak dollar, we should buy as many dollars as we can to prop up the dollar and that, when we have a strong dollar, we should sell as many dollars, or conversely, buy other currencies as to make them stronger vis-a-vis the dollar. We don't think it's worthwhile. What we are saying is that if we have common objectives and try to pursue those objectives in a coordinated fashion then our currencies will remain fairly stable relative to each other. If all of the "Big Five" currencies -- the mark, the yen, the french franc, the pound sterling and the dollar, represent economies that have very low, or no, inflation then the relationships of one to the other would be stable. However, if the franc represents an economy that has 14% inflation its relation to the other currencies with a rate of inflation of less than 5% cannot be stable, nor can it have a strong relationship to the other currencies. The franc would be weak, and the others strong. Conversely, if four currencies represent inflation, and one currency remains in a low inflationary mode, investors would seek out the low inflationary currency, thereby making it strong in relation to the other four.

What does that mean to the man in the street? When a currency is weak, its exports are usually cheaper in relation

to other nations exports. If a currency is strong, its exports cost more. Therefore, while nations want their currency to be strong for several reasons, there is no doubt it has an adverse effect on exports. However, nations with strong currencies can import more products. Weak ones cannot. So international trade is affected. A nation with a problem currency, interferes with the process of international trade. Such trade is usually in products or services that provide jobs at home so domestic markets in turn are affected by a currency's relative position in the international market.

We in the United States have a unique problem -- the dollar is by far the international reserve currency and medium of exchange. People have to pay in dollars for oil, for example. This means that when we have a strong dollar they have to pay more for their oil in terms of their own currency than they would if there were a weak dollar. So other nations don't want the dollar to become too strong. But they don't want the dollar too weak either because then we become more of a threat to them in our exports. So we have a neat dilemma. The fact that at Versailles we agreed to work toward more stable relationships indicates that we want neither a strong, nor a weak, dollar in relation to other countries. But one that has a stable relationship. This means that we won't have the problem of causing our neighbors pain by whatever the condition of the dollar. Versailles represents a great step in the direction of stability of international monetary markets.

The next item that the Declaration of the Heads of Government refers to is international trade. The main point here is that all of the nations "agreed to resist protectionist pressures and trade distorting practices" and agreed to work "to improve the GATT System" to solve current and future trade problems. This means that if the Summit nations sincerely carry out the meaning of their statement that "We will resist protectionist pressures and trade distorting practices" we will no longer have cases of nations dumping such products as steel into our market. Dumping is selling at a price below the producer's cost. If the Europeans can produce something for lets say \$300 a ton and sell it here at a \$250 per ton, they lose \$50 a ton. It also means that even if we could produce the same product over here for \$275 per ton, cheaper than they can produce, our selling price would be higher than theirs. They justify the \$50 differential between their production and selling prices as being a job producing subsidy. Since it protects their companies from going out of business their workers are not idled. They say that rather than have "make-work" projects such as road building to employ workers whenever there is a recession, that they can keep workers employed at their regular jobs by spending the same amount of money on protectionist measures. However, its easy to see what they do to us by selling in our markets cheaper than we can produce. They force our plants to cut back on capacity, thereby throwing our workers out of jobs and causing unemployment here. Obviously

that's not fair. One of the accomplishments of Versailles is that all agreed to resist such practices.

For many years the United States has stationed troops in Europe and in Japan. We've spent enormous sums on military equipment and its upgrading. At the present time we are embarked on another major program to improve our capabilities in these areas. We all know why we have established such a military force. It's not directed against Luxembourg or Lichenstein. It is directed against the Soviet Union, and the Eastern bloc countries.

We have also made many attempts on the diplomatic front to get the communist nations to cut back, or to stop building up, their armed forces using such means as the United Nations, SALT talks, bilateral and multilateral discussions. Yet while doing all this on one hand, the western world has simultaneously been engaged in considerable trade with the Soviet bloc and Comecon countries on the other. To facilitate this trade we have loaned them enormous sums of money around 100 billion dollars (ck). When one of them - Poland - got into trouble recently, its threatened default shook the international banking system. You will recall that Lenin said in 1923 (ck) "the western nations will loan us enough money to buy the rope to hang them." (ck quote) In fact, we may well have been doing this. But with the declaration at Versailles we have signalled an end to this practice. What we said there was that we would pursue a "prudent and diversified economic approach" to the USSR and Eastern Europe. We said that we would work to-

gether "to improve the international system for controlling exports of strategic goods to these countries." And we also said that we would "exchange information in OECD (Organization for Economic Cooperation and Development) on all aspects of our economic commercial and financial relations with the Soviet Union and Eastern Europe." So for the first time we will gather a body of data to determine the extent of our trading with the Soviet bloc, and the financial arrangements we are offering in trading with them, such as credit terms, maturities, and type of goods sold. We will also know more about our economic dependence on trade with them in the event a cut off were threatened. We also took another major step forward toward cutting off the credit "to buy the rope" when we said that we would "handle cautiously financial relations with the USSR and Eastern countries" to ensure that "they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credit." For the average person, this means that for the first time we will say to the Russians that you've had enough credit; we are now going to limit your credit. If you want to buy additional products you will have to pay cash for those products. With the weak economy they have, they will be forced to raise cash by selling us more strategic minerals, oil, and their gold reserves, or else not buy. So we benefit more from trade than the communists.

Many have charged that our plan is weak, not precise, and some of the words are subject to multi-interpretations. That may well be, but to us in the United States we think that the

word "limit" is used in the same sense as it has been in arms negotiations where we have tried not to get them to cut back but to stop the armament race. In other words -- no expansion. That is what we are saying here about credit -- no expansion of credits, stop where you are. This could also mean that the volume of trade will not increase. The Soviets won't be able to benefit more and more each year from the credit we've been extending them. Their economies will weaken more and more. Nations such as Poland, Hungary, Romania, GDR are already in trouble; this will make it worse. As we begin the START talks they will see a trade off. Make some type of accommodation with us in the field of strategic arms, or else watch their own weak economies weaken further.

The harmonizing of our military and diplomatic efforts with our economic and financial arrangements is a step that we have long sought. Versailles shows that the other nations have now agreed with our idea and all have taken the first steps. To the man in the street this should be a welcome sign. It indicates that we are no longer going to deal with the Soviets on day to day basis as though they were not our adversaries. We will be saying to them -- if you persist in being our adversary don't feel that you can continue to enjoy our loans. To make sure that this policy is carried out by all of us, we further agreed in the Declaration to subject economic and financial relations to periodic reviews. Any nation tempted to do more with the Soviets will have to answer to the other members of the Summit about every six months for its actions. So real peer pressure

will be exerted. So before any further extension of credits, or any unusual arrangements are made, a nation will have to think through how it could explain its actions to the rest of the Western world. Our declaration has some teeth in it rather than just being a hollow resolve.

There were two other important subjects discussed at Versailles worth mentioning here. The first is our relationship with the less developed nations. We agreed that "the launching of global negotiations is a major political objective" of all of the participants in the Summit. We further agreed that we would guarantee the independence of the already existing specialized agencies such as the World Bank, the International Monetary Fund, the GATT, International food organizations, in discussions at the U.N. The "have not" nations are not being handed the purses of the industrialized nations and asked to help themselves, but rather are being asked to discuss their problems. We will seek solutions to these problems primarily using private capital flows, and existing agencies. We also agreed to work toward international arrangements to improve conditions for private investment. We resisted the temptation to fix commodity prices internationally for countries that are one product countries, but agreed to try to counter their unstable export earnings. We also said that we saw a need for more funds for the less developed and developing countries.

Another important item discussed at Versailles was development in the field of science and technology. We agreed that we should "exploit the immense opportunity presented by new

technologies particularly in creating new employment." We said we would remove barriers to the development of trade in these new technologies and that we would train men and women in the the new technologies and create the conditions that would allow these technologies to flourish and finally a working party will be set up to see what can be done to further these aims. The President indicated that a lot of this must be done in the private sector. While the public sector can focus for example on such things as nuclear fission and fusion, space exploration, satellites, other matters could probably be developed better in the private sector. The United States is spending \$80 billion in the coming year on technology, research and development, over half of it in the private sector. We think there will be very fruitful results from this much of which will be in the private sector. President Reagan told his fellow leaders that in the early 1930's President Franklin Roosevelt received a report from a Presidential Commission on new innovations over the next 25 years. That report failed to mention such things as lasers, space explorations, satellites, human organ transplants, plastics and even, he said holding up his writing instrument -- the ballpoint pen (ck report). We feel that there is no way that we could predict what innovations there will be over the next decade but nonetheless we have agreed to see how we can cooperate for the betterment of all nations in this important area.

Was Versailles worthwhile? I feel that one of the untold advantages to Versailles was the fact that as any student who has taken a final examination knows, or as any Chief Executive

Officer who has presided over an annual meeting knows, the preparation for these events produces probably more results than the actual event. In preparing for the Summit, we in the United States realized some of our own deficiencies and tried to correct them. Japan realized its deficiency in not having its markets open so on May 28, on the eve of the Summit, issued a new set of proposals opening up its markets. The preparations for the Summit resulted in a closer examination by each of the world leaders of his or her own country and its economic and financial conditions -- a very healthy exercise just as an annual checkup does everyone good. Even if we hadn't achieved the benefits listed above, the results of the self-examinations plus the intimacy of the discussions enabled the world's leaders to improve our situation and political matters. Pomp and pagentry is part and parcel of a gathering of Heads of State, the real issue is whether or not they are able to achieve results. My answer is a resounding -- yes.

The Versailles Summit and the World Economy

By DONALD T. REGAN

Was the Versailles summit a success? By any measurement we have to say yes. The declaration of the seven heads of government made several points that indicate the degree of success. But regardless of what the leaders have to say, the question is, does the man in the street believe it was a success? What does the summit mean for the average citizen?

The U.S. has gotten inflation down to reasonable terms, but it has not done the same with interest rates. The summit focused on the reason for the high rates in the U.S. and elsewhere. We recognize in the U.S. that interest rates are unacceptably high and so does the rest of the world. They want us to get those rates down, so does the man in the street.

We believe, of course, that this can be brought about by keeping our federal budget deficits down. What is quite obviously needed is for the Congress to pass a resolution signifying that the deficit will be coming down for the years 1983, 1984 and 1985.

The other state leaders asked if they could help us by making a statement about this effort. President Reagan replied that he thought a general statement on deficits and high interest might be helpful, but not a specific one directing attention to the U.S. deficit and what it was doing to interest rates around the world. Accordingly this sentence was put into the statement:

"In order to achieve this essential reduction of real interest rates we will as a matter of urgency pursue prudent monetary policies and achieve greater control of budgetary deficits."

In the monetary field the summit statement said, "We will work towards a constructive and orderly evolution of the international monetary system" and indicated this could be done "by a closer cooperation" among the currencies of North America, Japan and the European Community in pursuing medium-term economic and monetary objectives.

Our Desperate Partners

What does all that mean to an average person? It means we have taken a step toward a more stable realignment of international currencies. Ever since the U.S. finally abandoned the gold standard in 1971 and cut loose the dollar to float against the other currencies we have had more fluctuations in the market than in previous decades. As free-market people, we haven't wanted to intervene in that process, except at a time of disorderly markets.

Our summit partners are almost desperate for us to intervene in the market.

We think they mean that when we have a weak dollar, we should buy as many dollars as we can to prop up the dollar, and that when we have a strong dollar, we should sell as many dollars, or conversely, buy other currencies to make them stronger against the dollar. We don't think this is worthwhile. We are saying that if we have common objectives and try to pursue them in a coordinated way, then our currencies will remain fairly stable relative to each other. If all of the "Big Five" currencies—the mark, the yen, the French franc, the pound sterling and the dollar—represent economies that have low, or no, inflation, then the relationships of one to the other would be stable.

However if the franc represents an economy that has 14% inflation, its relation to the other currencies with a rate of inflation of less than 5% cannot be stable, nor can it have a strong relationship to other currencies. The franc would be weak, the others strong. Conversely, if four currencies represented inflation, and one currency remained in a low inflationary mode, investors would seek the low inflationary currency, making it strong in relation to the other four.

The dollar is by far the international reserve currency and medium of exchange. People pay for oil in dollars, for example. When we have a strong dollar they have to pay more for oil in terms of their own currency than they would if there were a weak dollar. So other nations don't want

to us by selling in our markets cheaper than we can produce. They force our plants to cut back on capacity, throwing our workers out of jobs. That's obviously not fair. One accomplishment of Versailles is that all agreed to resist such practices.

For years we have also made many attempts on the diplomatic front to get the Communist bloc nations to cut back or stop building up their armed forces, using such means as the U.N., SALT talks, bilateral and multilateral discussions. On the other hand, the West has simultaneously engaged in considerable trade with the Soviet bloc and Comecon countries. To facilitate this trade we have lent them enormous sums of money—around \$100 billion.

When Poland got in trouble, its threatened default shook the banking system.

Monday's market was a disorderly one. Intervention was promised in that situation, and we intervened. Our purpose was solely to smooth out the erratic bounces in the market and restore order.

the dollar to become too strong. But they don't want the dollar too weak either because then our less expensive exports threaten them. So we have a neat dilemma.

The fact that at Versailles we agreed to work toward more stable relationships indicates that we want neither a strong nor a weak dollar, but one with a stable relationship. Versailles represents a great step in the direction of the stability of international monetary markets.

On June 11, the French franc and the Italian lira were devalued against other European currencies. We believe that fundamental economic factors in both the French and Italian economies necessitated the devaluation. In that sense, it was inevitable. However, Monday's market was a disorderly one. Intervention was promised in that situation, and we intervened. Our purpose was solely to smooth out the erratic bounces in the market and restore order.

The next item in the Versailles declaration refers to international trade. All of the nations "agreed to resist protectionist pressures and trade distorting practices" and agreed to work "to improve the GATT System." This means that if the summit nations sincerely carry out the meaning of their statement that "We will resist protectionist pressures and trade distorting practices," we will no longer have cases of nations dumping such products as steel into our market.

Dumping is selling at a price below the producer's cost. The Europeans justify the differential between their production and selling prices as a job-producing subsidy. Since it protects their companies from going out of business their workers are not idled. They say that rather than have "make-work" projects such as road-building to employ workers whenever there is a recession, they can keep workers employed at their regular jobs by spending the same amount of money on protectionist measures.

However, it's easy to see what they do

With the Versailles declaration we have signaled an end to imprudent loans to the East.

We said that we would pursue a "prudent and diversified economic approach" to the U.S.S.R. and Eastern Europe. We said we would work together "to improve the international system for controlling exports of strategic goods to these countries." And we said that we would "exchange information" in the Organization for Economic Cooperation and Development "on all aspects of our economic commercial and financial relations with the Soviet Union and Eastern Europe." So for the first time we will gather data on such financial arrangements as credit terms, maturities and type of goods sold.

We also took a major step toward cutting off imprudent credit when we said we would "handle cautiously financial relations with the U.S.S.R. and Eastern countries" to ensure that "they are conducted on a sound economic basis, including also the need for commercial prudence in limiting export credit." For the average person, this means that for the first time we will say to the Russians: You've had enough credit; we are now going to limit your credit. If you want to buy additional products, you will have to pay cash. With their economy weak, the Soviets will be forced to raise cash by selling us more strategic minerals, oil and their gold reserves, or else not buy. So we benefit more from trade than the Communists.

In other words—no expansion. That is what we are saying here about credit—no expansion of credits; stop where you are.

This could also mean that the volume of trade will not increase. The economies of Poland, Hungary, Romania, and East Germany are already in trouble; this will make it worse. As we begin the START talks they will see a trade-off proposal. Make some type of accommodation with us in the field of strategic arms, or else watch your own weak economies weaken further.

The harmonizing of our military and diplomatic efforts with our economic and

financial arrangements is a step we have long sought. Versailles shows that the other nations have now agreed with our idea and all have taken the first steps. To the man in the street this should be a welcome sign. It indicates that we are no longer going to deal with the Soviets on a day-to-day basis as though they were not our adversaries. We will be saying to them —if you persist in being our adversary don't think you can continue to enjoy our loans.

To make sure that this policy is carried out by all of us, we further agreed in the Versailles declaration to subject economic and financial relations to reviews about every six months. Before any further credit extension, or any unusual arrangements are made, a nation will have to think through how it will explain its actions to the rest of the Western world. Our declaration has some teeth in it rather than being just a hollow resolve.

'A Major Political Objective'

Two other important subjects were discussed at Versailles. The first is our relationship with the less developed nations. We agreed that "the launching of global negotiations is a major political objective" and that we would guarantee the independence of the already existing specialized agencies such as the World Bank, the International Monetary Fund, the GATT, international food organizations, in discussions at the U.N. We will seek solutions to their problems primarily using private capital flows and existing agencies. We resisted the temptation to fix commodity prices internationally for countries that are one-product countries, but agreed to try to counter their unstable export earnings. We saw a need for more funds for the less-developed and developing countries.

Another important item discussed at Versailles was scientific and technological development. We agreed that we should "exploit the immense opportunity presented by new technologies, particularly in creating new employment."

President Reagan indicated that a lot of this must be done in the private sector. While the public sector can focus for example on such things as nuclear fission and fusion, space exploration and satellites, other matters could probably be developed better in the private sector. The U.S. is spending \$80 billion in the coming year on technology, research and development, over half of it in the private sector. We think there will be very fruitful results from this, many of them in the private sector.

The preparations for the Versailles summit required a closer examination by each of the world leaders of his or her own country and its economic and financial conditions. The results of these self-examinations plus the intimacy of the discussions enabled the leaders to improve our situation and share views on important political matters. Pomp and pageantry are part of any gathering of heads of state, but the real issue is whether they can achieve results. My answer is a resounding yes.

Mr. Regan is Secretary of the U.S. Treasury.