PART

SECRET

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PO -CH /GH/0087

PART D

Begins: 28/4/83

Ends: 12/5/83 (CONTINUED)

DD: 25 Years

1/9/95

WILLIAMSBURG G7 ECONOMIC SUMMIT, 28-30 MAY 1983

PO -CH /GH/0087

PART D

TXW 408/304/1

Private Secretary

Crucial decision, please

Yes.

EXCHEQUER
29 APR 1983
ACTION
COPIES TO
Mr Littler
Mr Unwin

ECONOMIC SUMMIT, WILLIAMSBURG

1. At the meeting of Permanent Representatives held in March, Sir R Armstrong reported that the President had it in mind himself to attend a short church service in Williamsburg's Episcopal Church before the plenary session on Sunday 29 May. Any other Head of State or Government or Minister who would like to attend will be welcome, but the service will not be a Summit event. Invitations will not be issued, but the Americans would like to know in advance who will be attending.

2. In reply Mr Coles minuted that the Prime Minister proposes to attend this church service.

3. I should be grateful to know whether the Secretary of State and Chancellor of the Exchequer (to whose Private Secretary I am copying this minute) would also wish to attend the church service.

S M Waghorn (Miss)
Overseas Conferences and Visits Section
Protocol and Conference Department
Tel No 273 3633 Room SG/95
OLD ADMIRALTY BUILDING

28 April 1983

cc PS/Chancellor of the Exchequer

Spare

CONFIDENTIAL

KERR

FROM: J.G.LITTLER
DATE: 3 MAY, 1983

cc. Chief Secretary
Financial Secretary
Economic Secretary
Mr.Middleton
Mr.T.Burns
Mr.Unwin
Mr.Carey
Mr.Lavelle

WASHINGTON MEETINGS

I attach a draft minute which the Chancellor might like to consider sending to the Prime Minister, reporting on the meetings last week, and pulling out some points for Williamsburgh very briefly.

2. I have spoken to the Private Secretary to Mr. Rees at the Department of Trade about the Export Administration Act. Apparently Mr. Rees had a brief talk about this with Ambassador Brock at Leeds Castle over the weekend. The Department of Trade will let us have a note before the weekend on the state of play and points which might usefully be made in Paris.

(J.G.LITTLER)

CONFIDENTIAL

M. type final 4/5

~~DRAFT~~ MINUTE

PRIME MINISTER

cc Foreign Secretary
Secretary of State for Trade
Sir Robert Armstrong

MEETINGS IN WASHINGTON

1. ~~I took part last week in a series of international meetings~~ The discussions I attended in Washington last week ~~which~~ were on the whole successful, and produced ~~and useful~~. Some pointers for Williamsburg.

Development Committee

2. The joint IMF/IBRD Development Committee ~~met for a day and a half of~~ meeting, were primarily on North/South and Aid issues, was fairly low key, ~~speeches,~~ reflecting the moderate tone of recent statements from meetings of developing countries in New Delhi and Buenos Aires. I attach a copy of the Communique. [~~The original draft~~ presented to Ministers was heavily biassed in favour of demands by developing countries - going well beyond the tone of discussion at the meeting. I launched a general criticism of this at the outset and, with help from other Finance Ministers and the IMF Managing Director, succeeded in getting a balanced result which helpfully supports the strategy of industrial countries seeking sustainable, non-inflationary growth.]

3. ~~The key~~ The key issue was, of course, whether the US will honour its financial commitment to IDA. This depends on Congress, and the meetings recognised that the Administration (Shultz and Regan) have now started to pitch in on the Hill. But it may take pressure from the President to deliver the IDA VI appropriation, and it might well be right to raise this with him at Williamsburg.

G.7 Meeting

4. Finance Ministers and Central Bank Governors of Summit countries plus the Commission met ~~over an extended lunch~~ to approve publication of the "Jurgensen Report" on exchange rate intervention, and contrived ~~We managed~~ to avoid a Franco-American row ~~between the extreme positions of France and the United States and produced an~~ The agreed covering statement ~~which~~ is constructive and should, I think, be welcomed at Williamsburg. It accepts

a no more than modest role for intervention, but recognises the importance of trying to achieve greater exchange rate stability, through better-matched policies, and contains the statement: "In the formulation of our domestic economic and financial policies, our countries should have regard to the behaviour of our exchange rates, as one possible indication of need for policy adjustment". 5. This goes further than the Americans have previously, and it is valuable to have ~~United States~~ Their acceptance of ~~this~~ it.

But what is needed now, if this stop towards agreement is to have the desired effect on business confidence around the world, is stronger evidence that they understand the scale of the difficulties. It is disturbing that Regan, at this budget, has compromised, gone explicitly against his hopes and his willingness to break ranks.

G.5 Meeting

~~5.~~ 6. ~~The Group of Five had a long evening meeting, and a morning meeting.~~ The main G5 business, for which the IMF Managing Director was present, was "surveillance" of progress in our several economies. ~~The Managing Director~~ Larosiere did an excellent job of analysis and criticism, and attention quickly focussed on the United States position: very high real interest rates (unless one assumes an early move back to much higher inflation), closely associated in the view of ~~the rest of us~~ all but the Americans - with the high $exchange rate against the yen and deutschemark, which is ~~in turn related to the~~ one cause of resulting poor US international trade performance and ~~growing~~ pressures for protectionism, the whole deriving from an excessive public sector deficit imposing too heavy a burden on interest rates to maintain discipline over monetary growth.

One of the distinctive components of the high deficits is the fact that the US - the richest country in the world - is now borrowing from the rest of the world. This is a important point and fits well into the rest of the conclusion.

5. ~~The views of all representatives other than the United States were unanimous. Although I took much of the burden of the attack, this was in some measure due to hesitation of some of the others in the English language, and they made clear to me afterwards their solid support, as well as offering occasional helpful points in the general discussion.~~

~~6.~~ 7. The US reaction was [mixed, and] unimpressive. ~~particularly since there were sporadic and not very good-tempered arguments between Don Regan and Paul Volcker~~, Don Regan ~~(and occasionally Volcker)~~ tried to deny the causal relationships between high interest rates, a strong dollar and high deficits. all ~~the rest of us see between the different features~~ I ~~have mentioned, while at the same time acknowledging that the public sector~~ He did acknowledge that the deficit ~~needed to~~ must be reduced ~~for future years, and complaining about the lack of will in Congress~~ but he spoke to ~~this end~~.

without convicting about how RB might be done, and was inclined to blame congress.

Trade

8. I am convinced that it would be valuable if you would tackle the President about the deficit — ~~as you already had~~ on the lines of your previous talks with Shultz and Volcker. The right time to do it would be in Washington on 27 May, rather than more publicly at Williamsburg. As Feldstein ~~had also~~ suggested to me the other day, the key ~~to~~ may be to point out to the President the gains — economic ~~and~~ and political — which have accrued to us from our demonstrated commitment to reduced borrowing in the 1981 Budget, of our ~~I'll try to let you have a note~~ we might have a word about RB.

8.9. The US took the opportunity in the G.5 meetings to urge again the importance of resisting and reducing protectionism. ~~It was agreed that~~ This ~~was likely to be~~ will be discussed ~~pursued~~ further at the OECD Ministerial meeting in Paris next week.

9.10. I also took the opportunity of ~~representing~~ pointing out to ~~Secretary~~ Don Regan the damage which could be done to relations in the Western Alliance by the measures proposed in the draft Export Administration Act. Subsequently, in the G.5 meeting, Regan mentioned this legislation, said that there was some possibility of fairly rapid passage through Congress, and suggested that countries which disliked it should "speak loudly in the Paris meetings next week". I ~~shall be~~ am sure that ~~pursuing this with our Department of Trade colleagues.~~ we should take the hint.

Williamsburg

~~8.~~ 11. I ~~think there are several~~ The key pointers ~~in all this~~ for ~~discussion at~~ Williamsburg perhaps are :—

~~40. First, some positive points:~~

i. general agreement that the recovery is in train. This is

- ~~confidence over recovery,~~ tempered with caution, and

and ~~emphasising moderate and sustainable growth~~;

- insistence ~~on~~ that the objective must remain ~~of~~ sustainable, and therefore non-inflationary, growth, not "concerted reflation".

ii - on debt, agreement that, while we can ~~problems, we~~ take credit for speedy and effective action already taken, there remains a ~~adopted, but emphasise the~~ need for continuous monitoring, on a case-by-case basis, with financial help available conditional~~ly~~ on appropriate adjustment policies. (Incidentally, it was suggested by the US that the GAB and IMF ~~and GAB~~ Quota increases might be approved by Congress just before Williamsburg.);

iii. - agreement that the ldc deserves a sympathetic response, ~~on developing countries generally, and with~~ eg at the UNCTAD, ~~meeting in June, all industrial~~ ~~countries are anxious to show careful sympathy,~~ that IDA and IBRD must not be starved of resources; but also that the best way to help in ~~this way to respond to the~~ ~~welcome~~ more moderate tone of recent ldc meetings (contrasting with earlier years) ~~and to underline the importance of~~ the developing countries is for industrial countries to ~~sound and sustainable recovery by industrial~~ promote sound and sustainable recovery; ~~countries for the prospects for developing countries;~~

~~iv. - the outcome of our post-Versailles study of~~ exchange rate intervention ~~can~~, I think, be welcomed, identifying ~~a~~ role for intervention, but [in para 4 already] only a modest ~~one~~ (and one which accords well with UK practice) and recognising the importance of

striving for future exchange rate stability and of taking account of exchange rates as an indicator of effects of domestic policies.

IV. ~~Key Arrangements~~ Widespread concern that high interest rates could weaken or abort recovery, while a strong dollar feeds protectionist tendencies. The prospect of future US ~~deficit~~ public sector deficits ~~equally~~ equalling or exceeding total US private sector savings is one that causes universal concern, but has ~~yet~~ as yet produced no crushing counter-action by the Administration.

~~The main argument will have to be over the US pattern of policies and their impact on the rest of the world, and on the prospects for the US itself. We cannot simply accept that the US authorities share our concern but are powerless in relation to Congress. I think you will need to tackle President Reagan vigorously in the restricted sessions; what is then said publicly must depend on his reaction, and we should go out of our way to try to be helpful.~~

It would be wrong ~~for~~ to envisage public criticism of the President at Williamsburg — as the French may — but equally wrong to imagine that the subject of the deficit will not be discussed there. The best way of helping to defuse the issue might, as I say, be for you to take it up with him in advance.

12. I am copying this minute to the Foreign Secretary, the Secretary of State for Trade and Sir Robert Armstrong.

[G. HOWE]

Covering Confidential

FROM: J O KERR
DATE: 3 May 1983

MR LAVELLE 107/3

cc: Mr Carey
Mr Burns.

LAST WEEK'S WASHINGTON MEETINGS

The Chancellor last night made some changes to the draft minute to the Prime Minister which Mr Littler submitted. He is anxious to send a final version to the Prime Minister before they meet tonight. I should accordingly be most grateful if, in Mr Littler's absence, you could cast an eye over the attached copy, and alert me quickly to any howlers.

Joe.

J O KERR

Mr. Kerr

Could I suggest the 2 deletions at X in paras 5 & 6?

In para 5, the statement agrees goes beyond intervention whereas Regan's comments at his press conference were only about intervention. The latter may have numbers of explanations and I would be inclined not to underline anyway.

In para 6, high interest rates deriving from the public sector deficit have led to imports of capital. The imports of capital can be [illegible] both to economic [illegible]

CONFIDENTIAL

R

13/155/4. 9/5.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MEETINGS IN WASHINGTON

The discussions I attended in Washington last week were on the whole successful, and produced some pointers for Williamsburg.

Development Committee

2. The joint IMF/IBRD Development Committee meeting, primarily on North/South and Aid issues, was fairly low key, reflecting the tone of recent statements from meetings of developing countries in New Delhi and Buenos Aires. Developing countries have not moderated their demands, but they do seem to be advancing them less stridently than in the past.

3. The key issue was, of course, whether the US will honour its financial commitment to IDA. This depends on Congress, and the meeting recognised that the Administration (Shultz and Regan) have now started to pitch in on the Hill. But delivering the IDA VI appropriation may require pressure from the President, and it might well be right to raise this with him at Williamsburg.

G.7 Meeting

4. Finance Ministers and Central Bank Governors of Summit countries plus the Commission met to approve publication of the "Jurgensen Report" on exchange rate intervention, and contrived to avoid a Franco-American row. The agreed covering statement is constructive and should, I think, be welcomed at Williamsburg. It accepts that intervention can have a legitimate, though modest, role, but recognises the importance of trying to achieve greater exchange rate stability through better-matched policies, and contains the statement: "In the formulation of our domestic economic and financial policies, our countries should have regard to the behaviour of our exchange rates, as one possible indication of need for policy adjustment."

5. This goes further than the Americans have previously, and it is valuable to have their acceptance of it. But what is needed now, if this step towards agreement is to have the desired effect on business confidence around the world, is stronger evidence that they accept some of its implications. It is disturbing that Regan, at his subsequent press conference, gave explicit signals of his readiness to back-slide.

G.5 Meeting

6. The main G.5 business, for which the IMF Managing Director was present, was "surveillance" of progress in our several economies. Larosiere did an excellent job of analysis and criticism, and attention quickly focussed on the United States position: very high real interest rates (unless one assumes an early move back to much higher inflation), closely associated - in the view of all but the Americans - with the high $ exchange rate against the yen and deutschemark, which is one cause of poor US international trade performance and resulting pressures for protectionism, the whole deriving from an excessive public sector deficit imposing too heavy a burden on interest rates to maintain discipline over monetary growth. One other disturbing consequence of the high deficit is the fact that the US - the richest country in the world - is now a substantial importer of capital. This is a significant cause of high interest rates in other countries.

7. The US reaction was unimpressive. Don Regan tried to deny the causal relationship between high interest rates, a strong dollar and high deficits. He did acknowledge that the deficit must be reduced: but he spoke without conviction about how this might be done, and was inclined to blame Congress.

8. I am convinced that it would be valuable if you would tackle the President about the deficit - on the lines of your previous talks with Shultz and Volcker. The right time to do it would be in Washington on 27 May, rather than more publicly at Williamsburg. As Feldstein suggested to me the other day, the key may be to point out to the President the gains - economic and political - which have accrued to us from our demonstration, in the 1981 Budget, of our commitment to reduced borrowing. We might have a word about this.

Trade

9. The US took the opportunity in the G.5 meetings to urge again the importance of resisting and reducing protectionism. This will be discussed further at the OECD Ministerial meeting in Paris next week.

10. I also took the opportunity of pointing out to Don Regan the damage which could be done to relations in the Western Alliance by the measures proposed in the draft Export Administration Act. Subsequently, in the G.5 meeting, Regan mentioned this legislation, said that there was some possibility of fairly rapid passage through Congress, and suggested that countries which disliked it should "speak loudly in the Paris meetings next week." I am sure that we should take the hint.

Williamsburg

11. The key pointers for Williamsburg perhaps are:-

i. general agreement that the recovery is in train. This is tempered with caution, and insistence that the objective must remain sustainable, and therefore non-inflationary, growth, not "concerted reflation."

ii. on debt, agreement that, while we can take credit for speedy and effective action already taken, there remains a need for continuous monitoring, on a case-by-case basis, with financial help available conditional on appropriate adjustment policies. (Incidentally, US representatives hoped that the GAB and IMF Quota increases might be approved by Congress just before Williamsburg.);

iii. agreement that the slightly more moderate tone of recent ldc meetings (contrasting with earlier years) deserves a sympathetic response, eg. at UNCTAD; that IDA and IBRD must not be starved of resources; but also that the best way to help the developing countries is for industrial countries to promote sound and sustainable recovery;

iv. widespread concern that high interest rates could weaken or abort recovery, while a strong dollar feeds protectionist tendencies. The prospect of future US public sector deficits equalling or exceeding total US private sector savings is one that causes universal concern, but has as yet produced no convincing counter-action from the Administration. It would be wrong to envisage public criticism of the President at Williamsburg - as the French may -but equally wrong to imagine that the subject of the deficit will not be discussed there. The best way of helping to defuse the issue might, as I say, be for you to take it up with him in advance.

12. I am copying this minute to the Foreign Secretary, the Secretary of State for Trade and Sir Robert Armstrong.

(G.H.)

4 May 1983

Covering Confidential

FROM: J O KERR
DATE: 3 May 1983

MR LAVELLE

cc: Mr Carey
Mr Burns.

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The Chancellor last night made some changes to the draft minute to the Prime Minister which Mr Littler submitted. He is anxious to send a final version to the Prime Minister before they meet tonight. I should accordingly be most grateful if, in Mr Littler's absence, you could cast an eye over the attached copy, and alert me quickly to any howlers.

JOK.

J O KERR

CONFIDENTIAL

CONFIDENTIAL

MR. KERR

FROM: J.G.LITTLER
DATE: 3 MAY, 1983

cc. Chief Secretary
Financial Secretary
Economic Secretary
Mr.Middleton
Mr.T.Burns
Mr.Unwin
Mr.Carey
Mr.Lavelle

WASHINGTON MEETINGS

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2. I have spoken to the Private Secretary to Mr. Rees at the Department of Trade about the Export Administration Act. Apparently Mr. Rees had a brief talk about this with Ambassador Brock at Leeds Castle over the weekend. The Department of Trade will let us have a note before the weekend on the state of play and points which might usefully be made in Paris.

(J.G.LITTLER)

1. as added two possible changes to draft. We think probably right to use words, on the basis it a reply

C

I've suggested — on a spare copy below — some possible changes.

JGL

4/8/5

FROM: C J CAREY
DATE: 3 May 1983

MR UNWIN

cc; Mr Littler
Mr Lavelle
Mr Bottrill
Mr Beastall
Mr Hall
Mr Atkinson
Miss Cund
Mr Wicks (Washington)

LEEDS CASTLE CONFERENCE ON UNCTAD VI

You may like to glance at the attached jottings about last weekend's proceedings. Two general impressions are worth recording about the debates. One was the persistent criticism from developing as well as developed country sources of the US deficit (combined in one or two cases with pressure for "locomotive" action by Western economies, though pressure for this was fairly muted). The other was the virtual unanimity with which all speakers deplored protectionism and called for a reversal of the recent rising tide of protectionism. Of course there is a world of difference between pious statements on this theme and practical moves to reduce trade barriers. Dunkel reminded the meeting of this fairly brutally, and Streeb said privately that he was surprised and disappointed that Brock had been allowed to get away with his promise of a firm US statement on protectionism without being asked to specify what the statement would actually say. The OD (E) meeting which the Chancellor has proposed to his colleagues may give UK Ministers an opportunity to define their own position with a bit more clarity.

2. Participants fell over themselves in praising the UK government for organising the conference and saying what a success it had been. It isn't altogether clear why. On the few specific issues about which there was any serious discussion, there was no sign of any compromise. Understanding of each others position has perhaps been improved on both sides. The conference probably made a modest contribution to lowering expectations, especially among the LDCs. Mr Rees managed to Chair the meeting (rather well, I thought) without disclosing anything of the UK's national position!

CJC

(C J CAREY)

UNCTAD VI

Selective Notes from Leeds Castle Conference 1st and 2nd May 1983

First Session ("Context, Concerns, Prospects") introduced by Mr Rees

Corea set the theme of recovery and development, and said on present prospects Western economy recovery would not be enough by itself to regenerate the LDC development process. Hence the UNCTAD proposals on trade, commodities and money/finance, and the emphasis on early action in the financial field. Focus must be on the poorest countries. In the trade field, the requirements for development in LDCs and recovery of Western economies were the same; we had to go beyond standstill and roll back. The climate was now more propitious than it had been at the GATT Ministerial, which had taken place in the trough of recession. Belgrade would be the natural culmination to the meetings in OECD and Williamsburg and should set some guidelines for the whole of the decade.

2. Stressing that he was speaking personally, Lambsdorff said hopes raised by the Manila UNCTAD had been disappointed because developing countries had supposed that its conclusions could be imposed by UN-style majority voting. Some developing countries who had pressed for the Common Fund in Manila still had not ratified. With hindsight, it was doubtful if the Manila conclusions about commodities or energy had been helpful. He had missed any reference in Corea's opening statement to debt rescheduling. The answer to Mr Rees' question "Is recovery really underway?" was probably yes, but we must not be misled in to supposing that a modest cyclical upswing would solve all our problems. Unemployment was not going down. There was a long period of structural readjustment ahead. Lowering of credit barriers was just as important for LDCs as for developed countries (not least for the benefit of other LDCs).

3. Bangladesh made a plea for a political decision to implement immediate measures for the benefit of least developed countries.

4. US (Brock) said there were still grounds for caution about recovery prospects, chiefly because of the risk of renewed inflation. He agreed with Lambsdorff about the employment outlook. The US recovery, and their ability to be constructive eg on debt rescheduling was severely constrained by their deficit which was strcutural in nature. They had to keep in view the effects of their action on the world capital pool which had been diminished by low profitability. Capital formation was inadequate. LDCs should look beyond aid to trade and investment. The US 1983 trade deficit would roughly equal their $70 billion imports from NODCs. In the short term this was a bearable situation provided markets remained open in the developed world and the LDCs did not increase trade barriers.

5. India agreed with the FRG that majority voting solved nothing. But if the OECD countries found the G77 package unrealistic, the latter were entitled to be told how far the developed countries were prepared to go.

6. Jamaica agreeing generally with Lambsdorff, said the LDC development process would be crucial for sustained recovery of the OECD countries. It was untrue, as some seemed to suppose, that there was misunderstanding about the relationship between trade and finance. That was the point of UNCTAD, as Trade and Finance Ministers when they met in Paris would do well to remember.

Second Session ("Money and Finance")

7. Finch (IMF) introduced the Managing Director's statement (attached). His main points were criticism of the US deficit and emphasis on the paramount need for markets to remain open. This he saw as primarily a responsibility of the industrialised countries. LDCs had less scope to liberalise trading policy, though they should go far enough to assure realism in exchange rates. Generalised ideas about debt relief were probably misplaced. The IBRD representative said increased bilateral and multilateral aid could now be justified in terms of the improved policies being followed by borrowers.

8. France identified 3 areas of concern. The level of interest rates, the need for real recovery (for which they suggested concerted action on commodities, ODA and SDRs in particular) and the crisis of international financial institutions, especially IDA, IBRD and regional banks. France supported some others in appealing for a high level political input at Belgrade, especially at the final stages.

9. Jamaica said the G77 were open minded on the issue of the competences of the specialised agencies such as IMF and IBRD. They were not threatening these though they did see a need for LDCs to have a bigger share in decision making, both formally and informally. The G77 bid for immediate measures could not be divorced from their proposals for longer term reform. The US deficit was a structural problem, requiring a structural solution.

10. Lambsdorff said it was essential to preserve the independence of the IMF and IBRD. FRG could not accept that borrowers should have any voice in the decision to lend money. Why try to change institutions which had done so well? The debt problem could only be dealt with case-by-case, and through the Paris Club. There could be no bailing out of private banks.

11. Japan (largely inaudible) seemed worried by the wide ranging nature of the G77 proposals and the risk of infringing IMF/IBRD competences.

12. Mexico having read the IMF statement, said its claims for the beneficial effect of adjustment programmes on trade were misleading. (The IMF figures for Mexican import performance were distorted/unrepresentative.)

13. Brock acknowledged the damaging effect of US policy a year ago when monetary objectives had been pursued without regard to fiscal policy. The prospects were better that this would now be brought under control. The US assessed their current interest rates as about 4% too high in nominal terms. He appealed for moderation in public references by LDCs to the IMF eg in Belgrade. The prospects for US quota ratification would not be helped if Congress got the

idea that the IMF was a threatened institution. The key message US was looking for from Belgrade was the fundamental link between debt and protectionism. The US would be prepared to make some strong statements on protectionism, debt and the financial system. This was a reflection of their confidence in longer term prospects.

Third Session ("Trade aspects")

14. Van Lennep introduced this item with an analysis of the origins of the debt crisis. His main plea was for OECD to build on recovery to reverse the trend of protectionism. He spoke quite sharply about the US deficit and interest rate policy. Dunkel (GATT) suggested that UNCTAD might lend its support to selected elements of earlier international meetings such as GATT and IMF Interim Committee. He joined other speakers' pleas for a reversal of protectionism. How otherwise could LDCs service their debts? One-third of the exports of the six LDCs with the highest debt consisted of so called "sensitive products". Opening industrialised markets would mean lifting restrictions in this area. From developed countries point of view providing assistance through the IMF was an easier option than liberalising on this scale. Nothing less than a top level political decision would do the trick.

15. Mexico supported this statement. If LDCs could not sell their products, how could they pay their debts?

16. Lambsdorff wondered whether an agreement on a new Consensus, preferably at high interest rates, might be one element in the UNCTAD package. Subsidising export credit rates was one form of protectionism.

Fourth Session ("Commodities")

17. After Ramphal's introduction, Jamaica asked was there a common OECD position on prospects for recovery? If so what were its elements? Did it include the twin pillar of development? Did it go beyond general statements about interdependence? What specific measures would OECD countries put forward in Belgrade? What specific commitments could they accept as a contribution to recovery?

18. Lambsdorff was glad to note that expectations about Williamsburg seemed realistically low. He cautioned against expecting any repetition of the locomotive experiments by OECD countries. Brandt Mark 2 was seriously misleading in some respects, and had not learnt the lessons of Manila. FRG could not accept the G77 proposals for an expanded CFF, but could accept some proposals for stabalising export earnings. The trend of opinion in developed countries was swinging towards the market related approach, but this was not inconsistent with supporting aid to LDCs.

Second Day (Final Session)

19. Mr Rees' introduction posed two main questions -

1. Was there a need for different, non-confrontational techniques of dialogue at Belgrade?

2. What were the respective roles of UNCTAD and the specialised institutions? Should they be seen as complementary, with UNCTAD having a distinctive role in creating a climate of opinion?

20. Some aggressive rhetoric followed from Algeria and India. The latter singled out Japan's lack of interest in the G77 proposals for particularly unfavourable comment. India also attacked the EC for dragging its feet on protectionism.

21. Corea commented on Mr Rees' question about competences. Governments in Belgrade would not be meeting as the governing body of an institution. It would just be a conference of governments. Decisions on allocation of SDRs could only be taken by the IMF. But Belgrade was more than just a matter of creating a climate. Governments should address their minds to what needed to be done, recognising that implementation would be for the IMF etc.

22. Canada said reaching Consensus was easy enough. Action was more difficult. Governments were victims of entrenched myths which made it possible to say one thing and do another. One such myth was the belief that nobody else obeyed the rules. Another was a belief in the power of free market forces (or government intervention, according to political taste). A sensible, realistic

objective would be to carry out existing obligations on such things as IDA, IMF quotas, the aid target, the Common Fund, GATT work programme etc. Existing institutions should be supported and reinforced, not pulled down.

23. Frau Steeg (FRG) said that one field where UNCTAD did have an operational responsibility was commodities.

24. Streeb (US) said Belgrade was a bit more than a conference of governments. The US would not be prepared to accept in Belgrade moves towards decisions in other forum which they would not be prepared to implement. ("We are not going to play that sort of game"). He noted that a gap remained to be bridged between the US/German view that recovery must come first and must not be prejudiced, and the Indian and LDC argument that "immediate measures" were in the long term interest of OECD countries.

25. The Japanese representative again warned against expecting too much from his government. Bangladesh repeated their plea for priority to be given to the problems of the least developed countries.

26. Corea suggested that the G77 proposals for Belgrade amounted to little more than a request to put a bit of vigour back into objectives which had already been accepted by developed and developing countries alike. (In a slight qualification of this he later conceded that the proposal for SDR allocation was "partly new".) He hoped Belgrade would not be an exercise of traditional North/South trench warfare. But he was worried that not all governments would come equipped with the political will to act.

27. Mr Rees then summed up. He agreed with Corea's formulation (as amended by Frau Steeg) of UNCTAD as a continuing conference of governments. It had elements of the confessional too, and would be concerned with creating a climate. Its relationship with the specialised institutions was a complementary one. The context of the Belgrade conference was the clear evidence of OECD recovery. That recovery might still look fragile, though he had noted the US confident statement. There was a vital need for reduction in real interest rates and fiscal deficits in some countries. The target must be sustainable, non-inflationary growth over the

longer term. We must use the opportunity of recovery to reverse protectionist trends. The responsibility for resisting protectionsim rested with all countries - developing and developed - according to circumstances.

28. Commodity agreements by themselves could not assure prices; only recovery could do that. But they could help smooth fluctuations. The meeting had shown general support for early launch of the common fund. There had also been support for the special role of UNCTAD in relation to the least developed. There had not unfortunately been time for an in-depth discussion of financial issues, but for the next stage of development more thought was needed about private capital flows and the link with transfers of technology. There was also a question of how to create a better climate for private investment.

29. He agreed with Algeria, Jamaica and others that Leeds Castle had been more about questions than answers. He welcomed the general consensus on interdependence, and on the need for a less confrontational form of dialogue in Belgrade.

Leeds Castle Conference on UNCTAD VI, Kent, England
Statement for the Managing Director
International Monetary Fund

May 1, 1983

The Managing Director wishes to express his warm appreciation for the initiative taken by the British Government in organizing this seminar and regrets that he is unable to attend it. The following statement reflects his views.

The statement first sketches the background provided by the world economic situation. It then turns to a description of the role that the Fund is playing to help its members overcome the current problems. Finally, attention is drawn, in the light of the Fund's experience, to some major issues facing the world community.

As you all know, the world economy has faced increasing difficulty in recent years. The economies of the industrial countries have been stalled in a prolonged recession, and those of the developing countries have seen sharp deceleration. In 1982 output declined in industrial countries and fell behind the growth of population in developing countries. After two years of stagnation world trade contracted and the terms of trade continued to move against the developing world. These adverse trends added to the problems of adjustment of many developing countries, and some countries faced very serious strains as a result of a marked reduction in capital inflow.

At this time there are signs of a modest but significant recovery in the economic climate. With the return of more stable prices in much

of the industrial world and declining nominal interest rates, the basis is being laid for a return to growth in some of the major countries, notably Japan and the United States. Moreover, in many developing countries a major adjustment now seems to be well under way with current account deficits reduced to levels which, in an improving economic environment, should be consistent with normal capital flows. There is, therefore, reason to believe that the path to stability and growth is now beginning to appear.

However, there are many dangers still lurking and it will take steady application of responsible policies for the recovery to be firmly established. In most industrial countries, confidence in the maintenance of the improved price record is still fragile. There are in consequence relatively high interest rates inhibiting the resumption of a desirable scale of investment. Such high rates are being sustained by the very large fiscal deficits--particularly in the United States where private savings are relatively low--and they invariably contribute to distortions in the pattern of exchange rates. The level of unemployment in most countries remains unacceptably high, and this will be difficult to reduce in the absence of effective action to deal with deep-rooted rigidities in the economic systems, particularly as regards incomes. Another particularly worrisome feature is increasing resort to protectionist measures taken as a response to the problems of particular sectors of the economies. The strains on the world financial markets still remain, with the commercial banks now engaged in a reassement of their lending policies. There are therefore important problems to be faced which need the maximum effort and cooperation of the entire international community.

This situation has placed heavy responsibilities on the International Monetary Fund as the institution charged with the task of promoting and facilitating international adjustment. In carrying out this task the Fund has sought to strengthen the resolve of its members to learn from the past and pursue steady and responsible policies to create the basis for sustained recovery. Through its reviews of the world economic situation and of all the major economies, it has stressed the importance of maintaining firm control over inflation and monetary instability. It was recognized that this would be a painful process but it was regarded as essential if the basis was to be laid for sustained recovery.

In these endeavors, the Fund of course was part of an effort carried out in many other fora, notably the OECD and the Summits. But the Fund has a particularly direct responsibility in helping to meet the external financing needs during the period of adjustment. In discharging this responsibility, the Fund has emphasized that countries must make a realistic appraisal of the payments prospect and adjust to that prospect. This was the only pragmatic approach in the given circumstances--to have done otherwise would only have exacerbated the problems faced by members. The Fund therefore worked with the authorities to devise programs in which aggregate demand was maintained at levels compatible with the resources available. A basis was thus laid for a return of confidence, to mobilize as much savings as possible through the domestic banking system, and to keep such savings within the country. Equally, by providing its own resources--outstanding commitments have risen from SDR 8.3 billion at the end of 1980 to about SDR 25 billion at present--and by helping to

attract funds from other sources, the Fund has sought to mitigate the cost of adjustment and make it more manageable.

Under current conditions the Fund has had to be more active in mobilizing the necessary finance in consultation with commercial lenders than was the case in the past. For many of the members, the commercial banks had been the major source of funds and with the loss of confidence there was a danger of precipitate withdrawals, especially of short-term finance. To meet this problem, the Fund has taken on the task of collaborating with the banks in working out an orderly response, permitting in some important cases not only full refinancing of maturities coming due, but also new lending on a scale often several times the amount that the Fund could provide on its own. This relief was only possible by the cooperation that all parties have shown--not only the debtor authorities and the commercial banks but also the regulatory authorities in the creditor countries and the BIS.

At this point it may be useful to touch briefly on one criticism that is sometimes heard, namely, that the Fund, by stressing adjustment in such cases, is adding to the decline of demand in an already depressed world. This is simply a misconception. In no case has the Fund encouraged a member to adjust its demand below the level forced by the availability of resources. The Fund's assistance, together with financing from other sources, has supported higher levels of economic activity than would otherwise have been possible, while at the same time helping the authorities to put in place an adjustment program that responded to the country's needs. This frequently permitted a recovery of imports after a very serious fall before the program. For example, imports in Mexico fell by 56 per cent

from the last half of 1981 to the last half of 1982 before the program that the Fund supported became effective. By mobilizing resources from abroad and assisting in checking capital flight, the new program has laid the basis for an expected recovery in imports by one third between the last half of 1982 and the last half of 1983. With the resolute actions taken by the Mexican authorities, Mexico is now well on the way to playing once again an important role in an expanding world.

It became evident that if the Fund was to continue to play an active role, its own resources needed to be greatly reinforced. Fortunately, the need for action was quickly recognized and the process of adding to the resources is now moving ahead. Quota increases averaging 47.5 per cent were recommended with unprecedented speed, together with a tripling of the resources and widening of their use under the General Arrangements to Borrow. Legislative approval is required in many countries before these amounts are made available to the Fund; this process must be expedited.

While these results of international cooperation are greatly to be welcomed, there are major challenges ahead. One of the most important is to keep the world trading system open. In current and immediately foreseeable economic conditions, the pressures for restrictive action will continue to mount. Special interests gain political strength in periods of slow growth and high unemployment. Despite the overwhelming collective interest in maintaining an open trading system, retrogressions will occur. Everything possible has to be done to ensure that the common interest is promoted and it is to be hoped that in the coming UNCTAD meeting there would be an exploration of practical ways to prevent the erosion of a liberal trading system.

Equally, international cooperation has to play an increasing role in the transfer of capital to those who can make the best use of it. At a time when flows from private sources remain hesitant, it is evidently necessary that every means of adding to the official flows must be examined. The attention that is paid to increasing the resources of the Fund has to be matched by attention to the resources of the international development institutions. There are political difficulties in obtaining adequate increases in their resources, but such increases are essential to the balanced growth of the international economy.

Given the problems of adjustment and financing that many countries face, it is not surprising that attention is given to ways in which the Fund might be used further--notably, schemes to use the Fund's gold holdings. It is also argued that the conditionality attached to the use of the Fund's resources should be relaxed. These ideas have to be looked at with great caution. At this time, when the urgent need is to persuade governments to entrust large new resources to the Fund on the understanding that this will add to their liquid assets, actions that affect confidence in the solvency of the Fund would not be desirable. Also conditionality must remain credible and convincing to attract private capital flows. Now, above all, it is critically necessary to conserve the policies and the mechanism which can promise continuing support for members in difficulty.

In searching elsewhere for relief from the strains of current problems, attention has to be paid to debt relief and this has to be an important part of our endeavour. In this, all creditor groups have to play a part. There are a number of developing countries whose current debt burden arises primarily from the past use of official aid. To enable these countries to make a smooth

adjustment, donor governments need to make a renewed effort to raise their contribution despite the budgetary problems thay may be currently facing. For other countries that have relied on private flows, the banks have a critical role to play in easing their difficulties during the transitional period, thereby contributing to the maintenance of the stability and strength of the financial system. But if the banks are to be encouraged to maintain adequate flows, it is important that no actions are taken at this time that might give rise to expectations of major losses of capital. Consequently, debt relief needs to be given on a case-by-case approach--the approach that has been built into the creditor group meetings in Paris and elsewhere. With control on the extent of the relief vested in the creditors but with the recognition that debtors have to be given liberal relief as they attempt to reconstruct their economies, the problems have so far been managed in a cooperative spirit. The challenge now is to ensure that similar results can be achieved on a wider scale.

To conclude, the solution of the problems currently faced by the world economy is not in itself difficult to conceive. The difficulty will be in maintaining the political will to act, with the international interest always in view. The Fund is prepared to play its part but the critical elements have to be provided by others. The developing countries--and others--who find themselves in difficulties have to take quickly the adjustment measures necessary to restore order. The international community has to continue to find ways to make adequate resources available to lessen the social and political strains that beset the adjustment process. At the same time the markets for the products of the developing

countries must be kept open and must be made to grow. If the industrial countries can successfully maintain an economic recovery on an enduring basis, the prospects for the coming years can be much improved.

FROM: M W N TOWERS
3 May 1983

MR BOTTRILL)
MR PERETZ) Separate copies
MR HAWTIN)

c c PPS
Mr Littler
Mr Unwin
Mr Lavelle
Mrs Hedley-Miller
Mr Carey
Mr Ridley
Mr Hall
Mr Monaghan
Mr Page
Daily Folder/IDCS

WILLIAMSBURG SUMMIT

The Chancellor has agreed to give an interview - probably on-the-record - to the leading Japanese financial newspaper the Nihon Keizai Shimbun (NKS) on Monday 23 May.

2. NKS have submitted a list of questions in advance (attached).

3. I would be most grateful if addressees would kindly prepare briefing on the questions, as follows:

Question 1	Mr Bottrill
Question 2	Mr Peretz
Question 3	Mr Hawtin; Mr Bottrill
Question 4	Mr Bottrill
Question 5	Mr Bottrill

4. May I suggest that the briefing on each question be in the form of a number of short points to make, together with any background, ideally on one side of paper only.

5. I have also copied this note to other officials who may wish to offer guidance on the questions.

6. Could the briefing please reach me by Friday noon, 20 May?

7. I attach a copy of the Chancellor's previous interview with the NKS before the Versailles Summit.

M W N TOWERS

Telephone
(01) 248-4019
(01) 248-7694
Telex No.
LDN 884356

日本経済新聞
The Nihon Keizai Shimbun
(JAPAN ECONOMIC JOURNAL)
ESTABLISHED 1876
c/o The Financial Times
10 Cannon street
London, EC4P 4BY

Head Office
Address
1-9-5 OTEMACHI, CHIYODA-KU
TOKYO 100, JAPAN
Telex No.
J22308 NIKKEI

Questionnaire for Chancellor of the Exchequer

1. Regarding the cooperative strategy for world economic recovery that you are at present proposing for the leading financial countries (USA, UK, Japan, West Germany etc.) - could you give me more details about this?

2. In an attempt to stabilise a very volatile foreign exchange market, now even Mr. Volcker is proposing joint intervention measures. However, it is said that you yourself are not keen on the idea of joint intervention. How true is this?
Also, many people now feel that we should return to the "fixed parity system" of a decade ago. How can this be achieved, and in this connection, do you think Britain should join the European Monetary System?

3. On the question of those debtor countries which are incurring heavy debts (such as Mexico, Brazil etc.), - as a result of these mounting debts, it seems that either the commercial banks face losing their credibility, or the debtor nations collapse. In view of this situation, what sort of measures would you propose to combat the current credit crisis, and to ensure better cooperation between the IMF and other financial institutions and the Government?

4. A year after the Versailles summit, US interest rates are still at a very high level. What should other countries do, to cause the USA to lower their interest rates?

5. There has been some international opinion that Japan should stimulate her economy by increasing budget expenditure. But, unlike Britain, where the budget deficit has successfully been reduced, Japan's deficit is so heavy that any increase in expenditure is out of the question. The other alternative, to reduce interest rates, would mean a devalued yen, which would jeopardise Japanese exports to Europe. Therefore, we are faced with a dilemma. What are your views on this problem?

(ii) SIR GEOFFREY HOWE'S INTERVIEW WITH NIKKEI - Nikkei

In an exclusive interview with Messrs Murase and Takeuchi, London correspondents of the Nihon Keizai Shimbun, on 1 June, Sir Geoffrey Howe, Chancellor of the Exchequer, made a statement to the following effect:

"We will attend the Versailles Summit with caution and hope. We intend to ask that the major advanced countries continue to fight inflation persistently, and we hope that each of these countries will study ways of improving (its own) conditions, in order to ensure the stable growth of the world's economy. The Summit will, of course, discuss both the world's economy as a whole and individual problems. World economy is stagnant, and we wish to reduce unemployment in advanced countries. Therefore, the Summit will discuss what each country can do and cannot do to reduce unemployment.

At the Ottawa Summit last year, leaders expressed concern about the high interest rates in the United States. At the coming Summit, there will be considerable discussion about this topic. It is not that we wish to see a change in the basic course of US financial policy. We intend to encourage the United States to continue to make efforts to reduce her budget deficits.

High interest rates in the United States, however, is not the only problem for the world's economy. In Japan, there seem to be people who say that American interest rates is the only problem, and is responsible for the depreciation of the yen. But countries other than Japan are very concerned about Japan's economic policy. Japan has tended to depend on foreign demand too much, largely ignoring domestic demand. In Japan, inflation has subsided, but there has been a delay in business

/recovery.

recovery. Everybody is interested in Japan's economic success, and is impressed by her low level of unemployment. However, a problem is that Japan's economic success affects the world's economy. We hope that Japan will promote liberalisation not only by reducing tariffs but also by taking other steps including lifting restrictions on international financial transactions using the yen. The amount of yen used in trade transactions is small, compared with the importance of Japan in the world economy. We also hope that Japan will liberalise trade voluntarily, and not under pressure from foreign countries.

In 1973 I visited Japan and asked the Finance Minister and the Minister for International Trade and Industry to reduce tariffs on biscuits and other goods. Since then tariffs have been lowered gradually, but we feel that they are still too high. Japanese people buy Japanese goods instinctively, even if tariffs on foreign goods are lowered. We believe that Japan should take more drastic steps to remove non-tariff barriers. We are entering an era of growth based on the Pacific. New industrial countries have emerged. In order to promote world growth, including these industrial countries', advanced countries' and the third world's, Japan should make efforts to lower tariffs and lift non-tariff barriers. Japan is enjoying the benefit of free trade, and therefore, has an obligation to expand free trade by opening her market further to foreign goods.

Japan's economic policy will be discussed at the coming Summit because there will be meetings of finance ministers. The subjects of discussion will include whether or not Japan's financial and fiscal policies are balanced, whether or not Japan is reducing budget deficts at too fast a pace, whether or not Japan's financial policy is too relaxed, compared with her fiscal policy, and whether or not Japan is a mirror image of the United States. Japan's economic success within the framework of free trade could cause reactions in other countries. Japan should promote liberalisation before world public opinion is stirred up. Countries tend to move easily in the direction of protectionism. We hope that Japan, which is dependent on free trade for her existence, will play a definite role in ensuring the continuation of free trade.

The Summit will, of course, discuss the question of joint intervention by various countries in the exchange market. Joint intervention may be able to adjust violent fluctuations in exchange rates, but will not be able to change the factors which cause exchange rates to fluctuate. What is important is

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to identify the basic causes of fluctuation and to study how to deal with them. The Summit will not make any political commitment about the extension of credits to the East European bloc, including the Soviet Union. We must pay attention to achieving a balance between the political and economic aspects of this question.

The Falklands dispute will not have any serious effect on the British economy. The costs of the British task force is within the defence budget of £14 billion, and we have a reserve fund of £2.5 billion. We will ensure that the dispute will not affect the basic course of our economic policy. The pound is relatively stable, and this fact shows that the dispute's effect on the British economy is not so serious.

As regards CBI's demand for lower interest rates, we intend to reduce budget deficits, and bring down the rate of inflation in accordance with our medium-term economic policy. In fact, the rate of inflation is falling. We believe that the CBI will understand this approach."

10 DOWNING STREET

From the Private Secretary

4 May 1983

Visit by the Prime Minister to Washington

Your recent undated letter on this subject contained some suggestions as to the subjects which might be raised at the Prime Minister's working lunch with President Reagan on 27 May and at the pre-lunch session of talks. You also said earlier that you would welcome guidance on participation in these events.

In general, the Prime Minister will be guided by President Reagan's wishes. She does not want to press the Americans to adopt our ideas.

If the President suggests that his working lunch should be devoted to a discussion of Williamsburg issues and international economic questions, she will find this acceptable. Similarly, she would be guided by his views on the participants in the discussion. If the Americans seek our views on the latter point you could propose that the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, Sir Oliver Wright and a Private Secretary are present. If the US Sherpa is to be present, it would be helpful if Sir Robert Armstrong could also be invited.

As regards the pre-lunch talks with the President, the Prime Minister would prefer a tete-a-tete, perhaps with notetakers. But again she leaves that to the President. If he envisages a larger meeting, the Prime Minister would like to be accompanied by the Foreign and Commonwealth Secretary, Sir Oliver Wright and a Private Secretary. Mrs. Thatcher hopes that the agenda can be left flexible but at this stage would expect to discuss East/West relations, nuclear issues, the Middle East and perhaps Central America, Belize and the Falklands. The other questions to which you refer (US anti-trust proceedings against British Airlines and the US Export Administration Act) can be considered nearer the time. The Prime Minister will also want to have a word with the President during these talks about the world economic situation, notwithstanding possible discussion of this subject also at the working lunch.

I agree with the subjects you suggest for meetings with Mr. Weinberger and Mr. Volcker. The Prime Minister would be grateful if the Chancellor of the Exchequer would accompany her

/to the

to the latter meeting. In each case Sir Oliver Wright and a Private Secretary would also accompany the Prime Minister.

I am copying this letter to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

COPY FOR THE CHANCELLOR OF THE EXCHEQUER

The Lord Lever of Manchester, PC.
86 Eaton Square,
London.
SW1

The Lord Roll of Ipsden, KCMG, CB.
30 Gresham Street,
London.
EC2P 2EB

For consideration.
Quick look
Looks no surprises

4th May, 1983

Dear Prime Minister,

We have just attended a private meeting chaired by Helmut Schmidt to discuss the economic issues likely to arise at the Williamsburg 'summit'. Our conclusions are set out in the enclosed memorandum which each of those of us from countries represented at the summit has agreed to send to the head of our government. The document as a whole has been agreed by all of us, although each of us would, no doubt, have preferred a different emphasis here and there.

For convenience sake we are sending copies of this letter and enclosure to Geoffrey Howe, Francis Pym and Robert Armstrong.

Yours sincerely,

Lever

Roll

EXCHEQUER
- 5 MAY 1983
ACTION Mr Bottrill.
COPIES TO Mr Littler. Mr Unwin
Mr Lavelle. Mr Corey.
Mr Beastall.
Mr Fitchew.
Mr Martin.

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP,
Prime Minister,
10 Downing Street,
London SW1.

R/dl

The Lord Lamont of Lerwick, KT,
88 Eaton Square,
London,
SW1

The Lord Hall of Ipden, KCMG, TD,
30 Cranbourn Street,
London,
WC2H 2NN

4th May, 1992

Dear Prime Minister,

We have just attended a private meeting chaired by Helmut Schmidt to discuss the economic issues likely to arise at the Edinburgh 'summit'. Our conclusions are set out in the enclosed memorandum which each of those of us from countries represented at the summit has agreed to send to the head of our government. The document as a whole has been agreed by all of us, although each of us would, no doubt, have preferred a different emphasis here and there.

For convenience sake we are sending copies of this letter and enclosure to Geoffrey Howe, Francis Pym and Robert Armstrong.

Yours sincerely,

Lamont Hall

The Rt. Hon. Mrs. Margaret Thatcher, MP,
Prime Minister,
10 Downing Street,
London SW1.

Syd

CONFIDENTIAL

April 30, 1983

The Williamsburg Economic Summit: What can it do for us?

1. The Williamsburg Economic Summit takes place at a crucial point in time. The safety of the free world is at risk in two ways: from the increase in tension and the arms race between East and West and from the danger of a protracted world economic crisis. If our governments do not create confidence by demonstrating their ability to cope with this double crisis, there might be political destabilization. The most pressing task is to ensure a sustained worldwide recovery, and not merely occasional, regionally limited, spurts of economic activity.

2. The world economy is in bad shape. In the Western industrial countries more than 32 million people are out of work. Even if these countries were to get back to an average growth rate of 3 per cent, unemployment would not be reduced in the next few years. Real interest rates continue to be extremely high. The exchange rates of key currencies are seriously misaligned. Short-sighted national egoism prevails in international trade. Banking is under strain, domestically as well as internationally. Many developing countries are in dire straits. On the positive side is the fact that inflation in the industrial countries is at its lowest level for many years and that at least a

part of the excessive oil price increase of 1979/80 is in the process of being reversed.

3. Recovery is the key to a lasting solution of many of our current problems. There are increasing signs of an economic upturn in the United States and in a few other industrial countries. It is doubtful, however, whether this spontaneous recovery will be strong enough and last long enough in the face of serious distortions in the world economy. These distortions will not disappear without a concerted effort of the major industrial countries, led by the United States. If the recovery should falter, confidence in Western leadership would be seriously eroded and the risk of political destabilization would be greatly enhanced.

4. There will be no lasting recovery in the world economy as long as real interest rates remain extremely high. Current and expected structural budget deficits are a major cause of high interest rates. Because of its relative weight, the United States must take the lead in bringing down world interest rates. Even a lower long-term real interest rate than the actual rate of 5 - 7 % would - by historical comparison - still be very high for the United States.

The Federal Reserve System last year has courageously revised its strict monetarist course. It will not be able to continue the more accommodative course without rekindling inflationary expectations unless there is a firm prospect

that the full employment deficit in the U.S. budget will be decreased[1]. The deficits expected for FY 1985 and beyond are largely structural. Continuing structural deficits of the order of 4 to 5 per cent of GNP would absorb an unprecedentedly high proportion of net savings, strain the capital markets, keep real interest rates high, draw in funds from abroad and thereby tend toward overvaluation of the U.S. dollar. A reversal in U.S. fiscal policy is therefore a matter of great urgency.

5. A further decline in U.S. interest rates is highly desirable not only from the point of view of the United States but also for the sake of the world economy. It would restore the attractiveness of physical investment over financial investment. It would help other countries bring down their interest rates. It would substantially alleviate the debt servicing burden of developing countries. It would help bring about an exchange rate structure that is more in line with economic fundamentals, thereby reducing protectionist pressures. And it would make it easier for countries like Britain, Japan and West Germany, which have brought their inflation rates under control and whose current account is in good shape, to take the action which is now possible for them that would lead to expansion and which, in turn, would put the U.S. recovery on a broader basis. Countries like France and Italy should persevere in their efforts to fight inflation and to reduce fiscal and

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1) The full employment deficit/surplus is defined as the deficit/surplus that would currently result if 94 per cent of the labor force is employed.

payments imbalances. Canada will be a main beneficiary from a recovery in the U.S. which will contribute to a reduction of very high levels of unemployment and budget deficits.

Such a set of mutually supportive changes in fiscal and monetary policies is essential for balanced world recovery.

6. Equally urgent are, however, joint efforts to stabilize the international monetary system, to preserve the world trading system and to minimize the disruptions in the international financial system. There are important linkages between these areas and between them and the current and future state of the world economy.

7. There is disorder in the international monetary system. Ten years after the breakdown of the Bretton Woods system there is growing disappointment about the way the floating rate system has behaved in practice. Exchange rates have been much more volatile in these years than would have been justified on the basis of economic fundamentals. The alternate overshooting and undershooting of key currencies has had a negative impact on world investment, trade and production.

8. If the free flow of payments and hence free trade in goods and services is not to fall victim to growing bilateralism, closer economic and monetary co-operation between the key currency countries is required. Central banks and governments must make it plain where exchange rate policy is heading. They must make a renewed effort to stabilize exchange rates. Moreover, the multilateral surveillance of and influence on the five key currencies (the dollar, yen, D-mark, sterling and French franc) agreed on in Versailles, under the auspices of the IMF, has to be implemented. There is also a need for smoothing the volatility of exchange rates directly through official intervention. This, however, will not produce lasting stability of exchange rates unless there is greater convergence of policies, particularly leading toward low inflation rates. What is required, while making progress in policy convergence, is an improvement in the working of the current floating system, which lacks calculability and dependability and invites economic nationalism and private speculation.

9. The payments crisis, in which many developing middle-income countries found themselves in 1982, caused understandable but dangerous reduction in international lending. Nothing would be more undesirable at the moment than a contraction of international lending. Credit creates trade, trade secures credit. Short-term reschedulings, as practiced now, are no long-run solution if a solvency crisis is to be avoided.

The burden of reliably servicing the debt will be different in different countries. It is clear, however, that this burden can only continuously and reliably be discharged if the public authorities play a much greater role than in the past in providing the support, funds and disciplines required to maintain and provide this vital lending at the levels required. The IMF and the World Bank must be provided with the necessary funds for this mandate. This will provide a sound basis for new lending by commercial banks which will remain essential if developing countries are to resume their dynamic role in the world economy.

Credit relations between creditor and debtor countries must be transparent, well regulated and stable. The BIS, the IMF and the central banks of creditor countries will need to provide greater information and guidance to commercial banks on the financial position of developing countries. An information and early warning system among commercial banks is also essential.

10. Appropriate adjustments of this economic policies are a prerequisite for establishing the longer-term creditworthiness of sovereign borrowers. The IMF and the World Bank are the only bodies which can negotiate appropriate conditions with their borrowing members. The conditions must be realistic and stop short of endangering the political and social stability of

borrowing countries. The ultimate responsibility for maintaining this long-term debt-service capacity rests with the debtor countries themselves.

Solving the debt problem of the developing countries will take time. Meanwhile the international financial system may come under renewed strain which could cause chain reactions in the system. Adequate contingency planning is therefore essential.

11. The least developed and other low income countries have undoubtedly been hit hardest by the world recession. Their most urgent need is for an increase, in real terms, in official development assistance (ODA), bilateral as well as multilateral. In contrast to the needed increases, ODA - and hence the level of financial transfers - has been declining in real terms. We are particularly concerned about the continuing failure to solve the funding problems of the International Development Association. If the present stalemate continues there is danger that IDA commitments for the years 1981 through 1985 will fall 40 per cent below what was contemplated when the financing plan for these years was agreed upon in 1981. It is therefore important that this problem is soon satisfactorily solved.

Our foreign policy interests require that we assist in maintaining economic growth in the developing countries.

The developing countries themselves do hold some of the keys for revitalization, but the present world economic situation may undo even their best efforts. The help they need must include private direct investment and joint ventures which their governments ought to invite and assist steadily. The "private sector", however, will not be able to solve all the problems alone.

The decline in raw material prices, due to the world recession, is one of the main causes of the current economic difficulties of developing countries. These difficulties would be eased if there is recovery of the world economy as a whole. In the long run there is also need for a worldwide system to stabilize export earnings along the lines of the Stabex system which the EEC has agreed on with a number of developing countries in Africa, the Caribbean and the Pacific.

12. The recent GATT ministerial meeting did not stop the worldwide danger of protectionism. There is an increasing risk that the virtuous circle of economic growth, increasing trade and adequate credit is turning into a vicious circle of stagnation, misaligned exchange rates, debt crisis and protectionism.

A particular danger is the manifest tendency toward bilateralization of trade policy, for instance by making the trade balance between two countries the criterion of whether free trade between these two countries is useful or damaging.

Protectionism is also lethal to the international financial system. There is only one real basis for servicing a country's external debt: its exports of commodities, manufactured goods and services. Protectionism in industrial countries erodes this basis, and through the financial system the effects of increased protection would be immediately transmitted to other countries. The eventual destruction of the open, multilateral world trading system would lead to bilateralism and barter trade and block investment, growth and employment.

13. This year 1983 must bring some first successes in the fight against protectionism. Free-trade rhetoric must be backed by action. At the very least the Seven must enter into binding commitments not to introduce any further obstacles to, and distortions of, trade with each other or with third countries in the next two years. A credible move toward trade liberalization is needed as soon as possible to restore the lost momentum.

There also is a pressing need to defuse the imminent conflict between the United States and the EEC over agricultural trade. We are deeply worried about the prospect of a mutually ruinous subsidy race. It would set a very bad example for the rest of the world. Constructive solutions are needed, both in the United States and in the EEC.

14. While the drop in world oil prices obviously has some favourable aspects, it has to be remembered that the more drastically oil prices fall today, the greater the likelihood that they will rise even higher again later. Both oil-producing and oil-consuming countries have to face the fact that violent fluctuations in oil prices help nobody in the longer run. Since investment in energy takes a particularly long time to bear fruit, short-term price gyrations bring confusion rather than clarification.

We must not become complacent but on the contrary increase our efforts to save energy and to develop alternative sources of energy, and thereby reduce our long-term dependence on oil. In order to achieve this, governments need to give more of a lead in the energy sector.

Oil is a non-renewable commodity. Given current consumption levels, given the increase of the oil-consuming world population, and assuming an economic recovery in the world during the eighties, it is likely that in the long run oil prices will again rise from present, or intermediately even lower, price levels. Therefore both investors and consumers must gear themselves to long-term prospects and long-term developments.

Governments would be wise to provide incentives to consumers and industry to take the necessary steps in order to meet future situations without new dramatic crises.

Cooperation between oil-producing and oil-consuming countries as well as steps to assist energy production in non-oil developing countries are essential elements of a global energy policy.

Another important area of international energy policy co-operation is the further development of nuclear energy as a source of electric power. Today, achievement of that objective is limited by problems associated with the disposal of nuclear waste. Few if any countries, and none of those that do not produce nuclear weapons, have yet found a proper solution. Many countries have little scope for storing nuclear waste on their own territory. An international energy policy must include an international agreement on nuclear waste disposal.

15. Cooperation between North America, Japan and the EEC is essential for a healthy world economy. If cooperation does not work in this triangle, then it will certainly not work in the very much more difficult context of the world economy which includes the other OECD countries, the OPEC countries,

the COMECON countries, the threshold countries and the other non-oil developing countries. Trilateral cooperation must set an example to all.

If we have referred more often in this memorandum to the United States than to other countries, it is because of the fact that neither trilateral cooperation nor worldwide co-operation is imaginable at present without American leadership, based as it is on its world position and its responsibilities.

16. Our record of economic crisis management is in the main a good one, as evidenced most recently by our successful common effort to forestall an international banking crisis. We have failed, however, to anticipate problems early enough and to provide solutions in time. This failure will become ever more critical as our economic interdependence continues to grow. It is not too late to shift from crisis management to crisis prevention. In this light, the above ideas represent an attempt to identify the issues which will have to be tackled in Williamsburg.

This report was prepared during a meeting which took place at the Schloßhotel Tremsbüttel on April 29 - 30, 1983. The meeting was chaired by Helmut Schmidt. The Körber Foundation generously provided financial support for the meeting. Participants included:

Abdul Aziz Alquaraishi (Saudi Arabia)

Guido Carli (Italy)

Herbert Grünewald (Federal Republic of Germany)

Takashi Hosomi (Japan)

Milton W. Hudson[1] (United States)

Manfred Lahnstein (Federal Republic of Germany)

Harold Lever (United Kingdom)

Donald S. Macdonald (Canada)

Robert Marjolin (France)

Robert S. McNamara (United States)

I.G. Patel (India)

Eric Roll (United Kingdom)

Helmut Schmidt (Federal Republic of Germany)

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1) For Alan S. Greenspan

3.65

CONFIDENTIAL

4/5/83 (PWP)

Internal circulation

PS/CST
PS/FST
PS/EST
PS/MST(C)
PS/MST(R)
Mr Middleton
Mr Burns
Mr Littler
Mr Unwin
Mr Lavelle
Mrs Hedley-Miller
Mr Carey
Mr Kemp
Mr Ridley
Mr Hall
Mr Beastall
Mr Bottrill
Mr Peretz
Mr Hawtin

and to PS/Governor: Bank of England

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

MEETINGS IN WASHINGTON

The discussions I attended in Washington last week were on the whole successful, and produced some pointers for Williamsburg.

Development Committee

2. The joint IMF/IBRD Development Committee meeting, primarily on North/South and Aid issues, was fairly low key, reflecting the tone of recent statements from meetings of developing countries in New Delhi and Buenos Aires. Developing countries have not moderated their demands, but they do seem to be advancing them less stridently than in the past.

3. The key issue was, of course, whether the US will honour its financial commitment to IDA. This depends on Congress, and the meeting recognised that the Administration (Shultz and Regan) have now started to pitch in on the Hill. But delivering the IDA VI appropriation may require pressure from the President, and it might well be right to raise this with him at Williamsburg.

G.7 Meeting

4. Finance Ministers and Central Bank Governors of Summit countries plus the Commission met to approve publication of the "Jurgensen Report" on exchange rate intervention, and contrived to avoid a Franco-American row. The agreed covering statement is constructive and should, I think, be welcomed at Williamsburg. It accepts that intervention can have a legitimate, though modest, role, but recognises the importance of trying to achieve greater exchange rate stability through better-matched policies, and contains the statement: "In the formulation of our domestic economic and financial policies, our countries should have regard to the behaviour of our exchange rates, as one possible indication of need for policy adjustment."

5. This goes further than the Americans have previously, and it is valuable to have their acceptance of it. But what is needed now, if this step towards agreement is to have the desired effect on business confidence around the world, is stronger evidence that they accept some of its implications.

G.5 Meeting

6. The main G.5 business, for which the IMF Managing Director was present, was "surveillance" of progress in our several economies. Larosiere did an excellent job of analysis and criticism, and attention quickly focussed on the United States position: very high real interest rates (unless one assumes an early move back to much higher inflation), closely associated - in the view of all but the Americans - with the high $ exchange rate against the yen and deutschemark, which is one cause of poor US international trade performance and resulting pressures for protectionism, the whole deriving from an excessive public sector deficit imposing too heavy a burden on interest rates to maintain discipline over monetary growth. One other disturbing consequence of the high deficit is the fact that the US - the richest country in the world - is now a substantial importer of capital.

7. The US reaction was unimpressive. Don Regan tried to deny the causal relationship between high interest rates, a strong dollar and high deficits. He did acknowledge that the deficit must be reduced: but he spoke without conviction about how this might be done, and was inclined to blame Congress.

8. I am convinced that it would be valuable if you would tackle the President about the deficit - on the lines of your previous talks with Shultz and Volcker. The right time to do it would be in Washington on 27 May, rather than more publicly at Williamsburg. As Feldstein suggested to me the other day, the key may be to point out to the President the gains - economic and political - which have accrued to us from our demonstration, in the 1981 Budget, of our commitment to reduced borrowing. We might have a word about this.

Trade

9. The US took the opportunity in the G.5 meetings to urge again the importance of resisting and reducing protectionism. This will be discussed further at the OECD Ministerial meeting in Paris next week.

10. I also took the opportunity of pointing out to Don Regan the damage which could be done to relations in the Western Alliance by the measures proposed in the draft Export Administration Act. Subsequently, in the G.5 meeting, Regan mentioned this legislation, said that there was some possibility of fairly rapid passage through Congress, and suggested that countries which disliked it should "speak loudly in the Paris meetings next week." I am sure that we should take the hint.

Williamsburg

11. The key pointers for Williamsburg perhaps are:-

i. general agreement that the recovery is in train. This is tempered with caution, and insistence that the objective must remain sustainable, and therefore non-inflationary, growth, not "concerted reflation."

ii. on debt, agreement that, while we can take credit for speedy and effective action already taken, there remains a need for continuous monitoring, on a case-by-case basis, with financial help available conditional on appropriate adjustment policies. (Incidentally, US representatives hoped that the GAB and IMF Quota increases might be approved by Congress just before Williamsburg.);

iii. agreement that the slightly more moderate tone of recent ldc meetings (contrasting with earlier years) deserves a sympathetic response, eg. at UNCTAD; that IDA and IBRD must not be starved of resources; but also that the best way to help the developing countries is for industrial countries to promote sound and sustainable recovery;

iv. widespread concern that high interest rates could weaken or abort recovery, while a strong dollar feeds protectionist tendencies. The prospect of future US public sector deficits equalling or exceeding total US private sector savings is one that causes universal concern, but has as yet produced no convincing counter-action from the Administration. It would be wrong to envisage public criticism of the President at Williamsburg - as the French may -but equally wrong to imagine that the subject of the deficit will not be discussed there. The best way of helping to defuse the issue might, as I say, be for you to take it up with him in advance.

12. I am copying this minute to the Foreign Secretary, the Secretary of State for Trade and Sir Robert Armstrong.

(G.H.)

4 May 1983

Judith, please to hom yesterday
Mark 6/5

EXCHEQUER
6 MAY 1983

Mr Littler
Mr Middleton
Mr Unwin
Mr Lavelle
Mr Bottrill

10 DOWNING STREET

From the Private Secretary

5 May 1983

Prime Minister's Visit to Washington: Accommodation

Thank you for your letter of 5 May. I agree with the accommodation arrangements outlined therein.

I am copying this letter to Richard Hatfield (Cabinet Office) and John Kerr (HM Treasury).

A. J. COLES

C

Pym's office did try to avert you. But, as agreed, I stood firm!

I know the Dupont Plaza all too well. But at least I shall not have to contemplate the Laura Ashley!

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

Foreign and Commonwealth Office

London SW1A 2AH

5 May 1983

EXCHEQUER
5 MAY 1983

ACTION
COPIES TO

Mr Littler.
Mr Middleton
Mr Unwin
Mr Lavelle.
Mr Bottrill

Dear John,

Prime Minister's Visit to Washington, 26 - 28 May: Accommodation

The Ambassador, Sir Oliver Wright, would be very happy to put up the Prime Minister, Chancellor of the Exchequer and Secretary of State at the Residence during their visit to Washington from 26 - 28 May. There would then be three additional bedrooms at the Residence, of varying degrees of comfort: 1 single room and 1 double room (sharing a bathroom) plus 1 further double room and bathroom.

The Ambassador proposes, subject to your views, that the double room with bathroom should be for Sir R Armstrong, the single room for yourself, and one of the Prime Minister's detectives sharing the other double room with one of the Secretary of State's detectives.

The remainder of the party will stay at the Dupont Plaza Hotel (about a 5 minute drive from the Embassy). A suite has been booked there for Mr Ingham.

I should be grateful to know if you agree with the above proposals.

I am copying this letter to Richard Hatfield (Cabinet Office) and John Kerr (Treasury).

Yours ever

Roger Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

EXCHEQUER
5 MAY 1983
Mr Bottrill
Mr Littler
Mr Unwin
Mr Lavelle
Mr Corley
Mr Beastall
Mr Fitchew
Mr Monck

SIR ROBERT ARMSTRONG

WILLIAMSBURG: MEETING ARRANGED BY HELMUT SCHMIDT

The Prime Minister has received a letter from Lord Lever and Lord Roll bringing to her attention a memorandum agreed at a meeting convened by Mr. Helmut Schmidt in Germany in April to discuss recommendations for action at the Williamsburg Summit. I understand that copies of the letter and the memorandum have been sent to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and you yourself.

I should be grateful if you could suggest a draft reply to the letter, for signature by the Prime Minister.

I am copying this minute to John Kerr (HM Treasury) and Brian Fall (Foreign and Commonwealth Office).

A J COLES

5 May, 1983

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FM UKREP BRUSSELS 050946Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1775 OF 5 MAY
INFO PRIORITY ROME PARIS BONN WASHINGTON OTTAWA TOKYO

YOUR TELEGRAM NO.730 TO WASHINGTON : PREPARATION FOR WILLIAMSBURG

1. THE COMMISSION'S PRINCIPAL OBJECTIVES WERE REFLECTED IN THE LINE TAKEN BY THORN WITH PRESIDENT REAGAN REPORTED IN UKREP TELEGRAM NO.1634. THEY BELIEVE IT IS VITAL THAT THE SUMMIT SHOULD BE A SUCCESS. ITS MAIN TASK SHOULD BE TO SUPPORT THE EMERGING ECONOMIC RECOVERY. FOR THIS TO HAPPEN, U S INTEREST RATES MUST COME DOWN, FLUCTUATIONS IN EXCHANGE RATES SHOULD BE REDUCED AND THERE SHOULD BE BETTER CO-ORDINATION OF THE ECONOMIC POLICIES OF THE MAIN WESTERN COUNTRIES. THE COMMISSION WILL HOPE THAT THE WILLIAMSBURG DISCUSSIONS WILL CONTRIBUTE TO ALL THREE OF THESE GOALS.

2. IN ADDITION THE COMMISSION BELIEVE THAT THERE SHOULD BE REALISTIC COMMITMENT AT WILLIAMSBURG TO RESIST PROTECTIONIST PRESSURES SEMI COLON DISCUSSION OF EAST-WEST ECONOMIC PROBLEMS SHOULD BE LIMITED TO TAKING NOTE OF WORK IN PROGRESS IN OECD, COCOM, IEA AND NATO SEMI COLON AND THAT EC/US AGRICULTURAL PROBLEMS NEED NOT BE AN ISSUE (BUT SEE MIFT FOR COMMENT ON THIS LAST POINT).

3. PERHAPS THE ONLY POINT ON WHICH THE COMMISSION HAS DISTINCTIVE VIEWS IS THE RELATIVE WEIGHT TO BE GIVEN TO NORTH/SOURTH CONSIDERATIONS, THE EMPHASIS THEY PUT ON RELIEVING THE DEBT PROBLEMS OF THE DEVELOPING COUNTRIES AS AN ESSENTIAL CTONTRIBUTION TO ECONOMIC GROWTH, THE IMPORTANCE OF INCREASING AID FLOWS, AND THE NEED FOR THE SUMMIT CONCLUSIONS TO GIVE A POSITIVE SIGNAL OF THE INDUSTRIALISED COUNTRIES' INTEREST IN SEEING PROGRESS AT UNCTAD VI. THORN CAN BE EXPECTED TO STRESS THESE POINTS.

4. WHERE MATTERS OF COMMUNITY COMPETENCE ARE INVOLVED, THE COMMISSION WILL OF COURSE BE BOUND BY SUCH COMMON POSITIONS AS MAY BE WORKED OUT IN THE COUNCIL, NOTABLY BY THE CONCLUSIONS OF ECOFIN OF 18 MAY AND THE PREPARATORY WORK ON TRADE ASPECTS CARRIED OUT IN THE ARTICLE 113 COMMITTEE.

/5.

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5. THE ABOVE POINTS ARE SET OUT MORE FULLY IN THE ''THEMATIC MESSAGE''
FOR WILLIAMSBURG WHICH THE COMMISSION HAVE PRODUCED (SEE MY TELNO. 1774 - NOT TO ALL).

6. PLEASE SEE MIFT

FCO ADVANCE TO:-

FCO	-	EVANS HANNAY APPLEYARD CROWE
CAB	-	PS/SIR R.ARMSTRONG WILLIAMSON MS LAMBERT
DOT	-	GRAY
MAFF	-	ANDREWS
TSY	-	LITTLER UNWIN

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WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
ECD	SIR J BULLARD
PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS	MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

5/3/83

CHANCELLOR OF THE EXCHEQUER

John:

— This actually strikes me as a terribly superficial paper

cf. Lavos for G.5 or NEC ... for last year's Summit

— but I'm not yet in a position to recast; & it may not be all the more useful?

See my scribbles

Better paper hmmm

(pwp) From: J B UNWIN
5 May 1983

CHANCELLOR OF THE EXCHEQUER

cc Mr Littler (without enclosure except for Mr Byatt)
Mr Byatt
Mr Carey
Mr Lavelle
Mr Bottrill
Mr Beastall
Mr Hall
Mr Atkinson
Miss Cund
Mr Wicks (Washington)

Seen by Chancellor.
6/v.

LEEDS C ASTLE CONFERENCE ON UNCTAD VI

Given its relevance to various current developments I think you will want to glance at the attached note by Mr Carey on last weekend's UNCTAD VI Conference at Leeds Castle.

2. Although nothing very specific emerged, the conference may have done a little to improve understanding on both sides and we certainly seem to have won a good deal of credit for taking the initiative in organising the conference without conceding anything in return. My own fears that the occasion would largely serve as a forum for bringing additional pressure on the developed countries were obviously unjustified.

3. However, issues of substance still remain to be settled, and we have not yet settled the UK position at UNCTAD VI itself. The proposed OD discussion on the basis of a Department of Trade paper as you proposed will be the first occasion to get to grips with this. We understand that the Foreign & Commonwealth Secretary will be writing to support your proposal.

J B UNWIN

PS/CHANCELLOR OF THE EXCHEQUER
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FM UKREP BRUSSELS 050840Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 1774 OF 5 MAY

PREPARATIONS FOR WILLIAMSBURG

1. DURIEUX HAS ASKED ME TO PASS TO SIR R.ARMSTRONG THE FOLLOWING ''THEMATIC MESSAGE'' FOR WILLIAMSBURG, WHICH HE HAS TODAY SENT TO UNDER-SECRETARY WALLIS.

WILLIAMSBURG SUMMIT : THEMATIC PAPER

GENERAL

CYCLICAL RECOVERY NOW UNDERWAY. NEED TO PROMOTE SUSTAINABLE GROWTH PROCESS TO REDUCE UNACCEPTABLY HIGH UNEMPLOYMENT ON A DURABLE BASIS.

EXPRESS WILLINGNESS - TO MANAGE DOMESTIC ECONOMIC POLICIES IN SUCH A WAY AS TO TAKE FULLY INTO ACCOUNT THE REPERCUSSIONS THAT THESE POLICIES MIGHT HAVE ON THE SITUATION IN OTHER COUNTRIES

- TO TAKE JOINT MEASURES TO IMPROVE THE WORKING OF THE INTERLOCKING WORLD TRADE AND FINANCIAL SYSTEMS IN ORDER TO PUT THE WORLD ECONOMY BACK ONTO A PATH OF SUSTAINED AND NON INFLATIONARY GROWTH
- TO DRAW THE CONSEQUENCES IN TERMS OF CONCERTED ACTION OF THE GROWING INTERDEPENDENCE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES
- TO IMPROVE COMMON UNDERSTANING OF ALL ASPECTS OF ECONOMIC INTERRELATION BETWEEN EAST AND WEST.

ECONOMIC AND MONETARY POLICY

. MAJOR SUCCESSES IN BRINGING DOWN INFLATION SEMI COLON
. FURTHER EFFORTS REQUIRED TO ADJUST GOVERNMENT SPENDING IN COUNTRIES WITH EXCESSIVE BUDGETARY DEFICIT TO FREE RESOURCES FOR INVESTMENT LEADING TO PROMOTION OF EMPLOYMENT.
. NEED FOR LASTING REDUCTION IN REAL INTEREST RATES AND GREATER EXCHANGE RATE STABILITY
. WELCOME STEPS TAKEN IN PAST YEAR TO IMPLEMENT AGREEMENT AT VERSAILLES SUMMIT IN ''MULTILATERAL SURVEILLANCE'' PROCESS WITH IMF MANAGING DIRECTOR, AND CONCLUSIONS DRAWN FROM STUDY ON EXCHANGE MARKET INTERVENTION.

TRADE

. COMMITMENT TO FIGHT PROTECTIONISM.
. SUPPORT A PROCESS OF RELAXATION AND DISMANTLING OF THE MEASURES INTRODUCED IN THE CONTEXT OF THE RECESSION AS ECONOMIC RECOVERY PROCEEDS.
. SEEK TO ENSURE THAT GATT CONTINUES TO BE IN THE CENTRAL FORUM FOR TRADE NEGOTIATION AND CONSULTATION, WHILE RECOGNIZING THAT MORE RESTRICTED AD HOC MEETINGS MAY AT TIMES PROVE NECESSARY AND USEFUL.
. GIVE POLITICAL LEVEL IMPETUS TO GATT WORK PROGREAM AS AGREED BY THE LAST MINISTERIAL SESSION.

CONFIDENTIAL

/WORK

. WORK IN APPROPRIATE MULTILATERAL AND BILATERAL WAYS TO RESOLVE CURRENT TRADE DISPUTES AND TO RESOLVE THE PROBLEM OF CONFLICT OF JURISDICTION WHICH CAN LEAD TO TRADE DISRUPTION.

INTERNATIONAL FINANCE AND DEBT PROBLEMS

. CONFIRM AGREEMENT ON STRATEGY FOR MANAGING LDCS DEBTS PROBLEMS : PROPOSED ELEMENTS

A) EFFECTIVE ADJUSTMENT IN DEBTOR COUNTRIES WITHOUT UNDERMINING THEIR GROWTH POTENTIAL.

B) ENDORSE IMF QUOTA AND GAB INCREASES AND URGE SPEEDY RATIFICATION BY LEGISLATURES.

C) STRENGTHENING OF THE MEANS OF ACTION AVAILABLE TO THE WORLD BANK GROUP TO PROMOTE STRUCTURAL ADJUSTMENT AND GROWTH IN LDC

D) AVOIDING NEW TRADE BARRIERS

E) AVAILABILITY OF SHORT TERM TRANSITIONAL FINANCING FROM OFFICIAL CREDITORS (BIS AND/OR CENTRAL BANKS)

F) NOTE THE SPECIAL RESPONSIBILITY OF COMMERCIAL BANKS IN MAINTAINING ADEQUATE FLOW OF NET LENDING.

. CONFIRM WILLINGNESS TO INCREASE ODA FLOWS TO SUPPORT DEVELOPMENT POLICIES OF THE POOREST COUNTRIES WITH PARTICULAR EMPHASIS ON SUPPORT TO NATIONAL FOOD STRATEGIES. IN THIS CONTEXT, ATTACH PARTICULAR IMPORTANCE TO RAPID COMPLETION OF SIXTH IDA REPLENISHMENT AND TO EARLY AGREEMENT ON MAINTENANCE OF IDA'S COMMITMENT CAPACITY.

NORTH-SOUTH DIALOGUE

. WELCOME OPENESS TO DIALOGUE EXPRESSED IN NEW DELHI AND BUENOS AIRES COMMUNIQUES. REAFFIRM IMPORTANCE WE ATTACH TO POLITICAL STABILITY, ECONOMIC PROGRESS AND PROMOTION OF GENUINE INDEPENDENCE IN DEVELOPING WORLD.

. AFFAIRM WILLINGNESS TO SEIZE THE OPPORTUNITY OFFERED BY UNCTAD TO ENTER INTO CONSTRUCTIVE DIALOGUE AND SEARCH FOR CONCRETE PROGRESS TAKING INTO ACCOUNT THE GROWING INTERDEPENDENCE AND THE MUTUALITY OF INTERESTS BETWEEN LDC'S AND DMC.

/EAST-WEST

EAST-WEST ECONOMIC RELATIONS

. TAKE STOCK IN APPROPRIATE FORA OF WORK PROGRAMS ON EAST-WEST ECONOMIC RELATIONS AND CONTINUE TO DEVELOP COMMON ANALYSIS WITH ATTENTION TO OUR SHARED CONCERNS.

TECHNOLOGY

. FOLLOW-UP TO THE REPORT ON TECHNOLOGY, GROWTH AND EMPLOYMENT.

FCO ADVANCE TO:-

FCO - EVANS HANNAY APPLEYARD
TSY - LITTLE
NO.10 - PS, PS/SIR R.ARMSTRONG

BUTLER

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TO IMMEDIATE FCO
TELEGRAM NUMBER 169 OF 06 MAY
INFO PRIORITY ROME, PARIS, BONN, WASHINGTON, TOKYO AND UKREP BRUSSELS

YOUR TELNO 730 TO WASHINGTON.

PREPARATION FOR WILLIAMSBURG.

1. THE MAJOR CANADIAN OBJECTIVE IS THAT THE MESSAGE FROM THE SUMMIT SHOULD BE ONE OF HARMONY AND OPTIMISM WHICH WILL SUPPORT AND SUSTAIN ECONOMIC RECOVERY AND CONTRIBUTE TO ITS DURABILITY. WITHIN THAT CONTEXT THEIR MAIN PREOCCUPATIONS AND TACTICS WILL BE FAIRLY ORTHODOX AS FOLLOWS:

A) MACRO-ECONOMIC.
TO ENCOURAGE POLICIES WHICH WILL AVOID REKINDLING INFLATION, BUT WILL ENCOURAGE BUSINESS INVESTMENT AND LEAD TO A REDUCTION IN REAL INTEREST RATES. THEY STRESS THE NEED FOR INTERNATIONAL CONSULTATION AND COOPERATION AND FOR THE CONVERGENCE OF NATIONAL POLICIES, WITH ATTENTION PAID TO THE EFFECT OF NATIONAL POLICIES - NOTABLY THOSE OF THE USA - ON OTHER COUNTRIES.

B) TRADE.
THEY WANT REAFFIRMATION OF SUPPORT FOR THE OPEN TRADING SYSTEM AND OF THE NEED TO REVERSE PORTECTIONIST MEASURES AS RECOVERY PROCEEDS. THEY WOULD WELCOME CONDEMNATION OF OTHER DISTORTIONS OF THE SYSTEM SUCH AS SUBSIDIES ON EXPORTS AND EXPORT CREDITS.

C) FINANCE.
THEY SUPPORT THE STRENGTHENING OF THE INTERNATIONAL FINANCIAL INSTITUTIONS PARTICULARLY THE IMF AND IDA AND MEASURES TO SUSTAIN LARGE DEBTORS -MEXICO, BRAZIL, ETC - THROUGH THESE INSTITUTIONS AND BY ENCOURAGING COMMERCIAL BANK LENDING. THEY SEE A NEED FOR MORE SURVEILLANCE, GREATER EXCHANGES OF INFORMATION AND CLOSER COOPERATION ON INTERNATIONAL DEBT.

D) AID.
THEY SHARE THE COMMISSION'S VIEWS (UKREP TELNO 1775 TO FCO) ON INCREASING AID FLOWS TO LDC S PARTICULARLY THE POOREST WHICH HAVE BEEN THE MOST VULNERABLE TO WORLD RECESSION.

E) NORTH/SOUTH.
ANY COMMUNIQUE SHOULD EMPHASISE INTERDEPENDENCE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES, RECOGNISE THE MODERATE TONE TAKEN BY

/ THE GROUP

THE GROUP OF 77 AT BUENOS AIRES, AND RESPOND TO THAT MODERATION WITHOUT ACCEPTING THE MORE RADICAL PROPOSALS.

F) EXCHANGE RATES.
THEY SEE A NEED FOR MORE INTERVENTION IN THE SHORT TERM TO COUNTER RAPID FLUCTUATIONS WHILE RECOGNISING THAT LONGER TERM STABILITY REQUIRES APPROPRIATE MACRO ECONOMIC POLICIES. THEY ARE CONCERNED ABOUT THE EFFECT OF THE US DEFICIT ON BOTH EXCHANGE AND INTEREST RATES.

G) ENERGY.
THEY CONSIDER THE DECLINE IN OIL PRICES GENERALLY HELPFUL TO THE WORLD ECONOMY IN SPITE OF ITS EFFECT ON THE DEBT BURDEN OF PRODUCERS LIKE MEXICO AND VENEZUELA, BUT ABOVE ALL WANT GREATER PRICE STABILITY: PARTLY BECAUSE THEY WANT TO SEE EXPLORATION FOR NEW SOURCES MAINTAINED PARTICULARLY ON THE CANADIAN FRONTIERS. THEY FEAR THAT DECLINING PRICES WILL BREED COMPLACENCY AND WISH TO REAFFIRM SUPPORT FOR CONSERVATION AND SUBSTITUTION.

H) EAST/WEST.
THEY WISH TO AVOID CONTENTIOUS DISCUSSION AND WOULD LIKE TO SEE REAFFIRMATION OF THE LINE TAKEN AT VERSAILLES AND RECOGNITION OF WORK DONE ELSEWHERE.

2. MR TRUDEAU WILL DELIVER A SPEECH TONIGHT (COPY BY BAG) IN WHICH HE WILL OUTLINE THE CANADIAN ATTITUDE TO WILLIAMSBURG ON THE ABOVE LINES.

3. PLEASE SEE ALSO MY TELNO 165 OF 4 MAY (NOT TO ALL) ON TRUDEAU'S VISIT TO WASHINGTON.

BAKER

LIMITED

ERD	PS/LORD BELSTEAD
ESID	PS/MR RIFKIND
WED	PS/MR HURD
FED	PS/MR RAISON
NAD	PS/PUS
ECD	SIR J BULLARD
PLANNING STAFF	MR EVANS
TRED	MR HANNAY
ESSD	MR THOMAS
EESD	MR DONALD
NEWS D	MR HAYES
PS	MR ADAMS

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TO PRIORITY FCO
TELEGRAM NUMBER 369 OF 6 MAY
INFO BONN, OTTAWA, ROME, TOKYO, WASHINGTON, UKREP BRUSSELS.

YOUR TELNO 730: PREPARATIONS FOR WILLIAMSBURG.

1. I CALLED ON JEAN-CLAUDE PAYE TODAY TO DISCUSS WILLIAMSBURG, AND FINANCIAL COUNSELLOR HAD A TALK WITH MOREL OF THE ELYSEE YESTERDAY. PRESIDENT MITTERAND'S PERSONAL REPRESENTATIVE, ATTALI, IS WITH HIM IN CHINA.

2. MOREL SAID THAT SIR ROBERT ARMSTRONG SHOULD BY NOW HAVE RECEIVED A COPY OF THE FRENCH MESSAGE TO THE AMERICANS ON SUMMIT THEMES AND THEIR HANDLING. THIS MAY WELL ADD TO WHAT WE HAVE BEEN ABLE TO GLEAN HERE. IT WOULD BE HELPFUL TO HAVE AN IDEA OF THE CONTENT OF THE MESSAGE BEFORE 20 MAY, WHEN I HAVE INVITED THE SENIOR FRENCH OFFICIALS INVOLVED IN SUMMIT PREPARATIONS TO LUNCH. IN THE MEANTIME OUR IMPRESSIONS OF FRENCH OBJECTIVES AND THE FACTORS LIKELY TO AFFECT THEIR HANDLING OF THE MAIN ISSUES ARE AS FOLLOWS.

MAIN MESSAGE OF SUMMIT.

3. THE FRENCH AGREE THAT WILLIAMSBURG SHOULD SERVE ABOVE ALL TO STRENGTHEN CONFIDENCE IN THE PROSPECTS FOR THE RECOVERY WHICH APPEARS TO BE EMERGING IN THE US, GERMANY AND THE UK. IT WOULD BE CATASTROPHIC IF THE RECOVERY WERE ABORTED. TO SUPPORT IT, THE SUMMIT SHOULD AGREE ON A COMBINATION OF ECONOMIC MEASURES, THE MOST IMPORTANT OF WHICH WOULD BE A REDUCTION OF THE US FEDERAL BUDGET DEFICIT. PAYE SPOKE OF THE NEED FOR A CONVERGENCE OF CONCEPTIONS ON ECONOMIC POLICY AND FOR COLLECTIVE ACTION, BUT NEITHER HE NOR MOREL MADE ANY SPECIFIC RECOMMENDATIONS BEYOND THAT ON THE US BUDGET DEFICIT, AND INDEED THE FRENCH DO NOT THINK IT APPROPRIATE FOR THE SUMMIT TO BE TOO SPECIFIC ABOUT NATIONAL POLICIES. !

INTERNATIONAL TRADE.

4. THE FRENCH ALLEGE THAT THE US IS TAKING TOO NARROW A VIEW OF HOW THE LDCS SHOULD BE HELPED OUT OF THE RECESSION. THEY SHARE THE AMERICAN APPRECIATION OF THE ILL EFFECTS OF THE CONTRACTION OF IMPORTS BY LDCS, BUT BELIEVE THAT TO INCREASE LDC FOREIGN EXCHANGE EARNINGS BY GIVING GREATER ACCESS TO DEVELOPED COUNTRY MARKETS FOR THEIR INDUSTRIAL GOODS DOES NOT PROVIDE THE WHOLE ANSWER. MAINTAINING OR INCREASING PUBLIC AND PRIVATE CAPITAL FLOWS IS ALSO IMPORTANT IN THEIR VIEW. IN ANY CASE, THE US MUST REALISE THAT EUROPE HAS INDUSTRIAL PROBLEMS AND HIGH UNEMPLOYMENT AND CANNOT ALLOW WHOLE SECTORS OF INDUSTRY TO BE DESTROYED BY IMPORTS FROM THE THIRD WORLD.

INTERNATIONAL MONETARY REFORM.

5. THIS MAY EMERGE AS A STRONG FRENCH THEME AT WILLIAMSBURG. MOREL GAVE IT GREATER STRESS THAN PAYE. WE SHALL BE IN TOUCH WITH THE TRESOR TO SEE HOW THEY ARE RECOMMENDING THAT THE ISSUE BE HANDLED BY MITTERRAND. MOREL SAID THAT THE FRENCH RECOGNISE THAT REFORM OF THE INTERNATIONAL MONETARY SYSTEM IS A LONG HAUL JOB, BUT IT WOULD BE WRONG FOR THE SUMMIT TO PUT THE JURGENSEN REPORT ON THE SHELF AND THEN FORGET THE SUBJECT. ON HIS RECENT VISIT TO ASIA, IN SPEAKING TO THE PRESS AND, APPARENTLY, ALSO TO HIS OFFICIAL HOSTS, CHEYSSON SUPPORTED THE CALL BY THE NON-ALIGNED MOVEMENT FOR A NEW BRETTON WOODS CONFERENCE. WHILE FRENCH OFFICIALS RECOGNISE THAT THE SITUATION IS NOWHERE NEAR RIPE FOR A CONFERENCE, MITTERRAND, WHO IS EVEN KEENER THAN HIS PREDECESSORS ON BURNISHING THE FRENCH IMAGE IN THE EYES OF THE THIRD WORLD, MAY WELL WANT TO ARGUE THE NEED FOR GREATER EXCHANGE RATE STABILITY. AT A TIME WHEN THE DOLLAR/FRANC RATE IS UNDERMINING HIS GOVERNMENT'S AUSTERITY PLAN, THIS THEME HAS OBVIOUS ATTRACTIONS AT HOME AS WELL. THE FRENCH FIND THE PRONOUNCEMENTS OF SECRETARY REGAN ON THIS SUBJECT SIMPLISTIC. MOREL CALLED THEM PAINFUL AND IRRITATING.

EAST/WEST ECONOMIC RELATIONS.

6. THE FRENCH ADHERE TO THE VIEW THAT EAST/WEST ECONOMIC RELATIONS MUST NOT BE GIVEN PRIME ATTENTION AT WILLIAMSBURG. THE SUMMIT SHOULD AT MOST TAKE NOTE OF PROGRESS MADE IN THE STUDIES UNDER WAY IN SPECIALISED FORA. THEY ARE SOMEWHAT REASSURED BY SIGNS THAT AMERICAN OFFICIALS AGREE WITH THIS, BUT REMAIN ON THEIR GUARD AGAINST A PERSONAL DECISION BY REAGAN TO GIVE THE SUBJECT GREATER PROMINENCE. THEY ARE READY TO MAN THE BARRICADES AGAINST HIM.

TECHNOLOGY.

7. THE FRENCH PRESS HAS DUTIFULLY WRITTEN UP THE REPORT OF THE VERSAILLES WORKING GROUP ON TECHNOLOGY, GROWTH AND EMPLOYMENT AS A MAJOR FRENCH INITIATIVE, AND MITTERRAND WILL NO DOUBT WISH TO EXTRACT SOME PUBLICITY DIVIDEND FROM THIS AT WILLIAMSBURG.

OVERALL APPROACH.

8. MOREL STRESSED THAT SUMMIT PARTICIPANTS SHOULD NOT BE TOO AMBITIOUS IN THEIR APPROACH TO WILLIAMSBURG. THEY SHOULD NOT LOOK FOR MIRACLES, BUT RATHER SEEK TO IDENTIFY PROBLEMS WHICH THEY COULD FRUITFULLY EXERCISE TOGETHER, PERHAPS IN FOLLOW-UP MEETINGS AT MINISTERIAL OR OFFICIAL LEVEL, UNDER CONDITIONS OF AN IDEOLOGICAL ARMISTICE. (IT IS NOT CLEAR HOW THEY RECONCILE THIS THOUGHT WITH THEIR OBJECTION OF PRINCIPLE TO ''BUREAUCRATISATION'' OF THE SUMMITS.) MOREL SAID IN TERMS THAT THE FRENCH

/WERE

WERE NOT PREPARING FOR WILLIAMSBURG IN THE EXPECTATION OF HAVING TO MAKE A GESTURE WORTHY OF DE GAULLE IF THEY DID NOT GET THEIR WAY, AS OFF-THE-RECORD BRIEFINGS TO FRENCH JOURNALISTS HAVE THREATENED. BUT IF WILLIAMSBURG DID NOT ADDRESS FUNDAMENTAL ISSUES, MITTERRAND WOULD SERIOUSLY QUESTION THEIR USEFULNESS. (THAT THOUGHT IS NOT NEW).

9. IT WOULD BE UNCHARACTERISTIC OF MITTERRAND TO HAVE MADE CLEAR TO HIS STAFF AT THIS RELATIVELY EARLY STAGE HOW HE INTENDS TO PLAY THE SUMMIT. THERE IS NO LACK OF ISSUES ON WHICH HE COULD STAGE A CONFRONTATION WITH THE AMERICANS IF HE SO CHOSE. SOME PUBLIC AND PRIVATE COMMENT HAS STRONGLY SUGGESTED A READINESS TO DO SO. IN ONE WAY OR ANOTHER MITTERRAND WILL WANT TO CONVEY TO FRENCH OPINION THAT HE IS PLAYING A DECISIVE ROLE AT WILLIAMSBURG. BUT I WOULD THINK THAT AT THIS STAGE HE IS KEEPING OPEN THE OPTIONS OF APPEARING EITHER TO HAVE GUIDED REAGAN TOWARDS GREATER WISDOM OR TO HAVE DEFENDED EUROPEAN AND THIRD WORLD INTERESTS AGAINST HIM.

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YOUR TELNO 730 TO WASHINGTON: PREPARATIONS FOR WILLIAMSBURG: GERMAN EXPECTATIONS

1. THIS WILL BE KOHL'S FIRST ECONOMIC SUMMIT. HE HAS ALREADY BUILT A CERTAIN REPUTATION AS SOMEONE WHO CAN GET ON WITH AND INSPIRE CONFIDENCE IN WASHINGTON AND BE HELPFUL IN RELATIONS IN THE COMMUNITY. HE WILL WANT AT WILLIAMSBURG TO REINFORCE THIS IMAGE, AND TO WORK TO BRIDGE TRANSATLANTIC DIFFERENCES, INCLUDING THOSE BETWEEN WASHINGTON AND PARIS. HIS STAFF SAY THAT HE WILL TAKE HIS ROLE AS PRESIDENT OF THE COMMUNITY SERIOUSLY.

2. THE GERMANS APPROVE THE AMERICAN AIM TO WORK FOR AN INFORMAL SUMMIT BUT FEAR THAT THE OCCASION MAY DEGENERATE INTO A PRESS SPECTACULAR.

3. THE POLITICAL ASPECTS OF WILLIAMSBURG WILL BE AS IMPORTANT TO KOHL AS THE ECONOMIC ASPECTS, NOT LEAST BECAUSE THE SUMMIT WILL BE TAKING PLACE LITTLE MORE THAN A MONTH BEFORE HIS VISIT TO MOSCOW. HE CONSIDERS IT VITAL, IN THE LIGHT OF PROBLEMS IN EAST/WEST AND NORTH/SOUTH RELATIONS AND WITHIN THE ALLIANCE, THAT THE SUMMIT GIVE A CLEAR MESSAGE TO THE WORLD OF A WEST UNITED ON FUNDAMENTALS AND CONFIDENT THAT THROUGH COOPERATION THE CURRENT DIFFICULTIES CAN BE EFFECTIVELY HANDLED. A SHOW OF TRANSATLANTIC HARMONY WILL, OF COURSE, BE HELPFUL TO KOHL IN WINNING GREATER ACCEPTANCE FOR INF STATIONING IN THE FRG THIS AUTUMN.

4. ON THE ECONOMIC SIDE, THE MAIN RESULT THE GERMANS WANT IS A MESSAGE OF CONFIDENCE IN THE BEGINNINGS OF RECOVERY. BACKED BY AN EXPRESSION OF WILL TO TACKLE THE TASKS AHEAD. THEY BELIEVE THIS WOULD MAKE AN IMPORTANT CONTRIBUTION TO THE COHESION OF THE TRANSATLANTIC COMMUNITY, AND REVIVE THE HOPES OF THE THIRD WORLD. IT WOULD ALSO HAVE DOMESTIC VALUE FOR THEM SINCE KOHL'S GOVERNMENT, WHILE ADMITTING THAT THE ROAD TO ECONOMIC RECOVERY WILL BE LONG AND DIFFICULT, HAS PLACED GREAT EMPHASIS ON INDICATIONS THAT THINGS ARE LOOKING UP IN THE WORLD. THEY WILL NOT BE LOOKING FOR A DETAILED PRESCRIPTION FOR ECONOMIC RECOVERY, AND HOPE THAT THE COMMUNIQUE WILL BE BOTH BRIEF AND COUCHED IN GENERAL TERMS. BUT THEY WILL WANT TO STRESS THAT PROMOTING INTERNATIONAL TRADE IS INDISPENSABLE TO THE TASK OF TACKLING HIGH INDEBTEDNESS AND UNEMPLOYMENT. THEY WILL THEREFORE PLEAD FOR A STANDSTILL, IF NOT A ROLLBACK, ON PROTECTIONISM: WILL WARN AGAINST THE TEMPTATION TO SUBSTITUTE

/ INDUSTRIAL

INDUSTRIAL SUBSIDIES FOR TARIFFS AND QUOTAS; AND WILL ARGUE THAT BUDGET DEFICITS SHOULD BE BROUGHT UNDER CONTROL AND THUS HELP THE NASCENT RECOVERY TO BE MORE SOUNDLY BASED. THEY FEAR THAT THE FRENCH MAY WANT TO GO MORE INTO DETAIL AND WANT REFERENCES TO THE NEED FOR SOME GOVERNMENTS TO EXPAND MORE RAPIDLY AND FOR LOWER AMERICAN INTEREST RATES. WHILE AGREEING WITH THE LATTER NEED, THE GERMANS WOULD WANT TO RESIST SUCH DISCUSSION, INTER ALIA BY ARGUING THAT THIS WOULD ACCENTUATE LACK OF COHESION RATHER THAN THE REVERSE.

5. THE GERMANS HOPE AGAINST EXPECTATION THAT WILLIAMSBURG WILL SOUND A CONSTRUCTIVE NOTE IN THE RUN UP TO UNCTAD VI.

6. DESPITE THEIR DESIRE TO AVOID POLEMICAL DETAIL (PARA 4 ABOVE), THEY MAY SEEK RECOGNITION OF THE NEED FOR INTERNATIONAL COOPERATION IN ENVIRONMENTAL PROTECTION (ACID RAIN) - A THEME TO WHICH KOHL ATTACHES IMPORTANCE. ACCORDING TO THE FINANCE MINISTRY, THE GERMANS ARE ALSO CONSIDERING RAISING THE EC/US PROBLEMS ON AGRICULTURAL TRADE, THOUGH NOT IN DETAIL. JOINT RECOGNITION OF THE PROBLEM WOULD, THEY ARGUE, IMPLY THE NEED FOR COOPERATION FROM BOTH SIDES IN ITS SOLUTION.

7. EAST/WEST ECONOMIC RELATIONS WILL, THEY HOPE, BE HANDLED IN A LOW KEY. AFTER KOHL'S VISIT TO WASHINGTON, THEY PROFESS TO BELIEVE THE AMERICANS WILL COOPERATE. ACCORDING TO THE AUSWAERTIGES AMT PRIVATELY (PLEASE PROTECT) THEIR CONFIDENCE HAS BEEN DISTURBED BY THE ARRIVAL A WEEK AGO OF A MESSAGE FROM REAGAN TO KOHL LISTING AMERICAN DEMANDS AND EXPRESSING THE HOPE THAT THEY COULD BE MET BEFORE WILLIAMSBURG. (MITTERRAND HAS APPRENTLY RECEIVED A SIMILAR MESSAGE.) THE MESSAGE WAS SOME TIME IN TRANSMISSION AND SOME OF ITS DEMANDS WERE OVERTAKEN BY POSITIONS THE AMERICANS HAD ALREADY ACCEPTED IN THE VARIOUS FORA, EG COCOM HLM. THE GERMANS HOPE THIS MERELY REFLECTS POOR STAFF WORK, BUT ARE NERVOUS ABOUT THE POSSIBLE CONTINUING INFLUENCE OF WHITE HOUSE HARDLINERS. THEIR DRAFT REPLY TO REAGAN NOTES THESE POSITIONS AND TAKES THE LINE THAT, WHILE PROGRESS ON THE OTHER ISSUES REMAINS IMPORTANT, THEY HOPE THAT THE MOMENTUM NOW DEVELOPED CAN BE MAINTAINED AND THAT ANY DIFFERENCES WITHIN THE ALLIANCE CAN IN DUE TIME BE RESOLVED: AND THAT THEY THINK IT INADVISABLE FOR THE SUMMIT TO ATTEMPT TO GO INTO DETAIL ON ANY OF THESE QUESTIONS AND ASSUME THAT THAT IS ALSO REAGAN'S INTENTION. (THE US AMBASSADOR TOLD ME ON 4 MAY THAT HE DID NOT THINK THAT E-W ECONOMIC ISSUES WOULD CAUSE PROBLEMS AT WILLIAMSBURG).

TAYLOR

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Let PM see, in Wilbrg
briefing 6/5/83 context

Martin hall.

Chancellor

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

pwp
Williamsburg

Regan and the Dollar

The finance ministers of the seven leading industrial nations, meeting a few days ago in Washington, issued a cautious statement on exchange rates. After joining in the statement, the U.S. secretary of the Treasury, Donald T. Regan, immediately denounced it as meaningless. He went on to assure reporters that it certainly will not affect American policy. Does that not seem an odd performance?

Perhaps Mr. Regan was deliberately needling the French, who want the Americans to intervene more forcefully in the currency markets. If that is the explanation, it is not a very happy precedent for the Williamsburg summit meeting at the end of this month, where the employers of those seven finance ministers are to discuss their economic troubles.

But when a technical issue like intervention generates sparks, it generally indicates a connection to something larger. A government intervenes when it buys or sells currencies to shift their values, a limited device, occasionally useful but only temporary in its effect. Looming behind the intervention debate is a large and intractable fact — the persistent overvaluation of the dollar, a subject on which the Reagan administration has good reason to be sensitive. Most current U.S. trade troubles — the falling exports, the disputes over other countries' trading tactics, the alleged decline of American industrial competitiveness — are the result of an overpriced dollar, lifted by high interest rates. Everybody in the U.S. government knows that the abnormally high dollar is doing damage to the economy, both to the export industries and to producers who must compete with imports. But the only real solution is to get the budget deficit and interest rates down, and on that issue the administration is immobilized.

The Europeans, and particularly the French, have been pretty explicit on the difficulties that high American interest rates are making for them. Since Secretary Regan does not have much to suggest, perhaps he was simply trying to cut off the discussion. Perhaps he was only trying to discourage any impulse to bring up the currency alignments at Williamsburg, although he is more likely to have accomplished the opposite.

A smooth and cordial weekend at Williamsburg has suddenly become a good deal more important than it seemed even a couple of months ago. Of the seven governments, three — in Britain, Japan and Italy — may face national elections in June, right after the conference. All three could make good use of a display of competence and comity in foreign affairs. The United States, as the proprietor of the world's dominant currency, has the chief responsibility for bringing Williamsburg to a useful conclusion. Secretary Regan seems to have lost sight of the dimensions of his job.

THE WASHINGTON POST.

Dayne Jpe

Quixotic Sentencing

Two nights before he was to be married, Vincent Chin and three friends went out to celebrate in a Detroit bar. During the course of the evening, a fight broke out between Mr. Chin and his friends and two white men. An eyewitness said that Mr. Chin, a Chinese-American, was mistaken for a Japanese, and that hard times in the Motor City have increased racial animosity toward Asians in general. But whatever the cause of the dispute, no one denies that Mr. Chin was beaten to death with a baseball bat by the two white men.

Both assailants were charged with second-degree murder, which was reduced in a plea bargain to manslaughter, a crime that carries a maximum sentence of 15 years. But neither man was to spend a single night in jail, for Judge Charles Kaufman freed them on probation after each paid a fine of $3,000. Listen to the judge's reasons for imposing such a preposterous sentence: "We are talking here about a man who has held down a responsible job with the same company for 17 or 18 years, and his son who is employed and is a part-time student. These men are not going to go

cites three recent cases: A woman was convicted of stabbing her lover to death, inflicting 19 knife wounds. A policeman was convicted of beating to death a prisoner in his custody. A merchant admitted killing an 8-year-old after the child had stolen grapes. In all three cases, the killers walked out of court on probation.

These cases are strong evidence that two reforms being considered by courts across the country are badly needed. The first is the establishment of a set of victims' rights. It would have been much more difficult for Judge Kaufman to focus his concern exclusively on the killers in the Chin case if the victim's survivors had had an opportunity to make a statement before sentencing.

The second is the adoption of sentencing guidelines that force judges to consider not only the record and the prospects of the offender, but also the nature of the crime. Guidelines used by Maryland courts, for example, would have produced a prison sentence in the Chin case even if the defendants had no prior criminal record. Guidelines minimize the chance for sentence disparity, clarify the likely

Beirut Ro
Has Italia
Worryin

By Enrico Jacch

ROME — How long will troops stay in Lebano withdrawal of the Italian con from the multinational force be a serious step. Everyone ir is aware of that. But the prosp deeper entanglement of the force causes very real conc Rome political circles. Even i tary of State George Shultz s in his efforts to arrange th drawal of foreign forces fron non, the prospect remains of between Christians and Mosle between the Israeli and Syria as they disengage.

Pressure on the Italian gove increased dramatically aft bombing of the U.S. Emb Beirut. Foreign Minister Emi lombo was questioned at le parliamentarians in the Hou eign Affairs Committee on t sons for maintaining an Italia in Lebanon, and on Italy's p aims there. The questions wer cult to answer, because the government had committed its in a complicated, unclear situa

Some politicians, few in but ranging across the spectru Christian Democrat to Com hoped that committing troo side the boundaries of the No lantic Treaty Organization wo hance Italy's image and its inc ent role in the Mediterranean. thought it appropriate for a lo to support U.S. policy in the at least with a symbolic presen

But most Italians seem to terpreted the government i otherwise. Following the mas hundreds of Palestinians in th and Chatila refugee camps, th mation received here led ma

Question

WASHINGTON — P Ronald Reagan's sp week to Congress signals h mination to pursue the co based on a disastrous self-f prophecy — that he has foll Central America since co office. Instead of trying to

Chronicle

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YOUR TELNO 730 TO WASHINGTON: PREPARATIONS FOR WILLIAMSBURG: ITALIAN POSITION

1. FANFANI WILL ATTEND WILLIAMSBURG AS CARETAKER PRIME MINISTER. THIS IS BOUND TO PREVENT HIM FROM PLAYING A VERY ACTIVE PART, ALTHOUGH IT WILL HELP HIS ELECTORAL IMAGE TO BE THERE. WE EXPECT ITALIAN OBJECTIVES TO BE BROADLY AS FOLLOWS.

ECONOMIC SITUATION, INCLUDING MONETARY AND TRADE POLICIES.

2. THE ITALIANS WILL BE AMONG THOSE CALLING FOR MORE COMMITMENT TO GROWTH POLICIES BY COUNTRIES WHO HAVE BROUGHT INFLATION UNDER CONTROL, FOR A REDUCTION IN US INTEREST RATES AND FOR MORE COORDINATION OF ECONOMIC POLICY, ESPECIALLY ON EXCHANGE RATES. THEY WILL SUPPORT CALLS TO RESIST PROTECTIONISM.

NORTH/SOUTH.

3. THEY WILL ARGUE FOR GENEROUS TREATMENT OF THIRD WORLD COUNTRIES IN ANY DISCUSSION OF MULTILATERAL AID, UNCTAD, AND TREATMENT OF DEBT PROBLEMS.

EAST/WEST ECONOMIC RELATIONS

4. WE HAVE BEEN TOLD THAT THE MAIN ITALIAN OBJECTIVES ARE TO AVOID A DIVISIVE DEBATE AT WILLIAMSBURG, TO SUPPORT THE PRINCIPLES OF RECIPROCITY AND COMMERCIAL PRUDENCE IN DEALINGS WITH THE EAST, BUT TO OPPOSE ANY US ATTEMPT TO BRANDISH AN ECONOMIC WEAPON AGAINST THE USSR. MORE SPECIFICALLY, THE ITALIANS BELIEVE THAT PRESENT CONSENSUS CREDIT RATES TOWARDS THE SOVIET BLOC ARE ABOUT RIGHT (AND INDEED ABOVE LIBOR), AND THAT THE OUTCOME OF THE OHT DISCUSSIONS IN COCOM REMAINS UNCERTAIN, IF ONLY BECAUSE SO FAR THESE DISCUSSIONS HAVE BEEN HIGHLY IMPRECISE. THEY ARE LIKELY TO RESIST RESTRICTIONS ON THE TRANSFER OF OIL AND GAS TECHNOLOGY TO THE USSR, CLAIMING THAT ITALY HAS ALREADY IMPOSED STRICTER SANCTIONS THAN OTHER WESTERN COUNTRIES BY FREEZING ITS NEGOTIATIONS OVER THE LAST 18 MONTHS. THEY HOPE THAT THE AMERICANS WILL BE CONTENT WITH THE PROGRESS OF THE VARIOUS STUDIES, BUT REMAIN WORRIED THAT REAGAN AND HIS ADVISERS MAY TAKE A TOUGHER LINE AT WILLIAMSBURG. THEY WILL CERTAINLY ARGUE FOR DIFFERENTIAL TREATMENT OF THE VARIOUS COUNTRIES OF EASTERN EUROPE.

/ POLITICAL

POLITICAL SUBJECTS

5. WE WOULD EXPECT THE ITALIANS TO REMAIN FIRM ON INF AND TO SHOW GREAT PREOCCUPATION OVER THE MIDDLE EAST.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES

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ADDITIONAL DISTRIBUTION
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FROM: J.G. LITTLER
DATE: 6 MAY, 1983

CHANCELLOR

cc Mr. Middleton
Mr. Burns
Mr. Unwin
Mr. Lavelle
Mr. Bottrill

WILLIAMSBURG

I have very slightly recast the draft paper for Williamsburg, on "Prospects for the World Economy", from the version which you saw with my minute of 22 April.

I hope this picks up your main comments, and in particular highlights the questions for discussion. I have however not drafted in the form of a "questions for discussion paper", because the US are separately preparing a "themes" paper, and ours was supposed to be more descriptive and analytical.

I have sent a copy of the draft to Sir Robert Armstrong, asking him to wait until Monday morning, to hear from Mr. Kerr whether you have any comments which you would like to have incorporated before he circulates the draft to other Sherpas. If you had minor comments, these need not necessarily delay the draft being circulated: I shall be attending the Sherpa meetings on Wednesday and Thursday of next week. (Sir Robert Armstrong cannot join them until later), and can offer and insist on your comments as "second thoughts"!

E.B. Millard
for (J. G. LITTLER)

RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND MR EDWIN MEESE, COUNSELLOR TO THE US PRESIDENT, AT 5.30PM on 6 MAY AT No 11 DOWNING STREET.

Present:	Chancellor	Mr Meese
	Mr Littler	Mr Streator (US Embassy)
	Mr Kerr	

- -

The meeting considered the economic issues for the Williamsburg Summit.

Intervention

The Chancellor thought the G7 statement of 28 April a helpful development, which the Summit might note. Intervention had a legitimate role at the margin; but its efficacy should not be exaggerated. It could help trim over-or under-shoots, unjustified by relative national economic performance. Concerted intervention might be appropriate in such circumstances. But no amount of intervention could stop exchange rate movements where economic performance differed widely: convergence of national economic policies must therefore be the primary aim.

2. Mr Meese agreed with the Chancellor's analysis, but asked about the French attitude. Had they reacted to the final paragraph of the G7 statement? The Chancellor said that they had reacted to the interpretation which Secretary Regan, at his press conference on 28 April, had put on that paragraph.

/Surveillance

Surveillance

3. Mr Meese said that it was his impression that Finance Ministers of the Summit countries were meeting more frequently than before. The Chancellor confirmed this: G5 Ministers had met in Canada and in Germany in the autumn, and in Washington twice this year. The presence of the IMF Managing Director at certain of these meetings, and the circulation by him of papers analysing differences in national economic performance, was helping to encourage the development of a form of "group therapy". But the issue causing most concern was undoubtedly the scale of the prospective US deficit.

US Deficit

4. Mr Meese agreed that the deficit must be one of the factors keeping interest rates up and the dollar strong. It was hard to judge the performance of the monetary aggregates. The President's proposed stand-by taxes should ensure that the deficit was in due course put on a declining path, and eliminated by 1989 or 1990. Interest rates seemed for the present to be on a plateau.

5. The Chancellor said that the problems facing the US administration were in some respects reminiscent of those encountered in the UK in 1980. We too had then experienced difficulty in interpreting the monetary aggregates;together with a rising deficit. It had taken the stringent measures in the 1981 Budget - "double-indexation" of indirect taxes, and no indexation of personal allowances - to convince the market of our determination to hold to policies which would reduce both inflation and interest rates. The PSBR as a percentage of GNP had fallen from almost 6 per cent in 1980-81 to 3½ per cent in 1981-82, 3¼ per cent in 1982-83, and a planned 2¾ per cent in the current year.

/6. Mr Meese said

6. Mr Meese said that perhaps the Chancellor should show Congress these figures. The Administration recognised the need to reduce the deficit: their difficulty lay on the Hill. The Chancellor thought that the effect on the world economy if Congress could be persuaded to act in such a way as substantially to reduce US, and hence world, interest rates would be hardly less dramatically beneficial than those of the Marshall Plan.

East/West Issues

7. Mr Meese hoped that East/West trade issues would not dominate the Williamsburg Summit. The Chancellor and Mr Littler agreed, though drawing attention to our concern about the Export Administration Act.

8. Mr Meese said that European concerns were well understood in Washington, and had been taken into account in recent proposed amendments. The intention was that the Act should affect only key strategic items; and the right to restrict imports into the US would be used only in the very limited, and he hoped, infrequent circumstances in which the foreign company concerned was engaged in selling to the Soviet Union items whose export violated US national security. He had himself produced the language about national security, and had insisted on the limited use which was to be made of this particular provision.

9. The Chancellor said that Mr Meese, as a lawyer, would understand his own lawyer's concern about legislation which could be widely used, however limited the use its drafters had in mind. Moreover, the extraterritoriality inherent in the scope of the Act was profoundly unsatisfactory to us. The UK Government certainly did not wish to see Western military technology fall into Soviet

/hands; but

hands; but Western governments were entitled to handle their own economic relations with the Soviet Union, as, for example, the US Government did with its grain sales. It should be possible to find through discussion a satisfactory accommodation with the US Administration on the Act: it would certainly be most unfortunate if there were to be a reprise of the 1982 "pipeline" crisis. But we remained profoundly unhappy with the Act in its present form.

North/South Issues

10. The Chancellor thought that the climate of relations between the industrialised and developing countries had somewhat improved. Certainly developing country representatives at the April Development Committee meeting had been surprisingly restrained. It was recognised that the Administration were working for congressional approval of the increase in the IMF quota, and the IDA VI appropriation. It was important that these go through. But developing countries could be best helped by a fall in interest rates.

Anti-Inflationary Policies

11. Mr Meese said that a main theme at Williamsburg should be re-commitment to the counter-inflationary strategy. The Chancellor agreed, pointing out that the history of past Summits illustrated the dangers of alternative strategies. The Germans still regretted their acceptance of the "locomotive" theory at the 1978 Bonn Summit. At Venice in 1980 Trudeau had argued for reflation, but by Ottawa 1981 he had reversed engines. At Ottawa it had been Mitterrand who argued for giving primacy to reducing employment; but by Versailles 1982 he had been converted by experience to the necessity of restraining budgetary deficits. The Summit Seven were now in broad agreement on economic strategy; but the key to the speed of world recovery lay in the level of US interest rates.

J O KERR
6 May 1983

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Does JGL have any advice on how / how far / how fast to take it further, in light of our discussion in G.5? It is a little odd: have JGL + I been giving different views?

YOUR TELNO 730.

WILLIAMSBURG SUMMIT: AMERICAN OBJECTIVES

1. AS HOST, PRESIDENT REAGAN NATURALLY WANTS A SUCCESSFUL SUMMIT: THERE ARE A NUMBER OF INDICATIONS THAT THE AMERICANS ARE TRYING TO COOL CURRENT DISPUTES (AGRICULTURE, EAST-WEST TRADE, EXPORT CREDITS) OR AT LEAST ROLL THEM OVER INTO MEETINGS SCHEDULED FOR JUNE AND AFTER.

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MR.J.G.LITTLER. TREASURY.

YOUR TELNO 730.

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PS/MR RAISON
PS/PUS
SIR J BULLARD
MR EVANS
MR HANNAY
MR THOMAS
MR DONALD
MR HAYES
MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

From
Sir Maurice Hodgson

Marylebone House
129/137 Marylebone Road
London NW1 5QD

Telephone 01-262 3288

9th May 1983

The Rt. Hon. Sir Geoffrey Howe, QC, MP,
Chancellor of the Exchequer,
Treasury Chambers,
Parliament Street,
LONDON SW1P 3AG.

Dear Geoffrey,

Ash

After you talked with the Groupe des Presidents on April 20th, two of us (Gerry Wagner and I) accompanied Viscount Davignon to Washington for pre-Williamsburg discussions with representatives of similar groups from Japan, USA and Canada. The US group was very large and senior, as you will see from the attached list.

✓ Gue.

It seems to me it might just be worthwhile for you to look at three paragraphs of the Americans' paper. They are marked on pages 7, 8 and 11. You may also care to glance at the 1½ page summary, but the sensitivities revealed in the three paragraphs are perhaps more interesting.

[tho' hardly news.]

Yours sincerely,

Maurice.

Encs.

PRÉSIDENCE
DE LA
RÉPUBLIQUE

SERVICE DE PRESSE

ALLOCUTION DE MONSIEUR FRANCOIS MITTERRAND
PRESIDENT DE LA REPUBLIQUE FRANCAISE
EN L'HONNEUR DES MINISTRES ET SECRETAIRES D'ETAT DES
AFFAIRES ETRANGERES ET DES FINANCES DES PAYS
MEMBRES DE L'O.C.D.E.

Palais de l'Elysée, lundi 9 mai 1983

Madame la Présidente,
Mesdames et Messieurs les Ministres,
Monsieur le Secrétaire Général,

Laissez-moi vous dire le plaisir que j'ai de vous recevoir ici. Je ressens votre présence comme un honneur pour mon pays, vous êtes réunis ici à Paris pour examiner et pour travailler dans le cadre d'une institution internationale qui nous est proche et qui nous est chère.

Je voudrais au-delà de ces paroles d'accueil, saisir cette occasion qui m'est donnée pour indiquer selon la France, mais rejoignant sans doute la pensée de la plupart d'entre vous, les voies à suivre pour que nos travaux puissent déboucher sur un mieux être dans nos relations internationales et sur la nécessaire approche du temps qui vient, afin que la crise dont nous souffrons soit dominée.

J'espère que les conditions de travail et de réflexion qui vous sont offertes à Paris correspondent à vos besoins, mais c'est déjà une longue habitude dans cette ville que de recevoir et d'échanger. Vous avez appris vous-mêmes entre vous à vous connaître à travers les décennies précédentes. Notre organisation a pris rang, forme, a commencé de dessiner des perspectives d'avenir et, on peut le dire d'une façon générale, a réussi dans sa mission.

/...

Je suis très heureux de vous rencontrer et je souhaite m'entretenir avec vous sur des thèmes que j'aurai l'occasion, je ne serai pas le seul, d'appréhender bientôt lorsque je me trouverai au Sommet de Williamsburg à la fin de ce mois.

Depuis 36 ans, votre organisation n'a cessé de participer à l'approfondissement des échanges entre grands pays industrialisés et de jouer un rôle important dans le dialogue et la coopération entre le Nord et le Sud. D'abord plaque tournante de la reconstruction de l'Europe dévastée, elle a ensuite, le temps de la prospérité revenu, élargi sa composition et le champ de ses intérêts.

Bref, l'O.C.D.E. permet à chacun de nos pays d'exprimer librement son point de vue et, quand s'affirment des désaccords ou des difficultés, de rechercher ensemble des voies nouvelles. Les débats qui se déroulent en son sein sont la conséquence directe de l'interdépendance dans laquelle nous vivons. Chacun perçoit mieux l'impact de ses propres choix sur l'intérêt commun.

Le travail accompli par l'O.C.D.E. fait honneur à tous. Et je suis heureux d'avoir l'occasion de lui rendre cet hommage. Mais, vous le savez, et aujourd'hui comme après la dernière guerre mondiale, le monde est à reconstruire et nous avons besoin pour cela de retrouver l'esprit qui animait les fondateurs de l'organisation. Il ne suffit pas de gérer le quotidien. Sans perspectives claires, sans règles du jeu, nous ne sortirons pas de la crise.

Rappelez-vous, au début des années soixante-dix, l'affaiblissement des disciplines monétaires, la créations incontrôlée de liquidités internationales a entraîné une première vague d'inflation. Puis la généralisation des changes flottants a accru l'instabilité des parités et multiplié les tensions inflationnistes, et le second choc pétrolier a entraîné une sévère récession aggravée par les mouvements erratiques de certaines monnaies sur les marchés internationaux.

Pour y remédier, de nombreux pays se sont engagés, sans se concerter, dans des politiques dont le cumul désordonné a entraîné l'économie mondiale dans le cercle vicieux de la récession. Le chômage a augmenté de façon dramatique de 25 millions dans nos seuls pays. Le protectionnisme multiple et dissimulé a ralenti la progression du commerce mondial, ce qui a freiné, à son tour, la croissance.

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Dans les principales économies, le déséquilibre des finances publiques a maintenu les taux d'intérêt réels à un niveau beaucoup trop élevé, sans précédent depuis trente ans, diminuant de la sorte la capacité d'investir, et dressant de nouvelles barrières au moment où la technologie permettait d'avancer. Tandis que s'éloignent ainsi les chances de l'avenir, le poids du passé grandit : la charge de la dette s'accroît, écrase un plus grand nombre de pays et d'individus, ralentit le mouvement des échanges.

Bref, Mesdames et Messieurs si l'on n'y prend garde, le monde entier sera à la merci d'une panique ou d'une mise en défaut.

Que faire alors ? C'est bien l'objet de vos travaux et de ma réflexion. L'expérience nous apprend que ni les forces du marché, ni le jeu des institutions n'ont jusqu'à présent réussi à dominer la crise.

Certes, depuis le mois d'août 1982, la coopération entre les institutions financières internationales, les autorités monétaires et le secteur bancaire a évité le pire. L'élargissement des quotas du F.M.I. et le renforcement des accords généraux d'emprunts ont accru les ressources disponibles afin de soutenir les pays les plus pauvres.

Mais éviter le pire n'est pas une ambition.

Si les grands pays comprennent leur devoir, nous sortirons bientôt et ensemble de la crise, mais à cette condition.

Mais cela ne se fera pas par miracle, ni en une seule conférence, ni en une seule année, ni dans le cadre d'une seule organisation. Cela résultera d'une action internationale durable autour du plan mondial que j'appelle de mes voeux.

Tâche immense, à l'échelle d'une génération. Et il nous appartient à nous qui sommes réunis ici même, d'y préparer les esprits et de lancer le mouvement.

A cette fin, j'émettrai trois propositions .

/...

Vous savez mieux que personne que les relations d'échange ont besoin d'un moteur à deux temps: l'affirmation des différences et la coopération. Sans différence, pas d'échange utile. Sans coopération, pas de croissance durable.

Cette observation commande les trois orientations qui inspirent ma démarche ce soir : la croissance, la stabilisation, le développement.

Pour y parvenir, Mesdames et Messieurs, il conviendra d'agir avec ambition et discipline. Sans effort, que vaut une ambition. Sans projet d'avenir à quoi sert une discipline

Eh bien, je crois qu'il faut retrouver ensemble le chemin de la croissance. Rien de grand ne se fera sans esprit d'entreprise, sans foi en l'avenir. Mais pour commencer, le premier pas de la remise en marche ne sera possible que par la croissance concertée, qui créera les conditions d'une reprise saine et continue, je veux dire sans inflation. Sachant ce que je sais des problèmes qui restent à résoudre dans un pays comme le mien, je le dis avec d'autant plus de force et de conviction.

La reprise qui s'annonce, ici et là, s'essouflera très vite, beaucoup plus vite qu'on ne le croit, si rien ne la soutient.

Ce qui nous ramène à trois données de base :

- 1°) personne ne conteste la nécessité d'une réduction massive des déficits budgétaires excessifs qui incitent à des taux d'intérêts réels exagérés et qui réduisent de ce fait les capitaux disponibles pour l'investissement. Plus les pays sont importants, plus ces déficits sont dangereux pour eux et pour les autres.

- 2°) Dans le même temps, il appartient à ceux qui disposent de marges de stimuler leur propre croissance. De beaux résultats dans le domaine de la lutte contre l'inflation doivent conduire à relancer l'activité économique.

- 3°) Enfin, la meilleure façon de lutter contre le chômage, vous le savez, est de former les jeunes aux nouvelles technologies et d'assouplir la durée du travail.

/...

Pour atteindre une croissance durable, les meilleures recettes économiques ne sauraient cependant suffire ; il faut d'abord et avant tout retrouver, j'y insiste, la confiance en soi, dans l'avenir de notre civilisation, dans nos valeurs communes et donc dans notre aptitude à créer et à travailler ensemble. C'est pourquoi, rien ne me paraît plus important que cet échange permanent entre nous comme ce soir, comme la journée d'aujourd'hui, ou la journée de demain. Tel est l'objet en tout cas de mon propos, ce soir, et de celui que je tiendrai dans quelques semaines aux Etats-Unis d'Amérique où je me trouverai avec les représentants de quelques autres pays. Et là j'aurai l'occasion de revenir sur les thèmes que j'évoque avec vous ce soir.

Il faut aussi, Mesdames et Messieurs, stabiliser les échanges. Le retour à une croissance soutenue restera irréalisable sans la reconstruction patiente d'un système stable de relations économiques internationales, dans trois domaines essentiels : la monnaie, le commerce et les matières premières. Mais je conclurai, d'une façon illogique puisque c'est pour commencer en rappelant la nécessité d'un nouveau Bretton Woods, même si l'évocation de ce nom ne doit pas nous conduire à l'invitation pure et simple.

On l'a bien vu au lendemain de la seconde guerre mondiale, tout commence par la monnaie. Retrouver les conditions d'un système monétaire stable, avec des monnaies qui soient suffisamment fixes, de valeur économiquement raisonnable, est donc une tâche urgente. Et ce n'est pas hors de notre portée, à condition de le vouloir, mais je pense que les étapes qui conduiront très progressivement à l'établissement d'un tel système monétaire international peuvent être parfaitement définies.

Je rappellerai que nous avons, en premier lieu à poursuivre l'effort entamé l'an dernier à Versailles et à mettre en oeuvre rapidement des dispositions que nous y avons prises. Une concertation effective entre les politiques économiques des pays industrialisés devrait être recherchée et renforcée : vous êtes, Mesdames et Messieurs les Ministres orfèvres en la matière. De tels échanges porteraient également sur les objectifs recherchés par la politique monétaire et sur les tendances de fond affectant les taux de change.

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J'indiquerai ensuite qu'il faudra s'attacher à retrouver des parités réalistes et à limiter les fluctuations erratiques à court terme autour des taux de référence. On étudiera, en outre, les moyens d'agir en commun pour mieux ajuster les taux à moyen terme, lorsque s'écartent durablement les paramètres économiques fondamentaux des principaux pays, à savoir les prix, les taux d'intérêt et la balance des paiements.

Je sais que cet effort paraîtra à certains impossible dans notre monde instable. Et pourtant, ainsi que le montrent les conclusions du groupe de travail sur les interventions dont la France avait prôné la création l'an dernier à Versailles, la concertation monétaire se révèle vite utile quand s'affirme le désordre sur les marchés, quand s'accélère la volatitité à court terme des taux de change. Ne sommes-nous pas dans une telle situation aujourd'hui même ? Les sept, pour ne parler que d'eux - ils ne sont qu'un élément dans l'ensemble - n'ont-ils pas affirmé au surplus leur volonté de mettre en oeuvre des interventions coordonnées dans les cas ou leur utilité serait reconnue ? Sinon, à quoi bon multiplier les réunions internationales ?

Dans un contexte de taux de change stabilisés les échanges commerciaux connaîtront un essor nouveau, j'en suis sûr, dont chacun tirera avantage ; les taux de croissance s'élèveront raisonnablement et la coordination de nos politiques économiques sera facilitée.

Alors, on ira plus loin et les trois principales zones monétaires, le dollar, le yen et les monnaies européennes pourront s'engager dans la voie du renforcement de leurs liens, et servir de pôles à la stabilisation des taux de change des principales monnaies du monde. Le Fonds Monétaire International verra son rôle renforcé, pour promouvoir l'usage des D.T.S. dans les réserves officielles, dans les opérations et les comptes des institutions internationales, et les transactions privées. Doté de moyens, il pourra intervenir en cas de difficulté grave et subite d'un pays donné.

Oui, je le crois vraiment et je le répète volontairement, le moment est venu de penser à un nouveau Bretton Woods. Je ne veux pas exagérer mon propos et reprendre l'expression fameuse : hors d'une telle proposition il n'y aura pas de salut. A cette époque, en partant de rien je veux dire au lendemain de la dernière guerre mondiale, on avait mis en place un système cohérent. Si tout est

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aujourd'hui plus complexe,il ne faut pas pour autant renoncer à avancer, par étapes, vers un système adapté aux conditions économiques de cette fin de siècle.

En vue,Mesdames et Messieurs,de faciliter ces réformes, je souhaite que soit organisée après une soigneuse préparation la réunion d'une conférence monétaire internationale au plus haut niveau, dans le cadre du Fonds Monétaire International.

Et je crois qu'il faut organiser le commerce des biens ainsi que la coopération technologique. Après avoir parlé de la monnaie, eh bien oui, je parlerai des biens eux-mêmes. Le protectionnisme,dont chacun se méfie lorsqu'il s'agit des autres,constitue sans doute et par définition un obstacle à la croissance des échanges et à l'essort des pays pauvres. Encore en faut-il situer l'importance.

A l'heure actuelle, le protectionnisme ne représente que 10 % du manque à gagner des pays en voie de développement, tandis que 90 % sont dus à l'absence de croissance dans les pays riches, à l'insuffisance de l'aide publique, à l'instabilité du cours des matières premières et surtout à la hausse des taux d'intérêt,dont le supplément de charge soit 45 milliards de dollars* représente près du double de l'aide versée à ces pays, soit 26 milliards.

Si j'insiste auprès de vous ce soir, ce n'est pas au risque de vous attarder, c'est pour vous dire ces choses au nom de mon pays qui ne détient pas la vérité mais qui entend contribuer à la réflexion commune. Quelle circonstance plus solennelle avais-je pour le dire à l'ensemble des pays du monde?

*dont 29 milliards sont dus directement à la hausse des taux, le reste étant dû à l'augmentation de l'encours

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Il est temps de remédier aux principales causes du mal et de démontrer que nul n'aura rien à gagner à ce protectionnisme, y compris le plus masqué, celui des normes techniques ou sanitaires. Cela se fera notamment en assurant une ouverture équitable des marchés, condition de la croissance économique, pour le Nord comme pour le Sud. Au demeurant, le GATT joue déjà son rôle pour stimuler les flux des échanges et contribuer à résoudre les difficultés résultant des différences de structures ou de rythmes d'évolution des économies. C'est bien; ce n'est pas suffisant.

Mais, seulement, vous le savez, on n'échange plus seulement des objets, on échange aussi des savoirs, c'est-à-dire des technologies. De plus en plus souvent, la coopération industrielle entre les nations différentes remplace le simple commerce des produits de chaque nation.

L'intensification des échanges et de la coopération internationale en matière de recherche avancée et de technologies progressera entre les entreprises privées et entre les institutions publiques.

Le renouvellement de la coopération technologique commande en effet une autre division internationale du travail. Nous avons tous intérêt à éviter une compétition excessive, que ce soit entre les secteurs en déclin ou entre les industries nouvelles. Nous devons nous attacher à dégager progressivement quelques règles de conduite en matière de stratégies et de politiques industrielles.

Et puisque j'ai parlé tout à l'heure du Nord et du Sud et de leurs relations compliquées, incertaines, variables, comment ne pas parler de la nécessaire stabilisation à moyen terme des échanges de matières premières.

Or, plus nous y pensions, plus nous comprenons que l'on peut engager des actions rapidement, je vous en donne quelques exemples :

- n'est-il pas possible de conclure partout où c'est possible des accords de produits? Ces accords tendront à stabiliser les cours dans une fourchette réaliste, car on ne peut lutter indéfiniment contre les tendances lourdes du marché, cela nous le savons. Et comme les moyens financiers sont indispensables, j'insisterai sur la nécessité de donner vie sans autre délai au Fonds commun des produits de base dont on parle beaucoup et qu'on ne voit jamais.

- régulariser les marchés à terme. Cela me paraît aussi une priorité car ces marchés informent les opérateurs en déterminant un prix unique. Ils protègent les producteurs contre les spéculations. Lorsqu'ils n'existent pas, comme pour le riz, le désordre règne : infinité de prix, spéculations dans l'ombre, manipulations permanentes. Mais lorsqu'ils ne sont pas régularisés, au lieu d'informer, ces marchés trompent. Au lieu de protéger, ils accablent et poussent à la spéculation. Bref, une discipline plus stricte dans le jeu de la concurrence rendra à ces marchés le rôle qui leur revient.

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- pour que le Sud puisse être partie prenante dans cette réorganisation des marchés, une action de formation, de formation des hommes, s'impose avec ceux qui déjà sont nos partenaires et le seront plus encore dans un monde plus ouvert. En relation avec les dispositions des accords de Lomé, dont nous mesurons chaque jour l'importance, il conviendra de mettre en oeuvre un programme de formation des ressortissants du Tiers-Monde à nos techniques de commercialisation. C'est ce que nous essayons de faire pour notre part, je sais que d'autres pays, ici représentés, ont de remarquables réussites.

- enfin, le financement des investissements en matière d'énergies non-renouvelables dans les pays en développement doit continuer d'être encouragé, en particulier dans le cadre de la Banque Mondiale ou bien sous la forme d'une institution spéciale à créer, mais la Banque Mondiale a déjà émis des projets qui peuvent servir grandement à la réponse à cette question.

Voyez-vous, j'insisterai sur ce point qui occupe nos pensées : rien n'est possible pour le Nord si la relance n'est pas assurée pour le Sud. Comment imaginer que nous pourrons sauver une moitié de la planète sans l'autre ? Comment vouloir dans le même temps libérer les échanges et cloisonner les solidarités ?

Nous savons tous que seule la reprise, la renaissance économique, règlera nos propres problèmes, par l'ouverture de nouveaux marchés et l'exploitation de nouvelles ressources. Et cependant, par un inacceptable paradoxe, nous prétendons ignorer les marchés les plus évidents, les plus avides de croissance, ceux du Tiers-Monde.

Politiquement, j'en ai la conviction, il en va de la survie de nos démocraties et de notre capacité à faire vivre un monde libre autour de nous. Aucune relance, aucun système monétaire, aucun système d'échange ne sera stabilisé si la situation économique et financière des pays du Sud n'est pas débloquée. Si ces pays n'ont pas des moyens durables sérieux de financer leurs dettes et de promouvoir leur croissance, leur équilibre politique sera de jour en jour plus menacé. C'est déjà très souvent le cas. Il nous appartient de contribuer à leur développement.

Et pour cela, aménager les financements à partir de leurs besoins. La hausse des taux d'intérêt et la récession mondiale alourdissent l'endettement des pays pauvres. Cet endettement ne menace pas qu'eux-mêmes, il est tragiquement dangereux pour le monde tout entier. Notre intérêt bien compris est d'alléger la dette du Sud. Il est essentiel pour tous les pays d'abaisser les taux d'intérêt réels, qui sont la première cause d'aggravation du coût de l'endettement des pays du Sud. Au-delà, la situation, les perspectives deviendraient différentes, les pays les plus avancés ayant largement recours au marché financier privé tandis que les pays à bas revenus n'ont accès qu'à des aides publiques.

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Pour les pays du Sud en cours d'industrialisation, je crois que des institutions multilatérales accordant leur garantie ou, au moins, leur soutien, à certaines ressources venues du secteur privé se révèleront de jour en jour plus nécessaires, cette garantie s'appliquant en priorité aux échéances longues de prêts supplémentaires.

Et pour les pays les plus pauvres, la part des pays développés dans l'émission d'une nouvelle allocation de DTS pourrait servir à bonifier leurs prêts conditionnels au Tiers-Monde, par l'intermédiaire des institutions financières internationales, afin d'assurer une gestion raisonnable de la dette de ces pays.

Depuis la réforme de 1975, les montants disponibles, du fait de la "facilité" du Fonds Monétaire International, ont atteint un niveau respectable, et c'est très bien ainsi. Mais l'ampleur des moyens est encore insuffisante. A cet égard, je l'ai noté, l'augmentation récente des quotas du FMI constitue un pas important. Mais il ne faudrait pas, dans le même temps, qu'une sévérité accrue des procédures limite l'emploi de cette nouvelle ressource, vitale pour de nombreux pays en développement.

J'ajoute que le rôle de la Banque Mondiale devrait être largement accru et diversifié en fonction des besoins des emprunteurs. Il serait opportun de modifier, je le crois, les ratios et d'augmenter significativement le montant du capital de la banque elle-même, en 1985, afin de lui permettre de faire face aux besoins des pays les plus pauvres.

D'une manière générale, j'insisterai sur l'importance de la stabilité dans le temps des engagements financiers, en matière d'aide et de crédits : comment monter des projets importants, je vous le demande, sur la base de financements annuels ? Comment les plus pauvres peuvent-ils établir des stratégies si l'apport extérieur est imprévisible au-delà de l'année en cours ? Un élément essentiel de la Convention de Lomé entre la Communauté Economique Européenne et soixante pays en voie de développement a été de garantir le financement sur cinq ans. La pluriannualité de l'aide est essentielle et il faut, je le crois, s'inspirer de cet exemple.

Il faut agir de façon spécifique pour les pays les plus démunis.

Il devrait être possible de desserrer les contraintes de la dette de ces pays en leur permettant d'emprunter à des conditions plus souples des sommes très supérieures au montant de leur quota. En outre, une part des allocations nouvelles de DTS pourraient être utilisée à abaisser nettement le coût de ces concours.

Un autre type de protection spéciale existe déjà pour ces pays et fonctionne dans le cadre du STABEX de la Convention de Lomé. La première priorité est de le consolider. Lors de la Conférence de Paris sur les pays les moins avancés, tenue en 1981, des engagements ont été pris pour l'extension de

cette garantie STABEX à l'ensemble de ces pays. Cette voie doit être poursuivie. Des propositions intéressantes ont été faites en ce sens dans la perspective de la CNUCED et lors de la réunion des pays non-alignés.

Un effort supplémentaire d'aide s'impose en faveur des 36 pays les moins avancés, dans le cadre des suites de la Conférence de Paris et sur la base des programmes de développement établis et révisés par les consortiums de pays donateurs. Il y a là un devoir que les pays ici rassemblés sont appelés à accomplir. Chacun de nous doit faire ce qu'il peut pour atteindre au plus vite les niveaux d'aide recommandés par les Nations Unies.

Enfin, il faut que soit lancé un "Plan d'urgence pour l'Afrique", dont le Produit national brut par tête stagne depuis dix ans et qui, compte tenu de ses dettes, menace de devenir le "continent perdu du développement". Un effort exceptionnel de solidarité des pays occidentaux est urgent. Mon pays fera des propositions détaillées à ce sujet bientôt. Nous avons trouvé bien des exemples où certains d'entre vous ont marqué de l'imagination, de l'audace. Nous avons souvent à nous inspirer de qu'ils font, mais nous apporterons nous-mêmes notre contribution.

Relancer, stabiliser, développer, voilà ce qui nous permettra d'organiser la reconstruction de l'ordre économique international ; reconstruction à laquelle je ne peux que vous inviter ce soir par la parole, mais dont les actes sont nécessaires, et ils dépendent de vous.

Le tableau d'ensemble que je viens d'esquisser, à très larges touches, ne répond pas à toutes les nécessités du moment. C'est délibérément que j'ai insisté sur la relation Nord-Sud, en soulignant l'inter-relation fondamentale, économique et politique, qui existe désormais entre le sort de ces pays et le nôtre. Je vous le dis gravement, tout passe par là.

J'ajouterai simplement, pour en finir, qu'il ne s'agit pas dans mon esprit de formules abstraites ou de visions utopiques. Ce sont en effet des principes que nous appliquons déjà, autant que possible, au sein d'une communauté restreinte mais enfin importante, la Communauté des Dix, ici représentée. La signification de mon appel auprès de vous, Mesdames et Messieurs, elle vient précisément de l'expérience quotidienne de ces dix pays. Certes, cette expérience, nous le savons bien nous qui en sommes, est souvent décevante, surtout lorsque nous considérons les difficultés plutôt que le chemin parcouru. Mais en fin de compte, par-delà ses crises, cette Europe sait qu'elle est appelée à plus d'identité, à plus de responsabilité, à plus d'unité. Elle sent que l'ouverture équitable de ses frontières, la progression de ses prix agricoles, la stabilité relative de ses taux de change lui profitent. Quand les Européens l'oublient, le reste du monde, d'une façon ou d'une autre se charge de le lui rappeler et, au fond, c'est très bien ainsi. Cette Europe se doit donc d'être plus

forte et plus unie, pour elle-même et pour l'exemple qu'elle donne au monde. Nous aurons l'occasion , certainement, d'en reparler, et particulièrement lors d'une rencontre déjà programmée pour le mois de juin à Stuttgart.

Mesdames et Messieurs, au risque d'accroître votre fatigue en cette fin de journée- mais quelle autre occasion me serait-elle donnée pour rencontrer au même moment tant de grands et vrais responsables de la politique économique dans le monde ?-j'ai essayé de vous parler ce soir un langage qui est le mien, que je voudrais être celui de la vérité, mais surtout de l'espoir. La crise, nous la vivons, nous en souffrons, elle est là, profonde, multiforme. Elle nous appelle à un dépassement collectif, au rassemblement de nos énergies, dans chacune de nos nations comme à l'échelle du monde. Seulement nous le pressentons plus confusément, sans toujours en tirer les conclusions indispensables. Or, l'avenir n'est pas fermé. Il n'a jamais été fermé à travers tous les temps. Il dépend de notre ambition, de notre coopération. Une action mondiale pour la reconstruction de l'ordre économique **est possible**. Il y faudra du temps, oui, mais enfin, des années, oui, mais enfin, beaucoup de moyens financiers, mais enfin, si nous n'agissons pas par ces moyens, par des réformes, par des accords, par la concertation, à quoi aboutirons-nous ? Et comment pourrions-nous hésiter à utiliser au mieux les immenses potentialités créées par le génie de l'homme dont nous sommes aujourd'hui porteurs ?

Il est clair que le temps presse. Nous ne pouvons pas nous permettre de perdre des occasions. Je vous ai parlé des réunions européennes, et se profile un Sommet des pays industrialisés; nous pourrons vérifier à ces occasions si nous sommes sur la bonne voie ou bien si nous nous y refusons, choisissant l'anarchie et la crise plutôt que le redressement. Chacun en tirera les conséquences qu'il souhaitera, et apprécie à cette mesure l'utilité de ce type de réunion.

L'essentiel tient, par-delà nos différences, à une commune disposition d'esprit, à une volonté, à une mobilisation de nos chercheurs, de nos entreprises, de nos jeunes, de nos responsables. C'est à ce prix, vous le savez, que nous pourrons créer, ensemble, un monde plus civilisé, plus libre et plus tolérant. Et qui doute parmi vous, Mesdames et Messieurs, que c'est là l'objectif fixé par nos peuples mêmes ? Si nous sommes associés, rassemblés dans cette salle, c'est parce que la preuve a été faite que le monde s'inspire des principes de liberté et de travail, de progrès et de paix, et a su en d'autres temps dominer l'évènement. Je voudrais que ma conviction soit unaniment partagée, cela est à notre mesure, à la vôtre, Madame, Mesdames et Messieurs.

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Vous nous en apportez chaque jour la preuve par le sérieux et l'importance de vos travaux.

Je vous souhaite cette fois-ci de les poursuivre en recherchant toujours la conciliation nécessaire, et je répèterai ce que j'ai dit pour commencer : vous nous honorez, Mesdames et Messieurs, en étant nos hôtes pour la reconstruction de l'ordre international. Vous êtes ici à Paris et en France chez vous. Vous y êtes les bienvenus. Oeuvrons pour le bien de tous. Je crois bien que c'est votre loi. Merci

S E C R E T

MT

10 DOWNING STREET

From the Private Secretary

9 May 1983

Seen by Mr Lavelle

The General Election

I enclose copies of:

(a) A message which the Prime Minister sent this morning to the President of the United States which deals, inter alia, with the implications of a General Election for her planned visits to Washington and Williamsburg;

(b) A further message which the Prime Minister has sent to Chancellor Kohl about the European Council in Stuttgart.

I am copying this letter and its enclosures to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office). I should be grateful if you and they would not circulate the messages beyond Private Offices.

A.J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

MISC 137

Wouldn't Scan
Properly - refer in person

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PM WHITE HOUSE

SECRET

INTERNATE TO WHITE HOUSE (DELIVERY T/12777)

FROM: CABINET OFFICE LONDON TOTSGNE

MESSAGE FROM THE PRIME MINISTER

TO THE PRESIDENT OF THE
UNITED STATES OF AMERICA.

DEAR JIMMY,

WE ARE ANNOUNCING TODAY THAT THERE WILL BE A GENERAL ELECTION IN THE UNITED KINGDOM ON THURSDAY, 9 JUNE. I WANTED TO BE IN TOUCH WITH YOU AT ONCE.

I AM CONVINCED THAT IT WOULD NOT HAVE BEEN RIGHT IN THE NATIONAL INTEREST TO DELAY THE ELECTION ANY LONGER. BUT THE DATE I HAVE CHOSEN HAS IMPLICATIONS FOR MY PLANS TO VISIT WASHINGTON ON 27/28 MAY AND WILLIAMSBURG ON 27/30 MAY.

I HAD VERY MUCH LOOKED FORWARD TO MY MEETINGS WITH YOU IN WASHINGTON ON 27 MAY BUT I KNOW YOU WILL UNDERSTAND THAT IT IS SIMPLY NOT POSSIBLE FOR ME TO BE AWAY FROM THE UNITED KINGDOM FOR SEVERAL DAYS IN THE MIDDLE OF AN ELECTION CAMPAIGN. I AM AFRAID, THEREFORE, THAT I MUST POSTPONE MY VISIT TO WASHINGTON. WITH YOUR AGREEMENT I WOULD PROPOSE TO MAKE THIS KNOWN PUBLICLY ON TUESDAY, 10 MAY.

IN ANSWER TO QUESTIONS ABOUT WILLIAMSBURG WE ARE AT PRESENT SAYING THAT THE UNITED KINGDOM WILL OF COURSE BE REPRESENTED BUT THAT DECISIONS ON THE COMPOSITION OF OUR DELEGATION HAVE YET TO BE TAKEN. I SHALL LET YOU KNOW AS SOON AS I HAVE BEEN ABLE TO DECIDE WHETHER I SHOULD PERSONALLY ATTEND. I VERY MUCH WANT TO DO SO BUT I HAVE TO REIGN THIS AGAINST THE REQUIREMENTS OF THE ELECTION CAMPAIGN AND POSSIBLE CRITICISM HERE IF I AM ABSENT. I SHALL BE IN TOUCH AGAIN ABOUT THIS AS SOON AS POSSIBLE.

THE GOVERNMENT WILL, OF COURSE, CONTINUE TO EXERCISE FULL RESPONSIBILITY DURING THE ELECTORAL PERIOD, BUT WE WOULD LOOK TO YOU TO BE AS TOUGH AS THE SITUATION DEMANDS.

[illegible]

YOURS EVER
ARNOTT

S E C R E T

MARK

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OUT TELEGRAM

Classification and Caveats: SECRET AND PERSONAL

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1 ZCZC
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8 TELEGRAM NO
9 EUROPEAN COUNCIL, STUTTGART: BRITISH ELECTIONS
10 TELECON PRIVATE SECRETARY/EASTWOOD
11 1. Date of elections will be announced here at 1430
12 local time. The Prime Minister would like the following
13 message to be delivered to Chancellor Kohl before then and,
14 failing that, as soon as possible thereafter:
15 Begins.
16 Dear Herr Chancellor
17 We are announcing today that there will be a General
18 Election in the United Kingdom on 9 June. I wanted to be
19 in touch with you at once.
20 After the most careful though I have decided that it
21 would not be in the national interest to delay an Election
/// 22 any longer. But the date I have had to choose is very close
// 23 to the European Council in Stuttgart on 6/7 June. We shall
/ 24 be telling the press in answer to the inevitable questions
25 that the United Kingdom will of course be represented at

A.J.C. 9/5
K.a.

NNNN ends telegram	BLANK	Catchword: Stuttgart
File number	Dept	Distribution: LIMITED, Head ECD (I), PS, PS/Mr Hurd, PS/PUS, Mr Evans, Mr James, Mr Hannay, Head WED, Head ECD(E), Head, News Dept
Drafted by (Block capitals): B J Pirie		PS / No 10
Telephone number		
Authorised for despatch: 9/5		
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Classification and Caveats		Page
SECRET AND PERSONAL		2

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Stuttgart but that decisions on our representation have yet to be taken.

I shall need a little time to consider whether it will be possible for me to attend the European Council in person, if only for part of the proceedings. I very much wanted to attend to help make this Council, under your Presidency, an outstanding success (and this consideration has been much in my mind in the difficult decision I had to make about the timing of the Election). On the other hand, I know you will understand how difficult it would be for me to be away from the United Kingdom during the crucial closing days of our campaign. I shall be in touch with you again about this issue as soon as possible.

Of course, the question of our budget problem now becomes all the more critical and urgent. I very much hope that we can find a solution at the Foreign Affairs Council on 24 May.

Meanwhile, I am most grateful to you for all the help you have given to the United Kingdom and to me personally. This will be of continuing importance to me in the days and weeks ahead.

With my best wishes, Yours ever, Margaret Thatcher.

Ends.

PYM

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ADVANCE COPIES

ECONOMIC SUMMIT

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MR HAYES

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PS/NO 10 DOWNING STREET

PS/CHANCELLOR OF THE EXCHEQUER)
MR LITTLER)
MR BOTTRILL) TREASURY

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES)
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MR MCMAHON BANK OF ENGLAND

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MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

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TO IMMEDIATE F C O
TELEGRAM NO 247 OF 9 MAY
RPT WASHINGTON, PARIS, BONN, ROME, UKREP BRUSSELS AND OTTAWA

YOUR TEL NO 730 TO WASHINGTON:

PREPARATIONS FOR WILLIAMSBURG.

1. THIS WILL BE NAKASONE'S FIRST SUMMIT. ALTHOUGH THE ODDS NOW APPEAR TO BE SOMEWHAT AGAINST A GENERAL ELECTION HERE IN JUNE THERE REMAINS A POSSIBILITY THAT ONE COULD BE HELD THEN. IN ANY CASE THERE WILL BE ELECTIONS AT THAT TIME FOR HALF OF THE UPPER HOUSE OF THE DIET. NAKASONE WILL THEREFORE BE MORE THAN USUALLY ON HIS METTLE. HE APPEARS TO HAVE NO STRIKING INITIATIVES UP HIS SLEEVE BUT WILL WISH TO BE ABLE TO DEMONSTRATE TO THE WORLD AT LARGE AND TO THE JAPANESE PRESS IN PARTICULAR THAT HE HAS PLAYED A POSITIVE PART IN THE DELIBERATIONS AT THE SUMMIT AND HAS BEEN LISTENED TO WITH INTEREST AND RESPECT. IN SEEKING TO ESTABLISH THIS NAKASONE WILL HAVE THE ADVANTAGE OF FAIR ABILITY IN ENGLISH AND A POSITIVE PERSONALITY, BOTH OF WHICH HAVE BEEN SCARCE COMMODITIES AMONG RECENT JAPANESE PRIME MINISTERS.

2. NAKASONE IS STILL IN SOUTH EAST ASIA AND

Is it correct? (Thus seem to me v. divergent views of Jap. friend, monetary volume. Can we have a wd. on this note, pls?) BMM.

COMMODITIES AMONG RECENT JAPANESE PRIME MINISTERS.

2. NAKASONE IS STILL IN SOUTH EAST ASIA AND WILL ONLY CONCENTRATE ON HOW HE SHOULD PLAY HIS HAND AT WILLIAMSBURG AFTER HIS RETURN HERE LATER THIS WEEK. THIS VISIT WILL HAVE REINFORCED HIS AWARENESS THAT HE WILL BE THE ONLY ASIAN REPRESENTATIVE AT THE SUMMIT. HIS OFFICIALS INTEND TO DRAW HIS ATTENTION TO THE ALMOST TOTAL ABSENCE OF ANY DISCUSSION ON NORTH/ SOUTH MATTERS AT THE LAST TWO OR THREE SHERPA MEETINGS.

3. IN GENERAL TERMS THE JAPANESE ARE LOOKING FOR AN UNDRAMATIC SUMMIT WHICH CONCENTRATES FIRST AND FOREMOST ON MACROECONOMIC POLICY AND WAYS IN WHICH THE PARTICIPATING COUNTIES CAN BRING ABOUT GREATER CONVERGENCE IN THEIR ECONOMIC POLICIES. THE JAPANESE ATTACH IMPORTANCE TO THE POSSIBILITY OF LIMITED INTERVENTION ON A COOPERATIVE BASIS TO BRING ABOUT AN INCREASING MEASURE OF STABILITY IN THE EXCHANGE MARKETS. THEY SEE EXCHANGE RATE STABILITY AS ONE WAY OF REMOVING EXTERNAL CONSTRAINT ON THEIR DOMESTIC MONETARY POLICY. THEY ALSO SEE GREATER EXCHANGE RATE STABILITY AS CONTRIBUTING TO BUILDING ON THE FIRST SIGNS OF ECONOMIC UPTURN IN THE WORLD ECONOMY. NAKASONE'S OTHER CONCERN IN THE MARCOECONOMIC DISCUSSIONS WILL BE THE SEVERE FISCAL CONSTRAINTS RESULTING FROM THE LARGE JAPANESE BUDGET DEFICIT. ALTHOUGH NAKASONE HAS DROPPED HIS PREDECESSOR'S UNREALISTIC COMMITMENT TO A BALANCED BUDGET BY 1985, HIS GOVERNMENT REMAIN FIRMLY LOCKED INTO A LONG-TERM COMMITMENT TO REDUCE PUBLIC SPENDING AND DEFICIT FINANCING (WHICH HAS NOW REACHED 26.5% OF THE BUDGET). THE GOVERNMENT HAS ALREADY EXPERIENCED DIFFICULTIES IN PERSUADING THE COMMERCIAL BANKS TO BUY BONDS TO FINANCE THE DEFICIT. THUS NEITHER A RELAXATION OF DOMESTIC CREDIT NOR GOVERNMENT REFLATIONARY MEASURES ARE STEPS TO WHICH NAKASONE WILL EASILY BE ABLE TO SUBSCRIBE.

4. AS AT PREVIOUS SUMMITS, THE JAPANESE WILL EXPECT TO FACE CRITICISM ABOUT THEIR CONTINUING HIGH TRADE SURPLUS AND LOW LEVEL OF MANUFACTURED IMPORTS. RELATIONS WITH BOTH THE EC AND THE U S ON TRADING PROBLEMS REMAIN DIFFICULT. FOR THIS SUMMIT (UNLIKE ITS PREDECESSORS), THERE IS UNLIKELY TO BE ANY LAST-MINUTE JAPANESE INITIATIVE DESIGNED TO TAKE THE STING OUT OF THESE CRITICISMS ON TRADE POLICY. NAKASONE WILL RATHER TRY TO TAKE CREDIT FOR THE TARIFF CUTS AND MARKET OPENING MEASURES FOR WHICH HIS GOVERNMENT HAS BEEN RESPONSIBLE IN ITS FIRST SIX MONTHS. ON THE OTHER HAND, THE TRADE SURPLUS FOR FISCAL 1982 WAS DOLLAR 20 BILLION IN SPITE OF A 9.1% DROP IN EXPORTS (THE DROP IN IMPORTS WAS SOMEWHAT GREATER). THE TRADE BALANCE FOR 1983 PROMISES TO BE EVEN LARGER, PARTICULARLY FOLLOWING A DROP IN OIL PRICES. IN DEFENDING THESE SURPLUSES, NAKASONE WILL NO DOUBT ARGUE THAT THEY REFLECT THE COMPETITIVENESS OF JAPANESE INDUSTRY (AND BY IMPLICATION THE LACK OF COMPETITIVENESS OF JAPAN'S

THESE SURPLUSES, NAKASONE WILL NO DOUBT ARGUE THAT THEY REFLECT THE COMPETITIVENESS OF JAPANESE INDUSTRY (AND BY IMPLICATION THE LACK OF COMPETITIVENESS OF JAPAN'S COMPETITORS) AND THAT JAPAN HAS MADE HERE OWN UNILATERAL COMMITMENTS TO REDUCE THE IMPACT OF HER EXPORTS ON THE MARKETS OF HER DEVELOPED PARTNERS.

5. THE JAPANESE ARE RECONCILED TO SOME DISCUSSION OF EAST/WEST ECONOMIC RELATIONS AT THE SUMMIT. THEY ATTACHE CONSIDERABLE IMPORTANCE TO THE SUBJECT ITSELF BUT THEY BELIEVE THAT TACTICALLY THE AMERICANS WOULD BE WELL ADVISED NOT TO HIGHLIGHT THE SUBJECT IN THE SUMMIT CONTEXT. THE JAPANESE ARE STILL UNCERTAIN ABOUT AMERICAN INTENTIONS ON THIS PARTICULARLY IN ADVANCE OF THIS WEEK'S OECD MEETING. BECAUSE OF ITS POTENTIALLY DIVISIVE EFFECT THE JAPANESE WILL FOR THE MOST PART KEEP THEIR HEADS WELL DOWN WHEN THIS GENERAL SUBJECT IS BEING DISCUSSED. THEY HAVE AN ADDITIONAL REASON FOR DOING SO IN THAT ALTHOUGH THEY SHARE EUROPEAN ANXIETIES ABOUT THE RENEWAL OF THE EAA, THEY ARE ANXIOUS NOT TO BECOME TOO CLEARLY IDENTIFIED WITH OPPOSITION TO RENEWAL THEREBY INCREASING ANTI-JAPANESE FEELINGS IN CONGRESS.

6. WHEN POLITICAL MATTERS ARE DISCUSSED THE JAPANESE EXPECT THE AMERICANS TO RAISE THE MIDDLE EAST AND INF. IT IS UNLIKELY THAT THE JAPANESE WILL HAVE ANYTHING TO SAY ON THESE SUBJECTS BEYOND THEIR ALREADY WELL-KNOWN STANDARD POSITIONS. ALTHOUGH THEY ATTACH IMPORTANCE TO POLITICAL DISCUSSIONS SINCE SUMMITS OF THE SEVEN ARE THE ONE FORUM OF WHICH THEY ARE MEMBERS AT WHICH SUCH SUBJECTS ARE RAISED, IT SEEMS UNLIKELY THAT NAKASONE WILL HAVE ANYTHING PARTICULAR TO RAISE HIMSELF AS A SEPARATE SUBJECT, ALTHOUGH IF OPPORTUNITY OFFERS HE MAY MAKE SOME COMMENTS ON SOUTH EAST ASIA (VIETNAM AND CAMBODIA).

7. IN SUM, WHILE NAKASONE'S STYLE WILL BEMORE OPEN AND FORTHCOMING THAN THAT OF HIS RECENT PREDECESSORS, IN SUBSTANCE HE IS UNLIKELY TO BE ABLE TO MAKE MANY WEIGHTY CONTRIBUTIONS, PARTICULARLY OUTSIDE THE MACROECONOMIC FIELD.

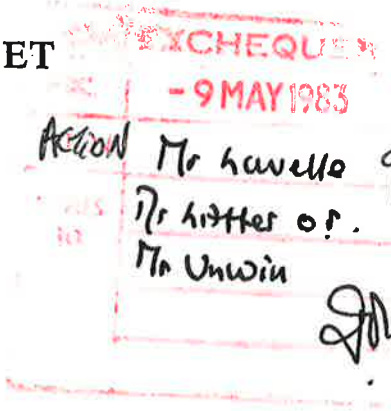
CORTAZZI

NNNN

CCN PARA 6. LINE 8. THAT NAMXXX NAKASONE ETC ETC

SECRET

10 DOWNING STREET



From the Private Secretary

SIR ROBERT ARMSTRONG

Williamsburg Summit

I enclose a copy of a message which President Reagan has sent to the Prime Minister about the above. This in turn encloses a "thematic paper" which the President asks participants to review before the final preparatory session in mid-May.

I should be grateful if you could let the Prime Minister have advice on the line which you propose to take on this at the next Sherpa meeting.

I am copying this letter, with its enclosures, to Brian Fall (Foreign and Commonwealth Office) and John Kerr (H.M. Treasury).

A. J. COLES

Seen by Mr Lavelle

9 May 1983

SECRET

Dear Maggie,

It is now less than a month before we assemble in Williamsburg. I am satisfied that this Summit will have more flexibility and opportunity for a thorough exchange of views. My earlier letters to you confirmed our common determination to preserve an informal environment, avoid a pre-negotiated communique, and ensure a preparatory process reflecting our personal views at each stage.

The preparations to date reflect the careful contributions of each of you. We have laid a solid foundation of issues and points of view from which to begin our discussions at Williamsburg. Our common objective is to have a well prepared Summit which can produce meaningful results, yet does not begin with a pre-negotiated communique that leaves only a few bracketed phrases for us to resolve. Since this is the first time that we have sought to avoid a pre-negotiated communique, I wanted to lay out for you, in some detail, how I envision the remaining preparations before the Summit and our discussions at the Summit itself.

After the last preparatory meeting, my personal representative circulated a final, integrated summary, outlining the results of the preparatory discussions thus far. Through your personal representative, we requested you to respond with suggested themes for Williamsburg. My personal representative then drafted an initial thematic paper, and he or members of his team met individually with each of your personal representatives to discuss it. The paper has now been revised and I am sending it to you to review before the final preparatory session in mid-May.

May I stress that this paper is merely a point of departure, not a formal agenda for our deliberations at Williamsburg. The most important themes we have agreed on are the interrelationships among our economies, and the policies we should pursue for a lasting, non-inflationary recovery. The paper also notes areas of both progress and continuing problems, while suggesting a common approach to ensure the new era of growth we want to achieve in the industrial and developing world.

At the mid-May meeting, I would hope you could transmit your further views on the content of the thematic paper. Then, after carefully noting points of agreement and disagreement, our respective representatives can brief us and each leader

can gain a better understanding of the general themes and specific results we can anticipate at the Summit. Through your cooperation and participation, we can use the thematic paper as a vehicle to prepare for a more productive Summit.

But let me stress that the thematic paper should not constrain our discussions at Williamsburg in any way. I feel strongly that the outcome of the Summit should be determined by our meetings at Williamsburg, not by a preparatory document. Certainly, we need careful preparatory work and the thematic paper should identify the serious issues we will discuss. However, I do not want us to be faced with a situation where our first conversation centers on the communique, even before we have begun our substantive discussions.

Our thematic paper should serve as background for addressing the serious issues. On the first day of discussions, at our heads-only morning session, we can discuss our overall approach to world economic recovery, including an assessment of current economic conditions, and national and international actions to ensure sustained, non-inflationary growth. In the afternoon, we will be joined by our Ministers, to explore specific issues in more detail, such as domestic policies and international trade and finance, and a review of East-West economic relations. On the basis of these discussions, we will instruct our personal representatives to develop the first draft of the final joint statement.

As we all agree, a successful Summit requires both careful preparation and the necessary flexibility for each of us, as democratically-elected heads of state, or government, to discuss fully our respective points of view, and to decide personally on the collective expression of our message to the world from Williamsburg. I think we have found the right balance between careful preparation, as reflected in the thematic paper, and flexibility as reflected in the process for drafting the joint statement at Williamsburg itself.

I am grateful to each of you for your strong support in taking a new approach to this Summit. I am firmly convinced that our efforts will produce a more meaningful and relevant discussion and a more timely and direct message to the world from those of us who have the leadership responsibilities in our great democracies.

Sincerely,

/s/

Ronald Reagan

THEMATIC PAPER

I. SUMMARY INTRODUCTION

THIS IS A TIME OF REAL IMPROVEMENT IN ECONOMIC CIRCUMSTANCES. RECOVERY IS UNDERWAY IN SOME COUNTRIES, AND THIS FACT INCREASES CONFIDENCE THAT IT WILL SOON SPREAD TO OTHER COUNTRIES, BOTH INDUSTRIAL AND DEVELOPING. THE CHALLENGE IS TO INSURE THAT THIS RECOVERY ENDURES AND REVERSES A

DECADE OF CUMULATIVE INFLATION AND UNEMPLOYMENT. TO ACHIEVE THIS GOAL FOR OURSELVES AND FUTURE GENERATIONS REQUIRES STEADY, PURPOSEFUL ACTION OVER BOTH THE SHORT AND LONG TERM ACROSS A RANGE OF POLICIES THAT EXPLOIT AND REINFORCE INTERRELATIONSHIPS AMONG OUR ECONOMIES, BETWEEN OUR ECONOMIES AND THE INTERNATIONAL TRADE AND FINANCIAL SYSTEM AND BETWEEN ECONOMIC STRENGTH AND WESTERN SECURITY:

-- PROMOTING CONDITIONS FOR GROWTH WHILE OPENING MARKETS TO SPREAD AND REINFORCE GROWTH.

-- MAINTAINING THE FIGHT AGAINST INFLATION WITH THE OBJECTIVE OF ACHIEVING MORE STABLE EXCHANGE RATES WHILE INTENSIFYING CONSULTATIONS ON ECONOMIC POLICIES AND MARKET CONDITIONS.

-- SUPPORTING THE INTERNATIONAL FINANCIAL SYSTEM WHILE TAKING SPECIFIC STEPS TO REVERSE PROTECTIONISM AND ANTICIPATE NEW EFFORTS TO FURTHER LIBERALIZE TRADE.

-- STRENGTHENING WORLD ECONOMIC COOPERATION AND INSTITUTIONS WHILE PROMOTING ;STRUCTURAL ADJUSTMENT IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES.

-- RECOGNIZING THAT PROSPERITY IS MORE THAN MATERIAL GAIN, BUT ALSO REFLECTS OUR BASIC SHARED VALUES OF POLITICAL

FREEDOM, ECONOMIC OPPORTUNITY AND HUMAN DIGNITY, AND CONTRIBUTES TO THE DEFENSE OF THESE VALUES WHICH ALSO GUIDE OUR ECONOMIC AND OTHER RELATIONS WITH EASTERN COUNTRIES.

II. ASSESSMENT: REALISTIC OPTIMISM

IMPROVEMENTS IN SOME COUNTRIES ARE UNDENIABLE:

-- MAJOR SUCCESSES HAVE BEEN ACHIEVED IN REDUCING INFLATION.

-- NOMINAL INTEREST RATES HAVE BEEN SIGNIFICANTLY REDUCED.

-- OIL PRICES HAVE DECLINED.

-- PRODUCTIVITY INCREASES HAVE BEEN REGISTERED.

-- SOME SUCCESSES IN CONTROLLING BUDGET EXPENDITURES HAVE BEEN ACHIEVED.

-- CONSENSUS EXISTS TO REDUCE INFLATION AND CREATE THE BASIS FOR SUSTAINABLE GROWTH PROMOTING POLICY CONVERGENCE

AND GREATER STABILITY OF EXCHANGE RATES.

-- RECOVERY IN SOME COUNTRIES SPREADING TO OTHERS WILL HELP ENSURE THE REVIVAL OF WORLD TRADE AND EASING OF THE DEBT BURDEN OF MANY DEVELOPING COUNTRIES.

HOWEVER, SERIOUS PROBLEMS REMAIN, ENDANGERING THE PROSPECTS OF AN ENDURING RECOVERY.

-- UNEMPLOYMENT, ESPECIALLY AMONG YOUNG PEOPLE, REMAINS INTOLERABLY HIGH AND CONTINUES TO INCREASE IN SOME COUNTRIES.

-- DIFFERENCES IN INFLATION AMONG COUNTRIES REMAIN TOO GREAT.

-- INFLATIONARY EXPECTATIONS, FED BY UNACCEPTABLY HIGH FUTURE BUDGET DEFICITS AND THE POSSIBILITY OF EXCESSIVE AND VOLATILE MONEY GROWTH, HAVE KEPT INTEREST RATES TOO HIGH, THREATENING TO CHOKE OFF RECOVERY AND PRODUCING DISTORTIONS IN EXCHANGE RATES.

-- PROTECTIONIST PRESSURES THREATEN OUR OPEN TRADE AND FINANCIAL SYSTEM AND PROSPECTS FOR RECOVERY IN BOTH INDUSTRIAL AND DEVELOPING COUNTRIES.

-- UNPRECEDENTED DEBT BURDENS EXACERBATED BY HIGH INTEREST RATES CONTINUE TO CONSTRAIN TRADE AND THREATEN FINANCIAL AND RELATED POLITICAL INSTABILITY IN SOME COUNTRIES.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

NO SINGLE COUNTRY, POLICY OR IMMEDIATE ACTION CAN ENSURE A QUICK OR SUSTAINED RECOVERY. SUCCESS ;REQUIRES A COMMON APPROACH INVOLVING ACTIONS TAKEN NOW ACROSS A BROAD RANGE OF POLICY AREAS, ANCHORED WITHIN A FRAMEWORK OF LONGER-TERM POLICY GOALS AND DECISIONS.

ACTIONS NOW:

-- ENHANCE THE INTENSIVE CONSULTATION PROCESS INITIATED AT VERSAILLES TO PROMOTE CONVERGENCE OF ECONOMIC CONDITIONS IN KEY CURRENCY COUNTRIES AND THEREBY CONTRIBUTE TO GREATER EXCHANGE RATE STABILITY.

-- DEVELOP COOPERATIVE CONSULTATIONS ON POLICIES AND EXCHANGE MARKET CONDITIONS AND, WHILE RETAINING THE FREEDOM TO OPERATE INDEPENDENTLY, BE WILLING TO INTERVENE IN EXCHANGE MARKETS IN A COORDINATED MANNER IN INSTANCES WHERE WE AGREE SUCH INTERVENTION WOULD BE HELPFUL.

-- ENCOURAGE GOVERNMENTS TO REDUCE PROJECTED FUTURE BUDGET DEFICITS, THEREBY LOWERING INFLATIONARY EXPECTATIONS AND HIGH LONG-TERM INTEREST RATES.

-- PURSUE APPROPRIATE NON-INFLATIONARY GROWTH OF MONETARY AGGREGATES TO ACHIEVE AND MAINTAIN LOW INFLATION AND

:N. :EST RATES.

-- REVERSE PROTECTIONISM AND PROGRESSIVELY DISMANTLE TRADE BARRIERS AND MARKET-DISTORTING DOMESTIC MEASURES.

-- GIVE NEW IMPETUS TO RESOLVE CURRENT TRADE DISPUTES, WITH SPECIAL ATTENTION TO PROBLEMS IN AGRICULTURAL TRADE, CONFLICTS OF JURISDICTION AND THE NEED TO ACHIEVE A SAFEGUARD AGREEMENT BY OCTOBER 1983 AS MANDATED BY THE GATT MINISTERIAL.

-- AGREE TO PRESS FORWARD WITH THE GATT WORK PROGRAM ON TRADE IN SERVICES AND TO INITIATE A STUDY ON LIBERALIZATION OF TRADE IN HIGH TECHNOLOGY PRODUCTS.

-- BEGIN WORK NOW TO ANTICIPATE FURTHER TRADE LIBERALIZATION IN THE GATT, FOCUSING PARTICULARLY ON TRADE WITH THE DEVELOPING COUNTRIES AND THE CRUCIAL LINK BETWEEN THE ABILITY OF THESE COUNTRIES TO EXPORT AND THEIR ABILITY TO SERVICE DEBT WITHOUT IMPEDING GROWTH.

-- SECURE EARLY RATIFICATION OF THE INCREASES IN IMF AND GAB RESOURCES.

-- REAFFIRM COMMITMENTS TO PROVIDE AGREED FUNDING LEVELS FOR IDA AND THE OTHER MULTILATERAL DEVELOPMENT BANKS.

-- CONTINUE WITH AGREED STRATEGY FOR MANAGING CURRENT DEBT PROBLEMS, INCLUDING EFFECTIVE ADJUSTMENT, ADEQUATE PRIVATE AND OFFICIAL FINANCING, AND SUSTAINED, NON-INFLATIONARY

COVERY IN INDUSTRIAL COUNTRIES.

— WELCOME OPENNESS TO DIALOGUE EXPRESSED BY DEVELOPING COUNTRIES AND ENGAGE CONSTRUCTIVELY IN UNCTAD VI, EMPHASIZING OUR PROGRAM FOR A DURABLE RECOVERY AND PRACTICAL PROPOSALS TO MANAGE DEBT PROBLEMS, FACILITATE ADJUSTMENT, PROMOTE TRADE, REVIVE COMMODITY MARKETS, ENCOURAGE MORE PRIVATE AND PUBLIC INVESTMENT IN DEVELOPING COUNTRIES AND STRENGTHEN THE DIALOGUE WITH DEVELOPING COUNTRIES IN APPROPRIATE FORUMS.

— AGREE TO CONSULT AMONG EACH OTHER AND WITH OTHER COUNTRIES TO ADDRESS INTERRELATIONSHIPS AMONG TRADE AND FINANCE IN THE WORLD ECONOMY AND TO ENCOURAGE BETTER COORDINATION AMONG INTERNATIONAL ECONOMIC INSTITUTIONS.

-- IMPLEMENT AGREED CONCLUSIONS FOR EARLY ACTION REFLECTED IN THE RESULTS OF WORK PROGRAMS ON EAST-WEST ECONOMIC RELATIONS. (IDENTIFY SIGNIFICANT RESULTS OF PRE-SUMMIT MEETINGS.)

IV. LONGER-TERM POLICY GOALS AND DECISIONS

-- SUSTAIN FIGHT AGAINST INFLATION AND STRUCTURAL BUDGET DEFICITS TO ENCOURAGE A HIGHER LEVEL OF INVESTMENT AND NEW JOB CREATION.

-- PURSUE THE CONSULTATIVE ARRANGEMENT AGREED AT VERSAILLES TO PROMOTE ECONOMIC CONVERGENCE TOWARD LOW INFLATION AND SUSTAINED GROWTH AND THEREBY ACHIEVE GREATER EXCHANGE RATE STABILITY IN THE CONTEXT OF AN OPEN TRADING, INVESTMENT AND FINANCIAL SYSTEM.

-- PROMOTE STRUCTURAL ADJUSTMENT, IN PARTICULAR BY STRENGTHENING TECHNOLOGICAL DEVELOPMENT AND THE PROGRAM FOR COOPERATION INITIATED AT VERSAILLES, TAKING INTO ACCOUNT IMPORTANT SOCIAL AND ENVIRONMENTAL GOALS, AND BY

REVITALIZING RETRAINING AND PUBLIC EDUCATION EFFORTS TO WIN PUBLIC ACCEPTANCE OF SOCIALLY PRODUCTIVE CHANGE AND MOBILITY.

-- BASED ON WORK INITIATED NOW, STATE INTENTION TO CALL FOR A GATT MINISTERIAL IN ABOUT TWO YEARS TIME TO CONSIDER LAUNCHING A NEW ROUND OF TRADE NEGOTIATIONS, WITH SPECIAL EMPHASIS ON TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES, AND TRADE IN SERVICES AND HIGH TECHNOLOGY PRODUCTS.

-- EXAMINE WAYS TO IMPROVE THE EFFECTIVENESS OF THE DEVELOPMENT PROCESS AND STRUCTURAL ADJUSTMENT BY ASSURING NON-INFLATIONARY FLOWS OF PUBLIC AND PRIVATE FINANCE AND INVESTMENT TO THE DEVELOPING COUNTRIES, WITH SPECIAL ATTENTION TO AN ADEQUATE FLOW OF RESOURCES TO THE POOREST COUNTRIES THROUGH IDA, THE IBRD AND SIMILAR INSTITUTIONS.

— CONTINUE EFFORTS TO CONSERVE ENERGY AND DEVELOP ECONOMICAL ALTERNATIVE ENERGY RESOURCES SO AS TO ENSURE

WESTERN ENERGY SECURITY AND ENHANCE ENERGY PRODUCTION IN DEVELOPING COUNTRIES.

— FIND PRACTICAL WAYS TO PROMOTE INCREASED FOOD PRODUCTION IN DEVELOPING COUNTRIES.

— CONTINUE WORK IN APPROPRIATE EXISTING FORA TO DEVELOP AGREED ANALYSIS OF OUR ECONOMIC RELATIONS WITH THE EAST, WITH ATTENTION TO OUR SHARED SECURITY CONCERNS, AND ON THIS BASIS PURSUE INDEPENDENT POLICY ACTIONS CONSISTENT WITH AGREED PRINCIPLES AND COMMON ANALYSIS REFLECTING THE FACT THAT THESE RELATIONS SHOULD BE COMPATIBLE WITH THE BASIC VALUES AND SECURITY CONCERNS OF WESTERN COUNTRIES.

END TEXT.

3.22

CONFIDENTIAL

cc Mr Middleton
Mr Littler
Mr Burns
Mr Unwin
Mr Lavelle
Mr Kemp
Mr Bottrill
Mr Hall

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 May 1983

Richard Hatfield Esq.
Private Secretary to
Sir Robert Armstrong
Cabinet Office

Dear Richard,

I understand that Geoffrey Littler sent you a copy of the draft paper for Williamsburg on "Prospects For The World Economy" which he put to the Chancellor last Friday. I now attach a slightly revised version of the paper. The Chancellor is content that this version should be circulated now to those who will be attending the meetings of Personal Representatives later this week.

You and I agreed that a copy of the telegram should go to UKDEL OECD, where Geoffrey Littler now is. He hopes to circulate copies to his opposite numbers now attending the OECD meetings.

Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

DRAFT PAPER FOR WILLIAMSBURG

PROSPECTS FOR THE WORLD ECONOMY

Main Developments since Versailles Summit

Inflation has fallen steeply in most Summit countries and now averages about 5 per cent, the lowest rate for a decade. And in recent months there have been clear and increasing signs of recovery of economic growth in those Summit countries which have made most progress on inflation. Moreover, oil prices have fallen by some 10 per cent. But:-

- Although nominal interest rates have fallen, real interest rates remain high in some countries, especially the United States.

- Unemployment has continued to rise, though in some countries there are signs of deceleration.

- Major debt problems have erupted in several relatively advanced developing countries and threaten in others.

- Developing countries have had to cut back on imports, which has contributed to a fall in the volume of world trade.

- Protectionist pressures - and measures - have been spreading.

Assessment of Recovery Prospects

2. In France and Italy little or no growth is expected this year. But activity has picked up in the United States, and there are signs of recovery in the United Kingdom and Germany, coupled with some revival of business confidence. Output is expanding in Japan, although at a modest rate, and perhaps also in Canada.

3. Initially the main source of recovery is lower inflation which has created more room for real growth. This is taking the form of a pick-up in consumer demand, activity in housing, and the end of stock-reductions. Business confidence has been growing only sporadically so far, with investment (normally resumed later in the cycle) still showing little strength. Several countries have been recording useful increases in productivity, even during the recession, and should be able to benefit from them now.

4. For the Summit countries taken together the prospect is growth of output of some 2 per cent between 1982 and 1983 and 3 per cent between 1983 and 1984. By past standards of recovery this would be modest and gradual; and it would be unlikely to bring a rapid reduction in unemployment. But it should be sustainable.

5. This is because the prospects on inflation are favourable. The recent speed of reduction cannot be expected to continue, but the low-inflation countries aim to consolidate progress made; those with higher rates of inflation are giving priority to bringing them down; and the 10 per cent fall in the oil price, if maintained, should reduce rates of inflation in the OECD countries as a group by more than ½ per cent.

6. The overall prospect suggests that there is a good chance of securing sustainable, non-inflationary recovery.

Strategy

7. Agreement among Summit countries on objectives and on the policies necessary to achieve them has broadened and deepened. Particular stress is laid on the reduction of inflation and interest rate levels through the maintenance of cauticus monetary policies, the reduction of budget deficits, and the restraint of the growth of public spending. But progress has been uneven and action or inaction in one country can have important effects on others. Greater convergence and a better awareness of inter-actions between countries are being encouraged in the "surveillance" arrangements with the

IMF Director, set up in accordance with the agreement reached at the Versailles Summit.

8. Where substantial changes are needed in the economies of some Summit countries, particularly in adjusting budget deficits, time will be needed to secure the effects of these changes. It could be helpful to develop and publicly emphasise consistent medium-term national strategies, to encourage clearer understanding and confidence in the business and financial communities.

Outstanding Problems

9. The following problems, which may be eased as recovery gathers strength, but which could also stand in the way of that recovery, stand out:-

(a) Real interest rates are high, in particular some 4-5 per cent in the United States. Such high rates are unusual at the point of transition from recession. They could pose a threat to the pace of recovery both in the United States itself and elsewhere. They increase the severity of sovereign debt problems. They are liable to distort exchange rates, and hence trade, with protectionist consequences. Current high levels may simply reflect pessimistic expectations about inflation, but most would trace them back to fear of continued high US Budget deficits.

(b) Rescue arrangements in particular major sovereign debt cases since Versailles were satisfactorily established; and agreement was reached, subject to ratification, on an expansion of GAB resources and availability, and an increase in the IMF quotas. The two measures together effectively double usable IMF resources. But the need for debtor countries themselves to make substantive adjustments to their internal policies has been stressed, and it seems right to continue to use the IMF in a central monitoring and co-ordinating role, and to encourage commercial banks to

co-operate in providing the necessary finance - on a much smaller scale than previously - to allow time for debtor countries to improve their position. Lower real interest rates would ease the transition for them; but the debt problem, and the implications of its handling, will continue to require continuous monitoring.

(c) Protectionism. Any significant further extension of protectionist measures could choke off wider opportunities for recovery. Indeed existing measures could stand in the way of the export opportunities needed by some countries to achieve appropriate balance of payments adjustments.

(d) Exchange rates. Greater stability of exchange rates is in general desirable. At the same time sound investment and trade can be damaged by inappropriate exchange rates. Exchange rates play an important role in adjustment. Changes must be underpinned by suitable domestic policies. Intervention can perform a useful secondary role in reducing short term volatility, but closer convergence of economic performance is the essential ingredient of greater exchange rate stability.

3.29

RESTRICTED AND PERSONAL

FROM: J O KERR
DATE: 10 May 1983

MR LITTLER

WASHINGTON TELEGRAM NO. 1271

You should know that the Chancellor's eye lighted on the last sentence in paragraph 6b of this telegram, and that he wondered whether you and he might have been singing different tunes! When a convenient opportunity arises, you might want to set his mind at rest!

J O KERR

3/83

10 DOWNING STREET

From the Private Secretary

MR HATFIELD

Williamsburg Summit

I attach to this minute a copy of a letter which the Prime Minister has received from the President of the Overseas Development Council which in turn encloses a statement of the Council containing recommendations for the Williamsburg Summit.

I should be grateful if you could let me have a suitable draft reply for my signature on behalf of the Prime Minister.

I am copying this minute and enclosure to Mr. Bone (Foreign and Commonwealth Office) and Mr. Kerr (HM Treasury).

A. J. COLES

10 May 1983

OVERSEAS DEVELOPMENT COUNCIL
1717 Massachusetts Ave., N.W. / Washington, D.C. 20036 / (202) 234-8701

May 4, 1983

R10

The Honorable Margaret Thatcher
The Prime Minister of Great Britian
London, ENGLAND

Dear Madam Prime Minister:

The ninth annual economic summit of the major industrial countries meets at a time when relations among the industrial countries and among the countries of the North and South are entering a new, precarious phase. The summit, therefore, provides a major opportunity for correcting the severe trade and financial difficulties currently faced by both industrial and developing countries. It also offers the opportunity for bold leadership on these urgent issues.

Robert S. McNamara, Chairman of the Overseas Development Council, has asked me to send you the enclosed statement, approved by the Council's Board of Directors, urging that you and the other industrial-country leaders agree on a series of measures that directly address the serious condition of the global economy. These recommendations are offered in full awareness of the budgetary and political constraints that you face, and with deep concern that the global financial and trading systems will unravel if such actions are not taken.

I hope you find the statement of help in the difficult task ahead.

Respectfully yours,

John W. Sewell
President

overseas development council

1717 Massachusetts Avenue, N.W. / Washington, D.C. 20036 / Telephone (202) 234-8701

GLOBAL RECOVERY: THE CONTRIBUTION OF THE DEVELOPING COUNTRY

Statement of the Overseas Development Council
for the Williamsburg Summit*

*Not for Release Until May 9, 1983

Statement of the Overseas Development Council for the
Williamsburg Summit, May 28-30, 1983

The ninth annual economic summit of major industrial countries meets at a time when relations among the industrial countries and between the countries of the North and South are entering a new, precarious phase. The world economy is stagnating. Although the prospects for recovery in the United States have improved, near-term growth is not likely to be strong in Western Europe, Japan, or the developing countries. The resources of the international financial institutions are stretched to their limits as they seek to stabilize the financial system while meeting the needs of developing countries. These difficulties are compounded by a new wave of protectionist pressure and government intervention in trade that threaten to undermine the multilateral trading system. The world's financial and trading systems are in grave danger of unravelling.

Because the stakes are so great for both the industrial and developing nations, the Board of Directors of the Overseas Development Council is taking the unusual step of issuing a formal call to the West's leaders to act boldly to prevent continuing global economic stagnation. Our recommendations are addressed to the seven leaders in general and, as the Council is an American institution, particularly to the government of the United States. There is a consensus among the Council's Board regarding the analysis and recommendations, although not every member is necessarily in full agreement with every point in this statement.

In summary, our recommendations for the Williamsburg Summit are:

Industrial countries with relatively strong payments positions should agree to adopt fiscal and monetary policies that lead to sustained, non-inflationary growth (Recommendation 1).

To bring greater order to the international financial system and to create an environment for future economic growth, countries should strengthen the International Monetary Fund and encourage commercial banks to expand their net credit outstanding in the developing countries (Recommendations 2, 3, and 4).

The dim prospects now facing many low-income countries can improve only if there is a significant increase in concessional assistance. The industrial nations should reaffirm their commitment to the International Development Association, the soft-loan window of the World Bank. In addition, the United States, among other countries, should announce its intention to devote a higher proportion of its bilateral development assistance to the low-income countries (Recommendations 5 and 6).

Developed and developing countries have an urgent interest in revitalizing the international trading system. Industrial nations should pledge not to restrict trade further, and invite the General Agreement on Tariffs and Trade (GATT) to monitor the effects of restrictive trade agreements that adversely affect developing countries. The GATT should be strengthened by creating systems to monitor and reduce the distortions resulting from some "industrial policies," by increasing the participation of developing countries, and by identifying ways to facilitate the domestic adjustment of firms and labor to international competition (Recommendations 7, 8, and 9).

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GLOBAL RECOVERY: THE CONTRIBUTIONS OF THE DEVELOPING COUNTRIES

While developing countries will not be represented at Williamsburg, their economic performance is inextricably woven into the fabric of the international financial and trading systems. As a result of their impressive growth during the 1960s and even during the troubled 1970s, developing countries now account for over 20 per cent of total world production. Developing countries absorb over 40 per cent of all U.S. exports, providing many U.S. firms with their most dynamic markets, and they are major clients of U.S. commercial banks. But sluggish export markets, adverse terms of trade, and unexpectedly high real interest rates have darkened the economic prospects of the developing countries. A 3 per cent loss in output in the developing countries could lead to a 1 per cent loss in the output of the OECD countries, according to an estimate by the Morgan Guaranty Trust Company.

Developing countries have become the strategic link through which a deteriorating trade situation further weakens a financial system already under stress. To service their debt, developing countries must expand their exports, but they cannot do so if other countries raise restrictive trade barriers. The crises confronting the international trading and financial regimes are therefore intimately linked.

Just as the liquidity crises and import constraints in the South are creating severe problems for the economies of the North, so could renewed financial stability and economic growth in the South be an important component of a sustained recovery in the North. The developing countries are both part of the problem and part of the solution. Renewed growth in the Third World can contri-

bute to a surge forward in the North.

The world is at a moment of choice. Individual countries can, of course, undertake independent actions which are meant to protect their own welfare, but which, in the end, are destructive for all; they can erect new trade barriers, impede capital flows, and seek security in isolationism. Alternatively, a renewed effort can be made to reaffirm the commitment to an open, growing economy, and to correct the managerial and structural flaws that have led to the current crisis.

The Williamsburg Summit will be brief. We therefore limit ourselves to those issues of finance and trade that are the most urgent for both the industrial and developing countries. We make our recommendations in full awareness of budgetary constraints and competing priorities. We are convinced that a policy that allowed the global financial and trading systems to unravel would be the worst of economies.

I. The Need for Global Expansion

The Reagan administration is correct to assert that the single greatest contribution that the United States can make to global prosperity is the renewal of growth at home. But no nation—not even the United States—can sustain growth in a stagnant global environment. It is imperative that other industrial countries with relatively strong payments positions—including Japan, West Germany, and Great Britain—join the United States in deliberately adopting a mix of monetary and fiscal policies that promote domestic growth. This should in turn allow the developing countries to add their renewed dynamism to a global expansion.

Global growth can be sustained only if real interest rates come down. Inflationary expectations responding in part to the projected deficits in the U.S. budget have kept real interest rates very high. The United States must act to reduce out-year fiscal deficits. A more prudent fiscal policy will facilitate the maintenance of a moderately expansionary monetary policy by the Federal Reserve Board. The resulting lower interest rates in the United States will permit other nations to relax their own monetary policies in the pursuit of growth.

We therefore recommend that the Summit:

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1. Agree to adopt fiscal and monetary policies that lead to sustained, non-inflationary growth.

II. Financing Renewed Growth

Growth in the industrial nations is a necessary--but not sufficient--condition for the establishment of a framework for sustained global prosperity. The maintenance of open and expanding financial and trading systems also requires the strengthening of key existing international institutions. The International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (GATT) have served us well in the past and can do so now.

During the 1970s, the nature of financial transactions between the industrial world and the developing countries changed radically. The ratio of private to official capital flows to the developing world rose rapidly as commercial banks undertook to recycle capital from surplus to deficit countries. In retrospect, it is now clear that the failure of official institutions to keep pace has resulted in a less stable international system. In the 1980s, a more

balanced mix between official and private lending is required, both to manage the immediate liquidity crises and to finance future growth.

Assuring Liquidity for the Middle-Income Countries

An international financial breakdown is not inevitable. It can be avoided, providing that: global growth is renewed; the International Monetary Fund has sufficient resources and authority; and commerical banks continue to expand the net credit outstanding to developing countries.

The Federal Reserve Board and the central banks of other industrial nations have reacted with impressive decisiveness and creativity to the liquidity crises facing several major debtors by opening short-term lines of credit. Under the leadership of Jacques de Larosiere, the IMF has been instrumental in persuading the commerical banks that their own best interests lie not in a sudden contraction of exposure but in a continuing expansion of their lending, albeit at slower rates than in past years.

The IMF has played the leading role in managing the recent liquidity crises, but its resources could be severely stretched in the period ahead. IMF resources have shrunk drastically over the last two decades, falling from over 12 per cent of world trade in 1960 to under 4 per cent today. The IMF badly needs more resources if it is to continue to assist countries in meeting short-term liquidity crises. The IMF must also be able to provide countries with sufficient credits to support adjustment programs that are flexible enough to be economically effective as well as politically and socially sustainable.

The Interim Committee of the IMF has recommended that member quotas be expanded by 47.5 per cent, to approximately $99 billion (or 90 billion

SDRs--Special Drawing Rights). The parallel expansion of the General Arrangements to Borrow (GAB)--both with respect to resources and to their use by developing countries--will provide an essential backstop to the IMF's own efforts to facilitate orderly adjustment processes.

But this enlargement of IMF quotas and the GAB may not come soon enough or be sufficient to meet the financing needs of the many potential developing- and industrial-country borrowers over the next several years. The IMF's Articles of Agreement permit it to borrow from member governments and private capital markets, provided that the Board of Governors so authorizes. Governments should support such borrowing as required.

The large current-account imbalances still facing some countries, despite their adoption of severe austerity measures, suggest that the Fund may want to provide funding in excess of current country-specific ceilings (450 per cent of quota over three years). The Fund will need the necessary flexibility to expand its country lending levels if the liquidity crises extend into 1984.

At the same time, the commercial banks must expand their net credit outstanding in the developing countries (at rates of perhaps 3-5 per cent per year in real terms) if their economies are to grow. Yet, in 1982, net credit outstanding appears to have actually declined slightly in real terms. While this withdrawal may appear rational to individual banks, its continuation will be disastrous for the banking community as a whole, as well as for the debtor countries.

The public sectors in the industrial and developing countries must create a reliable environment that encourages the commerical banks to resume real rates of growth in lending. A renewal of global growth, a stronger IMF, and the adop-

tion of adjustment programs by the debtor countries are all crucial steps. In addition, there is a need for the more timely provision of information on developing-country economies, especially with regard to the quantity and structure of their foreign debt. The newly created Institute for International Finance can play a role in constructing an "early warning system" to signal an impending unhealthy balance-of-payments situation. National regulatory authorities can assist in the collection and dissemination of information on international lending. They can also seek to devise criteria that inhibit imprudent expansions of exposure or destabilizing, sudden retrenchments. Reforms in the regulatory systems should not inadvertently discourage lending to creditworthy countries. But more work is necessary in order to determine how best to gather and process credit data in ways that can best reduce market uncertainty and stabilize the international financial system.

To bring greater order to the international financial system and to create and environment for future economic growth, we recommend that the Summit:

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2. Strengthen the International Monetary Fund by: a) reaffirming the importance of the prompt ratification of member quotas and the GAB; b) agreeing to support IMF borrowing from member governments and international capital markets if needed; and c) deciding to permit the IMF to expand its ceiling on loans to individual governments.

3. Encourage future incremental lending by commercial banks to developing countries by committing themselves to provide an environment of global growth and a fortified IMF; and

4. Agree, furthermore, to sustain this pattern of incremental lending a process of consultations among the IMF, World Bank, the commercial banks, and the national regulatory agencies and governments of the OECD countries--to search for better ways to a) collect and disseminate information regarding external debt, and b) more generally, to bring greater stability to international capital markets. The findings of this consultation process should be reported to the next Summit.

Financing Development in Low-Income Countries

The U.S. government has demonstrated strong leadership in responding to the financial crises in the middle-income developing countries, although more remains to be done. The United States has shown less vision and commitment, however, in responding to the needs of the low-income countries, whose external capital inflows consist primarily of official concessional assistance.

The United States traditionally has been a strong leader in the international effort to provide concessional assistance. More recently, the U.S. record has been deteriorating, both with respect to its past performance and to that of its Western allies. In the early 1970s, the United States contributed 0.30 per cent of its GNP to official assistance; by 1982, the figure had fallen to 0.20 per cent. While U.S. aid did increase slowly in real terms over the last decade, its performance was surpassed by most other Western donors. Fourteen of the seventeen OECD countries significantly increased their aid program as a percentage of GNP. As a result, the United States has fallen to next to last place; Italy, which is now last, is stepping up its contributions at a rate which is soon likely to leave the United States at the bottom.

Prospects for the low-income countries will not improve without a significant increase in concessional aid. Many of these countries, especially those in Africa, face chronically declining living standards. Yet in 1981 only 19 per cent of U.S. bilateral concessional aid was earmarked for low-income countries.

Most disheartening has been the failure of the United States to meet its pledge to the sixth replenishment of the International Development Association (IDA). This action undermines the sense of trust and continuity that multilateral economic institutions require, and undercuts the U.S. claim to inter-

national leadership. As a result of the shortfalls in U.S. contributions, it is likely that IDA-VI will have to authorize its $12 billion in resources over five years instead of the originally planned three-year period--a reduction of 35-40 per cent. Moreover, the delays in IDA-VI have created great uncertainty regarding the timing and scale of the next replenishment (IDA-VII). The United States sought a reduction in IDA activity--despite the findings of its own study which gave the multilateral development banks in general and the World Bank in particular high marks for serving a wide range of U.S. interests.

The industrial nations have an important stake in the economic development, social cohesion, and political stability of the low-income countries. The industrial countries and the United States in particular must renew their commitment to development assistance. In the United States, this will require a joint Executive/Congressional effort. We recommend that the Summit:

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5. Agree that all countries complete the sixth replenishment of IDA by the end of fiscal year 1984, and commit themselves to timely negotiations on a seventh replenishment that would permit IDA to at least maintain its lending levels in real terms as originally scheduled in IDA-VI. If the United States will not, or cannot, join in such a program, the other six countries should proceed without it.

In addition, we recommend that, in the context of the Summit,

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6. The United States, among other countries, announce that it will devote a higher proportion of its bilateral development assistance to the low-income countries.

III. Revitalizing the International Trading System

For most of the post-war period, the GATT process of non-discriminatory tariff cuts and multilateral rules facilitated the growth of international

trade. But trade is no longer growing. From 1963 to 1973, the volume of world trade increased by 8.5 per cent annually. During the 1974-80 period, it increased at only half that rate. In 1981, trade volume fell by 1 per cent, and in 1982 it shrank by another 2 per cent. The fall-off in trade is an effect as well as a cause of the decline in business activity during the period, but the decline also reflects alarming new trends.

Traditional principles of non-discrimination, transparency, and multilateral reductions in tariff barriers have been increasingly supplanted by unilateral or bilateral applications of non-tariff barriers, including voluntary export restraints, orderly marketing agreements, and quota systems. The European countries are increasingly resorting to the GATT's "safeguards clause" to shield domestic industry from the trade of particular countries.

Use of non-tariff barriers is not, however, limited to OECD countries. Under severe pressure to reduce their current account deficits and control domestic inflation developing countries too, have frequently opted for multiple exchange rates, direct allocation of foreign exchange, performance requirements, and licensing of imports. Too frequently, they, like many developed countries, subsidized their exports.

A driving cause of these new protectionist measures has been the stagnation in the world economy, particularly since 1979. But renewed growth alone will not be sufficient to prevent the further deterioration of the multilateral framework. Strong centrifugal forces of disintegration emanate from at least three, often interacting, sources.

First, many OECD countries are experiencing secular increases in unemployment that are independent of short-term swings in the business cycle.

Demographic trends and rapid changes in technology create enormous problems of dislocation for domestic work forces. Labor markets permit only slow adjustment. Moreover, the new competition from international trade forces certain firms and social groups to accept lower prices and wages. While this process almost always produces net gains in national income, some businesses and labor groups inevitably are hurt. The dislocated groups will pressure governments for protection.

Second, governments have more actively engaged in promoting their domestic industries. These measures commonly take the form of "industrial policies" that involve production subsidies, subsidies to technology development, use of public enterprises, and greater government coordination of investment and industrial development, as well as selective protection. According to one recent study for the major OECD countries, subsidies as a share of national income have doubled since 1955. The GATT has mechanisms to deal with subsidies to exports, but industrial policies that affect trade more indirectly are difficult to measure. The multilateral rules governing indirect subsidies and industrial policies are vague and imprecise.

Finally, developing countries--especially the newly industrialized countries--are inadequately incorporated into the multilateral system. Even though developing countries have increased their share of world trade, only a few of them have subscribed to the key GATT codes. Many developing countries have historically felt, rightly or wrongly, that their national development objectives require even greater flexibility to use tariffs and other policies than is permitted in the special treatment of developing countries under the GATT. From the point of view of these countries, the inducements for them to

submit to the discipline of multilateral rules have been insufficient; the sectors of greatest interest to them--agricultural and textile products--are not effectively covered by GATT and are highly protected in most industrialized countries. This perception may now be changing. As weaker members of the international economy, developing countries have the most to lose from the slow evolution toward a discriminatory trading system. Multilateral rules truly based on principles of non-discrimination and equal access to markets offer the best hope for stemming protectionist pressures within the industrialized countries.

Therefore, both developed and developing countries have an urgent interest in strengthening and revitalizing the international trading system. To this end, we recommend that the Summit:

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7. Pledge to undertake no new actions that restrict trade or increase subsidies, and that they call upon the other industrial and developing countries to follow suit.

8. Take note of restrictive agreements among industrial states that have an adverse impact upon the trading opportunities open to developing countries. The conferees should invite GATT to monitor and report on these agreements and their effects on developing countries.

9. Determine to strengthen the GATT by: a) creating systems to monitor and eventually reduce the distortions resulting from some "industrial policies"; b) exploring ways of bringing more developing countries into the multilateral system; and c) identifying ways to facilitate the domestic adjustment of firms and labor to international competition in ways that do not distort trade.

The Summit can mark a renewed commitment to an open, international economy and to the system's key coordinating mechanisms. We urge the leaders of the industrial states to ignite a new "Spirit of Williamsburg" on behalf of international cooperation, and to instruct their representatives to pursue the

results of their deliberations. Speedy and determined action in the appropriate international institutions can help to restore confidence in the international financial and economic systems and to inaugurate a new era of prosperity.

RESTRICTED AND PERSONAL

FROM: J O KERR
DATE: 10 May 1983

MR LITTLER

WASHINGTON TELEGRAM NO. 1271

You should know that the Chancellor's eye lighted on the last sentence in paragraph 6b of this telegram, and that he wondered whether you and he might have been singing different tunes! When a convenient opportunity arises, you might want to set his mind at rest.

J O KERR

3.22

CONFIDENTIAL

cc Mr Middleton
Mr Littler
Mr Burns
Mr Unwin
Mr Lavelle
Mr Kemp
Mr Bottrill
Mr Hall

UK Paper

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 May 1983

Richard Hatfield Esq.
Private Secretary to
Sir Robert Armstrong
Cabinet Office

Dear Richard,

I understand that Geoffrey Littler sent you a copy of the draft paper for Williamsburg on "Prospects For The World Economy" which he put to the Chancellor last Friday. I now attach a slightly revised version of the paper. The Chancellor is content that this version should be circulated now to those who will be attending the meetings of Personal Representatives later this week.

You and I agreed that a copy of the telegram should go to UKDEL OECD, where Geoffrey Littler now is. He hopes to circulate copies to his opposite numbers now attending the OECD meetings.

Yours ever,

John Kerr.

J O KERR
Principal Private Secretary

DRAFT PAPER FOR WILLIAMSBURG

PROSPECTS FOR THE WORLD ECONOMY

Main Developments since Versailles Summit

Inflation has fallen steeply in most Summit countries and now averages about 5 per cent, the lowest rate for a decade. And in recent months there have been clear and increasing signs of recovery of economic growth in those Summit countries which have made most progress on inflation. Moreover, oil prices have fallen by some 10 per cent. But:-

- Although nominal interest rates have fallen, real interest rates remain high in some countries, especially the United States.

- Unemployment has continued to rise, though in some countries there are signs of deceleration.

- Major debt problems have erupted in several relatively advanced developing countries and threaten in others.

- Developing countries have had to cut back on imports, which has contributed to a fall in the volume of world trade.

- Protectionist pressures - and measures - have been spreading.

Assessment of Recovery Prospects

2. In France and Italy little or no growth is expected this year. But activity has picked up in the United States, and there are signs of recovery in the United Kingdom and Germany, coupled with some revival of business confidence. Output is expanding in Japan, although at a modest rate, and perhaps also in Canada.

3. Initially the main source of recovery is lower inflation which has created more room for real growth. This is taking the form of a pick-up in consumer demand, activity in housing, and the end of stock-reductions. Business confidence has been growing only sporadically so far, with investment (normally resumed later in the cycle) still showing little strength. Several countries have been recording useful increases in productivity, even during the recession, and should be able to benefit from them now.

4. For the Summit countries taken together the prospect is growth of output of some 2 per cent between 1982 and 1983 and 3 per cent between 1983 and 1984. By past standards of recovery this would be modest and gradual; and it would be unlikely to bring a rapid reduction in unemployment. But it should be sustainable.

5. This is because the prospects on inflation are favourable. The recent speed of reduction cannot be expected to continue, but the low-inflation countries aim to consolidate progress made; those with higher rates of inflation are giving priority to bringing them down; and the 10 per cent fall in the oil price, if maintained, should reduce rates of inflation in the OECD countries as a group by more than ½ per cent.

6. The overall prospect suggests that there is a good chance of securing sustainable, non-inflationary recovery.

Strategy

7. Agreement among Summit countries on objectives and on the policies necessary to achieve them has broadened and deepened. Particular stress is laid on the reduction of inflation and interest rate levels through the maintenance of cautious monetary policies, the reduction of budget deficits, and the restraint of the growth of public spending. But progress has been uneven and action or inaction in one country can have important effects on others. Greater convergence and a better awareness of inter-actions between countries are being encouraged in the "surveillance" arrangements with the

IMF Director, set up in accordance with the agreement reached at the Versailles Summit.

8. Where substantial changes are needed in the economies of some Summit countries, particularly in adjusting budget deficits, time will be needed to secure the effects of these changes. It could be helpful to develop and publicly emphasise consistent medium-term national strategies, to encourage clearer understanding and confidence in the business and financial communities.

Outstanding Problems

9. The following problems, which may be eased as recovery gathers strength, but which could also stand in the way of that recovery, stand out:-

(a) Real interest rates are high, in particular some 4-5 per cent in the United States. Such high rates are unusual at the point of transition from recession. They could pose a threat to the pace of recovery both in the United States itself and elsewhere. They increase the severity of sovereign debt problems. They are liable to distort exchange rates, and hence trade, with protectionist consequences. Current high levels may simply reflect pessimistic expectations about inflation, but most would trace them back to fear of continued high US Budget deficits.

(b) Rescue arrangements in particular major sovereign debt cases since Versailles were satisfactorily established; and agreement was reached, subject to ratification, on an expansion of GAB resources and availability, and an increase in the IMF quotas. The two measures together effectively double usable IMF resources. But the need for debtor countries themselves to make substantive adjustments to their internal policies has been stressed, and it seems right to continue to use the IMF in a central monitoring and co-ordinating role, and to encourage commercial banks to

co-operate in providing the necessary finance - on a much smaller scale than previously - to allow time for debtor countries to improve their position. Lower real interest rates would ease the transition for them; but the debt problem, and the implications of its handling, will continue to require continuous monitoring.

(c) Protectionism. Any significant further extension of protectionist measures could choke off wider opportunities for recovery. Indeed existing measures could stand in the way of the export opportunities needed by some countries to achieve appropriate balance of payments adjustments.

(d) Exchange rates. Greater stability of exchange rates is in general desirable. At the same time sound investment and trade can be damaged by inappropriate exchange rates. Exchange rates play an important role in adjustment. Changes must be underpinned by suitable domestic policies. Intervention can perform a useful secondary role in reducing short term volatility, but closer convergence of economic performance is the essential ingredient of greater exchange rate stability.

Restricted

FROM: J O KERR

DATE: 10 May 1983

cc Mr Littler o.r.
Mr Carey
Mr Bottrill o.r.

MR LAVELLE

WILLIAMSBURG

The Chancellor has read with interest the weekend crop of telegrams from posts in Summit capitals on national approaches to Williamsburg. He has in particular noted:-

a. from Washington telegram 1271, that Secretary Regan may raise the idea of devising better machinery for handling sovereign debt cases; and

b. from Tokyo telegram No. 247, that the Japanese Governments' deficit financing is said to amount to 26.5 per cent of their budget.

2. On (a), he has asked for advice on our approach, and whether, and if so in what direction, we think Regan should be encouraged to run with this ball. Perhaps Mr Carey could provide advice.

3. On (b), he has commented that there seem to be very divergent views about the current Japanese fiscal and monetary balance. Perhaps Mr Bottrill could let him have an up-to-date note.

J O KERR

Restricted

10 DOWNING STREET

From the Private Secretary

10 May 1983

WILLIAMSBURG

I enclose a copy of a message which the Prime Minister has received from President Reagan in reply to her message of 9 May.

With regard to the first paragraph, we are announcing this evening that the Prime Minister will now not be able to visit Washington on 26/27 May.

In the second paragraph, President Reagan suggests that the Prime Minister might attend the Williamsburg Summit from noon on Sunday, 29 May until the formal closing on Monday 30 May. I shall be showing the Prime Minister this message overnight. Unless she wishes to respond sooner, it will be considered at the meeting which we are arranging on Tuesday 17 May to discuss attendance at both Williamsburg and Stuttgart.

I am sending copies of this letter and its enclosure to John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office) and should be grateful if you and they would not circulate President Reagan's message beyond Private Offices.

A. J. COLES

Brian Fall, Esq.,
Foreign and Commonwealth Office.

ADVANCE COPIES

IMMEDIATE

Keep.

Williamsburg MK

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PS/CHANCELLOR OF THE EXCHEQUER
MR LITTLER
MR BOTTRILL
TREASURY

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FRENCH PROPOSAL FOR A NEW BRETTON WOODS CONFERENCE.

1. WE HAVE NOW SEEN THE TEXT OF PRESIDENT MITTERRAND'S ADDRESS LAST NIGHT AT THE ELYSEE TO PARTICIPANTS OF THE OECD MINISTERIAL MEETING, IN WHICH HE CALLED INTER ALIA FOR A NEW INTERNATIONAL MONETARY CONFERENCE. IT IS A RAMBLING, POORLY STRUCTURED SPEECH WITH ALL THE HALLMARKS OF HAVING BEEN PUT TOGETHER HURRIEDLY. THE FOLLOWING EXTRACTS COVER THE MAIN POINTS:

(A) AS AFTER THE SECOND WORLD WAR, THE WORLD NEEDS REDBULDING... THIS WILL REQUIRE A LASTING INTERNATIONAL EFFORT - AN IMMENSE TASK, A TASK FOR A GENERATION: IT IS FOR US TO PREPARE MINDS

TASK, A TASK FOR A GENERATION: IT IS FOR US TO PREPARE MINDS AND TO LAUNCH THE MOVEMENT. THE GUIDELINES SHOULD BE GROWTH, STABILISATION, DEVELOPMENT.

(B) WE NEED TO REDISCOVER TOGETHER THE PATH OF GROWTH.... BUT THE FIRST STEP WILL ONLY BE POSSIBLE BY OPTING FOR CONCERTED GROWTH WHICH WILL CREATE THE CONDITIONS OF A HEALTHY AND LASTING RECOVERY WITHOUT INFLATION. THE RECOVERY NOW APPEARING HERE AND THERE WILL FADE AWAY VERY QUICKLY, MUCH MORE QUICKLY THAN WE THINK, IF NOTHING IS DONE TO SUPPORT IT. THIS FACES US WITH THREE BASIC REQUIREMENTS:

(I) A MASSIVE REDUCTION OF THE EXCESSIVE BUDGETARY DEFICITS WHICH ARE RESPONSIBLE FOR HIGH INTEREST RATES:

(II) THOSE WITH ROOM FOR MANOEUVRE MUST STIMULATE GROWTH IN THEIR ECONOMIES. GOOD RESULTS IN THE BATTLE AGAINST INFLATION MUST LEAD TO MEASURES TO RELAUNCH ECONOMIC ACTIVITY:

(III) UNEMPLOYMENT MUST BE TACKLED BY TRAINING YOUNG PEOPLE IN NEW TECHNOLOGIES AND BY SHORTENING WORKING HOURS.

(C) WE ALSO NEED TO STABILISE OUR EXCHANGE. A RETURN TO SUSTAINED GROWTH WILL BE UNATTAINABLE WITHOUT PATIENT RECONSTRUCTION OF A STABLE SYSTEM OF INTERNATIONAL ECONOMIC RELATIONS IN THREE ESSENTIAL AREAS: CURRENCIES, TRADE AND RAW MATERIALS.... TO REDISCOVER THE CONDITIONS FOR A STABLE MONETARY SYSTEM, WITH SUFFICIENTLY FIXED RATES AT LEVELS THAT ARE ECONOMICALLY REASONABLE, IS THEREFORE AN URGENT NECESSITY.... THE TIME HAS COME TO THINK OF A NEW BRETTON WOODS.... EVEN IF EVERYTHING IS MORE COMPLICATED TODAY THAN IT WAS AT THE END OF WORLD WAR TWO, WE SHOULD NOT GIVE UP OUR ATTEMPTS TO MOVE, IN STAGES, TOWARDS A SYSTEM ADAPTED TO THE ECONOMIC CONDITIONS OF THE LATTER PART OF THE CENTURY. IN ORDER TO FACILITATE THESE REFORMS, I WOULD LIKE AN INTERNATIONAL MONETARY CONFERENCE TO BE HELD AT THE HIGHEST LEVEL WITHIN THE FRAMEWORK OF THE IMF.

(D) (IN THE FUTURE) THE THREE PRINCIPAL MONETARY ZONES, THE DOLLAR, THE YEN AND THE EUROPEAN CURRENCIES, WILL BE ABLE TO STRENGTHEN THEIR LINKS WITH EACH OTHER AND SERVE AS POLES FOR THE STABILISATION OF THE PRINCIPAL INTERNATIONAL EXCHANGE RATES.

(E) PROTECTIONISM.... CONSTITUTES.... AN OBSTACLE TO THE GROWTH OF TRADE AND TO THE DEVELOPMENT OF POOR COUNTRIES.... IT IS TIME TO SHOW.... THAT NO ONE WILL GAIN ANYTHING FROM IT.

2. MITTERRAND ALSO SPOKE AT LENGTH OF THE IMPORTANCE OF DOING

2. MITTERRAND ALSO SPOKE AT LENGTH OF THE IMPORTANCE OF DOING MORE FOR THE THIRD WORLD. NOTHING IS POSSIBLE FOR THE NORTH, 'E SAID, IF RECOVERY IS NOT ASSURED FOR THE SOUTH. HIS PROPOSALS INCLUDED LOWERING INTEREST RATES, THE CONSOLIDATION AND EXTENSION OF STABEX, ACTION ON RAW MATERIALS AND A NEW EMERGENCY PLAN FOR AFRICA, DETAILS OF WHICH THE FRENCH GOVERNMENT WOULD RELEASE LATER.

3. MITTERRAND SAID HE WOULD REVERT TO THE SUBSTANCE OF HIS CALL FOR A REFORM OF THE INTERNATIONAL MONETARY SYSTEM AT WILLIAMSBURG, QUESTIONING THE VALUE OF SUCH TOP LEVEL INTERNATIONAL MEETINGS IF THEY FAILED TO PRODUCE RESULTS.

4. MOREL, ELYSEE, HAS CONFIRMED TO US THAT MITTERRAND'S OBJECTIVE FOR WILLIAMSBURG REMAINED AS DESCRIBED TO US LAST WEEK (MY TEL NO 369). HE SAID THAT MITTERRAND HAD NOT INTENDED ON THIS OCCASION TO GIVE SPECIAL WEIGHT TO THE IDEA OF A NEW BRETTON WOODS (SEE PARAGRAPH 5 OF MY TEL NO 369). HIS COMMENTS AND THE TIMING AND LOCATION OF MITTERRAND'S SPEECH SUGGEST A CALCULATED, IF LAST-MINUTE, ATTEMPT TO REESTABLISH A DEGREE OF FRENCH INITIATIVE PRIOR TO WILLIAMSBURG, AND TO ENSURE THAT MEMORIES OF VERSAILLES ARE NOT ECLIPSED. MITTERRAND'S ADDRESS CONTAINED SEVERAL REFERENCES TO THE ROLE OF THE VERSAILLES SUMMIT IN POINTING THE WAY FOR GREATER COOPERATION IN THIS FIELD. MITTERRAND ALSO PROBABLY HOPES THAT ANY GUIDELINES FOR FUTURE ACTION IN THE FIELD OF INTERNATIONAL MONETARY CONSULTATION SHOULD BEAR A FRENCH LABEL. HIS INITIATIVE IS PROBABLY ALSO A SIGN OF HIS DESIRE TO BE SEEN ONCE AGAIN AS A FIGURE ON THE WORLD STAGE: HIS AUDIENCE CONSISTED OF SOME 50 MINISTERIAL REPRESENTATIVES OF FOREIGN GOVERNMENTS. MITTERRAND HAS NOT RELISHED HAVING HAD TO DESCEND INTO THE FRAY OF DOMESTIC POLITICS IN RECENT WEEKS IN ORDER TO SUPPORT THE GOVERNMENT'S UNLOVED AUSTERITY PROGRAMME.

5. MITTERRAND'S SPEECH IS REPORTED EXTENSIVELY IN TODAY'S FRENCH PRESS, BUT IN GENERAL WITH LITTLE COMMENT. LE QUOTIDIEN DE PARIS (OPPOSITION) SEES IT AS AN ATTEMPT TO DISPEL ANY ILLUSION THAT THE AMERICANS, WITH THEIR PRE-WILLIAMSBURG MINISTERIAL DINNER TONIGHT, ARE THE REAL HOSTS OF THE OECD MEETING. FIGARO (ALSO OPPOSITION) ALONE COMMENTS ON THE SUBSTANCE, RATING MITTERRAND'S CHANCES OF ACHIEVING AGREEMENT ON A NEW MONETARY SYSTEM AS SLIM ON ACCOUNT OF THE DIVERGENCE OF ECONOMIC POLICIES FOLLOWED BY THE INDUSTRIALISED NATIONS. FIGARO GOES ON TO WONDER WHETHER MITTERRAND'S APPROACH IS NOT SIMPLY TACTICAL, A REFUSAL BY FRANCE'S WILLIAMSBURG PARTNERS TO ACCEPT FRENCH IDEAS PAVING

FRANCE'S WILLIAMSBURG PARTNERS TO ACCEPT FRENCH IDEAS PAVING THE WAY FOR NATIONAL SOLUTIONS TO FRANCE'S ECONOMIC PROBLEMS, INVOLVING WITHDRAWAL FROM THE EMS. THIS AFTERNOON'S LE MONDE CONFINES ITSELF TO CLAIMING THAT MITTERRAND'S ANALYSIS OF THE INTERNATIONAL ECONOMY IS IRREFUTABLE.

FRETWELL

NNNN

2070GAL374
TOO 171.24
GL VTL CP 079 1771615
R 101652Z MAY 83
FM THE WHITE HOUSE
TO CABINET OFFICE LONDON
ZEN
S E C R E T VIA CABINET OFFICE CHANNELS 2H2597

MAY 10, 1983

DEAR MARGARET:

THANK YOU FOR YOUR MESSAGE WITH THE NEWS THAT YOU HAVE CALLED ELECTIONS ON JUNE 9. I FULLY UNDERSTAND THE DIFFICULTIES OF LEAVING THE UNITED KINGDOM DURING THE ELECTION CAMPAIGN PERIOD. IT IS FINE WITH ME IF YOU ANNOUNCE TODAY THAT YOU WILL NOT BE ABLE TO COME TO WASHINGTON FOR A BILATERAL MEETING.

I WOULD VERY MUCH HOPE THAT YOU WOULD SEE YOUR WAY CLEAR TO PARTICIPATING PERSONALLY IN THE WILLIAMSBURG MEETING ITSELF. OUR APPROACHES TO COMMON CHALLENGES ARE VERY SIMILAR, AND I WOULD APPRECIATE YOUR IDEAS AND SUPPORT DURING THE DISCUSSIONS IN WILLIAMSBURG. PERHAPS YOU COULD ATTEND FROM NOON SUNDAY, MAY 29, TO THE FORMAL CLOSING ON MONDAY, MAY 30. DURING THIS PERIOD YOU WOULD PARTICIPATE BOTH IN THE CRITICAL SUBSTANTIVE DISCUSSIONS AND THE MAJOR PUBLIC EVENT OF THE SUMMIT.

I WISH YOU EVERY SUCCESS IN THE ELECTION, AND IN GAINING ANOTHER MANDATE TO CARRY OUT THE COURAGEOUS AND PRINCIPLED POLICIES WHICH YOU HAVE BEGUN.

SINCERELY,

RON

2219
12978

RONG

ADVANCE COPIES

ECONOMIC SUMMIT +34

PS
PS/MR HURD
PS/MR RIFKIND
PS/LD BELSTEAD
PS/MR RAISON
PS/PUS
MR EVANS
MR HANNAY
MR THOMAS
MR HAYES

HD/ERD (2)
HD/ECD (4)
HD/ES & SD (2)
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RESIDENT CLERK

PS/NO 10 DOWNING STREET

PS/CHANCELLOR OF THE EXCHEQUER)
MR LITTLER) TREASURY
MR BOTTRILL)

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES)
MR E BESTON) DOT

MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

CONFIDENTIAL

FM PARIS 111530Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 382 OF 11 MAY
AND TO PRIORITY WASHINGTON, BONN, OTTAWA, UKREP BRUSSELS, TOKYO, ROME.

POLITICAL PREPARATIONS FOR WILLIAMSBURG.

FOLLOWING FROM BULLARD.

1. FOLLOWING A MEETING OF THE SEVEN POLITICAL DIRECTORS OVER LUNCH IN PARIS TODAY, BURT (US) WILL REPORT TO PERSONAL REPRESENTATIVES (SHERPAS) THIS EVENING AS FOLLOWS:

(I) THERE IS A GENERAL DESIRE THAT DISCUSSION OF POLITICAL ITEMS BY HEADS OF STATE AND GOVERNMENT AT WILLIAMSBURG SHOULD BE ''TRULY INFORMAL''.

(II) THERE SHOULD BE NO POLITICAL COMMUNIQUE, BUT THE SEVEN PARTICIPANTS MAY WISH TO CONSIDER ISSUING A STATEMENT, PERHAPS OR PERHAPS NOT IN THE FORM OF AN OPEN LETTER TO ANDROPOV, ON ARMS CONTROL, OR POSSIBLY ON INF ALONE. THE US WILL CIRCULATE A DRAFT. MEANWHILE ALL PARTICIPANTS WILL CONSULT THEIR HEADS OF GOVERNMENT ON THIS SUGGESTION AND REPORT REACTIONS. TO ENSURE A PUBLIC IMPACT SEPARATE FROM THE ECONOMIC CONCLUSIONS OF THE MEETING, A STATEMENT

O[redacted]L/INF COULD BEST BE ISSUED ON THE SUNDAY.

(III) PRESIDENT REAGAN PROPOSES THAT THE POLITICAL DISCUSSIONS SHOULD TAKE PLACE AT THE FOUR MEALS (DINNER ON SATURDAY 28 MAY, LUNCH AND DINNER ON SUNDAY 29 MAY AND LUNCH ON MONDAY 30 MAY). HIS INTENTION IS TO ORGANIZE THE DISCUSSION IN SUCH A WAY THAT THE FIRST THREE MEALS SHOULD BE DEVOTED RESPECTIVELY TO ARMS CONTROL: EAST/WEST POLITICAL RELATIONS: AND THE MIDDLE EAST, AND POSSIBLY OTHER REGIONAL QUESTIONS. THE FOURTH MEAL WOULD BE A ''WRAP UP'' SESSION.

(IV) THE PRESIDENT PLANS TO INVITE A DIFFERENT HEAD OF GOVERNMENT TO INTRODUCE THE DISCUSSIONS AT EACH OF THE FIRST THREE MEALS. HE HIMSELF WILL LEAD THE ''WRAP UP'' SESSION. SINCE THERE WILL BE NO NOTE-TAKERS PRESENT AT THE MEALS, THE HEAD OF GOVERNMENT WHO INTRODUCES EACH DISCUSSION MIGHT SUMMARISE IT BRIEFLY AT THE BEGINNING OF THE FOLLOWING PLENARY.

(V) THE FOREIGN MINISTERS MIGHT DISCUSS THE SAME 3 BROAD THEMES, BUT IN GREATER DETAIL. THE US WILL CIRCULATE A SUGGESTED LIST OF SUB-HEADINGS UNDER EACH THEME AND INVITE COMMENTS AND ADDITIONS.

(VI) THE US PROPOSES THAT FOREIGN MINISTERS SHOULD ALSO DISCUSS THE FOLLOWING ITEMS:

- PRESIDENT REAGAN'S PROPOSALS ON YOUTH EXCHANGES:
- HIS INITIATIVE ON PROMOTING DEMOCRACY:
- TERRORISM:
- NON-PROLIFERATION.

THE AMERICANS WILL CIRCULATE A NOTE EXPLAINING HOW THEY INTEND TO RAISE THESE POINTS AND WHAT CONCLUSIONS THEY WOULD HOPE TO REACH. (THE FRENCH POLITICAL DIRECTOR AND I EXPRESSED SOME DOUBTS ABOUT THE VALUE OF DISCUSSION OF THE LAST TWO ESPECIALLY).

(VII) THE JAPANESE HAVE SPECIFICALLY PROPOSED THAT SOUTH EAST ASIA SHOULD BE AMONG THE REGIONAL THEMES DISCUSSED.

(VIII) SHULTZ WILL GIVE THE PRESS PERIODIC BRIEFINGS ABOUT THE POLITICAL DISCUSSIONS, IN PARTICULAR A HALF-TIME BRIEFING AT MIDDAY ON SUNDAY. THESE WILL BE VERY GENERAL, LISTING THE TOPICS DISCUSSED AND THE SPIRIT IN WHICH THEY WERE APPROACHED, BUT NOT THE CONTENT OF THE DISCUSSION.

(IX) ASSUMING THAT THE FINAL STATEMENT ON ECONOMIC ISSUES WILL BE INTRODUCED BY THE PRESIDENT ON MONDAY 30 MAY, SHULTZ WILL FOLLOW THIS WITH A SUMMARY OF THE POLITICAL DISCUSSION IN TERMS WHICH HE WILL HAVE CONCERTED WITH HIS COLLEAGUES.

FRETWELL

CONFIDENTIAL

FROM: J O KERR

DATE: 11 May 1983

MR LAVELLE

cc Mr Middleton
Mr Littler (OR)
Mr Unwin
Mr Bottrill
Mr Hall

WILLIAMSBURG

You will have seen the minutes of the discussion in Cabinet on 9 May about representation at Williamsburg.

2. After discussion with No 10, I think that it would be right for us to plan on the assumption that the Chancellor will be there. There is unlikely to be a decision before 17 May on whether the Prime Minister should go, and, if so, for how long. But if she does go, the Chancellor is likely to accompany her; and if she does not go, it seems almost certain that the Chancellor, possibly accompanied by Mr Pym, would represent her.

J O KERR

We spoke, and told you of FERB's welcome advice.

cc CST
FST
EST
MST(R)
Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

11 May 1983

Sir Maurice Hodgson
Marylebone House
129/137 Marylebone Road
LONDON NW1 5QD

Dear Maurice

Many thanks for your letter of 9 May, and for showing me the Williamsburg paper by the US counter-parts of the Groupe des Presidents. I agree with you that they are certainly senior, with the Administration and the Hill well represented alongside industry and commerce. And I also agree that their paper makes interesting reading - particularly the points which you kindly highlighted for me.

GEOFFREY HOWE

RESTRICTED

FROM: C J CAREY
DATE: 11 May 1983

CHANCELLOR

cc Mr Littler o/r
Mr Unwin
Mr Lavelle
Mr Hawtin

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WILLIAMSBURG

You asked about our approach to Secretary Regan's ideas for devising better machinery for handling sovereign debt problems (Mr Kerr's minute of 10 May on Washington telegram 1271).

2. There have been several indications that the Americans are worried about present arrangements and may have some suggestions to put forward. Secretary Regan included this item on the agenda of the recent Washington G5 meeting (copy of our brief attached), and Sprinkel may be going to raise it this week at G5 Deputies in Paris.

3. It is understandable that some people should feel concerned at the ad hoc nature of the sort of negotiations which had to be set up over Yugoslavia. There might be something to be said for having more systematic lines of communication established between the main creditor Governments for debt monitoring purposes. If the Americans are contemplating some modest practical moves in that direction, we would be sympathetic. But we would not want to claim too much for the value of any new consultation mechanisms. There is a risk that by institutionalising the processes of consultation between creditor Governments we would lose some flexibility. The Americans may also calculate that more formal arrangements would make it easier for them to off-load some of the burden of Latin American debt rescues on to the Europeans.

4. This reaction is necessarily in rather vague terms, because we don't know what the Americans are going to propose. Mr Littler may have harder information when he is back from Paris.

(tomorrow night)

cfe

(C J CAREY)

See also attached extract from Washington Post (6 May)

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030 *Telegrams* TRADUNIC LONDON WC1

YOUR REFERENCE

OUR REFERENCE LM/AC/DF/BJC

DEPARTMENT Economic

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1

EXCHEQUER
18 MAY 1983

Mr Littler
Mr Bailey. Mr Unwin.
Mr Carey. Mr Bottrill
Mr Lovell. Mr Gordon
Mr Mortimer. Mr Ridley.

May 12 1983

Dear Sir Geoffrey

Williamsburg World Economic Summit

At the meeting at the NEDC held on May 4 the General Council representatives, in the course of the discussion on the world economy, referred to the statement drawn up by the Trade Union Advisory Committee to the OECD. It was said that this would be circulated to the members of the NEDC when it became available.

The TUAC statement, a copy of which is enclosed, sets out the views of the international trade union Movement on the issues to be discussed at the Williamsburg Summit. I hope that the UK Government representatives at the Summit will take these views into account. I am also writing in similar terms to the Prime Minister and the Secretary of State for Foreign and Commonwealth Affairs.

Yours sincerely

Lionel Murray

General Secretary.

Enc.

PM has already acknowledged — in 2 lines (no substance)

FCO agree we shd reply on their behalf too.

Gel

? Read in full?

But need for some action

Note. PM tx

TRADE UNION STATEMENT TO THE OECD'S MINISTERIAL COUNCIL AND THE WILLIAMSBURG SUMMIT, MAY, 1983

Adopted by the 70th Plenary Session of the Trade Union Advisory Committee to the OECD, 28 - 29 April, 1983.

Summary

1. The OECD's Ministerial Council and the Williamsburg Summit have to take decisions which put an end to the recession and bring about a sustained recovery with full employment. These decisions have to be taken with full respect to world interdependence. In today's circumstances, individual countries which attempt to force their way to economic and employment growth meet formidable obstacles. The reluctance of one or several countries to join in action for a recovery is a heavy constraint on all others. Complacency arising from any optimistic forecasts is dangerous as it can deter governments from taking the needed concrete policy measures.

2. Coordinated action is the safest and the least costly way to recovery. Making positive use of the interdependence of the OECD economies, as well as that of the industrialised democracies and the developing world, will maximise the benefits for all. A recovery programme has to be the result of negotiations between all OECD countries, regardless of their economic position. In the framework of such a programme, countries have to make full use of whatever room for manoeuvre a better inflation and current account performance can give them.

3. The governments have to make immediate commitments which are backed up by long term policies. Primary importance has to be given to the maintenance of full employment as the basic aim of all countries' policies. As a real confidence-building measure, governments should adopt a monetary and fiscal policy which, together with labour market and employment policies, can immediately halt the rise of unemployment and start bringing it down. International agreement on the reduction in real interest rates is another essential element in a strategy for recovery.

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4. Immediate policy measures have to be accompanied by a targeted stimulation of public and private investments, so that an increase in consumption and economic activity will make a reconstruction programme firmly based. An efficient interaction between public and private investment is essential and where private investment is not forthcoming, there has to be sufficient public investment to get the economy moving again. Targeted investment and employment measures have to be taken with respect to the specific impediments each country faces, but such impediments cannot be an excuse for doing nothing.

5. Full employment policies mean that governments should cease to seek a recovery through deflation, lower wages, and a dismantling of the social safety net. Real structural change which benefits the economy requires more than relying upon the market forces only. It will not take place through unemployment or through a polarisation and a further segmentation of the labour market.

6. Free collective bargaining and cooperation with the trade unions are essential for achieving a recovery. The whole range of labour market and employment creation measures are necessary for a sustained recovery programme. They are needed both to absorb the nearly 40 million jobless in the OECD area and to guarantee that technological change will not have an overall negative effect on employment. In carrying out these policies, with a necessary degree of international coordination, full use should be made of any potential for employment creation which a shortening of working time provides.

7. Stability in the international monetary system is indispensable for a climate where productive long term investments can be made and open multilateral trade expanded. The International Monetary Fund has to regain effective surveillance of exchange rates and conditions in exchange markets. The lending conditionality of the IMF should focus on laying the foundations for sound economic growth and employment.

8. Whichever technical measures for an elimination of the instability in the exchange rate market are adopted, they have to meet the basic aims of investment, the creation of employment, stability for carrying out structural change, promoting trade, and preventing one country from passing on its inflation to others. For this purpose, too, an

overall reduction in real interest rates should be negotiated immediately, so that their role in the determination of currency values would diminish.

9. Full employment and an improvement in labour standards must once again be recognised as a necessary condition for a properly functioning open trading system. Competitiveness must not be sought through unemployment and cuts in wages and living standards. Effective measures for trade liberalisation are fruitless unless trade flows are translated into a net increase in jobs and productive economic activity in all trading partners.

10. Negotiations have to ensure that trade between the OECD area and the developing world is made into an engine of growth. Creating and strengthening viable economic and social structures in the developing world should be promoted by making use of the idle human and productive capacities in the industrialised countries.

11. A continuation of the inward looking deflationary strategy by OECD countries will only have a further depressing effect on the developing world. Rescue operations for some countries will simply be an expensive buying of time, unless action is taken on the whole scope of measures for a sustained development effort. An increase in the economic potential of developing countries, improving social and living standards and narrowing the gap between the rich and the poor in them, will benefit the whole world economy.

12. The flow of Official Development Assistance and loans to developing countries must not only be maintained but increased and full use must be made of all available resources. The recently expanded IMF resources, through still insufficient, must be ratified quickly, and a new distribution of Special Drawing Rights to developing countries should be agreed upon. Increased resources must not be used to guarantee loans made by private banks but to ensure that the developing countries can really participate in the world economy.

13. Speculation in the world economy must be starkly reduced as it has now become more profitable to invest in money than with money. In addition to exchange rate stability and policies for economic

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growth and employment to foster trade, this calls for strengthening the rules and regulations on the behaviour of multinational enterprises. Jointly agreed industrial and other policies to this end have to be based on the recognition of the common interest of all national economies.

14. Falling oil prices must not lead into further complacency in energy policies. Conservation projects and programmes for alternative energy sources should be intensified and not scrapped, in order to reduce the vulnerability of the economies to new oil price shocks. Negotiations between the oil-producing and oil-consuming countries for an international agreement on prices and supplies of oil are necessary. They will be facilitated by increased energy cooperation between the OECD countries and the developing world.

TRADE UNION STATEMENT TO THE OECD'S MINISTERIAL COUNCIL AND THE WILLIAMSBURG SUMMIT, MAY, 1983

Adopted by the 70th Plenary Session of TUAC
Paris, 28 - 29 April, 1983

I - Introduction

1. Last September, the Secretary-General of the OECD made a statement to the Interim Committee of the International Monetary Fund in which he said: "It is, in some sense, less important when the recovery occurs, than that when it occurs it should be firmly based." Recoveries do not and cannot just occur, they have to be brought about. And it is perfectly possible to have now a firmly based recovery which will lead back into a full employment society. With some indicators into which forecasters today read considerable amounts of optimism, it is urgent to lay the foundations for a sufficiently strong and sustained recovery.

2. Signs of an upturn in certain countries, and especially in the United States, should not be interpreted as the automatic recovery which has been now promised for four years as a result of the governments' tight policies. Such an attitude promotes inaction by others who, with a multitude of economic and political arguments, simply wait for the beneficial effect on them to occur. Incipient positive developments in some countries will be abortive unless they are backed up by coordinated international action. The worst outcome of the OECD's Ministerial Council and the Williamsburg Summit would be a continuation of inaction, strengthened by a misleading euphoria derived from some positive figures. Unless sustained and diversified measures are taken by all OECD countries, the small hopes of Spring will turn into a bitter Autumn of disappointment.

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3. Cyclical upswings have continuously taken place at higher levels of unemployment than earlier, and this tendency has been aggravated by technological developments. The experience of countries which have been at the forefront of new technologies, such as Japan, shows that the utilisation of these technologies, including robotisation and microelectronics, has raised questions on their consequences for the growth and structure of employment. With any recovery worth the name, the question of employment has to be squarely posed. Full employment cannot be removed from the basic aims of any democratic country's policy, or from those of the OECD itself.

4. In November, 1982, the TUAC presented a statement entitled "Negotiating the Recovery". That statement called upon the governments to use the period before the OECD's Ministerial Council and the Williamsburg Summit to negotiate the measures needed for a co-ordinated recovery programme, amounting to a reconstruction effort after the devastation caused by the recession. With the jointly pursued tight, or "non-accommodating", policies, the interdependence of the OECD economies and indeed of the whole world economy has deepened the recession. In today's circumstances, individual countries which attempt to force their way to economic and employment growth meet formidable obstacles. The reluctance of one or several countries to act is a decisive constraint on others. A new departure, based on efforts negotiated and undertaken by each and every one of the governments, is the only way out of the crisis. Developments since the Autumn of last year have only strengthened the case for joint positive action.

5. Governments have shown their capacity for taking measures when they recognise that they are facing an emergency. However, they should not limit this action to operations which give short-term shelter without affecting basic causes. If the rescue operations mounted by the IMF for the banking community and the rescheduling of loans for developing countries are correctly followed up, they could represent a new start in international co-operation. The Group of Ten which met in Paris in January, 1983, went further in the right direction when it recognised that "a sustainable improvement in activity in the industrial countries in 1983" is essential to prevent the collapse of countries. This can only mean growth

which produces employment. The OECD's Ministerial Council and the Williamsburg Summit will have to continue on this road and revise the strategy followed since the second oil shock.

II - A record of failure

6. The situation in the OECD area has been seriously aggravated by the fact that by and large, all governments have been jointly pursuing similar policies. Yet their policies have been made incompatible with one another because they have all set the same targets. The recession has been deepened by an over-restrictive monetary policy and cutbacks in public expenditure which have amounted to indiscriminate pressure to squeeze inflation out instead of really attacking its causes. Because of the interdependence of the OECD economies, even the slightest signs of economic recovery in one country have been choked off by the policies of others. For instance, efforts to increase exports, reduce imports, and lower government deficits have been frustrated by the same policy objectives in other countries. Governments have ignored their obligation, recognised at the Versailles Summit, to not take such actions which harm each other and they have increasingly resorted to "beggar-thy-neighbour" policies.

7. The assumption that lower inflation, which was the joint target of the OECD governments, would automatically lead to a recovery of investments, employment, and economic activity, proved to be false. Instead, the policy stance has restrained effective demand for investments, housing and consumption, hitting both domestic industries and trading partners. Winding down economic activity has not surprisingly forced inflation down to 6.4 per cent. But the price of this has been a rapid increase in unemployment which has climbed to levels close to 10 per cent. TUAC estimates that in the OECD area, it will reach the 40 million mark in early 1984.

8. The result in the OECD area has been mass unemployment and an erosion of the industrial base. In addition, the policy response to the second oil price shock was inward looking as the indus-

trialised democracies attempted to shake off their inflation through a joint deflationary strategy which imposed further constraints on the position of developing countries. Whatever hopes there were were pinned on trade with the OPEC countries and the so-called Newly Industrialising Countries. The mutual incompatibility of the monetarist "scorched-earth" policy revealed its consequences in the international debt crisis which severely curtailed the export markets of the OECD countries and threatened to put the whole international financial system in jeopardy. Any temporary alleviations of the debt problem which has hit hardest only a limited number of countries will not improve the position of the majority of developing countries. The policy stance of the OECD countries, the slow-down in world trade, falling commodity prices, and exchange rate fluctuations have hurt the whole of the developing world, not only those countries which have been considered sufficiently creditworthy to get a loan from international commercial banks.

9. Persisting with recessionary policies erodes the economic base and sets it off balance so much that a recovery could be delayed indefinitely. Since the previous Ministerial Council and the Versailles Summit, two successive Economic Outlooks of the OECD have expressed grave doubts and warnings on the course of economic policy. "Staying the course" has not only failed to improve the foundation for future growth and a reduction of unemployment: it has further contributed to economic decline. Since May, 1982, registered unemployment has increased by 1 per cent of the total labour force, or 3 million persons; industrial production has fallen by about 3 per cent; with falling inflation, real long term interest rates have gone up and real short term rates remain high; and OECD exports have shrunk by 3 per cent. Since 1979, the size of the OECD economy has grown by barely 1 per cent while at the same time, industrial output has declined by 7 per cent.

10. Interest rates have reached all-time highs, and in the absence of co-ordinated action by governments, real long term interest rates have not responded to mere governments exhortations that they should come down. The return on investments in the financial

markets is more attractive than on productive investments, to the detriment of industrial reconstruction. Thus, we have entered an economy where it is more profitable to invest in money than to make productive investments with money. Inflation rate differences between countries remain high. Exchange rates have not become any stabler with low inflation, and as the margin of manoeuvre for the economies has become smaller, the relative importance of exchange rate fluctuations has grown. The system of floating exchange rates has increasingly worked against the economies, in the same way as the reality of interdependence.

11. Recession is not a mechanism which can effectively bring the world economy out of its downward spiral caused by the oil price shocks of the 1970s. A recovery "just around the corner" has been promised since 1979; it has never materialised, and in retrospect it may well be demonstrated that unwarranted expectations of an impending recovery have encouraged governments to do nothing to bring the recovery about. In addition, the joint strategy has been a constraint on the attempts of any country to struggle against the recession within its frontiers. The irony of recent positive indicators in the United States is that they have not been brought about by the pursuit of the OECD's "non-accommodating" policies but through modifications and a relaxation of them.

III - The international financial crisis

12. The floating exchange rate system as it is now has not worked, and its side-effects have aggravated the economic problems it was meant to make more manageable. Without giving up the necessary degree of flexibility to reflect the differences in the various countries' economic performance, stability is essential. If the conditions for growth and for an expansion of employment are to be rebuilt, the elimination of the chaos which has followed the abandoning of the Bretton-Woods system is a key issue. This disorder undermines international co-operation in monetary matters and contributes to inflation, especially through the cost of the volatile fluctuations of exchange rates and the accompanying spread of hedging practices. Exchange rate policies should reflect the long-term relative economic conditions of countries.

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13. With unforeseeable exchange rate fluctuations, both planning for major investments and structural change, and creating the confidence for them, is almost impossible. The potential for gaining short-term advantages in what amounts to exchange rate warfare have been too tempting for governments. Viable industries are hit by the consequences of sudden changes in exchange rates, and uncertainties render meaningless calculations based on the development of domestic costs (not only labour costs but costs of local raw materials, transport, subcontractors etc.) which can be negotiated between the parties concerned. This strengthens the tendency to try to improve competitiveness through unemployment and cuts in wages and social standards.

14. The very nature and size of the so-called hot money has radically changed with the growing importance of multinational enterprises, as massive transfers of funds from one currency to another are a part of their daily routine. Through rapid currency transactions they can both safeguard their own position better than national enterprises and affect the value of currencies. Consequently, an integral part of bringing stability into the system, and reducing the speculative element in it, is increased transparency and monitoring of the capital markets.

15. The central banks have largely surrendered to the commercial banks their own function in the field of surveillance and control of lending, especially international lending. The financial markets cannot be and will not become self-regulating in a way which would bring about stability. The responsibility of governments for the functioning of the financial system has to be restored.

16. The responsibilities of governments and central banks are not limited to financial operations taking place in their own territory. They also extend to the various and proliferating forms of unregulated international banking activities. This presupposes that the responsible national authorities engage in co-operation for stability rather than competition through deregulation. This calls for an

efficient and constructive follow-up of such understandings registered at the Versailles Summit as fostering monetary stability through "converging" policies, an increased role for the International Monetary Fund, interventions in the exchange rate markets to counter "disorderly conditions", and refraining from competitive devaluations. The fact that this statement of intention has not led to any practical implementation was one of the major failures of the Summit Meeting of June, 1982, and it must not be repeated this year.

17. The International Monetary Fund has for a number of reasons lost most of its effectiveness in surveillance of the exchange rates and of the conditions in the exchange markets. Firstly, the very foundations on which the discussions of exchange rate issues and requirements within the IMF are shaky, as was plainly admitted in the last IMF annual report. The interrelationships between balance of payments deficits, budgetary policies, interest rates, and exchange rates are a matter of mere theories, not of actual knowledge. However, such questionable theories have served as a basis for conditions imposed by the IMF on countries whose balance of payments position has compelled them to seek assistance. The lending conditions of the IMF should focus on the creation of sound economic growth and its fair distribution between sectors and individuals, and extreme care should be taken to avoid endangering social stability, strengthening repressive tendencies, and undermining democracy in the recipient countries. After all, the IMF has the duty to promote growth and employment.

18. Secondly, while the IMF can impose stringent conditions on countries with balance of payments deficits, there is no sanction with respect to countries which have persistent balance of payments surpluses. Thirdly, the member governments have not been ready to discuss within the IMF the aspects of their individual policy choices that have, or can have, an adverse impact on other countries. The IMF should seriously consider the effects its recommendations for one country have on others, particularly when drastic reductions of imports are imposed on indebted countries so that the over-all effect is reducing the export markets and weakening the balance of payments position of other countries.

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19. Of all economic tools, exchange rates are among the ones over which governments can exercise control, but much depends on how this control is exercised and for which purposes. The right environment for control is enhanced by intergovernmental co-operation. With all its shortcomings, the Bretton-Woods system was part of the arrangements which enabled the world economy to have an unprecedented period of growth. The international monetary system has now to be reshaped so that it will effectively serve governments policies for a recovery. An immediate measure would be to negotiate an over-all reduction in interest rates so that they would play a diminished role in the determination of currency values. At the same time, more interventions will be needed to counter exchange rate fluctuations beyond a margin which would lead into speculative currency flows.

20. More stability could be achieved through linking together the U.S. Dollar, the Pound Sterling, the Japanese Yen, and the currencies in the European Monetary System. As most of world reserves are in these currencies, in which also the dominating part of world trade and investment is calculated, the speculative element would be brought under control. Whichever technical measures are adopted, the international monetary system has to be reconstructed to meet the following aims: investment and the creation of employment; stability for carrying out structural change; promoting trade in the short and long term; and preventing one country from passing its inflation on to others. Exchange rates should reflect the long term effects of government policies on the underlying performance of the economy, and they should not undermine the value of a country's reserves. The "convergence" of government policies, mentioned at the Versailles Summit, should be seen in this light, and these policies have to be complementary and mutually supportive.

IV - International trade

21. In the beginning of the post-war recontruction period, and in particular at the Havana Conference on Trade and Employment, full employment was considered as a necessary, although not as such sufficient, condition for a properly functioning open trading system.

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This consideration has not been translated into the functioning of existing structures, rules and regulations. The changing role of developing countries in world trade has made it necessary to modify various aspects of the trading system devised in Havana without, however, in any way modifying the importance of employment for international trade. With a continuation of deflationary policies, and their consequences for both internal OECD trade and trade with the developing world, there will be more strains on the world trading system and further proliferation of defensive unilateral measures.

22. It is an illusion that trade will create more jobs and prosperity when the world economy is characterised by contraction of markets due to the recession, erratic exchange rate fluctuations, market-controlling positions of multinational enterprises, decreasing scope of competitive trade due to intra-firm trade and barter trade, and import penetration surges. Neither will trade under these conditions bring about desirable structural change. On the contrary, it will further set our economies off balance. With slow or no growth, it will make trade subject to short term speculation. Any effective measures for trade liberalisation are fruitless unless trade flows are translated into a net increase in jobs and productive economic activity in all trading partners, so that trade and the ways to cope with structural change are addressed simultaneously.

23. In trade, as in economic policies in general, the developing countries are to a great extent dependent on the policies pursued in the OECD area. Any growth in world trade will to a great extent depend on an increase of trade flows with these countries. Their needs are clear signals of where there is demand for goods, capital and services from industrial countries which themselves are suffering from an increasing underutilisation of human and productive capacity. However, the effective demand of the developing countries has been virtually destroyed by the oil price shocks and the recessionary policy response of the OECD area. Trade between the industrialised democracies and the developing countries can and should become an engine of growth. But this calls for specific measures to promote it, which will not be achieved by mere liberalisation and unqualified general systems of tariff preferences.

24. What is needed is a combination of industrial policy, social policy, and policies for full employment. Also, much stronger measures are necessary for stabilising export earnings derived from commodities. Trade and investment should create and strengthen viable economic and social structures of the developing countries. Idle human and productive capacities in the industrialised countries have to be used to meet the developing countries' needs at least unt such time as they have adequate effective demand. The developing countries have already fallen victim to the recession in an even more dramatic and violent way than the unemployed workers and the bankrupt companies of the OECD area.

25. The social imperative is an important part of the adjustment imperative of international trade, and any meaningful system of rules and regulations must take account of this. This principle underlies the case for social clauses to be negotiated into international trade agreements. Disruptive effects of differences in labour standards between countries which have reached a comparable level of economic development and strength have been growing. With a recession, labour standards (wages and labour costs and their determination, working time, health and safety, social security provisions and so on) can become an increasingly important factor in determining the competitive position of trading partners. Measures which lead to an erosion of social safeguards or standards of living and environment are dangerous weapons in the arsenal of any party to a trading conflict and are in fact powerful protectionis devices. If governments do not write social implications of trade int the rules and regulations of the multilateral trading system, they wi pay an increasing price in each of the national economies.

26. In addition, the search for footholds in world trade is also conducted in ways which undermine internationally agreed minimum labour standards and basic trade union rights. The positive relationship between trade and employment and social progress becomes all the more remote when trade flows and investment are forced by suspending trade union rights and allowing violations of minimum labour standards. What a number of governments, both of industrialise and developing countries, thus promote is a replacement of comparativ

advantage of productive efficiency by a comparative disadvantage of basic social and trade union rights, to the detriment of global economic welfare.

27. It is useful to remember that in the Havana Charter, the first section of Article 7, on fair labour standards, said: "The Members recognise that unfair labour conditions, particularly in production for export, create difficulties in international trade, and, accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory". The policies of governments which rely on short term advantages where labour standards have a decisive role is diametrically opposed to this basic hypothesis on which a considerable part of the post-war growth was founded.

V - Multinational enterprises

28. With the instability of the world economy, due to the stagnation of trade and rapid exchange rate fluctuations, speculation is an even more important part of international business activity than earlier. Depending on the size of the multinational enterprises, their spread over the globe, their position in the markets, their possibilities of rapidly making large transfers from one currency to another, and their technological capacity, multinational enterprises can survive the recession better than national enterprises and even draw profits out of it. On the other hand, the recession has also increased the problems of enterprises in sectors which have been confronted with particular difficulties, as well as small and medium size enterprises which have not ensured their position in international markets.

29. Financial troubles of multinational enterprises have spill-over effects on other countries, in terms of changes in production and closures which lead into large-scale lay-offs. On occasions, such measures have been applied to subsidiaries which have been profitable and important elements in the local economy. Financial problems of enterprises have led into the draining of profitable subsidiaries, in order to save the parent company.

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30. In order to regain economic growth, some governments have taken measures to stimulate activity in sectors which they consider promising and in sectors where the competition from imports is large. These sectors are often ones where multinational enterprises have a strong and even dominating position. Such stimulation of "promising activities" can be self-defeating for governments if it is not backed up by other industrial and economic policy measures. For instance, assisting research and development should not only mean giving initial boosts to domestic enterprises: it should be a part of strengthening the national R & D capacity and innovativeness of the country. There have to be safeguards against governments' assistance merely leading into "market signals" for multinational enterprises which can move in and take over the market.

31. The need to maintain a sufficient degree of surveillance over the results of government policies for stimulating growth applies also to such measures as the deregulation of services which in most countries have been in the public domain. In sensitive areas, such as telecommunications, privatisation tendencies can mean that control over basic domestic services is transferred abroad. For the same reason, certain performance requirements on multinational enterprises are more than warranted, in particular if their entry in to the country and operations there benefit from different kinds of government incentives.

32. To the trade unions it is virtually incomprehensible that governments take measures to support activity in sectors which are internationally dominated by multinational enterprises, and at the same time oppose all attempts to increase their possibilities to supervise the future development of these sectors. A national industrial policy cannot be based on vaguely founded expectations of the behaviour of multinational enterprises. The interests of the multinationals and of governments may well coincide, as has been the case when a multinational enterprise has established itself in a country, with long-term plans, contributing to both

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growth and employment. On occasions multinational enterprises have moved in to save a domestic enterprise which has been in trouble. As the multinational enterprises, in any event the large and established ones, do engage in long term planning, there is a good basis for concluding beneficial agreements which take all parties' considerations into account. It should also be remembered that the stability, and relative prosperity, of a society are not uninteresting for a multinational, especially if its products are to be marketed there.

33. However, with more uncertainty and speculation in the world economy and in each of the countries, it is increasingly possible that the long term benefits both governments and enterprises seek fail to materialise. Even established large multinationals with a favourable record in terms of employment and growth are compelled to engage in speculative activities, for the sake of their own prosperity. New entrants may come into the markets only for a short time, to draw maximum benefits from any incentives host countries offer: once these have been exhausted, they leave, and the social costs have to be met by the governments. The call by multinational enterprises for a stable investment climate has a hollow ring to it, when their own business practices undermine the governments' attempts to create stability through national industrial and other policies. On the other hand, the failure of governments to define the policies which correspond to their national interests furthers uncertainty and as a consequence speculative reactions by multinational enterprises.

34. The recession has underlined the need for efficient intergovernmental instruments covering the activities of multinational enterprises. The United Nations Commission on Transnational Corporations should speedily finalise an effective code of conduct to this end. All relevant intergovernmental bodies should strengthen their activities to assist host countries in developing and implementing policies on direct foreign investment. At the OECD level, the 1984 Review of the instruments on multinational enterprises and the

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governments' policies towards them should create a true balance between the different instruments. At present, the voluntary Guidelines for Multinational Enterprises are a weak counterweight to a whole set of instruments which aim at liberalising international investments and capital movements, thus weakening the governments' control over them.

35. The Guidelines have to strengthen the governments' policies, as experience shows that there is a serious lack of compliance by multinationals with them. With rapid restructuring by these enterprises, with technological innovations being introduced at the work-place and management systems, and with high and rising unemployment, it is essential that the good practices set out in the Guidelines are adhered to. This concerns particularly information disclosure and consultations and co-operation with the trade unions. TUAC expects that the 1984 Review will lead to measures for a better implementation of the Guidelines through national law and practices and in co-operation between governments, so that the Ministerial Council can recognise and define their joint interests in this field when it adopts the results of the Review.

VI - The implications of world interdependence

36. The governments of the OECD countries have repeatedly talked about interdependence, without sufficient consideration of its consequences. In the OECD area, it has led into a joint deflationary strategy which has been detrimental to all participants. For the developing countries, this inward looking OECD strategy since the second oil price shock had a further depressing effect. The OECD countries must seriously look for ways to make use of the potential for growth and employment which targeted development measures could have, both for an increase in the economic position of developing countries and living standards there, and as a consequence of this, an increase in world trade and economic co-operation.

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37. The few exceptions to the OECD strategy - or rather extensions of it - were the OPEC countries, which after the second oil price shock came to be seen as sources of demand for investment and exports as well as of funds deposited in the OECD area, due to their incapacity to absorb all of the additional revenues. But the non-oil producing developing countries ended up facing an increased energy bill, while the deepening recession in the OECD area contributed to a collapse in commodity prices and an increase in interest rates. The 1982 Review of the Development Assistance Committee showed that aid disbursements had been declining in some countries and growing at a slower pace overall. With the paucity of Official Development Assistance, those countries which were considered sufficiently creditworthy turned to private banks whose lending capacity had been boosted by oil revenues. The negative real interest rates of the 1970s resulted in high debt-equity ratios for many developing countries which were vulnerable once real interest rates in the 1980s became very high. The middle and low income developing countries were losing ground all the time, with less resources through Official Development Assistance, and with private investment flows favouring a limited number of better-off countries. The gaps between groups of countries, and between the rich and the poor within the countries, have continued to widen.

38. The prospect of whole countries going bankrupt revealed the consequences of the OECD countries' policy in early Autumn, 1982. Rescue operations for a number of indebted developing countries have had a degree of success - but it would be wrong to say that through them, a solution for any basic problems has been found. TUAC called, in October, 1982, for an urgent meeting of the OECD countries to discuss the global debt problem but not only in the short term: it was reminded that the whole scope of measures for a sustained development effort, aimed at enabling the developing countries to become viable partners in world trade, should be simultaneously discussed. One of the main dangers at this moment is a feeling of complacency, once governments, central banks, and the private banks have persuaded themselves that the acute crisis is over.

39. The stark reality is that numerous developing countries are experiencing a contraction of their economies by percentages which are far greater than, to take an example, that experienced by the Canadian economy last year (5 per cent). Such contraction will have a dramatic impact on these countries, due to the weakness or lack of economic and social structures. We are no longer talking about development being slowed down further but of losing even those insufficient levels which it had attained. Furthermore, the restrictive measures imposed by the International Monetary Fund on the debtor countries are themselves causing problems for their trading partners. Unless the basic causes of debt are tackled, the debt crisis will continuously recur. The position of the OECD countries, the slow-down in world trade, falling commodity prices, high costs of energy, interest rates, and exchange rate fluctuations have hurt the whole developing world. In terms of world-wide development, the debt problem has only been the tip of the iceberg.

40. To avoid further decline, a number of immediate measures have to be taken. Official Development Assistance has to be not only maintained but increased by making full use of all available resources. The flow of loans must also be maintained and increased by the IMF and private commercial banks. The enlarged though still insufficient resources made available in the wider access to the General Arrangements to Borrow and in the Eighth General Review of IMF quotas have to be effected quickly. Agreement should also be reached rapidly on a further distribution of Special Drawing Rights to developing countries.and for the replenishment of the International Development Association of the World Bank. Resources must not be used to guarantee loans made by private banks but to ensure that the developing countries can continue to participate in the world economy. If private banks receive protection from the IMF and the Bank for International Settlements, eventual profits they make from a rescheduling of loans should be fully taxed so that a sufficient degree of returns go to replenish World Bank resources and to finance a distribution of SDRs to the developing world. The achievement of remunerative and stable commodity prices should be a priority concern, and it will be assisted by taking the necessary steps for putting the Common Fund into effect.

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41. The worsening position of the whole of the developing world is yet one urgent reminder that policies for growth and full employment have to be resumed in the OECD countries. The concept of interdependence should be a guiding one in this context. An increase in the economic potential and in social and living standards in developing countries, a narrowing of the gap between the rich and the poor in them, will benefit the world economy, too.

VII - Energy policies

42. A lowering of energy prices, in particular of oil, should not lead into further complacency in energy policies. The price of energy remains prohibitively high for non-oil producing developing countries, and it has been affected by exchange rate developments and the reduced export earnings of these countries. Assistance to developing countries in energy policies, both for conservation and alternative energy sources, remains a priority matter. Although some success has been recorded in lessening the growth dependency of the OECD economies on imported energy, a recovery will increase demand for all forms of energy and thus have an immediate effect on prices again. Against this background, the scrapping of conservation projects and programmes for alternative energy sources by both industry and governments has increased the vulnerability of the economies to new oil price shocks and disruptions of supply. Fluctuations in prices of various sources of energy must not become once more the decisive, let alone sole criterion of energy policies.

43. Concrete steps towards negotiations between the oil-producing and oil-consuming countries are long overdue. It is necessary to have an international agreement on the supply and price of oil, regardless of whether there is low growth or a recovery. Such an agreement would make any recovery more firmly based. Negotiations would be served by increased co-operation in the energy field between the OECD area and the developing world. Such an agreement also presupposes greater transparency of the ways in which the oil markets function, including the role of oil companies in them.

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44. The recent fall in oil prices underlines the importance of a pricing policy which would not be a simple "passing on" of lower prices to individual consumers and the industry, as this would do nothing to reduce the possibility of unforeseen and sudden price rises, and hence inflationary surges, once economic activity picks up again. Instead of reaching for easy solutions to the inflation problem, pricing policies should further conservation, more energy-efficient production, and fuel-switching. Lower oil prices should be able to assist governments in increasing resources for a recovery programme which would reduce unemployment.

45. Any measures which make use of the resources from lower world market prices should be targeted so that the employment effect of energy programmes would be fully made use of. This presupposes investments in developing energy-efficient technology, both for the industry and for conservation in the households. A number of aspects for a more rational use of energy can be subject to international standards, which can be agreed upon (for instance in the International Energy Agency) and made mandatory. In the transport and housing sector, energy-related investments are needed on a large scale. An increased use of coal provides opportunities for investments and jobs in extraction, treatment, distribution, utilisation, and to counter negative effects on the environment.

46. An efficient energy policy will also have to deal with the way the profits of the companies operating in the energy field are used. This is all the more important as these are often windfall profits which are not reinvested in the energy field but which are used either in an unproductive way or for gaining control in other sectors of the economy, while public funds are spent for energy projects. Wherever governments give incentives for companies for energy-related activities, they should make sure that the benefits are not diverted to other ventures.

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VIII - Labour market and employment programmes

47. It is evident that the recovery cannot be bought at the labour market but that for growth and increased employment, a change in the economic policies of the OECD countries is needed. However, it is equally clear that a recovery programme will have to have its labour market components. A whole series of labour market and employment creation programmes are needed for assisting a recovery, once the conflict between present economic policies and what is possible in the labour market is removed. It will be easier to design and carry out the needed labour market measures in co-operation with trade unions, instead of by trying to ignore them or in open conflict with them.

48. Labour market measures needed to back up a recovery include increased vocational education and training and measures aimed at youth employment, starting with comprehensive policies for post-compulsory education and an expansion of counselling services, to facilitate the transition from school into working life. In order to ensure that growth will not be choked off, measures to avoid supply and demand mismatches are needed, together with policies for disadvantaged regions and groups. This requires co-operation between a number of authorities, together with trade unions and employers, among others to identify future needs in terms of manpower and the skills involved. Rapid technological change makes such co-operation even more necessary than earlier.

49. Labour market measures which have a positive social impact and a potential for job creation include the shortening of working time. There are various ways in which this can and should urgently be done. In a number of countries, trade unions have made detailed proposals for ways to reduce working time so that it has a positive employment effect. These should be implemented through negotiations between trade unions and employers. Individually and collectively governments can promote an environment in which this takes place. International co-operation and co-ordination facilitate the reduction of working time and the improvement of labour standards in general, so that differences between countries which have reached a comparable level of economic development and strength do not become factors which affect international trade and investment. The OECD is a forum which lends itself to such international co-operation.

50. Governments themselves are increasingly admitting that under present economic policies, labour market measures can only tamper with the problems of unemployment. The growth rates which would be needed simply to stop unemployment from rising are much higher than the ones now forecast, even with a forecast of a certain kind of a recovery. On top of a positive employment effect from higher growth rates, the task remains of absorbing those men and women who are unemployed because of the recession. If their situation and special problems are not tackled by the whole range of labour market and employment policies, they will be by-passed by the recovery. In the final instance, a central role will fall upon employment creation programmes for those who cannot find a job even with given rates of growth. Public sector activities are interdependent with those of private industry and services, and public services have a crucial role in employment growth. Expansion in this sector will allow simultaneously for the creation of jobs and meeting social objectives.

51. Labour markets cannot be equaled with other markets. There has been a persistant school of thought among governments that a recovery can be either achieved or sustained through wage cuts and more "flexibility" in the labour market. The mainstream of this analysis has been built on a conception of how the labour market ought to work, in order to further the aims of deflationary policies. Recent country reports of the OECD (for instance on the United Kingdom, the Netherlands, and Norway) contain direct attacks on structures which have been developed in the labour market. They cross the border-line between describing industrial relations systems and prescribing government policies on collective bargaining, as they suggest changes in collective bargaining practices, greater differentiation in pay, and less stress on a fair income distribution.

52. The way trade unions read such recommendations is that once the beliefs in other automatic mechanisms for recovery (such as a lowering of inflation with new problems of disinflation) have faltered, economic expansion is now expected to come through a further squeeze on wages and curtailing social expenditure.

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In the present circumstances, an all-out attack on collective bargaining and trade unions ignores the role they have in economically difficult periods. It also ignores the fact that through collective bargaining, a degree of predictability of labour costs is provided for the economy. Governments should once and for all discard the notion that certain forms of wage bargaining are inflationary in themselves. Differences in bargaining structures between OECD countries do not correspond to differences in inflation rates or, indeed, economic performance. It is not up to the OECD to propose to the member countries interference with collective bargaining practices and structures. In each country, these are a result of the particular ways in which relations between the trade unions, employers and governments, as well as legislation, have evolved over many decades.

53. Prescribing the so-called real wage thesis, i.e. a tying of wages with the profit-levels of the enterprises, is not a way to assist a recovery. An adequate rate of return on investment is naturally important but it is self-defeating to seek this by attacking real wages. Cutting real wages means cutting real demand as well, and this reduces the incentive to invest. This is compounded when every country tries to get competitive advantage from a reduction in wages. Policies for expansion and growth which increase living standards hold out better prospects for a return on investments. A full use of existing productive capacity and the need for improvements in productivity are ignored in the real wage thesis. It is an abstract theory which is now being used as a way of forging profound changes in the relationships between wages, including the social wage, and profits, and it ignores the role of collective bargaining in wage determination. In addition it ignores the differences between sectors and especially the determination of public sector wages.

54. Mass unemployment, created by deficient demand, cannot be solved by marginal changes in relative wages. The recession has led into a continuing drop in real wages, and it has caused "jobs for wages" deals. But when such agreements have been made at the level of specific industries or plants, they have seldom, if ever, created new jobs. On the contrary, through attrition the labour force has continued to decline. With an unemployment rate heading on the average well over 10 per cent, it is of little help to call such

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agreements "innovate", as was done by the OECD's Ministerial Council in May, 1982 (paragraph 10 of the Communiqué). They are necessary defensive measures in the absence of growth, but in no way can they be seen as promises for the future, in particular for the growing number of unemployed. They cannot be read as proof of the real wage thesis which, in addition, does not contain any guarantee that increased profits, if they ever materialise through an application of this theory, are reinvested in a way which creates employment.

55. Neither will unemployment be brought down merely through increased "flexibility". This only increases a dangerous polarisation of, and segmentation within the labour market which was already pointed out and recognised at the time of the Meeting of the OECD's Labour Ministers, in March, 1982. The result is a distortion of both consumption and production patterns. Neither can a simple market value be set on basic social safeguards and their dismantling will prove to be even more costly to societies. Structural change in advanced industrial societies cannot be achieved through the unbridled actions of market forces. Trying to mechanically apply yet more labour market and wage flexibility does not facilitate structural change, and it only leads into prolonging the life of unviable enterprises well beyond the point where a variety of restructuring measures should have been taken.

56. The OECD and member governments have been persistently asking for patience and concessions from trade unions. They admit that wages have neither brought about nor prolonged the recession. They should also recognise that for a recovery, other economic tools than a crude wages policy are needed. TUAC has consistently said that the trade unions are prepared to engage in discussions on the whole range of economic policies needed for a co-ordinated recovery programme. But in order to succeed, any reconstruction programme will have to have a positive social and employment effect. A dialogue involving trade unions cannot be about ways to make workers accept further cuts in wages and living standards. If the result is a recovery for some but a deepening of the recession for an increasing number of people, there is a terrible risk of social division which can threaten all of the achievements of the post-war period.

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IX - Negotiating the recovery

57. One of the main arguments presented by TUAC has been, and remains, that the recovery programme has to be the result of negotiations between all OECD countries, regardless of their inflation performance, the size of public deficits, dependency on world trade etc. The solution to differences in inflation rates between countries will not be found through prolonging the recession in the high inflation countries while others use up their room for manoeuvre by taking more expansionary action separately. The "locomotive"-approach for increase growth does not work, as it produces a combination of reluctance in those countries which are expected to take the lead and inactivity in the rest. If the concept of interdependence is accepted, then to get out of the crisis, measures have to be taken by even the weakest and the smallest economies, although of course countries with a better inflation and current account performance will be able to contribute the most. With interdependence, the benefits will be maximised through co-ordinated action, but if a number of countries hold back, or drop out, the recovery can be diluted or even negated. After all, co-ordina action is the safest and least costly way to recovery.

58. Political will and commitments are thus needed by all OECD countries and not only the seven leading economies. However, due to their strength, the countries participating at the Williamsburg Summit have a special responsibility for translating a co-ordinated recovery programme into practical measures. They are in a position to work out the ways to bring order into the international monetary system. Due to their share in world trade, they also can take steps to recreate the foundations for an open multilateral trading system. As they have extensive economic links with developing countries, including the ones which have been hit by the global debt problem, it is in their self-interest to initiate decisive measures for world development which result in building up the developing countries as full partners in international economic co-operation. Finally, they can give a signal to the rest of the OECD countries through a clear refusal to adopt "beggar-thy-neighbour- policies and by showing determination to work together instead of waiting for each other.

59. Negotiating the policy measures needed for a recovery programme should start with immediate commitments and stretch into medium and long term policies. In the first instance, governments should commit themselves to an immediate halt in the growth of unemployment. This can be achieved either by raising sufficiently the ceiling on money supply targets (including the creation of SDRs), or by giving a fiscal stimulus by a set proportionate amount, or by sufficiently large job-creating measures in the labour market. Depending on the circumstances of each country, a combination of these three measures can bring about the immediate target of stopping unemployment from growing. Another immediate element in a recovery programme is international agreement on the reduction of real interest rates. These actions would set the correct direction for the governments' programme and help to re-establish confidence in their ability to act in a positive manner.

60. Beyond the immediate commitments, which can be nothing more than an starting point, there is need for economic reconstruction over a long time horizon, to ensure that the recovery is firmly based and also that inflationary surges do not reoccur. Longer term programmes are needed for the almost 40 million unemployed who would be by-passed by the effects of a return to growth rates which presently can be envisaged. It has to be made sure that investments do in fact follow from an increase in demand, and that reflationary measures also bring unemployment down, after the initial target of stabilising it.

61. A full employment society must remain the basic aim of the OECD and its member governments. In any immediate or longer term programme, the so-called market forces have their role to play, but there is no way that governments can adopt a hands-off policy. Governments have the economic policy tools which can be used to the benefit of the society as a whole, while individual firms do not have this perspective or, indeed, a responsibility for this. In a recovery programme the responsibilities of the enterprises for employment should also be addressed, as it cannot be unimportant for the employers in which kind of a society their production is carried out, transported, and marketed. There has to be an efficient interaction between public and private investment, with the understanding that if private investment is not

forthcoming (and the policies of the OECD governments have failed to produce an increase in productive private investments), there will have to be sufficient public investment to get the economy moving again.

62. In a negotiated recovery programme, each country would make its contribution depending on the characteristics of its national economy. For example, those countries which have done least to overcome their energy constraint would need to concentrate on that sector, ensuring that even with lower oil prices, energy conservation and fuel-switching measures continue so that growth would not be prematurely choked off. In many countries the infrastructure has been seriously neglected. Inadequate housing, transport, social services and obsolete skills need to have priority in any set of targeted investments. Investments in housing, urban reconstruction, transport, energy conservation measures, education, health and social services create employment and have a positive effect on other sectors of the economy. Countries where inflation remains high must realise investments which can ensure that inflationary tendencies, and bottlenecks in their economies, do not remain when growth picks up. These countries have to concentrate on improving the productivity performance of their industries.

63. Given the extent of damage caused by the recession, governments should not be too timid in their commitment to a recovery. A mild and tentative relaxation of policy, with no or little follow-up action, could produce only an insufficient consumption-led boost. This would not even start to bring unemployment down. Such a "recovery" could easily peter out, as has in the recent past happened in one country or another, when governments are forced to take restrictive measures again. Thus, the size of the commitment to the recovery as well as the follow-up action are important.

64. There are no simple solutions, and it is much more difficult to bring about a recovery than allow a slide into a recession. The complexity of recovery requires complex negotiations.

Unfortunately, up to now governments have been only too ready to believe in, and try to apply, simple formulas. The recovery was supposed to come once inflation was brought down; then it was supposed to materialise once lower oil prices were re-established; and now the idea is promoted that a "flexible response" of reducing wages and increasing the shares of profits will provoke a recovery. But this recession and its global dimension are hard reality, and the solution will not be achieved through yet another patent medicine. The governments cannot afford to be afraid of the complexity of the task they are facing. The longer they hesitate, the more difficult it will be to put our societies back to work.
