postwar monetary system was ended on a de jure basis. The trading system was given a severe jolt and was set up for a major new round of trade negotiations to deal with the full range of outstanding trade issues. The first historic shift in U.S. international economic policy had occurred with monumental effects.

The era of the foreign-policy imperative had ended. While John Connally, then secretary of the treasury, ran U.S. international economic policy for the rest of 1971, domestic economic considerations were completely dominant. A return to isolation, however, was out of the question. Connally's exclusive concern with domestic priorities was short-lived because serious foreign-policy strains were developing as domestic objectives overrode the needs and interests of U.S. allies.

From the chaos wrought by the fallout of the new economic policy, efforts began for longer-term reforms of the international monetary and trading system. The United States had destroyed the old "liberal" international system in order to save it. The international economy needed quick reconstruction and refinement to reflect the shifts in national economic strengths. For the United States, an entirely new approach to international economic policy was needed, one which meticulously balanced creative, progressive external policies with old-fashioned inward concern with domestic employment and price levels.

This new balancing act would have been different enough in its own right. But within a few months, unprecedented strains would be introduced to severely try the external economic policies of all countries. A simultaneous swing in the international business cycle produced first global inflation and then by late 1974, global deflation. Superimposed on these moves were the unprecedented economic pressures that resulted from the sharp increases in oil prices by the Organization of Petroleum Exporting Countries (OPEC). The problems and promises of international interdependence had reached a major new plateau.

A SURVEY OF CONTEMPORARY AND FUTURE ISSUES

The overriding contemporary issue in international economic relations is to come to grips with the effects of one era ending and a new one beginning. The post-World War II international economy is over. The world has lost the virtues of a benevolent, hegemonic dictator (the United States) skillfully steering a course of global economic recovery. The system has also lost the luxury of inexpensive petroleum supplies. The emerging new international economic order is still of an uncertain nature. It threatens to be a period of unprecedented economic strains and opportunity alike, one where management, for better or worse, will be done by a committee system composed of many economically significant countries with dissimilar governments and societies.

The central question is whether postwar economic growth and the trend towards a liberal international economic order are aberrations that have reached a plateau, or whether they are the prelude to a new, higher degree of international economic cooperation. It may be that national governments will feel the need to restore protection for domestic groups from external competition. A change of this kind may be the legacy of the fading of the special circumstances existent in the 1945–70 period: rapid postwar economic recovery, cheap energy, the war years being a time that discouraged the opportunity or will to take advantage of international economies of scale, the bipolar international system based on U.S. and Soviet domination, and the benevolent U.S. dominance of the global economy. On the other hand, enlightened self-interest may be the precursor of new patterns of cooperation.

Before specific issues can be resolved, the basic orientation of the international economic order will have to be determined. A critical factor for all countries is that, in most respects, the international economic policy of the United States has been forced to become comparable to that of less powerful countries in many of its emphases and perspectives. The diminution of U.S. leadership in the global economy has not been offset by a rise in European or Japanese constructive leadership. Despite a lingering sense of "world-view" in U.S. policies, this country can block, but it can no longer unilaterally force or promote action. This country can no longer play the role of the "N-minus-one" member of international trade and financial systems, unilaterally accepting export discrimination and running an open-ended balance-of-payments deficit.

The end of the postwar order and the crisis of international economic leadership are reverse sides of the coins of change. Given the increased importance of international economic policy to all countries (see Chapter 2), the stakes are tremendously high. Compounding the problem is the dilemma of an international economic order characterized by the pursuit of conflicting objectives and by the absence of a clearly dominating national presence. An egalitarian decision-making process has appeared simultaneously with the elevation of international economics from "low policy" to "high policy" and with a disintegration of the old economic order. It is this central dilemma that U.S. international economic policy is confronting. The search for a new spirit of cooperation and adaptation is critical.

A number of specific tasks must be undertaken in the context of an untried international economic system. Considerable progress has been made in the direction of international monetary reform. A tacit understanding already has been reached that legitimizes both fixed and floating exchange rates. Similarly, agreements have been reached on enlarging the resources of the IMF and on limiting the monetary role of gold. More specific rules and obligations on exchange-rate management and balance-of-payments adjustment remain to be negotiated.

The multilateral trade negotiations (MTNs) underway in Geneva under the auspices of the GATT are a second set of economic talks with critical importance. On the technical side, the progress, or lack of it, in the so-called Tokyo Round will be a major determinant in shaping the international trading system for the 1980s. On the political side, this new forum of diplomacy provides a litmus test for the willingness of national governments to move up to a new level of interdependence.

The real significance of the Tokyo Round is that it is the first trade negotiation that must come to grips with the reality that the relatively simple task of reducing tariffs on industrial products is close to being completed. A new generation of more complex trade issues is at hand. Agreement on a series of codes is needed now to reduce or eliminate nontariff measures that distort trade flows. To move successfully in this direction, unprecedented infringements on national sovereignty are required. The ultimate issue at the negotiating table is the extent to which national governments are prepared to yield control over sensitive domestic economic practices and policies. This is an issue requiring extraordinary skill and patience by the participants. A further liberalization of trade presupposed that agricultural support programs, government procurement practices, and labeling, safety, and health standards will need to conform to multilateral codes so as not to affect the flow of international commerce. Managed interdependence at this advanced stage creates the need for a radically different approach to international economic policy.

Similarly, the newly emerging interrelated issues of export controls and guaranteed access to foreign supplies will tax the imagination of international economic diplomats. The simultaneous worldwide economic boom of 1973–74 introduced the wrinkle of soaring energy and raw materials prices to international economic relations. Added to the existing challenge of exported deflation (that is, domestic job protection) was the attempt to protect the domestic supply picture in times of excessive demands. Ironically, the United States was one of the major miscreants in this regard. As the world's major exporter of food, the United States in the years ahead probably will be confronted with the frequent dilemma of having to decide on what basis to parcel out relatively scarce food to a hungry, overpopulated world. The potential implications of food power are enormous for the U.S. role in the world.

The future operation of the trade and monetary systems, essentially the province of the industrialized countries, may be dramatically affected by their overall rate of economic growth in the years ahead. The basically liberal international economic order that has flourished in the postwar period is largely a reflection of unprecedented worldwide economic growth. The latter has reduced the overall domestic economic sting of trade and capital liberalization. Should the international secular rate of growth diminish, national concerns with domestic economic stability (mainly jobs) may rise to challenge seriously the international economic principles and guidelines that have been more often adhered to than ignored. In other words, increasing interdependence is a problem in a prosperous global situation. It may be an unbearable burden in a lingering period of economic stagnation and high energy costs.

While economic problems within the industrialized countries are a theoretical possibility, the wolf is already at the door where the developing countries are concerned. The central problem here is how to integrate the developing countries into the mainstream of an international economy that is dominated at present by the industrialized countries. The North-South dialogue is but in its infancy.

The need to materially assist the developing countries shifted from a long-term issue among development specialists to an immediate issue of sensitive proportions as a result of the collective action of the member-countries of OPEC beginning in 1973, in forcing major increases in oil prices. The demonstrated vulnerability of the industrialized world, first to the oil boycott of the Arab exporters and then to the price hikes, meant that the demands of the less developed countries (LDCs) had to be taken more seriously than ever before. The cry for a "new international economic order" has served to initiate an entirely new style of debate between the countries of the North and South.

Foreign aid is no longer enough. It has become necessary to investigate modifications in traditional international trading arrangements (commodity agreements), changes in international investment (easier terms for technology transfer, for example), changes in international finance (debt moratoria), and initiatives in the international monetary system (the special-drawing-rights link to development finance). The plight of the countries of the so-called fourth world, those having no natural resources of any consequence, adds a further complexity to this problem.

Policy in the international investment sector has trailed the trade, monetary, and development sectors in terms of governments coming to grips with the real issues. As host country of the majority of major multinational corporations, the United States will need to be the most responsive to the growing need for rules and institutions to delineate international investment rules of the road. A vacuum has existed for too long on an international consensus concerning the activities and effects of multinational corporations. An international laissez faire attitude cannot hold out against the growing sensitivities of sovereign countries towards foreign investments within their borders. Guidelines will need to be devised for acceptable behavior by host government, home government, and corporation alike, as well as for settlement of disputes. As Fred Bergsten has warned:

> Foreign direct investment and multinational enterprises have now replaced traditional, arms-length trade as the primary source of international economic exchange. . . . [H]ost countries are increasingly adopting explicit policies to tilt in their directions the benefits generated by those enterprises. The

> impact of these efforts may turn out to be even greater than their trade predecessors of the 1930s, both because the economic interpenetration of nations is now more advanced than in the 1920s and because governments now pursue so many more policy targets.[7]

The agenda of international economic negotiations is growing rapidly. The issues are not only proliferating beyond pure economics to include cooperation in international energy distribution and development, the law of the sea, and research on population control; they are also proliferating in complexity and political sensitivity. Along with this trend has come a proliferation of international groups and quasi-organizations. In every case the challenge to the international economic policy of the United States and all other countries is clear. A responsive, substantial, and consistent position is necessary in each case. For these reasons, economic discussion is the principal thread of international relations today and will be for a long time to come.

NOTES

1. Benjamin J. Cohen, *American Foreign Economic Policy* (New York: Harper & Row, 1968), p. 10.
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3. Anthony M. Solomon, "Administration of a Multipurpose Economic Diplomacy, *Public Administration Review,* November–December 1969, p. 585.
4. Richard S. Gardner, *Sterling-Dollar Diplomacy* (New York: McGraw-Hill, 1969), p. 1.
5. Peter G. Peterson, *The United States in the Changing World Economy* (Washington, D.C.: U.S. Government Printing Office, 1971), p. iii.
6. Edward Fried, "Foreign Economic Policy: The Search for a Strategy," in *The Next Phase in Foreign Policy* (Washington, D.C.: Brookings Institution, 1973), p. 161.
7. C. Fred Bergsten, "Coming Investment Wars?" *Foreign Affairs*, October 1974, p. 149.