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**EXECUTIVE OFFICE OF THE PRESIDENT
PRESIDENT'S ADVISORY COUNCIL ON EXECUTIVE ORGANIZATION
WASHINGTON, D. C. 20506**

August 17, 1970

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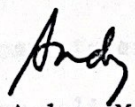
~~Organization for Foreign Economic Affairs~~
MEMORANDUM FOR

PETER FLANIGAN

Enclosed are the Council's recommendations on the organization of the Executive Office to deal with Foreign Economic Policy. These recommendations adhere closely to the views expressed by the Council in the past as to the overall structure of the Executive Office.

They come at a time when we understand action in this area is imminent. We hope, nevertheless, that the Council's thinking will be useful to the President and to his staff in organizing U.S. effort in this area.

If there is any amplification of these ideas you would like to get personally, please feel free to call me. In addition, we anticipate that this subject will be a major item on the agenda of our meeting (still tentative) with the President on August 24th.


Andrew M. Rouse
Executive Director

Enclosure

Copy to:

Mr. Ehrlichman
Mr. Haldeman

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MEMORANDUM FOR THE PRESIDENT

SUBJECT: Organization for Foreign Economic Affairs

Domestic and foreign economic policy are no longer easily separated. The growing interdependence of the world's economies makes it imperative for all nations to consider the relationships between their foreign and domestic economic policies.

Foreign economic policies are those which have their primary impact on relations with foreign governments or interests or on United States interests abroad, but which also have an effect on the domestic economy.

Foreign trade, our investments abroad, foreign investment in the United States, international monetary policy, and development assistance are some of the important areas which fall within the scope of foreign economic policy.

Little that we have studied to date impresses us of the need for change as much as the Federal government's organization in this area. The structures and procedures for developing and carrying out foreign economic policies are inadequate to meet current needs.

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They are particularly ineffective in providing the means to deal with the crucial relationships between foreign and domestic economic and political affairs. More critically, they are wholly unequal to the mounting challenges in the arenas of trade, investment, monetary affairs, and development assistance. We believe these challenges will prove to be one of our most pressing problems throughout this decade. If they prove not to be, it will in large part reflect the foresight we show in moving today to organize in anticipation of these growing challenges.

To correct these deficiencies in structure, we recommend the transformation of the Office of the Special Representative for Trade Negotiations (STR) into the Office of International Economic Policy. Its mandate would be to formulate recommendations and help implement decisions relating to foreign economic policies. We also recommend the establishment of a cabinet-level Council on International Economic Policy to work with and guide the Office in the performance of its functions.

Inadequacy of Existing Organization

In our Memorandum to you of August 20, 1969, we stated that:

" . . . there are aspects of the overall management responsibility which must be provided for organizationally in the Executive Office."

In that Memorandum we described the processes we believe essential to Presidential management of the Executive Branch. We placed Presidential level policy and program development first among these processes. You have since established the Domestic Council to deal with this process as it relates to domestic programs. The charge of that Council and of the National Security Council taken together, however, leave a void with respect to the development of policy and programs for foreign economic affairs.

No existing entity of government provides an adequate location for the policy and program development associated with world trade, investment, monetary affairs, development assistance and related functions. Foreign economic policy must be consistent with domestic and international economic and political objectives. Therefore, in formulating foreign economic policy, both domestic and international interests must be given equal voice.

Existing organizations with responsibilities for various aspects of foreign economic affairs -- and there are many -- have not effectively filled the void in the policy making area of government into which foreign economic policy falls.

The large number of organizations through which the government has sought to formulate specific aspects of foreign economic policy often have overlapping charges. (See Appendix A.) For example, in the Executive Office alone, the Council of Economic Advisers (CEA), the National Security Council (NSC), the Office of Management and Budget (OMB), and the Office of the Special Representative for Trade Negotiations, and members of your own staff are all involved, quite properly, in those aspects of foreign economic affairs that relate to their individual responsibilities.

As foreign economic policy formulation involves both domestic and foreign political and economic interests, it is only through the interaction of the organizations concerned with these interests that policy can be developed effectively. Yet those organizations now dealing with foreign economic policy are not structured or staffed to handle these requirements.

In the area of foreign economic affairs, the United States cannot, in all cases, make policy unilaterally. Circumstances sometimes require that policy be developed in the give and take of negotiations with other nations. Therefore, effective performance requires that policy and operations be firmly linked to insure that policy is modified as necessity dictates.

The proliferation of involved units and coordinating bodies -- now totaling more than sixty -- has served to narrow rather than broaden the perspective from which each views foreign economic affairs. The results have been to develop recommendations which do not insure that overall United States interests are furthered and to place on the President's immediate staff and on the President the burden of making decisions based on unintegrated recommendations.

Because there is no point where domestic economic and political interests can be considered effectively in conjunction with foreign economic and political questions, the United States often responds to foreign initiatives narrowly and after delays. A serious consequence is that we tend to react to foreign action rather than initiating action on our own behalf.

Effective follow-up is essential to the implementation of any policy. But in the field of foreign economic policy there exists no group able to oversee the efforts of the various units involved. The result has been that the President cannot be assured that his requests for analysis are fulfilled or that his decisions are implemented effectively.

The limited mandates of existing organizations and the absence of an integrating structure have resulted in serious problems. We are not as effective as we could be in reacting to proposals of foreign nations which may link, for example, trade, aid, investment and air routes. Integrated policy guidance to trade and non-tariff barrier negotiators is sometimes lacking. On occasion, agencies of the government have taken differing policy positions in dealing with the same foreign government, and staff work which requires the effort of more than one agency has not always been available when it was most needed.

Future Challenges

It would be desirable to make changes in organization if only to correct current inadequacies. But it is imperative to do so because our country now faces unprecedented international economic challenges which will affect increasingly our influence in world affairs.

Even though we should end the seventies still well ahead of other nations by any broad measure of economic well-being, key policy decisions will have to be made in this decade which will profoundly affect our foreign and domestic position well into the future.

Western Europe and Japan, with their more rapidly growing economies and more closely integrated domestic and foreign economic policies, pose an increasing challenge to our economic and political leadership. These changes in the economic balance have for this country foreign implications -- on the extent to which we can influence world affairs -- and domestic implications -- on the development and structure of our domestic economy and ultimately on our standard of living. Our domestic and international political and economic objectives will become increasingly difficult to achieve if our economic influence is allowed to erode. Maintenance of our overall economic strength and our influence in world affairs requires the ability continually to adapt foreign economic policies to the changing nature of our domestic economy and to the relative economic positions of other nations.

There are issues now emerging associated with foreign economic activity which relate directly to our future in world affairs. We must prepare now to face these issues. Foreign governments and companies are able to enter into agreements among themselves which are prohibited or discouraged in the United States. Their ability to do what we cannot do and, as important, to know what we cannot do, gives foreign entities an increasingly important edge in international competition.

With much of the industrial plant of Western Europe and Japan recently rebuilt and, therefore, modern as compared to ours; with increased and close economic cooperation among many of the developed nations, foreign governments are in a significantly better position to influence the world's economic and political balance than has been the case for several decades.

Other issues which clearly will require integration of conflicting views and individual departmental interests are:

- . the applicability of antitrust laws to foreign companies operating in the United States and to domestic companies operating abroad;
- . the extent and impact of increasing foreign investment in domestic industry;
- . the use and provisions of tax treaties relating to foreign trade, profits, repatriation of funds and the like;
- . the accelerating development of both domestic and foreign multi-national corporations;
- . the role of the dollar as a trading and reserve currency in the face of the planned adoption by the EEC of a common currency; and
- . the terms and extent of East-West trade and the possibility of trade with China.

The Council's Views

In making our recommendations to you we reaffirm these views expressed in our Memorandum of August 20, 1969.

- . The President may delegate responsibilities with confidence only when organizational assignments are plainly set out, when programs are well-designed and when he is adequately informed on program performance.
- . Operational responsibilities should be placed in the Executive Office sparingly -- only when effective performance involves the interests of more than one agency and when no lower level organization can properly relate those interests.

With these views in mind, we have given attention to several alternatives. A major concern in evaluating them was the consistency of each with our belief that agency recommendations contributing to Presidential policies should be integrated by a staff able to provide a broad Presidential perspective. Additional criteria for evaluation were:

- . the timeliness and initiative with which the organization might act;
 - . the extent to which foreign governments would view the organization as the focal point for determining United States foreign economic policy; and
 - . the extent to which the organization could act authoritatively in the interest of all parties and withstand challenges to its authority, both now and in the future.
- Appendix C contains a brief history of some previous attempts to coordinate foreign economic policy.

Applying these criteria to the area of foreign economic policy led us to several general conclusions.

Since the formulation of foreign economic policy, like domestic and national security policy, is a Presidential responsibility, it must to a major extent be performed in the Executive Office of the President.

The most effective way to integrate concerned interests and to deal with divergent views is through a structure which permits each party to contribute continuously and in depth to the formulation of policy. A single, high level, interagency committee or council would fulfill this description.

Like the National Security Council and the Domestic Council, such a committee or council would require strong staff capability if it is to perform the integration of views necessary to formulate broad policy recommendations.

The most effective organization would combine the functions of the STR and its staff with those contemplated for a broader foreign economic policy organization in the Executive Office. The STR trade negotiation activities form a key element in some areas of foreign economic policy formulation. Therefore, a potential conflict would exist between these STR activities and the more comprehensive policy responsibilities envisaged for a council-staff organization if these two entities remain separate.

Since we believe it preferable to adapt existing units rather than create new ones, the major question remaining is whether there exists within the Executive Office an organization that can appropriately serve as the nucleus for the new structure.

Within the Executive Office, the organizations considered were:

- . the National Security Council;
- . the Council of Economic Advisers;
- . the Office of the Special Representative
for Trade Negotiations; and
- . the Office of Management and Budget.

Because they have so often been proposed as the focal points for foreign economic policy and despite the fact that they lie outside the Executive Office, we have also considered the Department of State, the Department of the Treasury, and the Department of Commerce. Appendix B contains a discussion of these alternative locations.

While in our view a number of these alternative locations would probably result in a net improvement over the current situation, we recommend the establishment of a Council together with a renamed and transformed office derived out of the Office of the Special Representative for Trade Negotiations. This Office would be called the Office of International Economic Policy.

We believe that the STR is the most appropriate nucleus for the new Office because it can be restructured with relative ease while the reorganization of other Executive Office units would result in far

more serious disruptions. Because it is engaged in trade negotiations, the STR should be included in whatever new office is formed. Further, it is also the major existing group in the Executive Office involved in the formulation and implementation of foreign economic policy which has as its primary focus the routine consideration of both the domestic and foreign implications of that policy. Unlike the STR, the other organizations we have considered have orientations likely to bias judgments in which the primary concerns are foreign economic issues.

The head of this Office would be an Assistant to the President for International Economic Policy, and would also retain the legislatively established title of Special Representative for Trade Negotiations. This individual should be a man whose professional qualifications and experience suggest that he will aggressively and effectively carry out the functions of the office.

The staff of the Office would be appropriately increased over the number now assigned to the Special Representative.

The Council on International Economic Policy and the Office of International Economic Policy are consistent with the concept of the Executive Office described in our Memorandum of August 20, 1969.

This proposal would place alongside of the Domestic Council and the National Security Council a third policy formulating body. Like the National Security Council and its staff, this Council and Office would be charged with policy and program development functions. In addition, the Office would continue to carry out the current duties of the Office of the Special Representative for Trade Negotiations.

The Council and the Office would be responsible for:

1. Making foreign economic policy recommendations and advising the President on the resolution of foreign economic issues.
2. Insuring consideration of the positions of all agencies with responsibilities for formulating foreign economic policy and resolving issues which arise among them.
3. Providing a bridge between international policies and domestic economic and political interests, and insuring that all issues are considered before they reach the President's desk for final action.

4. Insuring that Presidential decisions on foreign economic policy are implemented promptly by the appropriate agencies.

5. Performing the foreign aid coordination functions recommended by the Peterson Task Force on International Development.

6. Resolving special trade policy conflicts which require Executive Office attention.

7. Providing policy guidance for agencies, task forces and Presidential Commissions and policy planning procedures for new initiatives in foreign economic policy. In carrying out this role, the Office should prepare for the President an annual statement of posture, goals and accomplishments in the area of foreign economic affairs. This statement would serve as general policy guidance for each of the agencies involved in the area and would provide the standard against which actions could be taken and evaluated for their consistency with national policy.

8. Carrying out, on behalf of the United States,

trade negotiations with foreign nations.

The recommendations we are making reflect the critical need to forge the various elements of foreign economic policy into integrated Presidential policies. But such policies will be no better than the quality of the information available.

In our view participation in the work of the Council should assure improved development and flow of information among concerned Executive agencies, all of which will retain their policy and operating functions. Existing units would be strengthened through access to information provided by the new Office, which will serve as a conduit for the exchange of information and views among all participants.

The establishment of a point of reference in the Executive Office with a mandate to integrate all aspects of foreign economic policy would also strengthen existing units by ending the ambiguity of authority which in the past has led to the frustration of the efforts of some groups. The recognition of the uniqueness and importance of this area of policy, reflected in the establishment of the Council, would give units throughout government, long involved in international economic affairs, but often subordinated within their agencies, a new sense of urgency and impetus to improve their efforts.

Taken together, the Council and the Office of International Economic Policy should provide the new structures needed to fill an important void in the policy development machinery of the Federal government.

Implementation

An Executive Order would be issued establishing the Council and Office and describing their functions in detail. It would effect the necessary legal changes. The Executive Order would also set out the Council's membership, which in addition to the President would consist of the Vice-President, the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Council of Economic Advisers, the Assistant to the President for National Security Affairs, the Director of the Office of Management and Budget, and the head of the Office of International Economic Policy. In addition, as other agencies are involved, they would be included from time to time at the President's discretion.

The Executive Order would also modify the mandate of or abolish interagency committees whose functions would be absorbed by the Council and the Office of International Economic Policy.

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A brief description of these groups, some of which would be affected by such an order, is given in Appendix A.

When the needed staff augmentation is determined, a supplemental appropriation for this purpose would be requested.

The Council's Recommendations

1. An Office of International Economic Policy.

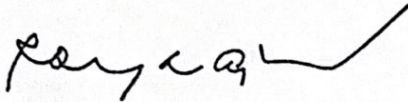
We recommend that you approve in principle the establishment of an Office of International Economic Policy to carry out the functions described in this memorandum and that you direct the Office of Management and Budget to prepare the necessary implementing orders for your approval.

2. An International Economic Policy Council.

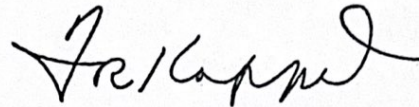
We recommend that you approve in principle the establishment of a Council on International Economic Policy to carry out the functions described in this memorandum and that you direct the Office of Management and Budget to prepare the necessary implementing orders for your approval.

The recommendations we make to you today are designed as a first step to improve both our current performance and, more importantly, to begin to build the structures which will be required to pursue our national interests in the face of the international economic challenges of the 1970s and 1980s.

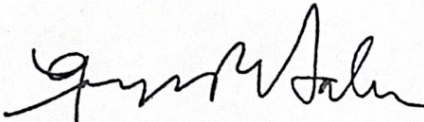
Respectfully submitted,



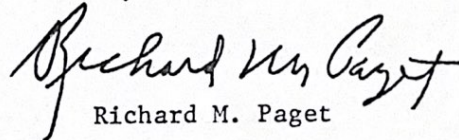
Roy L. Ash
Chairman



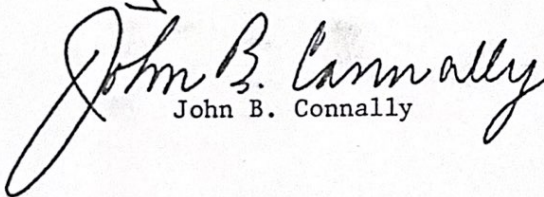
Frederick R. Kappel



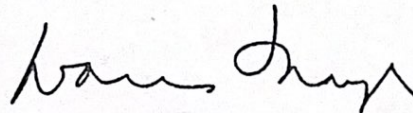
George P. Baker



Richard M. Paget



John B. Connally



Walter N. Thayer

Attachments
(Appendices A to C)

APPENDICES

- A. Coordinating Groups in Foreign
Economic Policy
- B. Alternative Locations
- C. Some Previous Attempts to Coordinate
Foreign Economic Policy