

DON'T LET FRANCE TORPEDO TRADE TALKS

One of the Reagan Administration's principal goals at the recent Bonn economic summit was to set a date for a new round of trade liberalization talks under the General Agreement on Tariffs and Trade (GATT). All summit participants agreed in principle to a new round. But a date was not set--French President Francois Mitterrand vetoed this move. Mitterrand's opposition to setting a date, supposedly arising from a desire to link trade talks with international currency reform, was in fact nothing more than a ploy to curry favor with heavily subsidized French farmers, who fear that a new GATT round might threaten their subsidies and protection. The Reagan Administration should ignore Mitterrand's obstructionism, set a date for a new GATT round, and proceed to hold multilateral talks--with or without France.

The Mitterrand government blames currency "misalignment" for French economic stagnation and the decline of the French franc. Mitterrand wants the industrialized countries to coordinate their monetary policies in order to bring exchange rates back into "balance" and thereby promote economic growth. Yet this demand is simply another example of the French President's economic irresponsibility. After it was elected in 1981, the French socialist government proceeded to inflate its currency, increase government spending and transfer payments, and nationalize industries in an attempt to bring about a socialist paradise. This was at a time when the other industrial countries were controlling spending, slowing monetary growth and, in the case of the United States, cutting taxes. While the other economies began to take the road to recovery, the French economy rapidly deteriorated, thanks to Mitterrand's socialist policies. The French President has since admitted that "Perhaps we dreamed a little in 1981" and confessed that "we were intoxicated." Now he is trying to pin his country's woes on the dollar.

Yet even this spurious reasoning is nothing more than a convenient fig-leaf. Mitterrand seeks to forestall a new trade round for purely domestic political reasons. The ruling Socialist Party faces Parliamentary elections in 1986, in which it is widely expected to lose control

of the legislature. The French farmers are one of the country's strongest voting blocs, and one of the most heavily subsidized and protected agricultural sectors in the world. Since a new round of trade talks would inevitably deal with agricultural subsidies and protection, Mitterrand hopes to win the political support of French farmers by blocking any chance of free trade in agriculture. By taking this stand, Mitterrand may win points at home, but it will be at a high cost to American farmers, who need more open foreign markets--and indeed to all the world's economies.

The international trade situation is too serious to let the French effectively torpedo further liberalization. Protectionist pressures are mounting in the U.S. and worldwide. New trade protection would slow down the economies of the industrial countries and could cripple economic growth in the less developed countries. President Reagan should thus go ahead with plans for a new GATT round, with or without the French. He should announce immediately that he intends to set a date for trade talks early in 1986. This should be followed by bilateral discussions with the other industrialized countries on a specific agenda for the new round. Without French agreement, the European Economic Community could not formally agree to any trade liberalization treaty. But by proceeding with bilateral consultations, it will be made clear to the world that it is France that is standing in the way of economic progress for all. This will help fellow EEC countries to pressure the French into a more reasonable stance. President Reagan should also step up the pressure by attempting to bring Third World countries into the new GATT round. These countries perhaps have the most to fear from increased trade protection.

The U.S. must continue to promote an open worldwide trading system. A multilateral approach, such as a formal GATT round, is certainly the most effective means. But the failure to gain the approval of one country should not be allowed to block the attempt. If necessary, the U.S. should proceed on a limited multilateral basis, or even on a bilateral basis, to secure open markets. Such a strategy, with the threat of leaving uncooperative countries out in the cold, will provide a strong incentive for France to see reason.

Edward L. Hudgins, Ph.D.
Walker Fellow in Economics

For further information:

"Mitterrand's France: Socialism in Retreat," a three-part series, The New York Times, December 24, 25, 26, 1984.

"Mitterrand's 'Non,'" The Wall Street Journal, May 5, 1985, p. 30.

Edward L. Hudgins, "Reagan's Nine Points for the Bonn Summit," Heritage Foundation Backgrounder No. 430, April 30, 1985.