Foreign Policy: The Economic Problem

JAN 20 1971

Following is the third in a series of articles exploring the Nixon Administration's style in foreign policy:

By TAD SZULC

Special to The New York Times

WASHINGTON, Jan. 19—Despite deteriorating economic relations between the United States and the two other great trading powers—the European Common Market and Japan—the Nixon Administration has been unable in the last two years to develop a comprehensive foreign economic policy.

That state of affairs, privately described by high Administration officials as a long period of drift marked by policy contradictions and failures, has been causing concern in Washington, in foreign capitals and in the American business, labor and farm communities.

The foreign view has been that only the exercise of United States leadership can arrest a growing trend toward world economic conflict.

It was in recognition of the need for coordinating divergent domestic and overseas interests at a time of deepening crisis in the international trade, monetary and investment fields that President Nixon today established a Cabinet-level Council on International Economic Policy.

Mr. Nixon, the chairman of the new body, named Peter J. Peterson of Chicago, chairman of the board of Bell & Howell Company, to be executive director.

The council's task is to pull together military and economic aid, international trade and monetary, financial, investment and commodities matters into a cohesive body of policy, taking into account the requirements of foreign policy.

Until the establishment of the council, recommended by an advisory committee on Government organization, the authority and capacity to manage all the international economic questions have been scattered through the Government. Foreign economic policy was the victim of interagency battles that the White House often had to resolve on an improvised basis.

The establishment of the new machinery was not a simple bureaucratic move but a

Continued on Page 8, Column 4

Continued From Page 1, Col. 7

major effort to cope with the rapidly changing international economic situation, already posing grave foreign-policy problems for the United States.

Traditional questions of security and diplomacy are beginning to be overshadowed by rising protectionism here and abroad, by fears of trade wars and by deepening economic disputes with the European Economic Community and Japan—the two other great trading powers—as well as by differences with the underdeveloped nations and by the problems of economic and military assistance.

Free Trade Under Fire

The economic problems have Western Europe and Japan, threatening American markets abroad and invading the domestic market, has brought pressure to change the United States' traditional free-trade philosophy.

As Americans have lost to the six members of the European Common Market their place as the principal traders and as the domestic recession has added to concern over foreign competition, the Administration has found itself under mounting protectionist pressure. Japan's growing economic potential has had a similar effect.

The conomic problems have political implications that may significantly alter foreign policy.

A trade war with Western Europe, particularly after the Common Market is expanded with the anticipated entry of Britain and others, could result in a European shift toward the Communist countries, on the model of West Germany's "Ostpolitick."

That policy, inaugurated by Chancellor Willy Brandt and designed to achieve rapproachment between West Germany and the Soviet bloc, has already caused some nervousness in Washington. Many officials here believe that closer economic ties between Western and Eastern Europe may lead to political cooperation, leaving the United States relatively isolated.

Crucial Issue in Japan

A failure to settle trade and investment questions with Japan—a much more acute political problem in Tokyo than has been generally acknowledged in Washington—could, in the opinion of American officials, weaken the pro-American Government and induce more active economic if not diplomatic relations between Japan and Communist China.

Until now such political implications have often been lost from sight in the Nixon Administration's conduct of foreign economic policy. A high State Department official remarked recently: "In foreign economic policy we are in a state of drift. One hand often does not know what the other hand is doing."

Divisions have occurred in official ranks and in the business community. Industry and farm groups are divided between protectionism and free trade. Organized labor is turning toward protectionism.

Government departments increasingly act as spokesmen for the economic interests closest to them while the State Department, its voice weakening, attempts to keep traditional foreign-policy objectives foremost.

Congress May Intervene

Officially, the Administration remains committed to free trade. Thus far the President has tended to decide tariff controversies in favor of the free flow of imports, but Congress may invoke severe legislative restrictions this year.

The chief task of the new White House council, therefore, is to pull together under the president's control the over-all direction of foreign economic policy. That has already been done with diplomatic and security affairs, which are coordinated by the National Security Council, in which Henry A. Kissinger, Mr. Nixon's special assistant for national-security affairs, plays the key role.

Foreign economic policy had been the missing link in the centralization. The new council, which including Secretary of State William P. Rogers as vice chairman, as well as Mr. Kissinger and Paul V. McCracken, chairman of the Council of Economic Advisers, provides the bridge between foreign affairs and the domestic policy groups, which are in the domain coordinated by John D. Erlichman, another assistant to the President.

It remains far from clear how soon and how effectively Mr. Nixon's new council can gain control over the rival interests that have been operating — with only occasional guidance and frequently improvised White House decisions—in nine Government departments and at least a dozen agencies.

In addition to the State Department, which is charged with negotiating most of the economic agreements but whose role is gradually diminishing, the Defense, Treasury, Commerce, Justice Transportation, Labor Agriculture and Interior Departments participate in making foreign economic policy.

That is not all. The Central Intelligence Agency, the Atomic Energy Commission, the United States Tariff Commission, the General Services Administration, the Maritime Commission, the National Advisory Council, the Export-Import Bank, the Civil Aeronautics Board, the Federal Aviation Agency, the Federal Communications Commission and other agencies also have a voice.

Even before Mr. Nixon established the council, it was the White House that had to step into recent emergencies to coordinate policy when agencies directly responsible for economic affairs appeared to falter.

Last Saturday he dispatched Under Secretary of State John N. Irwin 2d to Teheran and several Arab capitals as a long-brewing and largely ignored crisis arose involving demands by producing countries for a greater share of the profits earned by American oil companies. The White House also directed the Justice Department to lift antimonopoly strictures so that the companies could unite in dealing with the producing countries.

Similarly, the White House virtually overruled the State Department last week to obtain the cancellation of a negotiating session with the European Common Market countries and Japan, set for Jan. 24 in Frankfurt, aimed at continuing an agreement limiting steel exports to the United States.

The White House forced the cancellation to influence the domestic steel industry to curtail price increases, using the threat of imports as a weapon in the battle against inflation.

Legislation Was Delayed

With foreign economic policy an orphan as Mr. Nixon and Mr. Kissinger have concentrated their attention elsewhere, the Administration delayed the submission of the measures designed to reorganize the foreign assistance programs. Although a Presidential message was sent last September, actual legislation is not expected before the middle of the year, suggesting that a new system will not be operative before 1972.

A by-product of the delay is the unresolved question of the extent to which multilateral aid is to replace direct assistance, a trend favored by the Administration and Congress. In the last Congressional session, the Administration failed however, to win the approval of the Senate for commitments of $100-million for the Asian Development Bank and of $900-million for the next two years for the Inter-American Development Bank.

The New York Times

Carl J. Gilbert, head of White House trade office, does not take direct part in negotiation with Japan or the Common Market.

The most urgent problems in international economic affairs are the bariers raised by the Common Market against American agricultural products and the Administration's continued inability to persuade Japan to limit voluntarily her exports of manmade fibers and wool textiles.

Both questions have extensive political overtones and, if are not soon resolved, may lead to highly restrictive trade legislation that could set off trade wars with both Western Europe and Japan, which would almost certainly retaliate against American exports. They could also penalize American companies whose foreign investments already produce more dollar earnings than do American exports.

In the case of the Common Market, the United States sees its exports of Grains endangered because high West German subsidies to farmers and consequent tariff barriers make the American product uncompetitive.

United States pressures on Bonn to cut the subsidies by at least 15 per cent could rock the shakey government of Chancellor Brandt.

In the case of Italy, the imposition of quotas on shoes, thus far resisted by Mr. Nixon, would hit the Italian economy and conceivably affect domestic politics.

New preferential trade agreements between the Common Market and Tunisia, Israel and Spain are threatening American citrus products. Incentives for European tobacco growers are worrying United States exporters.

A high-level mission headed by the Assistant Secretary of State for Economic Affairs, Philip H. Trezise, negotiated on those subjects this week with the Executive Commission of the Economic Community in Brussels, but no positive reports were reported.

Receptivity to Investment

In the case of Japan the stalled negotiations involve not only voluntary agreement to limit textile imports but Japanese receptivity to American investment and exports.

Officials believe that Japan's annoyance with the United States has already led automotive concerns to undertake negotiations with Cuba for the establishment of a truck plant, a move that would be a blow to the policy of isolating the Castro Government.

In other areas of economic policy, there are profound policy disagreements between departments and, often, between them and the White House. Included are questions of monetary policy, ranging from problems of the United States balance of payments—one of the issues is the extent to which investments abroad should be controlled to arrest the outflow of gold—to how the International Monetary Fund an other international agencies should act to preserve the stability of the major trading currencies.

A current dispute revolves around the coninued existence of the European Monetary Agreement, under which United States-owned dollars remain in Western Europe to provide assist in clearing monetary accounts and providing credits. The $272-million fund was established after World War II, when the United States sought to assist in the rebirth of European trade. Now, faced with its own balance-of-payment problems, the United States has been seeking the recovery of some of the funds.

Officials in the State Department frequently find that their efforts to smooth relations with the Europeans, the Japanese and the Latin Americans are undermined by uncoordinated actions at the White House, which is more

West Germany: Subsidies to grain producers, which curb ability of Americans to compete, are a problem to U.S.

Robert M. Mottar

Japan: The U.S. has tried in vain to persuade the Japanese to cut textile exports to this country voluntarily.

responsive to pressures by domestic economic interests.

The lack of cohesion in policy was illustrated by the case of a Central American company that received a loan from the Agency for International Development for a plant to manufacture cotton gloves.

After the company built its plant and received an order from a North Carolina client for a million dozen pairs annually, the White House, acting on a recommendation of the United States Tariff Commission, imposed a quota limiting the company's sales to 20,000 pairs. Am American company had maintained that it was losing its market.

In the case of Eastern Europe, State and Commerce Department officials feel that their proposals for more liberal trade run into Mr. Nixon's and Mr. Kissinger's views that, except for the special case of Rumania, no economic overtures should be made until the Soviet Union moves toward greater political relaxation on all fronts.

In the view of the State and Commerce Departments, the continuing White House—and Defense Department — opposition to liberalized trade with Eastern Europe tends to lessen the chances of influencing political and ideological transition in the Communist nations.

European Realizing Gains

But the State Department is again campaigning for expanded economic relations with Eastern Europe at a time when Western European Businessmen are steadily increasing sales there.

Until now questions of foreign economic policy have flowed to Mr. Kissinger through the offiec of Fred Bergsten, a young economist on the White House staff.

The office of the special trade representative in the White House, once headed by a former Secretary of State, Christian A. Herter, has almost completely lost the power it held when the United States successfully negotiated the Kennedy Round of tariff changes, the last major instance of American leadership in world trade. Now headed by Carl J. Gilbert, the office has no direct participation in either the Japanese or the Common Market negotiations. Mr. Gilbert was named to the new council.

Tomorrow: The Pentagon, civilian and military.