

U.S. Protectionist Threats Could Precipitate Trade War

WORLD TRADE

On the eve of the OECD summit in London, there is growing anxiety in Atlanticist ranks that the protectionist rumblings emanating from the Carter Administration and other quarters could backfire to the point of unleashing general trade war and wrecking the Atlantic Alliance beyond repair.

Among those who fear the imminence of trade war is the Baron Guy de Rothschild. At a press conference in New York on May 5 he said the most pressing international problem is the "coming trade war." The U.S. government is trapped in the "schizoid dilemma of unemployment versus inflation" and is increasingly seizing on protectionism to try to solve it. On the same day the lead article and editorial of *Les Echos*, the French financial daily, warned of the trade war peril and criticized unfair protectionist moves by the U.S. At the end of April *Les Echos* charged that the Carter Administration was using the protectionist threat against Europe in the same way that it was using the human rights campaign against the Soviet Union. *Le Monde* talked of the threshold of inflation and/or unemployment, after which everybody rushes to protectionism, "which would bring about the real depression."

The objective conditions for trade war undoubtedly exist in the present fragility of the OECD economies and their worsening balance of payments problems. The May 2 *London Times* article on the London summit spoke of three points of "structural crisis" — uncontrollable inflation, rising unemployment, and the gap between the "relative affluence of the industrial countries and the absolute poverty of the non-oil producing countries" — and ominously concluded that Carter and other leaders will try to solve these problems and fail, and the world's social and political structures will be "damaged past recognition and beyond repair."

The mood in Britain was captured by the *Daily Telegraph* on May 5 which gloated over the fact that, as of the end of April, U.K. reserves were at a record \$10 billion and commended the Treasury for its policy of stockpiling reserves rather than letting the pound sterling appreciate, noting that this policy has "given exporters the steady exchange rate they hanker after."

Carter Pulls The Trigger

In this setting, the immediate trigger point for trade war could be the Administration's recent protectionist threats, which are designed to bring the industrialized countries in line behind U.S. policies "voluntarily." At a Japan Society dinner in New York May 4 Treasury Secretary Michael Blumenthal admonished Japan to do more "to help out the poorer countries" by increasing its

imports of their manufactured goods. Blumenthal then attacked the Japanese slyly in speaking of the responsibility of nations to open their markets and avoid misaligned exchange rates as soon as they move from the Third to the First World. During the same speech Blumenthal said the U.S. trade deficit could run as high as \$20 billion this year.

The May 9 issue of *Business Week*, the publication which has become a chief mouthpiece for the Administration, laid out the crude strategy of Blumenthal and other economics officials: threaten Western nations with stiff tariffs and draw them into "orderly marketing arrangements". *Business Week* says Assistant Treasury Secretary for International Affairs C. Fred Bergsten regards "OMAs" — cartel arrangements limiting production and carving up shrinking markets — as the rational alternative to 1930s-style trade war.

In this vein, later this month the American Iron and Steel Industry, the lobbyist for the industry, will release a white paper which alleges that foreign — in particular, Japanese — dumping is undercutting domestic prices and profits. The paper calls for the convening of new multilateral discussions to rectify such abuses, presumably along the lines of the "voluntary" production and export quotas urged on Japanese steelmakers by Vice President Walter Mondale and U.S. Special Representative for Trade Negotiations Robert Strauss during their mission to Japan last month.

As a result of the Mondale-Strauss trip the Japanese have for the moment been persuaded to slow down their steel exports to the U.S. Even Japan's larger mills are said to be operating at 50-60 percent capacity. The U.S. is expected to try to solidify this untenable arrangement at the upcoming London summit.

However, the prospects for the sort of multilateral steel agreement the Administration is hoping to get are dim. On May 4 the OECD in Paris postponed its decision on a U.S. proposal to create an ad hoc group to investigate the problems besetting the world steel industry. And within Europe itself, the depressed steel industries are having immense trouble harmonizing their own relations.

On May 4 the European Economic Community Commission in Brussels decided to fix a minimum price on a number of steel products which are particularly in glut, over the protests of the British and the Italians. The British, who have been posting import barriers to protect their steel industry, say this will drag down their prices. The Italians have been underselling everybody else.

According to Viscount Etienne Davignon the imposition of minimum prices is a crucial step toward stabilizing and rationalizing the European steel industry. The West Germans, on the other hand, do not like such measures as the minimum price floor, but have now dropped all their objections to the plan.