CURRENT ACCOUNT

Point, Counterpoint

FOREIGN VISITOR: Can you explain the foreign economic policy of the Reagan administration?
REAGAN CAMPAIGN OFFICIAL: Of course. President Reagan was elected with a mandate to reaffirm America's power and influence in the world. He promised renewed vigor and incisive action in support of America's economic interest: at home, a new fiscal policy to reverse the decline of the Carter-Mondale years; abroad, a new trade policy to promote the market position of U.S. producers. And we did it too. America is back and standing tall.
VISITOR: Does that mean that the economic interests of others have had to be sacrificed?
OFFICIAL: Not at all. That is zero-sum thinking—that our gain must be someone else's loss. We think in positive-sum terms: Our gain is your gain too. The key, as the president says, is the "magic of the market place."
VISITOR: Can you be more specific?
OFFICIAL: Sure. Take our fiscal policy. The president's first order of business upon taking office was to initiate a program for Economic Recovery based on sweeping tax cuts. And look at the results: booming growth, declining unemployment, and the lowest inflation rate in years. You can't argue with success. And Reaganomics has promoted foreign recovery as well. American industry has required growing imports of raw materials, energy, and capital goods; rising levels of personal income have also meant more spending on consumer goods, foodstuffs, and foreign travel.
VISITOR: But aren't you overlooking a few things? In the first place, the recovery that occurred in the United States was not the supply-side miracle the president promised, based on increased incentives for saving and investment. In fact, despite the administration's tax cuts, both saving and investment fell. The recovery was really much more of the traditional pump-priming sort, powered by a tripling of the federal budget deficit. Reagan has turned out to be the greatest Keynesian president in American history.
OFFICIAL: Who cares, so long as the result is good. Don't look at what we say, look at what we do.
VISITOR: That's just what worries us. What you have done with your budget deficits is to drive up interest rates to record peacetime levels, attracting capital to the U.S. on an unprecedented scale. In effect, we foreigners have financed a good part of your profligate fiscal policy, siphoning off financial resources that might otherwise have been used for productive investment back home. Worse, the flow of funds has caused a 30 per cent appreciation of the dollar, intensifying inflationary pressures in our economies through higher import costs. And this in turn has forced us to tighten up on monetary policy, offsetting much of the income gain generated by increased import demand in the United States. Moreover, for troubled Third World debtors, the combination of high interest rates and a strong dollar has added greatly to debt-service burdens, exacerbating the global financial crisis.
OFFICIAL: You foreigners are always complaining. A few years ago you were all hot under the collar about the dollar's weakness. Now you say it's too strong. Which is it?
VISITOR: Neither. What we want is a *stable* dollar. When the dollar is unstable, either appreciating *or* depreciating too rapidly, we are adversely affected, owing to the openness of our economies and the importance of the dollar in trade and finance. What we would like is less unilateralism in U.S. policy and more coordination of fiscal and monetary policies, as well as cooperative intervention in exchange markets, to smooth the movement of exchange rates and stabilize interest rates.
OFFICIAL: But that would mean interfering with the market.
VISITOR: You've already been doing that. Just look at your trade policy, which has repeatedly raised barriers to imports. Ronald Reagan campaigned four years ago on the slogan of free—or, at least, freer—trade. In practice, he has turned out to be a protectionist.
OFFICIAL: That's untrue. We eliminated import quotas on footwear, didn't we?
VISITOR: Yes, but that's the only example of liberalization you can cite. I can cite many examples to the contrary, from motorcycles to mushrooms. One of the first acts of the Reagan adminstration was to limit Japanese automobile exports to the United States. Next came negotiated curbs on steel imports. And just this past summer, "rules of origin" on textile imports were arbitrarily tightened, hurting the sales of a large number of less-developed countries.
OFFICIAL: OK, I concede your point. But consider the alternative. President Reagan has been under intense pressure at home to save jobs from foreign competition. Compared with the demands made on him, his concessions to protectionist forces have been comparatively mild.
VISITOR: But consider why protectionist pressures are so intense. One major reason is the extraordinary appreciation of the dollar, which has been like a 30 per cent tax on all U.S. exports and import-competing production—a direct result of the administration's own policies.
OFFICIAL: That's not the only reason. Another is unfair foreign trade practices such as dumping, export subsidies, and restrictions on market access for American business. Too many nations systematically ignore or violate the spirit of international trade agreements. This administration, from the start, has been determined to make active use of trade policy to assure substantially equivalent market access—what we call "reciprocity." Trade is a two-way street.
VISITOR: Agreed. But who is the sinned against, and who the sinner? What about your own unfair trade practices, such as the many "Buy American" regulations at federal and state levels? What about your import restrictions on agricultural commodities like sugar, meat, and cheese? What about your tax incentives, amounting to subsidies, given to exporters through your system of Domestic International Sales Corporations? Your belligerent emphasis on reciprocity strikes us as cynical and self-serving.
OFFICIAL: That's your opinion. We see it as a legitimate defense of American economic interests.
VISITOR: At the sacrifice of the interests of others?
OFFICIAL: There you go again—zero-sum thinking. Our gain is your gain, if the market is permitted to work.
VISITOR: But import barriers don't let the market work.
OFFICIAL: More complaints. What do you want from us?
VISITOR: Less belligerence, more tolerance. Less self-righteousness, more cooperation. Less protectionism, more responsibility.
OFFICIAL: Would you settle for a jelly bean instead?

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