

# H-Diplo

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Review by **Alfred E. Eckes**, Emeritus, Ohio University

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This volume on U.S. foreign economic policy covers an especially turbulent period in international economic relations. The breakdown of the Bretton Woods international monetary system in August 1971 led to protracted, complex negotiations with Western European nations and Japan to devalue the dollar, de-emphasize gold, and to establish a new monetary system based on fluctuating rates. OPEC's decision to quadruple oil prices in 1973 contributed to an economic slowdown in the advanced industrial economies of Western Europe and North America, and impacted severely oil importing countries. Meanwhile, developing countries, dissatisfied with the distribution of gains from trade, sought to use the United Nations Conference on Trade and Development (UNCTAD) to promote better access for their exports and higher prices for commodity exports. The United States, as the acknowledged leader of the international economy, sought in cooperation with its European allies to promote growth, monetary stability, and trade opportunities through another multilateral round of negotiations. Economic summits at Rambouillet, France, in 1975, and Puerto Rico in 1976, initiated a series of top-level interpersonal discussions among heads of government, the Group of Seven (G-7) summits, and led to closer cooperation on economic responses. Several key decisions, such as U.S. gold policy, faced Richard Nixon in August 1974 but were carried over to the Ford administration.

The editors of this volume – Kathleen B. Rasmussen and Edward C. Keefer – are to be commended for carefully selecting and editing key documents on these highly-technical policy issues from the files of the State Department, Treasury, the Federal Reserve, the National Security Council, the White House, and other involved agencies. The documents offer an excellent introduction to issues of policy formulation and coordination, but not to problems of policy implementation. Diplomatic historians will be interested in the many transcripts of meetings among heads of government, key ministers, and staff meetings as

the principal participants sought to address vexing economic and financial issues. Especially insightful are the transcripts of economic summit meetings in France and Puerto Rico, where heads of government talked frankly about common problems. Approximately one quarter of the volume deals with international monetary problems (ending the era of fixed exchange rates and negotiating new rules), and another quarter pertains to the economic summits in 1975 and 1976. Other sections of similar length focus on trade policy issues and North-South relations, including commodity policy. As with other volumes in the *Foreign Relations* series, the editors include a glossary of terms and an annotated list of persons involved in the policy process.

Readers interested in international monetary relations and gold will find extensive documentation for U.S. policy discussions and negotiations. After the breakdown of the Bretton Woods system, many in the Nixon administration – particularly Treasury Secretary George Shultz – favored floating the dollar and phasing out gold as a currency reserve, but the French insisted on stable exchange rates and a continuing role for the auric metal in official reserves. Within the U.S. many private citizens also lobbied for the right to buy and hold gold, and in 1973 Congress passed legislation giving the president discretionary authority to permit the private ownership of gold coins and bars. The Ford administration had to determine when to implement the law. It also had to decide whether to sell official gold to the private market, and what positions to take with foreign governments over intercountry gold transactions and pricing. Economists and economic historians may be interested in these detailed discussions.

On trade policy the documents highlight administration efforts to revive the General Agreement on Tariffs and Trade (GATT) negotiating process. However, a conflict with Congress over the famous Jackson-Vanik amendment sponsored by Senator Henry Jackson (D-WA) and Congressman Charles Vanik (D-OH), impacted plans to launch the Tokyo Round of GATT negotiations. Jackson and Vanik attached an amendment to the bill extending the president's trade negotiating authority, which barred the U.S. government from extending most-favored-nation trade treatment to the Soviet Union unless it permitted free emigration of Jews. Kissinger opposed Jackson-Vanik, thinking that trade and loans could win Soviet support for his Middle East policies. The Jackson-Vanik controversy thus delayed the beginning of multilateral trade negotiations for some two years. The controversy emphasized the nagging conflict between an administration determined to pursue détente and a Congress more responsive to human rights and constituent concerns. It had long-term ramifications. Russia, the successor to the Soviet Union, finally gained membership in the World Trade Organization in December 2011, assuring it nondiscriminatory treatment under international trade law. But, the lingering presence of Jackson-Vanik has prevented President Obama from granting Russian goods nondiscriminatory access to the U.S. market and pursuing his own détente policies.

Diplomatic historians involved with developing world issues will be interested in documents discussing the U.S. response to the call of 77 developing countries for a radical "New World Economic Order". Determined to break up the Group of 77, which wanted trade preferences and OPEC-like commodity agreements to boost prices, Kissinger and his aides proposed a world commodity organization, embraced price-fixing commodity

arrangements, and market intervention favored by European powers. In doing so, they encountered the vigorous opposition of Treasury Secretary William Simon, Federal Reserve Chairman Arthur Burns, Council of Economic Adviser Chairman Alan Greenspan, and others in the administration. While Kissinger claimed he merely wanted to break up the Group of 77 and project a “progressive” (1003) image of the U.S., the department’s statist proposals upset conservatives and economic theorists who considered these initiatives incompatible with market-driven solutions for promoting economic growth.

Several broad themes thread the volume, as they did the previous foreign economic policy volume.<sup>1</sup> One is the growing tension between U.S. foreign policy and foreign economic policies. For most of the postwar period, broad foreign policy priorities drove U.S. economic initiatives such as trade liberalization, the integration of former enemies into the international trading system, the reconstruction of Europe, and aid to developing countries. Meanwhile some other powers, such as Japan, pursued narrow economic interests with little regard for global interests. In May 1973, for example, national security assistant Henry Kissinger complained to French President Georges Pompidou in May 1973 that Japan “has no concept of global interests. It pursues its own interests so narrowly” seeking trade surpluses with everyone (137-38). The French and German governments shared Kissinger’s concern about Japanese trade behavior.

The conflict between overall foreign and foreign economic policies surfaced during the Nixon administration in myriad ways. By the early 1970s the administration faced growing pressure from Congress and, indeed, from European allies to make foreign policy comport with U.S. economic interests and capabilities. On the one hand, some in the administration and Congress thought the State Department incapable of tough bargaining to protect U.S. trade interests, as its diplomats gave priority to Cold War containment and to the concerns of host governments. On the other hand, European allies – especially the French and Germans – resented the unique privilege of the dollar’s reserve currency role that effectively enabled the U.S. to print its own money to finance the projection of U.S. power around the world. Tensions over financial issues mounted as Treasury Secretary John Connally’s confrontational style and unilateral demands upset allies in 1971 and 1972, and threatened to ignite a protectionist backlash.

A related theme is how, despite economic tensions and personality conflicts, the Atlantic economic powers strove to collaborate in reforming the international monetary system and in sustaining support for the GATT system of multilateral trade liberalization. In these endeavors, emerging market countries like China, India, and Brazil had little influence, unlike in contemporary times. One of the keys to successful financial crisis management in the 1973-1976 period rested on strong personal relationships forged among decisionmakers with expertise in economics. Connally’s successor, the economist Shultz, pragmatically worked closely, and effectively, with a small group of finance ministers

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<sup>1</sup> U.S. Department of State, *Foreign Relations of the United States Vol. III, Foreign Economic Policy, 1969-1976*, Edited by Bruce F. Duncombe and David S. Patterson (Washington: U.S. Government Printing Office, 2001).

including Helmut Schmidt of West Germany, and Valery Giscard d'Estaing of France, both of whom became leaders of their governments in May 1974.

It is worth recalling that on most topics covered in the *Foreign Relations* series, the State Department had a leading role in formulating policy and conducting negotiations subject to the oversight of the National Security Council (NSC). But, on most of the financial and trade issues covered in this volume, the Treasury and U.S. Trade Representative's office had statutory authority, subject to the approval of the Council on International Economic Policy, a Nixon administration invention to coordinate economic policy and to consider the international economic aspects of foreign relations issues. Kissinger's well-known discomfort with economics ("economics is not my forte," 235) and preoccupation with other issues meant that State and the NSC had a secondary role in many key technical discussions involving trade and finance. Indeed, when President Nixon made the historic decision at Camp David in August 1971 to close the gold window, devalue the dollar, and impose unilateral sanctions, neither the State Department nor the NSC was represented despite the significance of these decisions for foreign relations.

Kissinger's inclination to view politically-sensitive economic issues in terms of grand strategy and Treasury Secretary Simon's doctrinaire free-market ideology combined to fuel congressional concerns that the executive branch was short changing U.S. business and commercial interests. Indeed, some of the documents in this volume confirm those fears and show Kissinger and Simon to be searching for ways to avoid applying U.S. trade remedy laws designed to aid domestic industries experiencing injury from unfairly traded imports. In October 1975, for example, Simon told Kissinger that Treasury would "bend over backwards" and search for "any legal loophole which it can grab hold of" to avoid applying U.S. countervailing duty and antidumping laws (806-807). In their defense Kissinger and Simon expressed concern that U.S. trade remedies would invite foreign countermeasures and jeopardize international cooperation on other foreign policy issues, despite the fact U.S. laws were compatible with obligations under the GATT. Many in Congress saw such executive-branch maneuvers as evidence of a foreign policy out of touch with national economic interests.

Concern that executive agencies were not administering trade laws consistent with congressional intent prompted the Senate Finance Committee to write the Trade Act of 1974 in ways that curbed executive power. But, Treasury's continued unwillingness to administer trade remedy laws in accordance with congressional intent led in 1979 to the transfer of jurisdiction over countervailing and antidumping laws to the Commerce Department, the U.S. International Trade Commission, and the federal courts. The result was a more effective quasi-judicial process for adjudicating trade disputes.

Finally, it is appropriate to offer a comment about a key person in contemporary economic diplomacy. It is sometimes alleged that one of the shortcomings of the American system of government is the rapid turnover of political appointees with economic experience and the consequent loss of institutional memory. As a result, policymakers sometimes appear to be reinventing the wheel. In this volume historians will find an important exception. One of the influential individuals in foreign economic policy over the last forty years has been

Robert Hormats, a National Security Council staff member, who later held senior State Department positions in both Republican and Democratic administrations. His finger prints are on many of the documents in this volume. As a young Ph.D. graduate of the Fletcher School, the talented Hormats assisted Kissinger on international economic matters during the 1970s, and helped set up the G-7 summit meetings. He served as the U.S. sherpa for those intergovernmental meetings during the Carter administration and during the Reagan administration while General Alexander Haig was Secretary of State. Moving to the private sector when Secretary Shultz took office, Hormats spent the next twenty-seven years at Goldman Sachs International before returning to public service as Secretary of State Hillary Clinton's undersecretary for economic, business and agricultural. His long career with extensive experiences in both government and the financial community highlights the significant role of a policy pragmatist whose institutional memory continues to shape U.S. foreign economic policy. It also underscores the close ties between Wall Street and Washington in the new age of globalization.

**Alfred E. Eckes** is Eminent Research Professor Emeritus in History, Ohio University, Athens, Ohio. He is a former chairman and commissioner of the U.S. International Trade Commission, and has written a number of books on trade policy, the Bretton Woods international financial system, and the global economy. His latest book is *The Contemporary Global Economy: A History since 1980* (Wiley-Blackwell, 2011).

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