

PART E

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 PART E

Begin: 12/5/83

DD: 25 Years

Ends: 25/5/83 (CONTINUED)



1/9/95

**WILLIAMSBURG G7 ECONOMIC
SUMMIT**

PART E

FROM: J.G.LITTLER
DATE: 12 MAY, 1983

MR. KERR

(PWP)
cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr. Middleton
Mr. Burns
Mr. Unwin
Mrs. Hedley-Miller
Mr. Lavelle
Mr. Bottrill
Mr. Peretz
Mr. M. Hall

ADDRESS BY PRESIDENT MITTERAND

As you will have seen in the Press, President Mitterand chose to honour the Ministers present in Paris for the OECD meeting by an invitation to the Elysée on the evening of Monday, 9 May, and delivered to them an Address. This could have some bearing on Williamsburg, and I therefore thought it worth circulating the full text in French, attached, with the following comment and brief summary.

2. It was an offensive occasion. We were asked to be in place by 6-10 p.m. for a Reception at 6-30. In place meant standing, in a large semi-circle in country groups of between 2 and 4 for each country, around the edge of a large and ornate Reception Room, dominated by the Lectern which we faced and batteries of television cameras and photographers behind us and opposite the place where the Americans stood.

3. The President was nearly 15 minutes late; he briefly toured the semi-circle shaking hands with one or two from each country group, then went to the Lectern and delivered the attached Address, taking almost exactly 45 minutes. Madame Flesch (Luxembourg and President of the meeting) gave a 3 minute courtesy reply, after which we adjourned for a glass of champagne.

Main Points of the Address

4. After nearly 10 minutes of elaborate compliments to OECD and reference to the current crisis and the threat of panic, the President spoke of the three ideas which inspired his thoughts this evening: growth, stabilisation and development.

5. Under growth, he called attention to the need to reduce massive budget deficits and high real interest rates; he then urged those countries which have margins of manoeuvre to stimulate their own growth; he then offered the thought that the best way of

countering unemployment was to reduce working hours and educate youth in new technologies.

6. Under the heading of stabilisation, he spoke at length about exchange rates, making three main points:

- we should build on the three zones of \$, yen and European currencies;
- we needed a new Bretton Woods;
- he intended to propose an urgent high-level conference in the framework of the IMF, to promote a new and more stable exchange rate system.

He spoke very briefly against protectionism, with qualifications, and urged the stabilisation of commodity markets, the urgent completion of the Common Fund, measures to regulate futures markets and technical training.

7. Under the heading of development, he made a long list of demands for assistance for the South, emphasising the dependence of the North on the poorer half of the world. He spoke among other things of the need to relieve debt by lower interest rates and a lower \$value, of the need to develop forms of guarantee by international institutions to enable developing countries to borrow commercially; of the need for a new issue of SDR, linked with aid; of the need to ease conditions as well as increase amounts of borrowing from the IMF; of the need to extend the Stabex Scheme for commodities; of the need to increase aid at least to the UN target and of the need for an emergency plan for Africa.

8. He then had a passage commending the Community as a model for the world, particularly praising:

- the opening of frontiers;
- the "progression of agricultural prices"; and
- stability of exchange rates.

9. Finally, he made some minatory references to the Summit, indicating that he would advance the same kinds of ideas at Williamsburg as in this Address, that there must be a response to them, and that the utility of this type of meeting would be judged by the response.

Reactions

10. The United States was not, I think, mentioned by name even once. But President Mitterand looked at the United States Group during a large part of his Address, and the cameras focussed on them, as well as the President, to the exclusion of others. And a great deal of the message, and the choice of particular language and references, was plainly addressed against the United States. It was evident that the US representatives (Shultz, Regan, Brock and Wallis) were angry. When we finally adjourned, they lingered behind and had a short discussion together before rejoining the rest of the company and seeking out the President - while others, equally conscious of the tension, kept away.

11. My impression was that the President overplayed it considerably. Early the following morning, Madame Flesch referred briefly and neatly to the Address with which we had been surprised and edified the night before - and made no further comment. The Press do not seem to have taken the substance of the message seriously, although they may rightly have focussed on the implied threat to future Summit meetings. But we shall plainly have the same message again from the French President at Williamsburg.


(J. G. LITTLER)

(pwt)

May 12, 1983

I. SUMMARY INTRODUCTION

This is a time of real improvement in economic circumstances. Recovery is underway, and this fact increases our mutual confidence that it will soon spread to all countries, industrial and developing. The challenge is to ensure that this recovery endures and reverses a decade of cumulative inflation and unemployment. In this effort, we are mindful of the basic interrelationships that link our economies and the world economic system:

- The link between sustainable domestic growth and the open trading system.
- The link between convergence of domestic policies towards non-inflationary sustainable growth stability.
- The link between open markets and the availability of financing.
- The link between international economic cooperation and world progress.

To meet the challenge of an enduring recovery for ourselves and future generations requires steady and purposeful action over both the short- and longer-term, across a range of policies that exploit and reinforce these interrelationships.

- Promoting conditions for growth, employment and job creation, structural adjustment, and acceptance of technological development.
- Maintaining the fight against inflation with the objective of achieving lower interest rates and more stable exchange rates while identifying consultations on economic policies and market conditions.
- Supporting the international financial system and strengthening world economic cooperation and institutions.
- Reversing protectionism and beginning to work to achieve further trade liberalization.
- Recognizing that prosperity is more than material gain, but also reflects our basic shared values of political freedom, economic opportunity, cultural creativity, 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 are undeniable:

- Major successes have been achieved in reducing inflation.
- Interest rates have been significantly reduced.
- Productivity increases are being registered.
- Some successes in controlling budget expenditures are being achieved.
- Consensus exists to reduce inflation and unemployment on the basis of sustainable growth promoting policy convergence, further reduction of interest rates and greater stability of exchange rates.
- Measures to reduce dependence on oil have helped to bring about a decline in oil prices.
- Recovery in our countries spreading to others will help ensure the revival of world trade and easing of debt burden of many developing countries.

However, unemployment, especially among young people, remains intolerably high and continues to increase in some countries. It can be brought down only if an enduring recovery is achieved. Serious problems remain which, if untended, will endanger the prospect of an enduring recovery.

- Differences in inflation among countries remain too great.
- Inflationary expectations, together with unacceptably high current and future budget deficits and the possibility of excessive and volatile monetary growth, keep interest rates too high, threatening to inhibit investment and recovery and producing distortions and volatility in exchange rates.
- Protectionist pressures threaten our open trade and financial system and prospects for recovery in both industrial and developing countries.
- Conditions in many developing countries remain much more acute than in our own; in many of them,

unprecedented international debt burdens, exacerbated by high interest rates and low commodity prices, continue to constrain trade and, even in some cases, to threaten financial and related political stability and create human hardship.

III. COMMON APPROACH TO A SUSTAINED RECOVERY

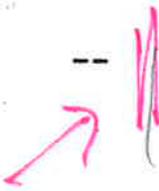
No single country, policy or immediate action can ensure a quick or sustained recovery. Success requires a common approach involving actions taken now across a broad range of policy areas, anchored within a framework of longer-term policy goals and decisions.

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 excessive budget deficits, especially by reducing expenditures, thereby lowering inflationary expectations and high interest rates.
- Pursue appropriate non-inflationary growth of monetary aggregates to achieve and maintain low inflation and interest rates.
- Halt and reverse protectionism and make use of favorable conditions provided by recovery progressively to relax and dismantle trade barriers and trade-distorting domestic measures, including those related to trade in high technology products.
- Give new impetus to resolve current 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.
- Begin work now to achieve further trade liberalization in the GATT, focusing particularly on trade with and among the developing countries, and on their ability to export and so to service their debt.

- Secure early ratification of the increases in IMF and GAB resources and provide interim financing as appropriate.
- Reaffirm commitments to provide agreed funding levels for IDA and the other multilateral development banks.
- Continue with agreed strategy, and strengthen cooperation, for managing current debt problems, including effective adjustment, adequate private and official financing, and sustained, non-inflationary recovery in industrial countries.
- Welcome openness to dialogue expressed by developing countries at New Delhi and Buenos Aires conferences 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 investment in, and official assistance for, developing countries and strengthen the dialogue with developing countries in appropriate fora.
- Agree to consult among each other and with other countries to address interrelationships among growth, 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, continuing with our agreement on exchange market intervention, in the context of an open trading investment and financial system.
 - Invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary
- 

system and to consider the part which might, in due course, be played in this process by a high-level international monetary conference.

- Promote technological development and trade, including their public acceptance, and in particular the implementation of the specific projects included in the program for cooperation initiated at Versailles.
- Promote structural adjustment and its public acceptance, in order to enhance competition and the flexibility of markets and to improve the allocation of resources, by all appropriate means including revitalization of training and the encouragement of mobility.
- Invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.
- 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 poorer countries, both bilaterally and through IDA, the IBRD and similar institutions.
- Continue efforts to conserve energy and develop economic alternative energy resources so as to ensure Western energy security and enhance energy production in developing countries.
- Find practical ways to promote increasing food production in developing countries.
- Work together to find ways, without discouraging growth and technological development, to protect and preserve natural resources and to reduce the threat of pollution from industrial processes (e.g., acid rain).
- Promote cooperation in the development of human resources, including education and training and the improvement of health.

-- 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.

DRAFT STATEMENT

Strengthening Monetary Cooperation for Stability and Growth

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving noninflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic conditions, in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures as agreed at Versailles, through the following approach:

A. We are focusing on nearer-term policy actions leading to convergence of economic conditions in the medium-term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence and to reassure business and financial markets.

B. In accordance with the mandate given to us at Versailles, we are focusing our attention on issues in the monetary and financial fields including interaction with policies in other areas. We shall take fully into account the international implications of our own policy decisions. Policies and targets that will be kept under review include:

(1) Monetary Policy. Disciplined noninflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates.

(2) Fiscal Policy. Discipline over government expenditures, particularly transfer payments. We will aim to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates.

(3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, and accommodating continued structural adjustment, especially by:

-- Enhancing flexibility and openness of economies and financial markets.

-- Encouraging research and development as well as profitability and productive investment.

-- Continued efforts in each country, and improved international cooperation, where appropriate, on structural adjustment measures (e.g. regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time to time, and react promptly to significant changes.

Copy to: C/V / P/L / B / M / M
Original to: J.P.
2. NT
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CHANCELLOR
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May 12, 1983

(BACKGROUND FOR THE WILLIAMSBURG SUMMIT)

CONSENSUS BUILDING ON EAST-WEST TRADE ISSUES

BY JON SCHAFFER
USIA STAFF CORRESPONDENT

PARIS -- FOLLOWING A MEETING OF 24-MAJOR INDUSTRIAL NATIONS IN PARIS MAY 8-10, U.S. SECRETARY OF STATE GEORGE SHULTZ SAID HE SEES A CONSENSUS BUILDING ON EAST-WEST TRADE ISSUES.

"WE HAVE ARGUED AND STRUGGLED TO MAKE OUR VIEWS CLEAR TO EACH OTHER AND GRADUALLY, OVER A PERIOD OF TIME, A CONSENSUS OF VIEWS HAS EMERGED," SHULTZ SAID MAY 10. THE SUBJECT "IS NOT THAT CONTROVERSIAL AT THIS POINT," HE ADDED.

As much
as. Good!

WHILE IT MAY BE PREMATURE TO SAY THERE ARE NO BUMPS LEFT IN THIS ROAD, ACCORDING TO OTHER U.S. OFFICIALS, IT IS ALSO TRUE THAT THE UNITED STATES IS TRYING TO TAKE A LOW PROFILE AND LET EAST-WEST TRADE STUDIES BEING CONDUCTED IN DIFFERENT INTERNATIONAL FORUMS SPEAK FOR THEMSELVES.

"WE ARE NOT SUGGESTING AND FRANKLY WOULD OPPOSE ANY SUGGESTION OF TRADE WARS (WITH THE EASTERN BLOC) OR ANYTHING THAT WOULD EVEN SMACK OF THAT," U.S. TRADE REPRESENTATIVE WILLIAM BROCK TOLD REPORTERS AT THE MINISTERIAL MEETING OF THE OECD (ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT).

HE STRONGLY OBJECTED TO PUBLISHED REPORTS THAT THE REAGAN ADMINISTRATION FEELS EUROPE OWES IT SOMETHING FOR LIFTING THE PIPELINE SANCTIONS.

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BACKGROUND FOR THE WASHINGTON COMITTEE
CONGRESS BUILDING ON EAST-WEST TRADE ISSUES

BY JOE WATKINS
U.S. NEWS & WORLD REPORT

PARIS -- Following a meeting of 24 major industrial nations in Paris last week, Secretary of State George Schultz said he sees a consensus building on East-West trade issues.

"We have worked and struggled in what our voters know to be a very difficult and generally, over a period of time, a government of things has entered," Schultz said May 14. "The subject is not that complicated at this point," he said.

While it may be premature to say there are no simple left in this road, according to other U.S. officials, it is clear that the United States is trying to find a way to make East-West trade relations being conducted in a more international fashion than ever before.

"We are not suggesting any treaty with a broad and suggestion of trade with the eastern bloc or anything that would even suggest of that," U.S. Trade Representative William Brock told reporters at the ministerial meeting of the Economic Commission for Europe Committee and Secretary.

He strongly objected to published claims that the administration feels Europe was in competition for setting the price for oil.

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"IT IS A LOT MORE IMPORTANT TO ACHIEVE THE SUBSTANCE THAN THE VISIBILITY" OF SPECIFIC COMMITMENTS, BROCK SAID. "I DON'T THINK ANYBODY IS TRYING TO PUSH A PARTNER INTO A BOX -- THAT WOULD BE A MISTAKE."

BROCK ADDED, HOWEVER, THAT IF "WE COULD MOVE THESE STUDIES ALONG TO THE POINT OF SOME KIND OF AGREEMENT, WE WOULD BE FAR BETTER OFF BECAUSE THAT WOULD MEAN YOU WOULDN'T HAVE PIPELINE SANCTIONS IN THE FUTURE -- UNILATERALLY IMPOSED.

"IF WE CAN TAKE THE OPPORTUNITY TO MOVE AHEAD IN SEVERAL AREAS," HE CONTINUED, "IT WOULD ACCOMPLISH SOMETHING VERY IMPORTANT. AND I DON'T THINK I FEEL, OR THE PRESIDENT (REAGAN) FEELS, THEY (THE EUROPEANS) OWE US SOMETHING. I THINK WE COLLECTIVELY HAVE SOMETHING TO ACHIEVE TOGETHER THAT WOULD BENEFIT ALL OF US."

AT THE MEETINGS ATTENDED BY BROCK AND SHULTZ, INDUSTRIAL COUNTRIES RECEIVED CONFIDENTIAL REPORTS ON TWO OF FOUR STUDIES ON EAST-WEST TRADE AND CREDIT -- THAT IS, THE ECONOMIC GAINS AND COSTS TO WESTERN NATIONS EXCLUDING POLITICAL AND SECURITY IMPLICATIONS.

IN THEIR FINAL COMMUNIQUE MAY 10, THE OECD MINISTERS AGREED THAT SUCH TRADE HAD EVOLVED IN A LESS DYNAMIC WAY THAN TRADE WITH MORE MARKET-ORIENTED ECONOMIES AND HAD NOT MET EARLIER EXPECTATION.

THE MINISTERS SAID THAT EAST-WEST TRADE AND CREDIT FLOWS SHOULD BE GUIDED BY MARKET FORCES, GOVERNMENTS SHOULD EXERCISE PREFERENTIAL TREATMENT, AND THAT OECD SHOULD KEEP EAST-WEST TRADE RELATIONS UNDER CLOSE REVIEW.

ASIDE FROM THE GENERAL CONCLUSIONS REPORTED BY THE OECD, U.S. OFFICIALS ADDED A FEW OTHER OBSERVATIONS.

CREDIT TO THE EASTERN EUROPEANS HAS BEEN GRADUALLY FREEZING UP, THEY POINT OUT. THUS THE MARKETS ARE GOING AGAINST THE IDEA THAT EAST-WEST TRADE IS "A VERY LUCRATIVE SORT OF THING IN ECONOMIC TERMS," ONE U.S. OFFICIAL SAID.

THE ISSUE OF EAST-WEST CREDITS REMAINS UNRESOLVED, SINCE MEMBERS OF THE INTERNATIONAL ARRANGEMENT ON EXPORT CREDITS ARE STILL NEGOTIATING TO BRING OFFICIALLY-SUPPORTED EXPORT CREDITS IN LINE WITH MARKET RATES OF INTEREST, WHILE U.S. OFFICIALS ARE HOPEFUL OF A SUCCESSFUL CONCLUSION TO THESE

"It is a lot more important to achieve the substance than the vitality of specific commitments," Brook said. "I don't think without it taking to have a partner into a lot -- that would be a mistake."

Brook noted, however, that it is not only the fact that started along the line of some kind of agreement, but would be the better off because that would mean you wouldn't have private sanctions in the future -- voluntarily imposed.

"It is not the opportunity to have words in covered areas," he continued. "It would be a lot more important, and I don't think I feel -- of the president's regard, they are the programs we are working. I think we collectively had something to achieve together that would benefit all of us."

At the meeting attended by Brook and others, the ministerial countries received confidential reports on the of some studies on East-West trade and credit -- that is, the economic gains and costs to various nations including political and security implications.

In their final comments and the deep ministers agreed that such trade had evolved in a less dynamic way than trade with more market-oriented economies and had not met basic expectations.

The ministers said that East-West trade and credit flows should be pushed by market forces, governments should exercise preferential treatment and that each should keep East-West trade relations under close review.

Avoid from the normal conditions reported by the OECD, U.S. officials have a few other observations.

They noted that the Eastern European has been gradually freed up, they think out -- that the market are being opened. The fact that East-West trade is a very important part of them in economic terms, and U.S. officials said.

The issue of East-West credits remains unresolved. Since reports of the international arrangement in support credits are still negotiating to what officials reported earlier. Credits in line with market rates of interest, while U.S. officials are hopeful of a successful conclusion to these

NEGOTIATIONS IN LATE JUNE, THEY POINT OUT THAT THE EXTENSION OF CREDITS TO THE SOVIET UNION AND OTHER EASTERN BLOC COUNTRIES BY CERTAIN WESTERN NATIONS AT BELOW AGREED LEVELS STILL REMAINS A SERIOUS CONCERN -- AND WILL REMAIN A CONCERN PARTICULARLY IF NO NEW ARRANGEMENT IS AGREED UPON.

IN CALLING FOR CONTINUED MONITORING OF EAST-WEST TRADE, U.S. OFFICIALS SAY ONE OF THE ISSUES THE OECD WILL BE CAREFULLY EXAMINING IS THE EXTENT OF "COUNTERTRADE" OR "COMPENSATORY TRADE."

"COUNTERTRADE IS VERY MUCH ON THE INCREASE," SAYS ONE U.S. OFFICIAL, WHO EXPLAINED THAT THE CURRENT SHORTAGE OF HARD CURRENCY IN A NUMBER OF EASTERN EUROPEAN COUNTRIES HAS MADE IT MORE CONVENIENT FOR PEOPLE TO EXCHANGE ONE COMMODITY FOR ANOTHER RATHER THAN USE CASH.

"CLEARLY, IT IS THE ANTITHESIS OF A MARKET SYSTEM.... IT COULD LEAD TO POTENTIAL DUMPING PROBLEMS," THE OFFICIAL SAID, TO THE EXTENT COUNTRIES GET RID OF UNWANTED, INFERIOR PRODUCTS IN SUCH DEALS, THIS MAY AFFECT THE ABILITY OF A THIRD COUNTRY TO SELL IN A MARKET.

BASIC CONCLUSIONS OF A SECOND CONFIDENTIAL STUDY WERE RELEASED MAY 9 BY THE INTERNATIONAL ENERGY AGENCY (IEA), WHOSE MEMBERS INCLUDE ALL BUT THREE OECD COUNTRIES -- THE BIGGEST NONMEMBER BEING FRANCE. THE STUDY ATTEMPTED TO IDENTIFY MAJOR VULNERABILITIES IN WESTERN SUPPLIES OF ENERGY AND SUGGEST MEANS OF REDUCING THESE VULNERABILITIES.

ALTHOUGH THE STUDY WAS NOT CONDUCTED SOLELY TO EXAMINE EAST-WEST ISSUES AND DID NOT MENTION THE SOVIET UNION, MUCH OF THE NEW RESEARCH BY THE ORGANIZATION CENTERED AROUND GAS DEMAND AND SUPPLY. THE IEA MEMBERS CONCLUDED THAT COUNTRIES SHOULD SEEK TO AVOID UNDUE DEPENDENCE ON ANY ONE SOURCE OF GAS IMPORTS AND TO OBTAIN FUTURE GAS SUPPLIES FROM SECURE SOURCES.

IN CONCEPT, IT SUPPORTED BASIC U.S. CONCERNS THAT WESTERN EUROPE SHOULD BE CAREFUL IN ITS GAS PURCHASES FROM THE SOVIET UNION, U.S. OFFICIALS SAY, WITHOUT BEING SO RESTRICTIVE AS TO MAKE AN AGREEMENT UNWORKABLE. FOR EXAMPLE, IT DID NOT IMPOSE CEILINGS ON GAS PURCHASES FROM SINGLE SUPPLIERS, AS WAS ORIGINALLY PROPOSED.

ADMINISTRATIVE IN LATE 1972. THIS POINT NOT THAT THE EXTENSION
OF CREDIT TO THE SOVIET UNION WAS WITH EASTERN EUROPE
LIMITED BY CERTAIN WESTERN CRITERIA AT THAT LEVEL
WILL REMAIN A SERIOUS QUESTION -- AND WILL REMAIN A CONCRETE
PARTICULARLY IF NO NEW AGREEMENT IS REACHED SOON.

IT CALLED FOR CONTINUED MONITORING OF EAST-WEST TRADE,
U.S. OFFICIALS SAY AND THE ISSUE THE DEED WILL BE
ESPECIALLY EXAMINING IS THE EXTENT OF "CONTRACTING" OF
"CONTRACTING TRADE."

"CONTRACTING IS ONLY ONE OF THE ISSUES," SAID ONE
U.S. OFFICIAL, WHO STATED THAT THE CURRENT CONTRACTING OF
WAS LIMITED IN A NUMBER OF EASTERN EUROPEAN COUNTRIES AND
WAS IT MORE (CONTRACTING) TO BE ABLE TO EXCHANGE AND CONTRACT
FOR OTHERS THAN US (WAS).

"GENERALLY, IT IS THE MATTER OF A MARKET SYSTEM... IT
WAS TO BE A POTENTIAL MARKET SYSTEM. THE MARKET
WAS TO THE EXTENT CONTRACTING GET KIND OF MARKET INTERIOR
PRODUCT IN BOTH DEALS. THIS WAY WOULD BE ABILITY OF A
THAT COUNTRY TO BE IN A MARKET.

THESE CONCLUSIONS OF A SECOND CONTRACTING STUDY WERE
REACHED BY U.S. THE INTERNATIONAL ENERGY AGENCY (IEA),
WHOSE MEMBERS INCLUDE ALL BUT THREE WEST COUNTRIES -- THE
GREAT BRITAIN BEING FRAMED. THE STUDY ATTACHED TO
IDENTIFY AND QUANTIFY THE IN WESTERN SUPPLIERS OF ENERGY
AND SUGGEST MEANS OF RESOLVING THESE DIFFICULTIES.

ALTHOUGH THE STUDY WAS NOT CONDUCTED SOLELY TO EXAMINE
EAST-WEST ISSUES AND DID NOT MENTION THE SOVIET UNION, MUCH
OF THE RESEARCH BY THE ORGANIZATION COVERED RECENT AND
DEMAND AND SUPPLY. THE RESEARCH CONCLUDED THAT CONTRACTING
WOULD BE TO SOLVE THESE PROBLEMS OR ANY ONE SOURCE OF
AND REPORTS AND TO BRING FURTHER AND OFFERED FROM THESE

QUESTIONS
IN CONTRAST, IT REPORTED THAT U.S. FOR TRADE THAT WESTERN
COUNTRIES SHOULD BE ABLE TO IN THE EASTERN TRADE FOR
SOME COUNTRIES, BUT WITHOUT BEING IN
RESTRICTING AS TO HOW AN AGREEMENT WOULD BE
EXAMPLE, IT DID NOT MENTION THE DEED OF THE EASTERN TRADE
SINGLE SUPPLIERS, AS WAS OTHERWISE REPORTED

THE IEA STUDY WAS ADOPTED BY THE FULL OECD MAY 10.

IN YET ANOTHER STUDY, COCOM (COORDINATING COMMITTEE), THE INFORMAL PARIS-BASED GROUP THAT OVERSEES STRATEGIC TRADE CONTROLS VOLUNTARILY IMPOSED BY INDUSTRIAL NATIONS, IS IN THE MIDST OF A REVIEW OF ITS LIST OF BANNED ITEMS.

THE UNITED STATES WOULD LIKE TO SEE AN EXTENSION OF THE LIST, BUT THE ISSUE HAS BECOME SOMEWHAT ENTANGLED IN ANOTHER ISSUE: U.S. EFFORTS TO TIGHTEN ITS OWN CONTROLS THROUGH PROPOSED REVISIONS OF THE U.S. EXPORT ADMINISTRATION ACT. THOSE REVISIONS WOULD AUTHORIZE THE PRESIDENT TO ENFORCE EXPORT CONTROLS ON FOREIGN SUBSIDIARIES OF U.S. FIRMS OR FOREIGN-OWNED COMPANIES USING LICENSED U.S. TECHNOLOGY.

WHILE ALL COUNTRIES APPEAR TO AGREE THAT THE SOVIET MILITARY BUILDUP HAS BEEN HELPED BY TECHNOLOGY TRANSFERS, THE EUROPEAN COMMUNITY (EC) WANTS THE UNITED STATES TO RECOGNIZE THAT IT DOESN'T HAVE JURISDICTION OVER COMPANIES REGISTERED IN THE EC.

U.S. OFFICIALS IN PARIS FOR THE OECD MEETINGS SAY THEY HAVE NOT CHANGED THEIR POSITIONS ON THE EXPORT CONTROL ACT AMENDMENTS.

"IT IS A PROVISION THAT WE FEEL WE NEED, TO PUT TEETH IN OUR ENFORCEMENT," LIONEL OLMER, UNDER SECRETARY OF COMMERCE, TOLD THE AMERICAN CHAMBER OF COMMERCE IN FRANCE MAY 10. "THE MORE OUR ALLIES COOPERATE WITH US IN MULTILATERAL ENFORCEMENT EFFORTS, THE LESS NEED WE WOULD EVER HAVE TO USE AN EXTRATERRITORIAL REACH TO IMPLEMENT NATIONAL SECURITY CONTROLS."

THE ISSUE MAY BECOME MOOT AS THE HOUSE FOREIGN AFFAIRS COMMITTEE -- WITH MANY MEMBERS OPPOSING THE ADMINISTRATION'S PROVISIONS -- BEGINS A MARKUP OF THE EXPORT ADMINISTRATION ACT LEGISLATION MAY 11.

THE COCOM STUDY IS NOT EXPECTED TO BE COMPLETED UNTIL NEAR THE END OF THE YEAR, U.S. OFFICIALS SAY.

THE FINAL EAST-WEST STUDY IS BEING CONDUCTED WITHIN NATO (NORTH ATLANTIC TREATY ORGANIZATION) AND WILL HIGHLIGHT THE SECURITY IMPLICATIONS OF EAST-WEST TRADE SO AS TO DEVELOP A STRONGER OVERALL RATIONALE FOR DISTINGUISHING BETWEEN TRADE THAT THE SOVIET UNION MIGHT EXPLOIT TO THE DETRIMENT OF WESTERN SECURITY AND TRADE THAT HAS NO SIGNIFICANT STRATEGIC IMPLICATIONS.

THIS STUDY IS NOT EXPECTED TO BE COMPLETED UNTIL AFTER THE WILLIAMSBURG SUMMIT, OFFICIALS SAY.

U.S. OFFICIALS ACKNOWLEDGE THAT WESTERN INDUSTRIAL NATIONS WILL "NEVER REACH A HARD, FIRM CONSENSUS ON EVERY ISSUE OF EAST-WEST RELATIONS." BUT, THEY ADD, THE STUDIES WILL PROVIDE GUIDANCE TO WESTERN INDUSTRIAL NATIONS IN ASSURING THAT EAST-WEST TRADE IS AT LEAST AS MUCH TO THE WEST'S ADVANTAGE AS TO THE EAST'S.

FROM: J.G.LITTLER
DATE: 12 MAY, 1983

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Mr. Middleton
Mr. Burns
Mr. Cassell
Mr. Unwin
Mr. Lavelle
Mr. Odling-Smee
Mr. Bottrill
Mr. M.Hall

WILLIAMSBURG: MULTILATERAL SURVEILLANCE

Sir Robert Armstrong was after all able to get to Paris yesterday afternoon and attend the whole of the series of meetings of Personal Representatives, so that I did not have to substitute for him. We shall have to wait for his return to see how the final Sherpa preparations have gone.

2. Meanwhile, Financial Deputies met in Paris on Tuesday afternoon (G.5 only and not known to the others) and Wednesday breakfast (the full Summit Group). Our only Williamsburg contribution, which has now been fed in to the meeting of Personal Representatives, was the attached draft note on multilateral surveillance. This has been prepared as a statement of what is being done, to be agreed and if desirable published by or on behalf of Finance Ministers. If Summit Heads wanted to, they could attach it to, or circulate it with, the presidential statement at the end of the Summit.

3. The Chancellor is familiar with the ground covered here; we have considerably simplified the earlier drafting. In general, I think this draft would do, but there will be opportunity for Ministers themselves to look over it at their own Williamsburg meeting.


(J. G. LITTLER)

Strengthening Monetary Cooperation for Stability and Growth

I. We have examined in the light of our experience the procedures outlined in the undertakings agreed at Versailles last year which seek to ensure greater monetary stability in the interest of balanced growth and progress of the world economy.

II. We reaffirm the objectives of achieving non-inflationary growth of income and employment, and promoting exchange market stability through policies designed to bring about greater convergence of economic conditions, in this direction.

III. We are reinforcing our multilateral cooperation with the International Monetary Fund in its surveillance activities, according to the procedures agreed in Versailles, through the following approach:

A. We are focussing more on nearer-term policy actions leading to convergence of economic conditions in the medium-term. The overall medium-term perspective remains essential, both to ensure that short-term policy innovations do not lead to divergence, and to reassure business and financial markets.

B. In accordance with the mandate given to us at Versailles, we focus our attention on issues in the monetary and financial fields including interaction with policies in other areas and taking fully into account the international implication of our own policy decisions. Policies and targets that will be kept under review include :

- (1) Monetary Policy. Disciplined non-inflationary growth of monetary aggregates, and appropriate interest rates, to avoid subsequent resurgence of inflation and rebound in interest rates.
- (2) Fiscal Policy. Discipline over government expenditures, particularly transfer payments. We will aim to reduce structural budget deficits and bear in mind the consequences of fiscal policy for interest rates.
- (3) Exchange Rate Policy. We will improve consultations, policy convergence and international cooperation to help stabilize exchange markets.

(4) Policies Toward Productivity and Employment. While relying on market signals as a guide to efficient economic decisions, we will take measures to improve training and mobility of our labor forces, and accommodating continued structural adjustment, especially by :

- Enhancing flexibility and openness of economies and financial markets.
- Encouraging research and development as well as profitability and productive investment.
- Continued efforts in each country, and improved international cooperation, where appropriate, on structural adjustment measures (e.g. regional, sectoral, energy policies).

IV. We shall continue to assess together regularly in this framework the progress we are making, consider any corrective action which may be necessary from time to time, and react promptly to significant changes.



FROM: MISS J C SIMPSON

DATE: 12 May 1983

cc Mr Littler
Mr Unwin
Mr Lavelle
Mr Hawtin

plp

MR CAREY

WILLIAMSBURG

The Chancellor was grateful for your minute of 11 May. He has no further comments to make.

J

MISS J C SIMPSON

Sherpas

1. Pl. copy to Mr Litter

Mr Kitcatt

Mr Lavelle

Send also to Mr. [unclear], Pl. [unclear]

[Signature]

165.

Ref. A083/1369

MR COLES

Williamsburg Economic Summit: Meeting of Personal Representatives
11-13 May

I attended a final meeting of Personal Representatives before the Williamsburg Economic Summit from 11 to 13 May. The meeting took place in Paris, since most of the Personal Representatives were already there for the OECD Ministerial Meeting.

Political Issues

2. We had a report of a meeting of Political Directors earlier in the day. The United States delegation have proposed that all four meals - dinner on 28 May, lunch and dinner on 29 May and lunch on 30 May - should be taken by Heads of State or Government on their own, without Foreign or Finance Ministers. It is proposed that the meals should be used for political discussions: arms control and INF on the evening of Saturday 28 May, East/West political relations at lunch on 29 May and the Middle East at dinner on 29 May. The lunch on Monday 30 May would be used as a "wrap up" session. In general there would be no statements on political subjects from the Heads of State or Government. The Canadian Political Director had, however, proposed that Heads of State or Government should issue a statement or "open letter" to Mr Andropov on INF. This might be released on Sunday 29 May. The statement would support the zero option, and the intermediate proposals as a stage to the zero option; it would support the exclusion of British and French strategic nuclear weapons from the INF negotiations; and it would insist that the reduction should be global (ie that the Russians could not make up on their eastern border what they reduced on their western border). The United States Political Director had undertaken to prepare a draft which would be considered with other Political Directors before Williamsburg.

3. Personal Representatives were cautiously attracted by this proposal, but emphasised the need for absolute discretion before Williamsburg: if it became known that there was a possibility of such

a statement, then failure to agree upon the statement at Williamsburg would do more harm than if there had been no suggestion of a statement in the first place.

4. No doubt the Foreign and Commonwealth Secretary will be reporting on this matter.

Economic Issues

5. Most of the rest of the meeting was taken up with detailed discussion of the "thematic paper" prepared by the United States delegation and enclosed with the letter which President Reagan sent to the Prime Minister earlier this month. As revised, the paper was agreed as constituting a good basis for discussion by Heads of State or Government at Williamsburg. I attach a copy of the revised paper herewith.

6. It falls into four sections: a general introduction, an assessment, a list of points for action now, and a list of long-term policies and goals. The first two sections might well form the basis for the general discussion on the morning of 29 May, and the last two sections for the plenary discussion on the afternoon of 29 May.

7. During the course of the discussion the French Personal Representative made it clear that at Williamsburg the French President would revert to his proposal for a high-level international monetary conference - or "new Bretton Woods". But this would not be offered as a proposal for immediate action: rather as something about which we should think and towards which we should work over the coming years. The progress made following Versailles was seen as a useful step on that path.

8. It was agreed that at the end of the plenary session on the afternoon of 29 May, Personal Representatives would ask Heads of State or Government for general guidance on the structure and content of the declaration which the President is to make at the end of the meeting. As there has been no preliminary drafting of the declaration, a first draft will have to be written in the light of the guidance received from Heads of State or Government, and revised and refined as necessary through the night. It was agreed that the

American Personal Representative would be responsible for writing the first draft; but I was asked by him to work with him on that: this was in response to a wish on the part of the other Personal Representatives that the first draft should not be prepared by the Americans on their own.

9. We also received the draft of a statement which had been prepared by senior Ministry of Finance officials following up the "international monetary undertakings" which were annexed to the Versailles communique. It was agreed that this draft should go to Finance Ministers at Williamsburg; and the Heads of State or Government should consider what they wished to be done with it: whether they wished to adopt it and attach it as an annex to the declaration, or to ask Finance Ministers to issue the document, or whether not to publish it in its present form but incorporate the gist of it as appropriate in the President's final declaration. This will be a decision to be taken on the afternoon of Sunday 29 May.

10. I should add that the United States delegation made it very clear to me that the President was very much hoping that the Prime Minister would come to Williamsburg. He had been wondering whether to ring her up to press her to do so, but had thought that it might perhaps be unfair to do that: as he had said, it was more important that she should win the Election than that she should come to Williamsburg. But if she can do both, not only the President but all the other Heads of State or Government would undoubtedly warmly welcome it and be greatly impressed. The United States delegation said that, if she wanted to come out in a scheduled Concorde to Washington or New York, they would of course arrange transport for her from there to Williamsburg.

11. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

13 May 1983

FROM: J.G.LITTLER
DATE: 13 MAY, 1983

1. cc. Mr. Littler. ^{16/5}

2. prep.

J.G.L. 2 v.m. : compris!

MR. KERR

WASHINGTON TELEGRAM NO. 1271

I am not surprised that the Chancellor's eye lighted on the reference to me in this telegram. I rocked back with astonishment!

2. I can assure the Chancellor that there is no difference of which I am conscious in our approach to the US deficit problem. Indeed at the dinner of G.5 Deputies in Washington the evening before the surveillance meeting at which the Chancellor spoke so strongly, I took very much the same line and had my usual duel with Sprinkel, enjoying the usual support from Camdessus, the usual relative silence from Watanabe and on this occasion little help from Germany because Tietmeyer was represented by a rather diffident Alternate. I did not join in any other discussions on this subject in Washington, other than in the Chancellor's presence.

3. Trying to think of an explanation, and noting that the report came from Bob Morris of the State Department, it occurs to me to wonder whether this report is a garbled version of something which I said to Wallis, with Morris present, when they called on Sir Robert Armstrong and myself on Saturday morning, 23 April, after the meeting of Sherpas in Williamsburg.

4. Wallis had asked about likely subjects of contention at the Summit and, as I recall, had himself mentioned the US deficit and the impossibility, if one was realistic, of reducing it very quickly. I made two comments, which I suppose might have been interpreted as being "more sympathetic":

- I said that we were anxious to be realistic, that I fully understood that there could be no question of dramatic reduction of the fiscal deficit for the next fiscal year, and that I did not think the market was looking for such an unrealistic prospect. What mattered was that the US authorities should demonstrate, sufficiently to convince the market, that they were getting control of the dynamics of the deficit. To this end, effective action on the "out-years" could suffice, but it needed to be more than a vague future hope;

RESTRICTED AND PERSONAL

- I also said that, while I was sure that the Prime Minister would want to express deep concern about the balance of US policies and the damaging effect of high real interest rates and their cause in the fiscal deficit, I also thought it likely that she would want to avoid concluding the Summit on a note of disagreement and criticism, and would be looking for conclusions which would support the efforts of the US Administration to get this problem under control.

5. I shall try to have a word with Bob Morris as soon as he is available, but I think he may at present be in the meeting of Sherpas and not accessible until he returns to Washington over the weekend.

A handwritten signature in cursive script, appearing to read 'J. G. Littler', written in dark ink.

(J. G. LITTLER)

CONFIDENTIAL

FROM: J.G.LITTLER

DATE: 13 MAY, 1983

MR. KERR

cc Mr.Lavelle
Mr.Unwin

*C. I'm in the dark. ? a word
with FGL en route to/join
Brussels*

IMF AND INTERNATIONAL DEBT

You may notice from telegrams or elsewhere that there is a rumour of an IMF reappraisal of the international debt situation, with contingency plans against a severe and rapid deterioration. There was no hint of it from the Managing Director in Paris earlier this week. But there is a possibility of a member of the IMF Staff visiting London next week to compare notes.

2. I have strongly encouraged early discussion. It may be that all we are hearing of is some perfectly sensible contingency planning. If there is ground for more immediate worry, however, the sooner we know about IMF thinking the better.

✓✓

*All better mentioned.
I had for this*

JGL
(J. G. LITTLER)



Cmp

FROM: J O KERR
DATE: 13 May 1983

MR LITTLER

cc: Mr Burns
Mr Lavelle

WILLIAMSBURG: MULTILATERAL SURVEILLANCE

The Chancellor has read with interest the draft paper on "Strengthening Cooperation for Stability and Growth" which was agreed at your Summit preparatory meetings in Paris earlier this week, and which you attached to your minute of 12 May. He agrees with you that it is satisfactory.

JOK

J O KERR

(pwp)

EXCHEQUER

10 MAY 1983

ON	Mr Bottrell
ES	Mr Little
	Mr Unwin
	Mr Lavelle
	Mr Carey

Mr Beestall
Mr Fitchew
Mr Hawtin

Ref. A083/1340

MR COLES

As requested I attach a draft reply for the Prime Minister to send to Lord Lever and Lord Roll, to thank them for the communication which they sent her on 4 May.

2. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

13 May 1983

13 MAY 1983

DRAFT LETTER FROM THE PRIME MINISTER TO
THE RT HON THE LORD LEVER OF MANCHESTER,
86 EATON SQUARE, LONDON SW1

Thank you very much for the letter which you and Eric Roll sent to me on 4 May, and for sending on to me the memorandum reporting the conclusions which were reached at your meeting under Helmut Schmidt.

It is interesting and useful to have this memorandum before the Williamsburg Summit. I dare say that you will not be surprised to hear that the general drift of it is much in line with the general drift of our own thinking, though there are certainly points at which our emphasis would be different.

I am sending a copy of this letter to Eric Roll.

RESTRICTED

FROM: J.G.LITTLER
DATE: 13 MAY, 1983

CHANCELLOR

cc Mr.Unwin
Mr.Carey
Mr.Lavelle
Mr.Hawtin

WILLIAMSBURG: SOVEREIGN DEBT PROBLEMS

Mr. Kerr's minute of 10 May picked up from Washington telegram 1271 the suggestion that Secretary Regan may raise in the margins of Williamsburg the idea of better machinery for handling debt emergencies such as Yugoslavia. Mr. Carey commented in his minute to you of 11 May, but I can add more on the basis of a discussion among G.5 Deputies in Paris on Tuesday, 10 May.

2. At the dinner of G.5 Deputies in Washington during the Development Committee meeting, when we reviewed various current problems, we touched on the question of machinery for handling debt problems very briefly at the end of the dinner. Sprinkel, Camdessus and I all expressed unease about how some of the machinery for handling debt fits, or fails to fit, together. We agreed to return to this subject at our next session. There was passing reference to the fact that debt would be bound to be a subject of interest at Williamsburg. This has perhaps given rise to the comment in Washington telegram No.1271.

3. In our discussion last Tuesday, we identified a number of difficulties, talked around them, and asked Michel Camdessus (as Chairman of the Paris Club) to prepare a short paper which we would look at in Williamsburg, and report to Finance Ministers.

4. We identified five particular areas for further thought and work:-

(a) Repetitive problems: I think this is actually sub-divided into two categories - first, Paris Club rescheduling for some countries has been repeated several times and one feels the need to look a little further ahead than year-to-year, although this has to be reconciled with keeping the firmest possible control; and possible repeat rescue operations for, e.g., Mexico and Brazil, which call in question the scale of available access to the IMF and the problem of continued maintenance of commercial bank exposure.

(b) "Basket" cases: these are cases like Zaire and Sudan in which the prospects of ultimate recovery are very long term.

(c) Coordination between official and private operations: we lack regular and satisfactory procedures for the kind of contact (not always the same kind) needed to keep the handling of private and official credit compatible - Camdessus has some specific proposals in preparation, designed to establish appropriate links.

(d) Fresh finance: past arrangements have rested on rescheduling plus supplementary assistance arranged in an aid donors' group, but we all agreed that we need to think more widely of a group to handle fresh financing which would bring in different possible national creditors and international institutions.

✓ (e) Early warning: we all hanker after an improved early-warning system, at least among the G.5. I mentioned the arrangements we have developed, now under Mr. Unwin, to review debt situations fairly frequently, and bring together our knowledge of various official and private credits, national and global. Camdessus said he had been developing something similar. Others expressed interest. We propose to designate individuals in our respective Finance Ministries who would keep in regular touch, and probably when we next meet we will try to set up an initial meeting of those people to study how they can strengthen their own sources of information and exchange of material with each other.

✓ 5. As you will see, this is basic mechanics, rather than new policies and ideas. But I think it is an important sub-structure for making sure that we are in a position to react quickly, and where possible foresee problems a little ahead.

6. My expectation is that our Williamsburg discussion among Deputies will produce a short report for Finance Ministers which you and others will welcome as a sensible contribution to mechanics. I think we shall also identify one or two points on which we will want to recommend contact with wider groups and further work.

That could be very valuable - but in private and also in public.

✓ *Partic. in properly*
expression

J.G.L.
(J.G.LITTLER)

RESTRICTED



(Handwritten initials)

FROM: J O KERR
DATE: 16 May 1983

MR LITTLER

cc: Mr Unwin
Mr Carey
Mr Lavelle
Mr Hawtin

SOVEREIGN DEBT PROBLEMS

I think that the Chancellor may have had a word with you in Brussels earlier today about debt issues. However, in case it was not mentioned, I ought to confirm that:-

- a. Over the weekend, he saw your minute of 13 May on the discussion among G5 Deputies on 10 May;
- b. He agrees that the improvements being considered for the mechanisms for coordination among creditor countries are important, and that in particular it would be useful if an improved early-warning system, at least among G5, could be devised;
- c. He welcomes the idea that Deputies should produce at Williamsburg a short report for Finance Ministers, and is inclined to think that it - or a part of it - ought if possible to be prepared in a form suitable for release from Williamsburg as a "Summit text".

(Handwritten signature)

J O KERR

Personnel & Confidential

(1) France (1) for me
(2) M. Keen, for
Hannover.

Le Ministre de l'Economie
et des Finances

CSL
M. Hague

It may help in
the U's exercise in France,
about which we spoke
this a.m.

AR 16/5

Amellon
I am sending this booklet for
the second time, copy of the M. Hague & Co. report as you
requested. My I also comment in this context the
FT clipping I circulated circa 2 weeks ago [at present
my own version has in my desk-free filing system] reporting

x
↓

Monsieur le Président,

Mixtures firm relation
to the effect that deficit hierarchy
and to look in most cases A avoid country
out private investment. The same day as he
launched his

Comme je l'avais laissé entendre à l'occasion du
réaménagement des parités du 21 Mars dernier, le Gouvernement
français souhaite avoir recours au mécanisme des emprunts
communautaires pour contribuer au soutien de sa balance des
paiements.

Buffon words
only
AR
1-27/5

J'ai donc l'honneur de demander à la Commission par
votre haut intermédiaire, que la France puisse bénéficier à ce
titre d'un prêt de 4 milliards d'écus, conformément aux disposi-
tions du règlement n° 682/81 du 16 Mars 1981.

Cette démarche s'inscrit dans l'ensemble des mesures
récentement adoptées par le Gouvernement pour rétablir en deux ans
les équilibres extérieurs de la France, en complément du dispositif
mis en place en Juin 1982. Elle témoigne en outre, s'il était
nécessaire, de l'attachement du Gouvernement français aux procé-
dures communautaires et de sa volonté de les utiliser de manière
privilegiée.

M. Ridley
To note x
MSM
20/5

I - Depuis deux ans, les priorités du Gouvernement ont
été la lutte contre le chômage, le soutien de la croissance et de
l'investissement dans une société plus solidaire et plus égalitaire.
Malheureusement, en raison de la totale atonie de la conjoncture
chez nos principaux partenaires (contrairement à toutes les
prévisions des organisations internationales) et de certaines
insuffisances structurelles de notre appareil productif, les
résultats positifs obtenus, notamment en matière de chômage, l'ont
été au prix d'une aggravation du déficit commercial et d'une moindre
réduction de l'inflation que chez plusieurs de nos partenaires.

Cette situation avait conduit le Gouvernement français
à adopter en Juin 1982 un programme qui a permis d'amorcer une
amélioration sensible de la situation économique.

Monsieur Gaston THORN
président de la Commission

C.
x : This was the Mitterrand speech at the "offensive occasion"
we widely avoided on 9 May. The full text is below:
The sentence Adlam has in mind is, I suspect, that at - x.
I see his point - but (a) M. was clearly talking about
the US; and was so reported; (b) he went on to find
some 'margin' for others, and was clearly then talking, like
Adlam, about the UK. To quote him in deficits is simply
but others could quote cap that by quoting him in reflection.
J.D.S.

x/ This is too
close for
comfort

Un effort supplémentaire significatif en ce sens a cependant été rendu nécessaire par le niveau élevé de notre déficit extérieur dans un environnement économique extérieur caractérisé par des taux d'intérêts américains à des niveaux réels records, une hausse persistante du dollar, une récession accrue des économies de nos principaux partenaires et une diminution du volume du commerce mondial.

C'est dans ces conditions qu'un réajustement monétaire est intervenu le 21 Mars dernier ; à cette occasion le Gouvernement français a considérablement renforcé son programme d'action, sans pour autant remettre en cause ni la lutte contre le chômage ni une solidarité active en faveur des plus défavorisés.

II - A cette fin, le programme annoncé le 25 Mars dernier par le Gouvernement comprend trois volets : la réduction des déficits publics, le resserrement de la norme de progression monétaire et le développement de l'épargne.

1° - Les mesures de réduction des déficits publics sont les suivantes :

- Limitation à 3 % du PIB du déficit budgétaire en 1983 et 1984. Au surplus, pour 1983, il a été opéré des économies supplémentaires à hauteur de 15 milliards de francs. Une taxe spéciale permanente sur certains produits pétroliers est instituée pour compenser la baisse des prix du pétrole et appuyer ainsi les efforts déjà entrepris en matière d'économie d'énergie.
- Rétablissement et maintien de l'équilibre de la sécurité Sociale et de l'assurance chômage en 1983 et 1984 ; diverses mesures d'économies sont arrêtées à cette fin, ainsi que sont mises en place des ressources nouvelles (vignette sur les alcools et le tabac). Par ailleurs, un prélèvement proportionnel de 1 % sur les revenus imposables est affecté au financement des régimes sociaux ; ce prélèvement est modulé pour tenir compte de la taille des familles.
- Réduction des déficits des grandes entreprises nationales : 7 milliards d'économies nouvelles seront dégagés en 1983. Par ailleurs, les tarifs du gaz, de l'électricité, du téléphone et des chemins de fer voyageurs ont été relevés de 8 % au 1er Avril, c'est-à-dire avant la date prévue et d'autres ajustements tarifaires interviendront d'ici la fin de l'année.
- L'enveloppe d'emprunts des collectivités locales sera réduite de 2 milliards de francs en 1983.

Au total, les déficits seront diminués de 45 milliards de francs environ par l'effet de ces différentes mesures.

2° - L'objectif d'augmentation de la masse monétaire pour 1983 est ramené de 10 à 9 %, avec les conséquences qui en découlent pour la maîtrise du crédit interne.

3° - Le développement de l'épargne, favorisé par la mise en place de la Loi sur la protection de l'épargne et le développement des investissements, bénéficie en outre des dispositions suivantes :

- L'institution d'un emprunt obligatoire égal à 10 % des impôts sur le revenu et sur les grandes fortunes. Ses modalités de calcul tiennent compte de la nécessité de sauvegarder les plus bas revenus. Le prélèvement de 10 % interviendra le 30 Mai. L'emprunt portera intérêt au taux de 11 %, il sera remboursé au bout de 3 ans.
- Dans le cadre de la nouvelle donne en matière d'évolution des revenus et des prix, la création par la voie contractuelle, de fonds salariaux permettant l'orientation de ressources supplémentaires vers l'investissement et la création d'emplois.
- Des mesures en faveur des livrets d'épargne et de l'épargne-logement, (relèvement des plafonds d'exonération fiscale et des taux de rémunération).

L'effet attendu de ces mesures est -compte non tenu de l'impact des fonds salariaux- d'une vingtaine de milliards en 1983. Ceci porterait le prélèvement total sur la demande intérieure à 65 milliards de francs soit environ 2 % du PIB.

Par leur effet sur la demande intérieure, l'ensemble de ces mesures, jointes aux dispositions adoptées en Juin 1982, doit permettre une réduction du déficit commercial de 45 milliards en un an, et un retour à l'équilibre à terme de deux ans.

Par ailleurs, et notamment pour bien manifester la nécessité d'un effort de solidarité de tous pour le rétablissement des comptes extérieurs, les dépenses de touristes français à l'étranger ont été limitées à 2000 F par an par adulte, et à 1000-F par enfant. Un carnet de change touristique est rétabli. Ces restrictions de caractère temporaire ne s'appliqueront que jusqu'au 31 Décembre 1983.

D'autre part, le Gouvernement français poursuit son action pour réduire rapidement le rythme d'inflation : celui-ci est passé de 14 % en 1981 à moins de 10 % en 1982 (9,7 %), conformément aux engagements pris en Juin dernier. De même le Gouvernement a réaffirmé sa volonté d'atteindre son objectif de 8 % en 1983 et de réaliser l'objectif de 5 % pour 1984.

Le Gouvernement s'attache à poursuivre son effort de "desindexation" dans l'ensemble de l'économie. L'effort mené pour supprimer en 1983 la référence à des clauses automatiques de garantie du pouvoir d'achat, dans toutes les conventions ou décisions déterminant ces revenus directs ou indirects, représente un pas important accompli dans cette direction.

Cet effort vigoureux et immédiat est complété :

- par un volet social afin de compenser les effets mécaniques négatifs sur l'emploi grâce à l'extension des programmes de formation des jeunes et des adultes, le développement du travail à temps partiel, ainsi qu'une gestion plus active et plus flexible du marché du travail ;

- par un volet industriel qui a notamment pour objectif d'orienter de manière privilégiée l'épargne vers l'industrie et d'encourager la création d'entreprises. D'importantes ressources d'épargne ont d'ailleurs été dégagées depuis 1982 pour accroître les fonds propres et les ressources à long terme des entreprises.

III - Pour faciliter le plein effet de ces mesures, il convient d'assurer un financement sain du déficit extérieur. La conjoncture présente, comme la nature de ce plan, me semble justifier pleinement le recours aux emprunts communautaires destinés au soutien des balances des paiements des Etats-membres.

L'article 2 du règlement n° 682/81 dispose que le Conseil prend sa décision sur un tel prêt après un examen du programme de redressement que l'Etat-membre concerné s'engage à mettre en oeuvre. Ce programme me paraît de nature à remplir les conditions prévues par le règlement précité et la déclaration du Conseil inscrite au procès-verbal de la réunion du Conseil du 16 Mars 1981 à propos de l'article 2 du ce règlement.

Je suis prêt à examiner avec la Commission les questions techniques que pourrait soulever l'opération d'emprunt dont le Gouvernement français demande la réalisation. Je souhaiterais que ce sujet puisse être inscrit à l'ordre du jour du Conseil des Ministres de l'Economie et des Finances du 16 Mai prochain.

Je vous prie de croire, Monsieur le Président, à l'expression de ma très haute considération.

Jacques DELORS

Main Features of French measures

(1) - Budget deficit to be constrained - a reduction of some £4 billion based on:

- expenditure cuts of over £1 billion
- special taxes on petroleum products
- increased social security contributions
- reduced costs and increased prices in nationalised industries (gas, electricity, telephone, railways)
- limits on local authority borrowings.

(2) - Monetary growth constrained. For 1985, reduced by 1% from +10% to +9%.

(3) - Encouragement of savings

- forced saving by obligatory 10% contribution from large incomes and wealth, success-tax.
- tax concessions and higher interest on housing and other small savings.

Total effect: a reduction in demand in 1985 amounting to some £6 billion - about 2% of GNP.

FRENCH MEASURES SINCE REALIGNMENT OF JUNE 1982

1. June 1982. 4 month pay/price freeze, followed by 14 month wage and price restraint.
2. September 1982. Deficit on state budget (excluding social security and health funds) for 1983 to be held to 3 per cent GDP.
3. January 1983. Target for M2 in 1983 set at 10 per cent (outturn of C 12 per cent in 1982).
4. Package of 25 March 1983 designed to reduce GDP by 2 per cent.
 - (a) ^{over 2 billion of} Public expenditure cuts; increased charges ⁺ and extra taxes to hold deficit to 3 ⁺ per cent of GDP in 1983. Same target set for 1984.
 - (b) Monetary growth target reduced from 10 per cent to 9 per cent.
 - (c) Measures to encourage savings.
5. Target of 8 per cent inflation rate for 1983 reaffirmed by Mauroy despite cost-increasing nature of economic package.

⁺ I'd like some > specific detail
on these, please, it has
(i.e. ~~the~~ 2 BNS)



(14)

10 DOWNING STREET

THE PRIME MINISTER

EXCHEQUER	
DATE	10 MAY 1983
TO	Mr Bottrill
TO	Mr Lippin Mr Uwin
TO	Mr Lavelle
TO	Mr Carey
TO	Mr Bentall
TO	Mr Fitcham
TO	Mr Hawton

Dear Lord Lever

Thank you very much for the letter which you and Eric Roll sent to me on 4 May, and for the memorandum reporting the conclusions which were reached at your meeting under Helmut Schmidt's chairmanship.

I found the memorandum interesting and stimulating as I would expect from its distinguished authorship. You will not be surprised if I say that there are points at which our emphasis would be different but I enjoyed reading it.

I am sending a copy of this letter to Eric Roll.

Yours sincerely
Raymond Lippin

The Rt. Hon. The Lord Lever of Manchester

FROM: R G LAVELLE

DATE: 16 May 1983

MR KERR

cc: Mr Littler
Mr Unwin
Mr Carey
Mr Bottrill
Mr Peretz

WILLIAMSBURG THEMES

It may be helpful if I were to offer a very quick note on Sir Robert Armstrong's minute about the Sherpas meeting on 11-13 May.

2. The first attachment to Sir Robert's report is a revised copy of the thematic paper prepared by the US delegation which the Chancellor saw a little while ago. This draft seems to follow the same general course as the earlier text. I noted only two changes of any significance. In Section IV on longer term policy goals there is now a third tirect as follows:

- invite Ministers of Finance, in consultation with the Managing Director of the IMF, to define the conditions for improving the international monetary system and to consider the part which might, in due course, be played in this process by a high level international monetary conference.

3. The sixth tirect is also amended in that the timing of a possible future GATT meeting is now muffled and the revised text reads:

- invite Ministers of Trade, in consultation with the Director General of the GATT, to define the conditions for improving the open multilateral trading system, including trade between developed and developing countries, and to consider the possibility of more frequent Ministerial meetings in the GATT to maintain urgency in this process.

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4. The amended text on trade issues seems rather more judicious. The invitation to Finance Ministers is no doubt intended as something of a face saver for the French President, given his determination to repeat his generalised call for a "new Bretton Woods". The rather formal language used, which is similar to that adopted in the Trade case, looks quite a statesmanlike way of accommodating trouble.

5. It seems clear that the central emphasis of the Summit meeting will, as has always seemed the case, ^{be on} economic matters. Thus the second attachment to Sir Robert's note is the extended statement on monetary co-operation which Mr Littler submitted last week and the Chancellor thought useful. The Chancellor has, partly in his Interim Committee Chairman hat, had of course to play a major part in the process of dialogue leading to the preparation of this statement.

R

R G LAVELLE



EXCHEQUER	
18 MAY 1983	
✓	Mr Little.
✓	Mr Unwin.
✓	Mr Lovell.
✓	Mr Carey.

Foreign and Commonwealth Office

London SW1A 2AH

17 May 1983

cc Mr Hall.

John

Den Jm

Economic Summit, Williamsburg

We spoke this evening about the protocol order for the Delegation.

The American Task Force have told us that official Delegations must not exceed fifteen in number. Our officials number seventeen. I should be grateful to know if you approve the enclosed list in protocol order. If so, Mr Appleyard and Miss Wallace would be under the 'Staff' category, which includes executive officials such as Conference Officers, Duty Clerk and Staff from the Embassy in Washington (including the Ambassador). Personal Assistants, Communicators and Royal Military Police would be classified as support staff and Detectives as Security.

The above would not affect the allocation of pins for access to the secure area of colonial Williamsburg, on which a recommendation will be made shortly.

I am sending a copy of this letter to John Kerr (Treasury) and to Richard Hatfield (Cabinet Office).

Yours ever
[Signature]

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street



UK DELEGATION TO THE ECONOMIC SUMMIT, WILLIAMSBURG

28-30 MAY 1983

The following is a list in protocol order of the official UK Delegation to the Economic Summit in Williamsburg.

1. The Rt Hon Margaret Thatcher Prime Minister
2. The Rt Hon Sir Geoffrey Howe QC Chancellor of the Exchequer
3. The Rt Hon Francis Pym MC Foreign and Commonwealth Secretary
4. Sir Robert Armstrong GCB CVO Secretary of the Cabinet
5. Sir Julian Bullard KCMG Political Director, Deputy to the Permanent Under-Secretary of State, FCO
6. Mr Geoffrey Littler CB Second Permanent Secretary, H M Treasury
7. Mr Richard Evans CMG Deputy Under-Secretary of State, FCO
8. Mr John Coles Private Secretary to the Prime Minister
9. Mr John Kerr Principal Private Secretary to the Chancellor of the Exchequer
10. Mr Brian Fall Principal Private Secretary to the Foreign and Commonwealth Secretary
11. Mr Michael Scholar Private Secretary to the Prime Minister
12. Mr Bernard Ingham Chief Press Secretary to the Prime Minister
13. Mr Martin Hall Press Officer to the Chancellor
14. Mr John Goulden Head, News Dept, FCO
15. Prof. Alan Walters Economic Adviser to the Prime Minister
16. Mr Len Appleyard Head of Economic Relations Dept FCO
17. Miss Sheenagh Wallace Asst. Press Secretary to the Prime Minister

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FM WASHINGTON 172213Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 1363 OF 17 MAY

PS/CHANCELLOR OF THE EXCHEQUER
TREASURY

(part)

TELECON MACLENNAN/WALL

WILLIAMSBURG ECONOMIC SUMMIT: PRIME MINISTER'S BILATERAL WITH
PRESIDENT REAGAN

1. I HAVE ASKED DEEVER FOR A BILATERAL MEETING BETWEEN THE PRIME
MINISTER AND THE PRESIDENT BETWEEN MRS THATCHER'S ARRIVAL IN
WILLIAMSBURG ON SATURDAY 28 MAY AND DINNER THAT EVENING.
2. THE PRESIDENT'S MIND WILL BE ON THE DISCUSSIONS IN THE SUMMIT,
AND ON HIS OWN ROLE AS HOST. WHAT HE WILL BE MOST INTERESTED IN
TALKING TO THE PRIME MINISTER ABOUT WILL BE THE ELECTION CAMPAIGN
IN BRITAIN BUT HE WILL HAVE BEEN BRIEFED ON BILATERAL ISSUES.
3. ALTHOUGH THERE WILL BE A FULL DISCUSSION OF THE US AND WORLD
ECONOMY IN THE SUMMIT ITSELF, THE BILATERAL MEETING WILL BE A GOOD
OPPORTUNITY TO TALK WITH THE PRESIDENT IN PRIVATE ABOUT THE
SIGNIFICANCE FOR THE UK OF US ECONOMIC PERFORMANCE (ESPECIALLY
THE LEVEL OF INTEREST RATES AND THE RELATED PROBLEM OF THE DEFICIT).
THE UK EXPERIENCE OF SIMILAR PROBLEMS TO THE ONES THE AMERICANS
ARE NOW FACING WOULD BE OF SOME INTEREST AND PERHAPS ENCOURAGEMENT
TO THE PRESIDENT.
4. ON INTERNATIONAL POLITICAL AFFAIRS, IT WOULD BE A GOOD MOMENT
TO DRAW THE PRESIDENT OUT ON HOW HE SEES THE DEVELOPMENT OF US
RELATIONS WITH THE SOVIET UNION AND WHAT HIS OWN SENSE IS OF
SOVIET TACTICS IN THE RUN UP TO INF DEPLOYMENT.
5. OTHER OBVIOUSLY TOPICAL ISSUES ARE THE MIDDLE EAST AND CENTRAL
AMERICA: BOTH ARE ISSUES WITH MAJOR DOMESTIC POLITICAL IMPLICATIONS
FOR THE PRESIDENT. HE KNOWS OF OUR SUPPORT FOR HIS MIDDLE EAST
INITIATIVE AND FOR SHULTZ'S RECENT CONTRIBUTION TO IMPROVED
STABILITY AS WELL AS FOR US OBJECTIVES IN CENTRAL AMERICA. BUT HE
WOULD CERTAINLY WELCOME HEARING OF THIS SUPPORT FROM THE PRIME
MINISTER HERSELF WITH ANY BRITISH PERSPECTIVES SHE MIGHT WISH
PRIVATELY TO ADD.
6. THERE ARE IN ADDITION TWO BILATERAL ISSUES WHICH I WOULD RECOMMEND
THAT THE PRIME MINISTER RAISE. THE FIRST IS THE RENEWAL OF THE EXPORT
ADMINISTRATION ACT. THERE WOULD BE NO NEED TO GO INTO DETAIL WITH
THE PRESIDENT. THE POINT WE NEED TO REGISTER WITH HIM IS THAT THE
EXTRATERRITORIAL ASPECTS OF THE DRAFT DO CAUSE SERIOUS PROBLEMS FOR
US, WITH IMPORTANT POLITICAL IMPLICATIONS FOR THE ALLIANCE AS WELL
AS BILATERALLY. THE PRESIDENT SEES EYE TO EYE WITH THE PRIME
MINISTER ON SO MUCH THAT HE IS MORE LIKELY TO TAKE SERIOUSLY FROM
HER ARGUMENTS WHICH HE WOULD BE TEMPTED TO DISCOUNT FROM OTHER
EUROPEAN LEADERS. I CERTAINLY THINK THAT IF WE DO NOT PUT DOWN A
MARKER ON THIS ISSUE, THE PRESIDENT'S ADVISERS WILL BE TEMPTED
TO CONCLUDE THAT WE DO NOT ATTACH IMPORTANCE TO IT.

Pictures?
I think
don't do it, but
They are being
got ready
in case you
want to offer
(them.)

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7. I ALSO THINK IT WORTHWHILE ALLUDING TO THE ANTI-TRUST CASE. THIS TOUCHES A VERY SENSITIVE NERVE HERE NAMELY THE INDEPENDENCE OF THE JUDICIAL PROCESS. IT IS IMPORTANT TO TRY TO GET ACROSS TO THE PRESIDENT THAT WE ARE NOT SEEKING TO CONTRADICT AMERICAN JUSTICE, BUT THAT WE DO BELIEVE THAT US ANTI-TRUST LAWS ARE UNDULY SEVERE IN DEALING WITH WHAT, IN OTHER COUNTRIES, ARE ISSUES OF ECONOMIC POLICY. THE PRIME MINISTER COULD ALSO DISABUSE THE PRESIDENT OF ANY NOTION THAT THE IMPACT OF THE ANTI-TRUST CASE WILL NOT BE EXCEPTIONALLY SEVERE FOR THE BRITISH AIRLINES CONCERNED. MR REAGAN IS LIKELY TO BE SYMPATHETIC TO THE ARGUMENT THAT ONE EFFECT OF THE CASE WOULD BE TO THWART THE GOVERNMENT'S PLANS FOR PRIVATISATION OF BRITISH AIRWAYS, A PROJECT WHICH IS BOTH ECONOMICALLY AND PHILOSOPHICALLY CLOSE TO THE PRESIDENT'S OWN APPROACH.

8. I WOULD NOT RECOMMEND THAT HONG KONG SHOULD BE RAISED BY THE PRIME MINISTER. UNLESS FOREWARNED, THE PRESIDENT WILL NOT HAVE FOCUSED ON THIS ISSUE AND IS UNLIKELY TO BE WELL BRIEFED ABOUT IT. IF WE HAVE POINTS WHICH WE WISH TO CONVEY, THIS MIGHT PERHAPS BEST BE DONE IN CONVERSATION BETWEEN YOU AND SHULTZ.

9. I SHALL BE SENDING SOME FURTHER THOUGHTS ON THE PRESIDENT'S STANDING AND CURRENT PRE-OCCUPATIONS NEARER THE TIME OF THE SUMMIT.

WRIGHT

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PS/LORD BELSTEAD
PS/MR RIFKIND
PS/MR HURD
PS/MR RAISON
PS/PUS
SIR J BULLARD
MR EVANS
MR HANNAY
MR THOMAS
MR DONALD
MR HAYES
MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

2
CONFIDENTIAL

GRS 950 .

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RESTRICTED [CULL]

FM WASHINGTON 202302Z MAY 83

TO PRIORITY FCO

TELEGRAM NUMBER 1424 OF 20 MAY

INFO SAVING PARIS, ROME, BONN, TOKYO, UKREP BRUSSELS, UKDEL OECD.

MY TELNO 1345:

THE U S BUDGET : FURTHER DEVELOPMENTS IN CONGRESS.

SUMMARY

1. DESPITE PRESIDENT REAGAN'S THREATS TO VETO ANY MAJOR TAX INCREASES, THE SENATE LAST NIGHT PASSED A RESOLUTION WHICH PROVIDES FOR DOLLARS 73 BILLION IN TAX INCREASES OVER THE NEXT THREE YEARS AND A BUDGET DEFICIT OF DOLLARS 179 BILLION IN FY84. IT DEFEATED THE PROPOSAL BACKED BY THE ADMINISTRATION WHICH PROVIDED FOR MINIMAL TAX INCREASES AND A BUDGET DEFICIT OF DOLLARS 193 BILLION. TEN REPUBLICANS JOINED THE DEMOCRATS IN DEFEATING THE VERSION BACKED BY THE ADMINISTRATION. THE BUDGET RESOLUTIONS PASSED BY THE HOUSE OF REPRESENTATIVES AND THE SENATE NOW GO TO A CONFERENCE PROCEDURE TO IRON OUT DIFFERENCES BETWEEN THEM, BUT THERE IS A LARGE AND MAYBE UNBRIDGEABLE GULF BETWEEN THE TWO VERSIONS. THE END OF MAY APPEARS TO BE THE EARLIEST AN AGREED RESOLUTION COULD BE EXPECTED (COMPARED WITH THE NORMAL TIMETABLE OF 15 MAY), WITH NO INDICATION AT PRESENT THAT ITS PROVISIONS WILL BE ACCEPTABLE TO THE PRESIDENT.

DETAIL

2. THE PRESIDENT WENT ON NATIONWIDE TELEVISION ON 17 MAY (MY TELNO 1373) TO REITERATE HIS THREAT THAT HE WOULD VETO ANY LEGISLATION TO INCREASE TAXES SIGNIFICANTLY BEFORE FY86. THE FOLLOWING DAY THE ADMINISTRATION WERE SUCCESSFUL IN GETTING THE SENATE BUDGET COMMITTEE TO REPORT TO THE SENATE A RESOLUTION PROVIDING FOR TAX INCREASES OF ONLY DOLLARS 2.6 BILLION AND MILITARY EXPENDITURE RISING BY 7.1 PERCENT IN REAL TERMS IN FY84. BUT YESTERDAY, DESPITE ALL THE PRESIDENT'S EFFORTS, THE RESOLUTION AGREED BY THE COMMITTEE WENT DOWN TO DEFEAT ON THE FLOOR OF THE SENATE BY A VOTE OF 56-43, A LARGER MARGIN THAN ON 12 MAY, WHEN A SIMILAR ADMINISTRATION COMPROMISE WAS DEFEATED.

3. THE BUDGET RESOLUTION THAT WAS EVENTUALLY ADOPTED BY THE SENATE LATE LAST NIGHT, BY A MARGIN OF ONLY ONE VOTE, ALLOWS FOR A FEDERAL DEFICIT OF DOLLARS 179 BN IN FY84 (COMPARED WITH DOLLARS 193 BN IN THE ADMINISTRATION-BACKED BUDGET AND DOLLARS 175 BN IN THE HOUSE VERSION). IT PROVIDES FOR INCREASES IN TAX REVENUES OF DOLLARS 9.9 BN (ADMINISTRATION DOLLARS 2.6 BN: HOUSE DOLLARS 30BN). ON MILITARY EXPENDITURE, IT PROVIDES FOR A REAL INCREASE OF 6 PERCENT IN FYS4 (ADMINISTRATION WOULD ACCEPT 7.5 PERCENT: HOUSE 4 PERCENT).

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/4.

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4. PROCEDURALLY, THE NEXT STEP IS FOR THE HOUSE AND SENATE TO TRY TO RESOLVE THE DIFFERENCES BETWEEN THEIR TWO VERSIONS OF THE BUDGET. THE GAP BETWEEN THE TWO VERSIONS IS, HOWEVER, LARGE. MODERATE REPUBLICANS WHO VOTED AGAINST THE ADMINISTRATION'S BUDGET IN THE SENATE WILL FIND IT HARD NONETHELESS TO SWALLOW THE KIND OF TAX INCREASE AND LOW GROWTH IN DEFENCE SPENDING THAT HOUSE DEMOCRATS ARE ASKING FOR.

5. IT MAY THEREFORE BE HARD FOR THE SENATE AND HOUSE TO COME UP WITH AN AGREED BUDGET, LET ALONE ONE ACCEPTABLE TO THE PRESIDENT. IF THE HOUSE AND SENATE CANNOT AGREE ON AN OVERALL BUDGET THEN THEY WILL SIMPLY VOTE AS THEY THINK BEST ON INDIVIDUAL APPROPRIATIONS LEAVING THE PRESIDENT TO VETO THOSE THAT ARE UNACCEPTABLE TO HIM. THIS IS THE WAY GOVERNMENT USED TO OPERATE BEFORE THE REVISED BUDGET PROCEDURE WAS INTRODUCED IN 1974. THERE ARE MANY WHO ARGUE THAT THE PRESIDENT WOULD BE QUITE HAPPY TO OPERATE IN THIS WAY, I.E. GOVERNING BY VETO AND CLAIMING THAT HE WAS ACTING IN THE INTERESTS OF THE PEOPLE AGAINST AN IRRESPONSIBLE CONGRESS, WHICH WAS PUTTING THE RECOVERY AT RISK.

6. OVERALL, THE PRESIDENT WOULD PROBABLY PREFER TO SEE CONGRESS AGREE ON A BUDGET RESOLUTION THAT HE CAN ACCEPT. HE CAN HARDLY BE SATISFIED WITH A SITUATION THAT HAS PUT HIM AT LOGGERHEADS WITH SENIOR MEMBERS OF HIS OWN PARTY IN THE SENATE AND WHICH IS BOUND TO CAUSE UNCERTAINTY IN THE FINANCIAL MARKETS OVER THE PROSPECTS FOR REDUCING THE DEFICITS IN LATER YEARS. NONETHELESS, THE PRESIDENT CAN LIVE WITH THIS DEFEAT. HIS OWN POPULARITY IS GOING UP AS RECOVERY TAKES HOLD, AND THE NOTION THAT GROWING DEFICITS REQUIRE STRONG MEDICINE IN THE FORM OF TAX INCREASES IS NOT ONE THAT YET FINDS MUCH GENERAL APPEAL. THE PRESIDENT HAS CONSIDERABLE CREDIBILITY WITH THE PUBLIC. CONGRESS HAS VERY LITTLE. AS ONE REPUBLICAN SENATOR PUT IT TO ME EARLIER TODAY: QUOTE MOST OF MY CONSTITUENTS WANT THE DEFICIT REDUCED BUT THEY HAVE NOT YET GOT BEYOND THE STAGE OF THINKING THAT IT COULD EASILY BE DONE IF ONLY SELFISH SENATORS LIKE ME WOULD STOP VOTING OURSELVES PAY INCREASES UNQUOTE.

7. FCO PLEASES PASS TO BOTTRILL (TREASURY) AND WATSON (BANK OF ENGLAND).

FCO PASS SAVING : PARIS, BONN, ROME, TOKYO, UKREP BRUSSELS AND UKDEL OECD.

WRIGHT

FINANCIAL
NAD

[THIS TELEGRAM WAS NOT ADVANCED]
[REPEATED AS REQUESTED]

COPIES TO
MR BOTTRILL TREASURY
MR WATSON BANK OF ENGLAND

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5 TRSY G

PD TLX WASHDC 18 MAY 1983

EOFFREY HOWE

NO. 262405 TRSY G

DELLOR OF THE EXCHEQUER

WILLIAMSBURG, ENGLAND

12356: N/A

SUBJECT: TOPICS FOR FINANCE MINISTERS' DISCUSSIONS IN WILLIAMSBURG

COLLEAGUE:

SCHEDULE FOR THE WILLIAMSBURG SUMMIT PROVIDES FOR SEVERAL OCCASIONS FOR FINANCE MINISTERS TO GET TOGETHER WITH THEMSELVES:

DAY, MAY 28

DINNER

DAY, MAY 29

MEETING (9:00 AM TO 12:00 NOON)

LUNCH

DINNER

IN ADDITION TO ASSIGNMENTS THAT MAY BE GIVEN TO US BY SUMMIT LEADERS, I SUGGEST THAT THE AGENDA FOR OUR TALKS IN WILLIAMSBURG INCLUDE THE FOLLOWING TOPICS:

BILATERAL SURVEILLANCE: DRAFT STATEMENT ON STRENGTHENING MONETARY COOPERATION FOR STABILITY AND GROWTH, PREPARED BY OUR DEPUTIES (TEXT TRANSMITTED SEPARATELY BY SECRETARY SPRINKEL):

RESULTS OF RECENT DISCUSSIONS AMONG TRADE AND FINANCE MINISTERS:

INTERNATIONAL DEBT ISSUES. ✓ *WEL WMP REARIS?*

OPPORTUNITIES AND PROSPECTS FOR SUSTAINABLE ECONOMIC RECOVERY IN OUR COUNTRIES, AND

OTHER ITEMS MINISTERS MAY WISH TO RAISE.

IT WILL BE A PLEASURE TO WELCOME YOU TO WILLIAMSBURG.

SINCERELY,

DONALD T. REGAN

5/LVHLLLLL

VIA RCA FROM 248492 TRES UR

1/19
C,

EXCHEQUER	
19 MAY 1983	
ACTION	Mr Hittler
COPIES TO	Mr Linnin
	Mr Lavelle
	Mr Bottrill
	Mr Carey
	Mr Burns

S E C R E T



Foreign and Commonwealth Office

London SW1A 2AH

18 May 1983

DISTRIBUTION	
DATE	19 MAY 1983
ACTION	
REMARKS	✓ 19/5 Mr Pittler Mr Lowwin Mr Lavelle Mr Hall

(pup)

1. Pl. copy this and all Williamsburg arrangements pps to Mr Hall

2. For/Exec. ✓ Done. 19/5

c. This is as envisaged. The good news is that all now agree that Sir O Wogot can manage on his own at Tuesday night's dinner (For said so fiercely!)

Dear John

Williamsburg

Thank you for your letter of 17 May

We have telegraphed to posts about the Prime Minister's wishes for bilateral meetings at Williamsburg and separately to Washington only about travel arrangements.

Jde

I enclose a copy of a programme for Williamsburg incorporating the Prime Minister's travel plans, but not the planned bilaterals.

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

Yours ever,
E

(B J P Fall)
Private Secretary

A J Coles Esq
10 Downing Street

S E C R E T

D TLX WASHDC 18 MAY 1983

OFFREY HOWE

NO. 262405 TRSY G

LLOR OF THE EXCHEQUER

, ENGLAND

2356: N/A

T; TOPICS FOR FINANCE MINISTERS' DISCUSSIONS IN

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OLLEAGUE;

HEDULE FOR THE WILLIAMSBURG SUMMIT PROVIDES FOR

L OCCASIONS FOR FINANCE MINISTERS TO GET TOGETHER

THEMSELVES;

AY, MAY 28

, MAY 29

DINNER

MEETING (9:00 AM TO 12:00 NOON)

LUNCH

DINNER

ITION TO ASSIGNMENTS THAT MAY BE GIVEN TO US BY

MMIT LEADERS, I SUGGEST THAT THE AGENDA FOR OUR TALKS

LIAMSBURG INCLUDE THE FOLLOWING TOPICS;

TILATERAL SURVEILLANCE; DRAFT STATEMENT ON

THENING MONETARY COOPERATION FOR STABILITY AND GROWTH,

ED GBY OUR DEPUTIES (TEXT TRANSMITTED SEPARATELY BY

SECRETARY SPRINKEL);

ULTS OF RECENT DISCUSSIONS AMONG TRADE AND FINANCE

ERS;

ERNATIONAL DEBT ISSUES.

ICIES AND PROSPECTS FOR SUSTAINABLE ECONOMIC RE-

IN OUR COUNTRIES, AND

ER ITEMS MINISTERS MAY WISH TO RAISE.

L BE A PLEASURE TO WELCOME YOU TO WILLIAMSBURG.

SINCERELY,

DONALD T. REGAN

S/LVHLLLLL

VIA RCA FROM 248492 TRES UR

1/19 Steve

EXCHEQUER	
REC.	19 MAY 1983
ACTION	Mr Litter
COPIES TO	Mr Unwin
	Mr Lavelle
	Mr Bottill
	Mr Carey
	Mr Burns

A "PRE-WILLIAMSBURG" INTERNATIONAL MONETARY CONFERENCE HELD
AT WASHINGTON ON TUESDAY, MAY 17, 1983

Opening the Conference Congressmen Kemp (Republican-Buffalo) indicated two general subjects for the Conference. The impact of the world economy on the US economy and vice versa; and the, in his view increasingly strong, case for moving from floating to fixed exchange rates.

2. The Secretary of State, looking highly relaxed, emphasised that exchange rates were determined by domestic policies. If you were smart enough, you might be able to distinguish destabilising capital flows into two types: longer-term capital movements and short-term disturbances. But he didn't know who was smart enough to make such distinctions. One advantage of floating rates was that mistakes could be less expensive. It was no use regarding the exchange rate as a tool for domestic economic discipline if people weren't willing to pay the price. The international imperative now was to restore growth.

3. Professor Mundell of Columbia University argued that floating exchange rates were to blame for all the world's economic ills. The world economy had been run without the natural rudder of fixed rates. Exchange rates could no longer be regarded as a device for restoring countries' competitiveness. Fixed rates would provide both monetary discipline and a monetary rule. The most stable fixed rate system would be one linked to a country, which was itself linked to gold. Professor Mundell concluded his remarks by commenting that the recovery was proceeding very well, fuelled by the President's tax cuts. The risk was that the recovery would be choked off by action by Mr Volcker, who was "almost" the most powerful man in the world, presiding over an institution, the Federal Reserve, which was risking destroying the United States' political system of checks and balances.

4. Professor Laffer (University of Southern California) argued that the objective of more stable exchange rates was generally accepted. The issue was only how to achieve them. Some form of intervention system would be necessary, though the precise form would depend on complex technicalities. The new international monetary order needed some anchor if price stability were to be achieved. Gold had served this function well in the past though other mechanisms could no doubt be devised.

5. Professor Triffin (University of Louvain) observed that the current strength of the dollar was not due to the intrinsic strength of the economy. Its ultimate consequence would be unstoppable protectionism. On the fixed versus floating rate debate, Professor Triffin believed that the floating rate system had worked well in dealing with the consequences of the oil price explosion. But the floating system had not functioned satisfactorily in recent years. Exchange rates had been swamped by capital movements so that forces working to maintain competitive business were obliterated. Neither fixed nor floating rates were inherently inflationary: it all depended on the policy. For example, the downfall of the Bretton

/Woods

Woods fixed rate system had been caused by the US Government's deficit financing of the Vietnam War without Congressional approval. Professor Triffin saw little future in a restored gold system because policy-makers' awareness of the possibilities of deficit financing had banished forever the discipline of gold. A better route forward would be for countries to try to foresee the international consequences of domestic policy actions. In particular the US must face up to balance of payments discipline. He regarded the EMS as a partially successful experiment despite the seven realignments.

6. Dr Emminger made a robust defence of floating rates in the 70s. He recalled that floating had been forced on Europe by an over-valued dollar. In 1971 (?) the Bundesbank had had to purchase \$24 billion of Deutschemarks in the last five weeks of the Bretton Woods system. Thus, that system had become, for Germany, an engine of inflation. The floating rate system had enabled Germany to deal with those inflationary influences. Indeed, the floating system was producing inflation rates in the USA and much of Europe below 5%. In his view, the crucial determinant for inflation was not the form of the exchange rate system but domestic policy and the will of society. Dr Emminger then conceded that exaggerated exchange rate movements under floating systems were a real difficulty. But again the answer lay in the harmonisation of domestic policies, particularly expected interest and inflation rates. He believed that floating rates would continue to be with us for some time. The gold system, like Humpty Dumpty, could never be put together again. For Williamsburg he suggested that the Heads of Government should remember that monetary policy had both a domestic and international (exchange rate) aspect. The Conference participants should agree to recognise the effect of domestic policies on exchange rates and agree to act accordingly; agree to smooth fluctuations through intervention; and agree to regular consultations on these two matters.

7. Dr Sprinkel (Under Secretary, US Treasury) emphasised the need for sound and convergent economic policies leading to higher growth and lower inflation. Advocates of particular exchange rate systems should remember that no system could be designed with the automatic effect of compelling democratic governments to convergence. The collapse of the old Bretton Woods system demonstrated that. Since the Versailles Summit, the emphasis had been on multilateral surveillance. That was working under US leadership in restoring monetary discipline. The US were committed to maintaining dollar purchasing power. Unless other countries accepted similar counter-inflationary policies, they would be in economic trouble.

8. Professor Haberler, of the American Enterprise Institute, speaking with great lucidity despite extreme physical frailty, argued that although fixed rates were best, they were impossible. He did not believe that floating rates were responsible for inflation or the promotion of protectionism. Participants at Williamsburg would waste their time if they discussed fixed rates or gold. Nor should the Summiteers get involved in the question of intervention. This is a highly complex question which they weren't qualified to discuss. Much better for the Summiteers to follow OECD's advice

/to concert

to concert action on economic policy, especially trade restrictions. Such a policy was the best way of helping the LDC debt problem; sustaining the policy of non-inflationary growth and phasing out trade restrictions would stimulate LDC exports and facilitate debt repayment.

9. Professor Niehans (University of Bern), in a robust defence of "main-stream economics", said that he was now more hopeful about the world economic situation. The task was now to continue the non-inflationary push, even if this meant only moderate growth rates in the immediate future. On domestic policies, legislatures needed to act to make labour rates more competitive. But at the same time measures needed to be taken to distribute the burden of unemployment more evenly. A fixed rate system might evolve with, at first, wide margins. The main problem in the international monetary economy was the solvency of private banks. IMF/BIS support for LDC debtors was probably only postponing the day of reckoning, and making that day worse. "Bankruptcy", whatever that meant, was not unattractive in present circumstances for sovereign lenders. Creditor governments needed to devise means for making bankruptcy as painful as possible for LDC defaulters.

10. Mr Lehrman, of the Lehrman Institute and the Republican candidate who just failed to win the Governorship of New York, made a highly effective populist plea for the US returning to gold. Dr Roberts, ex-US Treasury in this Administration, argued against the IMF bill before Congress. It would turn the Fund into a mechanism for making international transfer payments and thus add to inflationary pressures.

11. Professor McKinnon (Stanford University) emphasised ^{the} limitations of monetary policy. It could secure monetary stability but not full employment or low real interest rates, which depended on other policies. The US's current fiscal policy was storing up trouble for the longer-term. The foreign exchange market was an important indicator of domestic monetary conditions. That was why it was right for the Fed to expand M1 and M2.

12. Secretary Regan observed that the discussions in Europe in the last few weeks should dispel criticism that the US was insensitive to its partners' problems. The emphasis on growth, relative to inflation, in the OECD communique was significant. Thanks to US efforts, inflation was under control. The task now was to keep inflation down and to put growth up. US policy was to support the IMF. (US exports had grown from 9% of GNP in 1970 to 19% in 1980 with some 75% more jobs in the same period coming from exports.) International trade needed reinvigorating. The time was not right for a new Bretton Woods. It was often forgotten that the 1944 meeting had been preceded by two or three years' discussion and over one hundred draft papers. US policy was based on the recognition that money is secondary to trade "the husk not the kernel". On the intervention study, it was accepted that while intervention was helpful to bring order to disorderly markets, fundamentals could only be altered by policy changes. The President's priority points for the Summit were that economic policies were converging; the sustained recovery should continue without artificial stimulation; there were

/no quick

no quick fixes or simple solutions to international economic problems; and that these problems were best addressed by a broad recognition that the Summit participants' basic interest reflected common values.

13. In a speech over lunch Dr Kissinger warned against growing protectionism. Protectionism had the support of many organised constituencies; free trade did not. There needed to be some comprehensive trade negotiation. There also needed to be some element in the exchange rate system to impose discipline. While floating rates had been appropriate for the period of transition, the objectives now should be to return to fixed parities. On the international debt problem, Dr Kissinger argued that worldwide austerity would make the problem worse. Nobody could increase exports if everybody was cutting imports. He also wondered whether the banks would be willing to lend sufficient amounts for a long enough time. Third World austerity also created political problems. There was a real risk that radical LDC governments would demand even longer debt rescheduling, would be permitted it and would thereby encourage other countries to make even more extravagant demands. The debt problem should be transferred from the financial to the development/growth arena.

NEW YORK TIMES, 17 MAY 1983

Still on the Stump, on the Supply Side

By JANE PERLEZ
Special to The New York Times

WASHINGTON, May 16 — Representative Jack F. Kemp stood before the Florida Conservative Union, his voice rising in the short-fire rhythms of a television preacher, his hands clenching the lectern.

"There is hope," he was saying. "Wealth is not static. It can be created, it can be generated. This country is the hope of the world." A short breath. "The real answer to inflation is more production, more savings, more investment, more enterprise and more enterprising Americans."

Another, almost imperceptible gasp and the torrent of words rolls on, with more visions of bountiful horizons: "Pretty soon we'll have an America once again, a giant enterprise zone, where everyone can go out and get rewarded commensurate with their effort and restore in this country that spirit of democratic capitalism that is the hope of the world."

Mr. Kemp, the Congressional godfather of supply-side economics, is still traveling the country, extolling to the Republican faithful the idea that full employment without inflation is attainable, that tax rates need to be reduced even below the third installment of the 25 percent personal income tax cut due in July, that there ought to be a return to a "sound dollar" as "good as gold."

Republican leaders are somewhat suspicious about the motives of the 47-year-old former pro-football player, with his ever-perfect coiffure and a grab bag of quotes that range from the Bible to Alexis de Tocqueville. From the dozen or so Republican events he attends every two months, Mr. Kemp is gathering an ever-longer list of political chits.

Aides Stand Ready

Mr. Kemp says he is simply interested in promoting his ideas into the mainstream of Republican thought. "I'm a kind of Hubert Horatio Humphrey of the Republican Party," he said in Florida. "I love to talk." He dodges the issue of a 1984 Presidential bid by saying he is convinced Mr. Reagan is set for a re-election effort. His aides say, however, that if Mr. Reagan did not run, they are prepared to put together a Kemp campaign.

"I would encourage him to run, a lot of us would," said Charles Black, the conservative consultant Mr. Kemp keeps on his payroll for political advice and scheduling requirements. "Obviously he's got 1988 in the back of his mind."

At the same time that he is firing up the grass-roots Republican troops, Mr. Kemp is working at another, loftier level; Tuesday he is to stage what he calls a "pre-Williamsburg" conference, an attempt to set the agenda for the upcoming economic summit conference in Williamsburg, Va. of the leaders of the world's largest industrial democracies. At the one-day affair here, the Congressman and his co-sponsor and intellectual mentor, Prof. Robert Mundell of Columbia University, hope to bring attention to the latest notion in Mr. Kemp's lexicon: a return to fixed rates of exchange among the world currencies, as was the case before 1971.

The range of participants at Mr.



The New York Times

Representative Jack Kemp

'Reagan goes to Pittsburgh about computer jobs. You don't go to Pittsburgh for that, you go there about getting industry back.'

scrapped. "We can't do it by ourselves," he said. "You can't bludgeon the world into it but there are a number of people — Schmidt, Giscard d'Estaing, Chirac — who are speaking out for more stability."

He organized the conference, he said, because he was "outraged," that the Reagan Administration appeared ready to go to the Williamsburg meeting with no intention of talking about reforming the international monetary system.

On the Republican dinner circuit, he explains the relevance of returning to fixed exchange rates by pointing out that American auto and steel workers are being hurt by the rise and fall in currencies. The price of a Japanese car, he never wearies of pointing out, has been cut from \$10,000 to \$7,500 by a rise in the dollar against the yen. A return to stable currency, he says, is the

needed ingredient that would allow a growth economy, similar to that of the 1960's, with low unemployment and low inflation.

On top of the economic dogma that Mr. Kemp preaches, he is telling crowds about his version of Main Street conservative populism.

"I think it is outrageous that the blue collar worker thinks the liberal left speaks for them," he told a crowd at the Lincoln Day dinner in Anderson, Ind. Later, he added: "There is a strain in the Republican Party which thinks you can't win in the cities, in the Northeast. That's dangerous."

"There are too many people in the conservative movement who look to the time when we could knit and stitch together a little group of constituencies of people, who are opposed to things," he told the Florida crowd. "You can win an election every now and again with a coalition, but you can't govern."

He critiques the Reagan White House, but usually with a gentle nudge: "The hour is late, I'll tell you" he said in Florida. "I don't see a big enough push by the Administration to get unemployment down."

"I don't say unemployment has to be four percent but it's got to come down," he said. "I sent this to the White House," he added, opening a bulging manila folder to a newspaper clipping from his home district around Buffalo. "Ten thousand people line up at the Antaconda Copper plant for 36 jobs, in the rain. I keep telling them in the White House, people want to work."

'They Can't All Move'

He lambastes what he sees as a developing industrial policy that would pick and choose the industries to be resuscitated. "Ronald Reagan goes to Pittsburgh about computer jobs," he said. "You don't go to Pittsburgh for that, you go there about getting industry back. You can't tell me that with a healthy economy, single-digit inflation and a healthy global economy, that many of those jobs won't be saved. They can't all move to California."

In the end, Mr. Kemp usually comes back to taxes. To a questioner in Miami, who believed that the nation's economic problems rested mainly with high labor costs, Mr. Kemp calmly replied: "I don't see labor as being the overwhelming problem as most people do. Conservatives have got to stop beating up on labor."

"If you're earning \$30,000, your after-tax take home pay is lower than it was in 1968. I've got auto workers in my district in Buffalo in the 40 percent marginal tax brackets. It's interesting that labor is pushing for nontaxable fringe benefits."

Lexicon

It sounds like one of those awful concoctions of alphabet soup encountered in the Army — USJCIRPTE (pronounced use-jay-KRIP-tee).

But in today's Washington, the Pentagon has no monopoly on such things. In fact, this one comes out of the Office of the United States Trade Representative. It arose from a Presidential decision to take up with the Japanese



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FROM: M A HALL
19 May 1983

CHANCELLOR

c c Mr Littler
Mr Page

WILLIAMSBURG : PRESS ARRANGEMENTS ETC

You may find it helpful to have a summary of the decisions we reached last night, ahead of your chat with the Prime Minister tomorrow morning. The only point you need to mention to her is at paragraph i(b) below.

- (i) Pre-Williamsburg
 - (a) We agreed to turn down bids for interviews from Dominic Harrod (no longer being pressed) and Reuters. You also decided not to do Panorama.
 - (b) We agreed to try to stick to the time of 11 am on Wednesday 25 May for your on-the-record press briefing. We are alerting journalists informally, with the proviso that your diary is both crowded and constantly changing. Bernard Ingham is maintaining a waiting reserve on this arrangement, because he hopes to persuade the Prime Minister herself to give a briefing. This would only be a block to yours if it were to be on the same date, which now seems unlikely. But if the Prime Minister did not agree to give a briefing, Bernard would like you to give it in her place. Even in this latter contingency, we would still do better to stick to Wednesday, because a briefing on the Friday would only make the newspapers on the Saturday of a Bank Holiday weekend.
- (ii) At Williamsburg

Arrangements for Williamsburg itself are set out in the attached letter to John Goulden (Annex A).

You may also find the following annexes useful:-

Annex B List of journalists to be invited for your briefing.

Annex C List of journalists who have sought accreditation at Williamsburg.

Annex D Note of Sir Robert Armstrong's unattributable briefing yesterday.

Finally, you should be aware that the usual FCO pre meeting briefing will be given at 4.45 pm on Wednesday - another reason for sticking to our Wednesday morning time. This will be done by Messrs Bullard, Evans, Ingham and Littler.



M A HALL



H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-233 3000
Direct Dialling 01-233 3443

M A Hall MVO
Press Secretary and
Head of Information Division

P J Goulden Esq
News Department
Foreign & Commonwealth Office
Downing Street (West)
London SW1A 2AL

19 May 1983

Dear John,

WILLIAMSBURG : PRESS ARRANGEMENTS

I have now discussed with the Chancellor our ideas on press and media arrangements for Williamsburg.

The Chancellor agrees that he should give a press conference jointly with Mr Pym, immediately after President Reagan's press conference. We shall need to make sure that we have full transcripts of everything the Prime Minister will have said on the British media. The Chancellor thinks it unlikely that he and the Foreign Secretary will be free on the Monday morning to give interviews or briefings, but wants you and me to give extensive background briefing on FCO and Treasury subjects respectively, so that we can help as much as possible with the deadlines of the British newspapers.

We were not, on reflection, happy with the idea of simply dividing the British media bids into two between the Chancellor and Mr Pym. The Chancellor felt that it would be more effective for him and Mr Pym to give the interviews each on their own subjects to each separate radio and television channel. Perhaps you could confirm that this is acceptable to the Foreign and Commonwealth Secretary.

On Reuters, there are two separate bids. There is a generalised initiative, passed on by Peter Hall in his letter of 12 May to Andrew Nibley of Reuters, and we have also received a specific bid for an interview with the Chancellor here in London. The Chancellor is not disposed to grant either request, though of course we shall have ample opportunity to give background briefing to Reuters. Clearly therefore you should feel free to make any arrangements with Reuters which Mr Pym would like.



HM Treasury

Treasury House, London WC2A 2LR

Telephone 01-219 3100
Fax 01-219 3101

M 1 (11) 1977
Foreign Secretary
Lead of International Division

Foreign Secretary
Foreign & Commonwealth Office
London SW1A 2AT

17 May 1977

WITNESSETH: THE SECRETARY OF STATE

I have now discussed with the Chancellor the ideas on press and media arrangements for the summit.

The Chancellor agrees that he should give a press conference jointly with the President after President Reagan's arrival in London. We shall need to make sure that we have full transcripts of everything and that the transcript will be made available to the British media. The Chancellor thinks it unlikely that he will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival.

He will not, in fact, be giving a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival.

On the other hand, there is a possibility that he will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival. He will give a press conference in London on the day of his arrival.

Our rating of priorities is identical to yours, and we shall approach bids from the US media on a completely ad hoc basis.

Yours truly,

Martin

M A HALL

c c Mr Ingham No 10
PPS
Mr Littler
Mr Page

Our degree of responsibility is limited to your, and we shall
appreciate your own due diligence in the matter.

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WILLIAMSBURG SUMMIT

CHANCELLOR'S PROPOSED PRESS BRIEFING, WEDNESDAY, 25 MAY, 11AM, HM TREASURY

The following journalists are on stand-by to attend the press briefing:

Financial Times - Max Wilkinson; Malcolm Rutherford; John Plender

Times - Graham Serjeant; Frances Williams

Guardian - Hamish McRae/Victor Keegan; Peter Jenkins/Ian Aitken

Daily Telegraph - Andrew Whittam-Smith

Daily Mail - Patrick Serjeant; John Dickie; Robin Oakley

Daily Express - Kenneth Fleet; John Warden

Daily Mirror - Geoffrey Goodman

The Star - David Buchan

The Sun - Walter Terry

Sunday Times - David Lipsey

Observer - William Keegan

Sunday Telegraph - Alex Murray

Sunday People - Chris Buckland

News of the World - Paul Potts

Sunday Express - Keith Renshaw

Mail-on-Sunday - Peter Simmonds

BBC TV - James Long

BBC TV Panorama - Anthony Sampson; Marsh Marshall; David Wickham

BBC TV Newsnight - Will Hutton

BBC Radio - Dominic Harrod

BBC Radio/External Services - James Morgan

ITN - Geoffrey Archer/Michael Brunson

ITV Weekend World - John Wakefield; David Nissan

IRN - Douglas Moffitt

Reuters - John Rogers; Stephen Fidler/AN Other

Press Association - Steve Levinson

AP Dow Jones - Bushan Bahree

Time Life (London Bureau) - Bonnie Angelo

Economist - Bill Emmott/Rupert Pennant Rea

Investors' Chronicle - Robert Shepherd

Financial Weekly - ?David Smith

The Scotsman - Alexander MacLeod

Birmingham Post - Neville Boyd-Maunsell

(Yorkshire Post is being covered by their man in Washington and the Glasgow Herald, Robert Martin, leaves for the USA on Wednesday am and will contact Mr Hall in Williamsburg)

Wall Street Journal - Debbie Tennison

Wall Street Journal (Europe) - Peter Truell

New York Times - Barnaby Fedder

Washington Post - Peter Osnos

International Herald Tribune - Bob Hagerty

South Magazine - Melvin Westlake

Foreign Financial Journalists Group - A general invitation has been issued; it is hoped that Le Monde, Die Welt and Nihon Keizai Shimbun will be represented, among others.

BRITISH PRESS APPLYING FOR ACCREDITATION

<u>Name</u>	<u>Affiliation</u>
AARONVITCH David	London Weekend Television
ANDERSON Bruce	London Weekend Television
ASHFORD Nicholas	The Times
ATKINS Geoffrey Ronald	Reuters
ATKINSON Caroline Margaret	TV-am
BARRON Brian	BBC
BEALE Mary	London Weekend Television
BELL Martin	BBC
BIACHE Sharon	BBC
BONNER Susan Mary	BBC
BRADBURY David John	London Daily Mirror
BUCHAN DAVID	The Star
BUCKLAND Christopher Robert	Sunday People
BRUMMER Alexander	The Guardian
BRUNSON Michael John	ITN
CHAPMAN Peter David	BBC (Panorama)
CONNELL Jon Christopher Neill	The Sunday Times
CONNEW Paul Norman	London Daily Mirror
DAVIS Glen Milton	BBC TV
DEAN Harry William	London Weekend Television
DICKIE John	Daily Mail
EMMOTT William John	The Economist
FALLON Ivan Gregory	Sunday Telegraph
FAWCETT Edmund	The Economist
FERRY Jeffrey Mark	London Weekend Television
FROST Denis Durbin	BBC

Affiliation

Name

GREVEMBERG Robert L.
GOODMAN Geoffrey George

BBC
London Daily Mirror

HARROD Dominick Roy
HUTTON William Nicholas

BBC
BBC

INGHAM John Bernard
JACKSON Harold
JACOBS Michael
JENKINS Peter
JESSEL Stephen Robert
JONES George Quentin

Freelance
The Guardian
Daily Mail
The Guardian
BBC
Sunday Telegraph

KALETSKY Anatole
KEEGAN William James
KELLEHER Kristine
KNIGHT Victor Charles

Financial Times
The Observer
ITN
Sunday Mirror

LAWDAY David
LEVINSON Stephen Michael
LIBBERT Neil
LIPSEY David Lawrence
LONG James William Davenport

The Economist
The Press Association
The Observer
The Sunday Times
BBC

MANDERSTAM Andrew
MARSHALL Marshall Stanley
MARTIN Donald John
MARTIN Robert Stephen
MAZER Joan Lee
McKAY Peter
MORGAN Antony James
MORGAN Lance Ian
MORRIS Bailey
MULVEY Lewis Patrick

London Broadcasting
BBC (Panorama)
BBC (Panorama)
Glasgow Herald
BBC
Daily Mail
BBC
Yorkshire Post
The Times
BBC (Panorama)

<u>Name</u>	<u>Affiliation</u>
OAKLEY Robert Francis Leigh	Daily Mail
OSMAN Arthur John	BBC
POTTS Paul John	News of the World
ROBERTSON Geoffrey James	BBC
ROSSETTI Misaele A	BBC
SAGANSKY Norman	The Economist
SAMPSON Anthony Terrill Seward	BBC (Panorama)
SAMPY Peter John	ITN
SIMMONDS Peter John	The Mail on Sunday
SKEHAN Michael Edward	ITN
SKEHAN Patrick Dennis	ITN
SMALL Clive Dermot	BBC
SMITH Andreas Whittam	Daily Telegraph
STEIN Nora Susan	London Weekend Television
TAYLOR David Coxon	BBC
TERRY Walter Frederick	The Sun
WARDEN John Hopkins	Daily Express
WEILAND Sidney	Reuters
WICKHAM David Edward	BBC (Panorama)
WIGHTMAN James	The Daily Telegraph
WILKINSON David Max	Financial Times
WILLS Michael David	London Weekend Television



10 DOWNING STREET

From the Private Secretary

19 May 1983

(Handwritten initials)

ECONOMIC SUMMIT, WILLIAMSBURG

Thank you for your letter of 17 May about the protocol order for the delegation. I agree with the list which you enclosed.

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

A. J. COLLIS

B. J. P. Fall, Esq.,
Foreign and Commonwealth Office.

EXCHEQUER	
CC	- 20 MAY 1983
✓	Mr Little
COPIES	Mr Unwin
	Mr Lavelle
	Mr Hall

GRS 700

CONFIDENTIAL OFFICE OF THE EXCHEQUER
TREASURY

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FROM UKREP BRUSSELS 191640Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 2011 OF 19 MAY 1983
INFO IMMEDIATE WASHINGTON
INFO PRIORITY OTTAWA TOKYO PARIS BONN
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LUXEMBOURG

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PREPARATIONS FOR WILLIAMSBURG

SUMMARY

1. COMMISSION REPORTED ON THE SHERPAS MEETING 11-13 MAY. THE EC AND THE US WERE MOVING CLOSER TOGETHER ON THE MAIN ISSUES. THE COMMISSION REMAIN HOPEFUL THAT EAST WEST ECONOMIC RELATIONS SHOULD NOT BE A DIVISIVE ISSUE AT WILLIAMSBURG. BUT THEY ARE CONCERNED AT THE PERSISTENCE OF US IDEAS ON REGULAR MEETINGS OF TRADE AND FINANCE MINISTERS OF THE SEVEN.

DETAIL

2. DURIEUX (THORN'S CHEF DE CABINET) REPORTED TO PERMANENT REPRESENTATIVES ON THE LAST SHERPAS MEETING. DISCUSSION HAD CONCENTRATED ON THE US NOTE REVIEWING THE STATE OF PLAY. A REVISED VERSION WOULD BE CIRCULATED AS ONE ELEMENT OF THE RAW MATERIAL FOR THE JOINTLY APPROVED STATEMENT WHICH WILL EMERGE FROM WILLIAMSBURG. BUT DURIEUX EMPHASISED THAT THIS MIGHT BEAR LITTLE RELATION TO THE FINAL PRODUCT. IT MERELY REPRESENTED THE SHERPAS DISCUSSIONS AND PRESIDENT REAGAN WAS DETERMINED THAT THE JOINT STATEMENT SHOULD REFLECT ACTUAL DISCUSSION OF THE SUMMIT.

3. THE MAIN ELEMENTS TO DATE WERE

(A) EWER: THE COMMISSION REMAINED HOPEFUL THAT THIS WOULD NOT BE A DIVISIVE ISSUE AT THE SUMMIT. IT WOULD NOT FIGURE AS AN IMPORTANT PART OF THE STATEMENT ALTHOUGH IN PRACTICE THERE MIGHT BE QUITE A LOT OF DISCUSSION.

(B) NORTH/SOUTH: THIS WOULD BE THE CENTRAL THEME. THE US HAD MADE SOME CONCESSIONS. THE EC REPRESENTATIVES HAD PERSUADED THE US THAT THERE SHOULD BE AN EXPLICIT REFERENCE IN THE STATEMENT TO G77 CONCERNS ON UNCTAD VI. THIS WOULD CONSOLIDATE THE INCREASING INFLUENCE OF THE MODERATE ELEMENTS IN THE G77.

(C) ECONOMIC: THERE WOULD BE A CLEAR REFERENCE TO THE ROLE OF INTEREST RATES AND THEIR CONNECTION WITH PUBLIC SECTOR DEFICITS. THE US WERE NOW PREPARED TO ACKNOWLEDGE THE LINK AND THE ROLE OF GREATER EXCHANGE RATE STABILITY. THERE WOULD ALSO PROBABLY BE AN ANNEX TO THE STATEMENT ON THE WORK INITIATED AT VERSAILLES ON COORDINATING THE MACRO ECONOMIC POLICIES OF THE SUMMIT 7.

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(D) PROTECTIONISM: US IDEAS ON TRADE LIBERALISATION STILL REMAINED TOO SPECIFIC. THE COMMISSION HAD SUGGESTED REFERENCE TO TRADE IN AGRICULTURE AND EXTRATERRITORIALITY ALTHOUGH THESE WOULD NOT APPEAR IN THE FINAL STATEMENT.

4. DURIEUX'S CONCLUSION WAS THAT WHILE DIFFERENCES OF EMPHASIS REMAINED THE GAP HAD BEEN USEFULLY NARROWED AND A BETTER BALANCE OF INTERESTS WAS EMERGING. QUESTIONED BY THE SMALLER MEMBER STATES HE THEN EXPLAINED, HOWEVER, THAT THE COMMISSION WAS CONCERNED ABOUT CONTINUED US INSISTENCE ON MORE REGULAR MEETINGS OF TRADE AND FINANCE MINISTERS. THE US SEEMED TO BE OBSESSED WITH THE IDEA. THE COMMISSION HAD MADE IT CLEAR THAT THIS PRESENTED CONSIDERABLE DIFFICULTIES NOTABLY IN TERMS OF COMPETENCE IN EXTERNAL TRADE POLICY AND THE EXCLUSION OF THE SMALLER MEMBER STATES. SUCH MEETINGS WOULD ALSO UNDERMINE UNCTAD AND THE GATT. HOWEVER THERE WAS NO SIGN THAT THE US WERE TONING DOWN THEIR ASPIRATIONS. IT WAS ESSENTIAL TO ESTABLISH FIRM PROCEDURES FOR FUTURE MEETINGS. THIS WAS CLEAR FROM THE DISARRAY OVER EC REPRESENTATION AT THE PARIS MEETINGS DURING THE OECD MINISTERIAL. IF THE EC WAS NOT FIRM IN INSISTING ON ESTABLISHING FIRM GROUND RULES IT WOULD ONLY LOSE OUT. THE ISSUE WAS FAR MORE IMPORTANT THAN THE US RECOGNISED AND DURIEUX THOUGHT THAT THORN WOULD RAISE THE ISSUE AT NEXT WEEK'S FOREIGN AFFAIRS COUNCIL DISCUSSION ON WILLIAMSBURG.

FCO ADVANCE TO:-

FCO - EVANS HANNAY THOMAS CROWE APPELYARD GOWLLAND YOUNG
CAB - PS/SIR R ARMSTRONG HANCOCK LAMBERT
DOT - GRAY WILLIAMS MEADWAY HEALEY
MAFF - ANDREWS HADLEY
TSY - LITTLER UNWIN

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CONFIDENTIAL

FROM: M A HALL
19 May 1983

NOTE OF UNATTRIBUTABLE PRESS BRIEFING BY
SIR ROBERT ARMSTRONG TO SELECTED JOURNALISTS :
5 pm WEDNESDAY 18 MAY 1983

Sir Robert made a short introductory statement. He said he wanted to discourage extravagant expectations in terms of specific outcomes. The main point of the Williamsburg Summit was that there should be a relaxed and constructive get together of the eight leaders. He expected, however, that there would be a high measure of agreement on the analysis of present problems and other opportunities for trying to solve them. He identified the key areas as the need for renewed non-inflationary economic growth; maintenance of an open world trading system; and the range of financial problems, of which he mentioned specifically l.d.c. debt. These issues were all linked. There was scope for action in all these areas if the industrialised countries were going in the same direction. He expected the Heads of State and Government to agree on the need to carry forward international financial co-operation; to continue to oppose protectionism, and perhaps institute further and more regular Ministerial discussion. It was necessary to give a message to the LDCs, building on the relatively moderate communiques of recent meetings of non-aligned countries. The recovery of the industrialised countries was a necessary condition for recovery in the LDCs; but access to the markets of the LDCs was an essential element in achieving that recovery.

2. The following points came up in questions.

3. Andreas Whittam-Smith asked what Sir Robert thought were President Mitterand's intentions. Sir Robert said he thought that President Mitterand would probably be satisfied with references to follow up work from the Versailles Summit, and due recognition of the useful work done on the French initiative on technology growth and employment. This was proceeding on 18 specific projects. Subsequently, Frances Williams asked whether Sir Robert expected any reference to President Mitterand's proposal for an international

monetary conference. Sir Robert said there was, as yet, no draft communique, so that he genuinely did not know. He would, however, be surprised, given the personal capital President Mitterand had invested in the idea, if there were no reference whatsoever to such a conference; but it would probably be "rather down the line".

4. On East/West economic relations, Sir Robert said his impression was that the United States was not going to press the issue to an unhappy outcome. Did this mean, Sir Robert was asked, that the Americans would be making concessions on the Export Administration Act? Sir Robert doubted whether the EAA would be a feature of the discussion at Williamsburg, but there could be a general reference to "conflicts of jurisdiction". Sir Robert was also asked whether he thought the US would act on East/West trade at Williamsburg as they had at Versailles. Sir Robert thought it unlikely that they would do so at their own Summit. Nor did he think President Mitterand had any desire to turn Williamsburg into a disaster. It would after all not be in his own interests.

5. Max Wilkinson asked whether there was likely to be more emphasis on growth at Williamsburg, rather than on inflation as there had been at Versailles? Sir Robert said that it was a "balanced affair". "Sound stable growth" had to be non inflationary. Even the French had come round to this proposition. Sir Robert was asked specifically to what the Prime Minister attached most importance. She was, he said, most concerned that recovery should be encouraged, but not at the price of reviving inflation. The Prime Minister welcomed the fact that the other participants were on a similar economic course to the UK, and regarded this as a vindication of the efforts of her own Government. Bernard Ingham added that the Prime Minister will be looking for a reconfirmation of commitment to free trade. Over the years, Sir Robert said he thought the Prime Minister had tended to become more enthusiastic about the idea of Summits. She regarded sharing viewpoints with her opposite numbers in other industrialised countries as valuable. He believed that such meetings did indeed affect world events - e.g. Chancellor Schmidt had always been convinced that without the benefit of world summits the tide of protectionism would have been much stronger. Sir Robert referred to the unusually low quotient of English speakers. This was bound to affect the social dynamics.

6. On trade, Sir Robert thought one specific recommendation might be that GATT ministerial meetings should occur more frequently.

7. On logistics, Sir Robert said the Prime Minister would definitely miss Sunday dinner, the opening session on Monday, Monday lunch and the final declaration. The Chancellor would deputise for her after her departure. It was unlikely that the final declaration would contain many specifics, but it was likely to be an agreed written document.

8. In answer to a question from Andreas Whittam-Smith, Sir Robert said that it was usual for the host country of the next Summit to make an offer of hospitality at the end of Summit meetings. He was not aware of particular pressures to enlarge the membership of the Summit.

9. Max Wilkinson asked whether pressure was likely to be brought to bear on the Americans about their budget deficit. Sir Robert said the Prime Minister would certainly like to see US interest rates come down, and a reduction of the US deficit; but she would not be party to telling the United States how to manage their affairs. He expected the final declaration to have a reference to interest rates. In answer to David Lipsey, Sir Robert said he thought it unlikely that there would be specific reference to money, GDP growth rates.

10. Lipsey also asked if Brazil would be discussed. Would there be specific proposals in the international banking area? Sir Robert said that if specific debt problems did arise they would be discussed by Finance Ministers alone. The Heads of State and Government had in fact comparatively little time for discussion, despite appearances.



10 DOWNING STREET

From the Private Secretary

19 May 1983

The Prime Minister has asked me to thank you for your letter of 4 May enclosing a copy of the statement by the President of the Overseas Development Council containing recommendations for the Williamsburg Summit. The Prime Minister found this an interesting and timely paper.

A. J. COLES

Mr. J.W. Sewell



pnp

FROM: J O KERR
DATE: 19 May 1983

MR LITTLER

cc: Mr Middleton
Mr Lavelle
Mr Hall
Mr Bottrill

Mr Burns

WILLIAMSBURG: ADVANCE PRESS BRIEFING

This is to confirm that the Chancellor intends to proceed with the on-the-record briefing for UK and foreign correspondents which has been arranged for 11.00am on 25 May. He would be most grateful if you could accompany him at it.

2. On this occasion the Chancellor does not wish to issue the text of a formal statement. But he would be grateful if you could let him have the draft of some opening remarks, covering the full range of economic issues likely to come up at Williamsburg, but not running to more than 10 minutes. Clearly it will have to take account of the briefing which Sir R Armstrong has already given: I understand that Mr Hall will be circulating a transcript.

3. Since the Chancellor will be in Scotland on 24 May, and involved with Election broadcasting early on the morning of 25 May, it would be very helpful if your text could reach him on the evening of 23 May.

JOK

J O KERR

KXCHEQUER

20 MAY 1983

Mr Littler.

Mr Chwin

Mr Lavelle

Mr Hall

(Pup)



70 Whitehall, London SW1A 2AS Telephone 01-233 8319

Secretary of the Cabinet and Permanent Secretary to the Management and Personnel Office

Sir Robert Armstrong GCB CVO

Ref.A083/1439

19 May 1983

I have seen your letter of 19 May to John Coles about the arrangements for the reception and dinner at Carter's Grove, near Williamsburg, on Saturday 28 May.

I suggest that the two people who accompany me to the Personal Representatives dinner at Carter's Grove should be Mr Geoffrey Littler and Mr Richard Evans.

I am copying this letter to John Coles and John Kerr.

ROBERT ARMSTRONG

R B Bone Esq



Foreign and Commonwealth Office

London SW1A 2AH

Pass

19 May 1983

REC	19 MAY 1983 1415
ACTION	<i>Mr LITLER</i>
COMPTS	<i>Mr Urwin</i>
10	<i>Mr Lavelle</i>
	<i>Mr Carey</i>
	<i>Mr Hall</i>

Jan Sch...

Economic Summit, Williamsburg: Reception and Dinner, Carter's Grove, Saturday 28 May

On the first evening of the Economic Summit Meeting there will be a reception at Carter's Grove, about 15 minutes' drive from Williamsburg, for Heads of Delegation, Ministers and other official Delegation members.

After the reception the Heads of Delegation and Ministers will have separate dinners in Carter's Grove. There will also be a dinner for three Personal Representatives from each Delegation, ie Sir Robert Armstrong plus two.

Five extra staff members will be given a meal in the tent at Carter's Grove. These might be a Private Secretary for each Minister and two detectives, one for the Prime Minister and one for the Secretary of State.

Other Delegation members attending the reception will return to Williamsburg by car when the dinners begin.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Yours faithfully
R B Bone

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

Spore

WASHINGTON DC MAY 19 1983

DATE	20 MAY 1983
RECEIVED	
COPY	

CHEQUER

FINANCE MINISTERS' DISCUSSIONS

FOR THE WILLIAMSBURG SUMMIT PROVIDES FOR
FINANCE MINISTERS TO GET TOGETHER

DINNER
MEETING (9:00 AM TO 12:00 NOON)
LUNCH
DINNER

ASSIGNMENTS THAT MAY BE GIVEN TO US BY
I SUGGEST THAT THE AGENDA FOR OUR TALKS
INCLUDE THE FOLLOWING TOPICS:
BELLANCE; DRAFT STATEMENT ON
INTERNATIONAL COOPERATION FOR STABILITY AND GROWTH
OPPORTUNITIES (TEXT TRANSMITTED SEPARATELY BY
ENKEL);
DISCUSSIONS AMONG TRADE AND FINANCE

CONDITIONS FOR STRENGTHENING INTERNATIONAL
RELATIONS;
CURRENT ISSUES;
ASPECTS FOR SUSTAINABLE ECONOMIC RE-
GROWTH; AND
ISSUES THAT FINANCE MINISTERS MAY WISH TO RAISE.
PLEASE ASSURE TO WELCOME YOU TO WILLIAMSBURG.

SINCERELY,
DONALD T. REGAN
SECRETARY OF THE TREASURY

MAY 19 1983 1336 FROM 440276 TRSY UI

RESTRICTED



10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
20 MAY 1983	
✓	Mr Lieder.
	Mr Unwin
	Mr Lavelle
	Mr Hall
19 May 1983	

pub

ECONOMIC SUMMIT, WILLIAMSBURG: INTERPRETER

Thank you for your letter of 19 May. On the assumption that we are successful in arranging bilaterals between the Prime Minister and Chancellor Kohl and President Mitterrand, I should be grateful if you would arrange for Mr. Lederer to come to Williamsburg to interpret. If one of these bilaterals falls by the wayside, we perhaps ought to look at this again.

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

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

RESTRICTED



Foreign and Commonwealth Office

London SW1A 2AH

PWT

19 May 1983

EXCHEQUER	
19 MAY 1983	
TO	Mr Little
FROM	Mr Curwin -
	Mr Lavelle
	Mr Hall

John ...

Economic Summit, Williamsburg: Interpreter

Thank you for your letter of 11 May. You will have seen from Sir R Armstrong's minute of 16 May (extract enclosed) that no interpreter is necessary for the Prime Minister at the working meals. It would be helpful, however, to know whether she would like to take one (Mr Lederer perhaps) for the bilaterals we are trying to arrange with Chancellor Kohl and President Mitterand.

I am copying this letter to the Private Secretaries to the Chancellor of the Exchequer and to Sir Robert Armstrong.

Yours ...
[Signature]

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

Extract from Sir Robert Armstrong's minute of 16 May, 1983

Mr McManus said that at all working meals it was proposed that each Head of State or Government should speak in his or her own language. Where that language was not English, it would be translated out loud by his or her own interpreter into English, and then whispered by their own interpreters from English into whatever language other individual Heads of State or Government wanted. All that each Head of State or Government would need therefore was someone who could translate from English into his own language and vice-versa.



(P)

FROM: J O KERR
DATE: 19 May 1983

MR LITTLER

cc: Mr Middleton
Mr Lavelle
Mr Hall
Mr Bottrill

Mr Burns.

WILLIAMSBURG: ADVANCE PRESS BRIEFING

This is to confirm that the Chancellor intends to proceed with the on-the-record briefing for UK and foreign correspondents which has been arranged for 11.00am on 25 May. He would be most grateful if you could accompany him at it.

2. On this occasion the Chancellor does not wish to issue the text of a formal statement. But he would be grateful if you could let him have the draft of some opening remarks, covering the full range of economic issues likely to come up at Williamsburg, but not running to more than 10 minutes. Clearly it will have to take account of the briefing which Sir R Armstrong has already given: I understand that Mr Hall will be circulating a transcript.

3. Since the Chancellor will be in Scotland on 24 May, and involved with Election broadcasting early on the morning of 25 May, it would be very helpful if your text could reach him on the evening of 23 May.

JOK

J O KERR



EXCHEQUER
 20 MAY 1983
 Mr Hitler 20/5
 Mr Unwin
 Mr Lavelle
 Mr Hall

Foreign and Commonwealth Office
 London SW1A 2AH

20 May 1983

(PWP)

John [unclear]

Economic Summit, Williamsburg: Pins

Passes are being issued to all members of the Delegation for access to the general area of Williamsburg. Pins however must be worn for access to the secure area of Colonial Williamsburg within which the meetings will be held and the main hotels/houses (Chiswell House, Williamsburg Inn and Lodge etc) are situated.

The Americans are issuing three categories of pin, as follows (the first two allow access to the meeting room):

- 1 pin : Head of Delegation - Prime Minister
- 4 pins : Ministers - Chancellor of the Exchequer;
 Secretary of State
 Permanent Representative - Sir R Armstrong
- 1 other (note-taker or Private Secretary) - transferable
- 23 pins : Interchangeable - to be allocated by each Delegation. Suggested allocation therefore:
 Mr Coles
 Mr Scholar
 Professor Walters
 Mr Ingham
 Mr Fall
 Sir J Bullard
 Mr Evans
 Mr Goulden
 Mr Kerr
 Mr Littler
 Mr Appleyard

/Mr Hall



Mr Hall
Mr Geary
Mrs Cummings
Mrs Dibblin
Supt Cawthorne
Supt Paton
Miss Lewzey
RMP - on duty Williamsburg Inn Office
RMP - driver Embassy safe-hand car
RMP - safe-hand courier

2 spare : for Conference Officers

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

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

A handwritten signature in cursive script, appearing to read 'R B Bone', written in dark ink.

(R B Bone)
Private Secretary

A J Coles Esq
10 Downing Street

RESTRICTED



CHECKLIST
 20/5/1983
 Mr. Kinnear
 Mr. Lawson
 Mr. Lavelle
 Mr. Hall

Foreign and Commonwealth Office

London SW1A 2AH

20 May 1983

!
prop

John Selous

Economic Summit, Williamsburg

/

I enclose a suggested seating plan for the outward journey by the RAF VC10, and suggested menus for lunch. Would you let me know which menu the Prime Minister would prefer?

I am copying this to John Kerr and Richard Hatfield.

[Handwritten signature]
[Handwritten signature]

(R B Bone)
Private Secretary

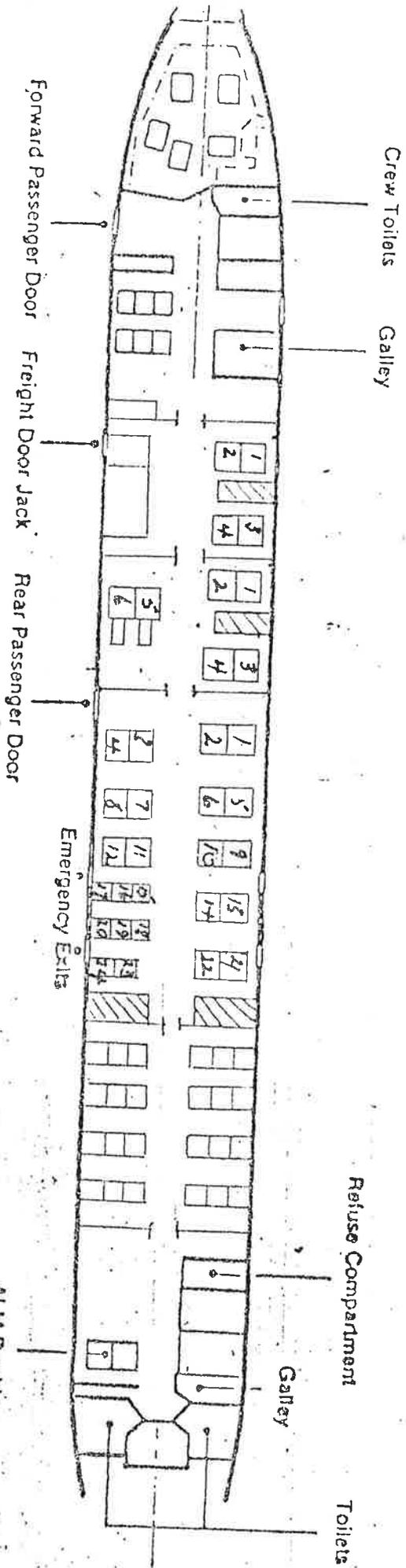
A J Coles Esq
10 Downing Street

RESTRICTED

MINISTER

VEIC ACROT 1155 - ECONOMIC SUMMIT WILLIAMSBURG

LHR - Langley Air Force Base, Virginia 28 May 1983



Prime Minister's Compartment

- 1.
- 2.
- 3.
- 4.

Secretary of State/Chancellor's Compartment

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.

Officials' Compartment

1. Sir R Armstrong
2. Sir J Bullard
3. Mr Coles
4. Mr Scholar
5. Professor Walters
6. Mr Ingham
7. Mr Fall
8. Mr Evans
9. Mr Littler
10. Mr Kerr
11. Mr Goulden
12. Mr Hall

Press Compartment

13. Mr Geary
- 14.
15. Miss Wallace
16. Mr Barrows
17. Mr Appleyard
18. Supt Cawthorne
19. Sgt Abbot
20. Mr Lederer
21. Mrs Dibblin
22. Mrs Cummings
23. Miss Lewzey
24. Mrs Lawrence

(10)

RAF VC 10

LHR - Langley Air Force Base

28 May 1983

L U N C H

Menu A:

Smoked Mackerel
Supreme of Chicken a La Russe
Duchess Potatoes
Selection of Vegetables
Oranged Grand Marnier

Menu B:

Seafood Cocktail
Roast Best End of Lamb
Parslied Potatoes
Sweet Corn
Cauliflower au Gratin
Raspberry Vacharin and Cream

Afternoon Tea

Martin said you'd asked for the regular early am. meeting to continue in the campaign period whenever possible, to let coming across on Monday. He'll probably refer to his

→ Mr Hall.
Any action for JOK v-a-v No 10?
J.M.

CHANCELLOR

not 20/5

FROM: M A HALL
20 May 1983

c c Mr Littler

*Discussed with No 10 + MH.
Nodus vivendi agreed. (MHP)
J.M.*

WILLIAMSBURG : DESIGNATED PRESS SPOKESMEN

You should be aware of a tiresomeness which arose today.

2. The Number 10 press office told me that each delegation was allowed only two designated background briefers, and that the names of Bernard Ingham and John Goulden had been given to the Americans in March. I pointed out that we had ourselves put in a bid for my attendance as early as 25 February, and that No 10 had known that I was to be part of the official delegation since 5 April. It seemed bizarre, given the present line up and seniority of Ministers, and composition of the agenda, that I should ^{not} be one of the two designated briefers. The most important thing, however, was that I should not be inhibited from doing my job by lack of designation. It should not, in any case, be impossible to change the names.

3. No 10 subsequently told me that the only benefit to be derived from being a designated background briefier was as only these people - in addition to Ministers - were permitted to give comments attributed to them directly as individuals. If this is the case, and all other aspects of the job can be done without inhibition, no great damage - except to amour propre - is done. But without being prima donna-ish I do think it important to obtain No 10's written assurance that this is indeed the position. It would be extremely frustrating to arrive in Williamsburg, only to find that I have to operate in some surreptitious way. I should like a word with you first.

4. Also on Williamsburg, I have discussed with Anthony Shrimmsley the general issue of whether he sees advantage in broadcasts by you in advance of the Summit. He agrees with Bernard Ingham, and this is surely right, that we shall do much better to go for maximum coverage

23/5

after the conference, rather than offering the Opposition opportunities in advance.

A handwritten signature in blue ink, appearing to be 'M A Hall', written in a cursive style.

M A HALL



*I've seen receipt
as my letter.*
May 23/83
Foreign and Commonwealth Office

London SW1A 2AH

PPS

(PW)

Mr M A Hall MVO
Press Secretary and
Head of Information Division
HM Treasury
Parliament Street
London SW1

20 May 1983

Dear Martin,

WILLIAMSBURG : PRESS ARRANGEMENTS

1. Thank you for your letter of 19 May to John Goulden. The Foreign and Commonwealth Secretary has, as you know, spoken to the Chancellor and they both agreed that, as indicated in paragraph 3 of your letter, they should give separate radio and TV interviews on their own respective bailiwicks.
2. We have noted your remarks about Reuters and John Goulden will, I am sure, keep you informed of any arrangements we make with them.

Yours ever

Ivor

IVOR ROBERTS
News Department

CC: Mr Ingham, Number 10

ADVANCE COPIES

IMMEDIATE

93

AWP

ECONOMIC SUMMIT

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

PS/NO 10 DOWNING STREET

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

HD/ERD (2)
HD/ECD (E) & (E) (6)
HD/ES & SD (2)
HD/NAD
HD/WED
HD/FED
HD/NEWS D
HD/ESID (2)
RESIDENT CLERK

IMMEDIATE

CONFIDENTIAL

FROM ROME 201515Z MAY 83

TO IMMEDIATE FCO

TELNO 253 OF 20 MAY 83

INFO PRIORITY PARIS

INFO SAVING WASHINGTON, BONN, TOKYO, OTHER EC POSTS

UKREP BRUSSEL TELNO 2011: WILLIAMSBURG SUMMIT

1. FANFANI PAID A SURPRISE VISIT TO PARIS ON 18 MAY AT HIS REQUEST TO SEE MITTERRAND BEFORE WILLIAMSBURG. HIS STAFF TELL US THAT THEIR MEETING WAS LARGELY TETE-A-TETE, AND THEY ARE UNABLE TO ADD TO WHAT FANFANI TOLD THE PRESS AFTERWARDS.

2. ACCORDING TO THESE PRESS REPORTS, THE MEETING FOLLOWED FROM FANFANI'S AND MITTERRAND'S AGREEMENT TO CONSULT WHEN THEY THOUGHT IT NECESSARY. WITH WILLIAMSBURG STUTTGART ON THE HORIZON, IT WAS AN OBVIOUS MOMENT TO DO SO. FANFANI WAS FLATTERING ABOUT THE TIMELINESS OF MITTERRAND'S MONETARY REFORM IDEAS, BUT VAGUE ABOUT CONCRETE SUPPORT FOR THEM. HE DREW ATTENTION TO THE NEGATIVE EFFECTS OF THE FLUCTUATING DOLLAR AND HIGH INTEREST RATES, IMPLYING SOME SYMPATHY FOR FRANCE'S MORE AGGRESSIVE POSTURE VIS-A-VIS THE US BUT WITHOUT VISIBLY IDENTIFICATION

NEGATIVE EFFECTS OF THE FLUCTUATING DOLLAR AND HIGH INTEREST RATES, IMPLYING SOME SYMPATHY FOR FRANCE'S MORE AGGRESSIVE POSTURE VIS-A-VIS THE US, BUT WITHOUT VISIBLE IDENTIFICATION WITH IT.

3. WE CONSIDER HIS VISIT TO BE MORE CONCERNED WITH ITALIAN POLITICS THAN WITH WILLIAMSBURG. HE DOES NOT WANT TO PUT AT RISK TRADITIONAL US SUPPORT FOR THE DC, BUT DOES NOT WISH TO BE OUT-FLANKED BY THE PSI, WHO FAVOUR A LINE ON ECONOMIC RELATIONS WITH THE US AND ON WORLD GROWTH MUCH CLOSER TO THE FRENCH, HE ALSO ^{WANTS TO BE SEEN} ~~WANTS TO BE SEEN~~ PLAYING THE STATESMAN.

4. HE IS QUOTED AS SAYING THAT HE HAS ARRANGED TO SEE THE PRIME MINISTER AT WILLIAMSBURG BEFORE THE SUMMIT. WE ASSUME, IN THE LIGHT OF FCO TELNO 831 TO WASHINGTON, THAT THERE IS NO SUCH PLAN. AT PRESENT. BUT PAOLINI (DIPLOMATIC ADVISER) HAS TODAY TELEPHONED ME TO ASK WHETHER A BILATERAL CAN BE ARRANGED BEFORE THE SUMMIT STARTS. FANFANI ARRIVES AT 1400 ON 28 MAY AND SUGGESTS 1600 FOR HIS MEETING WITH THE PM. HE ALSO PLANS TO SEE NAKASONE AND TRUDEAU THAT EVENING AND HAS FIXED A 1500 APPOINTMENT WITH THE FORMER.

5. GRATEFUL FOR INSTRUCTIONS.

FCO PLEASE PASS TO ALL SAVING ADDRESSEES

BRIDGES

NNNN

mwp

CONFIDENTIAL

GRS 310
CONFIDENTIAL [CULL]
FM WASHINGTON 202359Z MAY 83
TO PRIORITY FCO
TELEGRAM NUMBER 1433 OF 20 MAY

2

A NEW QUOTE BRETTON WOODS UNQUOTE

1. THE WASHINGTON POST CARRIED AN ARTICLE TODAY, BY HOBART ROWEN, REPORTING THAT QUOTE A HIGH ADMINISTRATION OFFICIAL SAID THAT UNLESS THERE IS AN OBJECTION FROM THE OTHER HEADS OF STATE, PRESIDENT REAGAN IS PREPARED TO SUGGEST THAT THE FINANCE MINISTERS OF THE 7 SUMMIT COUNTRIES STUDY THE POSSIBILITY OF SUCH A CONFERENCE (I.E. ON GLOBAL MONETARY AND TRADE PROBLEMS) WHICH WOULD LOOK TOWARD CHANGING THE INTERNATIONAL MONETARY SYSTEM UNQUOTE. THE ARTICLE WENT ON TO SAY QUOTE A NEW GLOBAL CONFERENCE WOULD CLOSELY MESH WITH RECENT EFFORTS PROMOTED BY TREASURY SECRETARY DONALD REGAN TO EMPHASISE THE INTERRELATIONSHIPS AMONG TRADE, FINANCE, AND DEBT PROBLEMS. REGAN, WHO ALONG WITH TRADE AMBASSADOR WILLIAM BROCK RECENTLY ORGANISED A FIRST-EVER JOINT MEETING OF TRADE AND FINANCE MINISTERS, BEGAN TALKING EARLIER THIS YEAR ABOUT SOME NEW GLOBAL APPROACH, WITHOUT CALLING IT QUOTE BRETTON WOODS UNQUOTE.

2. MINISTER (ECONOMIC) WAS TOLD TODAY BY ALAN WALLIS, PRECIDENT REAGAN'S PERSONAL REPRESENTATIVE, THAT THERE WAS QUOTE NOTHING IN THIS STORY UNQUOTE. HE SAID THAT THE INTERESTING POINT WAS TO SPECULATE ON HOW AND WHY IT HAD APPEARED. ROWEN HAD LONG SUPPORTED THE IDEA OF A NEW QUOTE BRETTON WOODS CONFERENCE UNQUOTE. INDEED, THIS IDEA HAD SOME SUPPORT WITHIN THE U S GOVERNMENT, BUT ITS SUPP-ORTERS WERE NOT THE PEOPLE CALLING THE SHOTS. HE WENT ON TO SAY THAT THE U S GOVERNMENT'S POSITION ON THIS SUBJECT WAS UNCHANGED.

3. FCO PLEASE ADVANCE TO PS/CHANCELLOR, SIR ROBERT ARMSTRONG, LITTLER AND LAVELLE (TREASURY), AND LOEHNIS (BANK OF ENGLAND).

WRIGHT

[ADVANCED AS REQUESTED]

FINANCIAL
NAD

COPIES TO
ADVANCE ADDRESSEES

CONFIDENTIAL



FROM: J O KERR
DATE: 20 May 1983

cc Mr Littler
Mr Lavelle

MR BOTTRILL

**BRIEFING FOR THE PRIME MINISTER'S TALK WITH PRESIDENT REAGAN
AT WILLIAMSBURG**

We have spoken before about the Chancellor's wish to give the Prime Minister full briefing, before Williamsburg, on the US deficit, the UK experience (1981 Budget etc), and the value of acceptance that the PSBR is on a declining path. You will have seen Washington telegram number 1363, which shows that the Embassy too think that it would be useful if the Prime Minister will raise all this with the President. And the Chancellor of course urged her to do so in his minute a couple of weeks ago.

2. You have in hand the preparation of some visual aids, which could be included in the briefing.
3. Given their absences from London next week, it would I think be sensible for us to aim to show the briefing to the Chancellor on 24 May, and send it to the Prime Minister on 25 May. Could you ensure that the full dossier, with pictures, reaches this office on Tuesday?

mom
for J O KERR

TRSY G
OFFREY HOWE
LLOR OF THE EXCHEQUER
ENGLAND

SENT VIA ITT MAY 20 1983 1344 FROM 440276 TRSY UI
T 23

TRSY G

AID
TWX WASHINGTON DC MAY 20 1983
~~POST~~ DUPLICATE
OFFREY HOWE
LLOR OF THE EXCHEQUER
ENGLAND

2356: N/A
TOPICS FOR FINANCE MINISTER'S DISCUSSIONS IN
MSBURG
OLLEAGUE:
E SCHEDULE FOR THE WILLIAMSBURG SUMMIT PROVIDES FOR
L OCCASIONS FOR FINANCE MINISTERS TO GET TOGETHER
THEMSELVES:

MAY, MAY 28 DINNER
MAY 29 MEETING (9:00 AM TO 12:00 NOON)
LUNCH
DINNER

IN ADDITION TO ASSIGNMENTS THAT MAY BY GIVEN TO US BY
MMIT LEADERS, I SUGGEST THAT THE AGENDA FOR OUR TALKS
LIAMSBURG INCLUDE THE FOLLOWING TOPICS:
LTI LATERAL SURVEILLANCE; DRAFT STATEMENT ON
STRENGTHENING MONETARY COOPERATION FOR STABILITY AND GROWTH,
DEVELOPED BY OUR DEPUTIES (TEXT TRANSMITTED SEPARATELY BY
SECRETARY SPRINKEL);
RESULTS OF RECENT DISCUSSIONS AMONG TRADE AND FINANCE
MINISTERS;
DISCUSSION OF CONDITIONS FOR STRENGTHENING INTERNATIONAL
FINANCIAL ARRANGEMENTS;
INTERNATIONAL DEBT ISSUES;
POLICIES AND PROSPECTS FOR SUSTAINABLE ECONOMIC RE-
GROWTH IN OUR COUNTRIES; AND
OTHER ITEMS MINISTERS MAY WISH TO RAISE.

IT WILL BE A PLEASURE TO WELCOME YOU TO WILLIAMSBURG.
SINCERELY,
DONALD T. REGAN
SECRETARY OF THE TREASURY

7
23

EXCHEQUER	
DATE	23 MAY 1983
ACCR	Mr Hitler.
COMES TO	Mr Lawson.
	Mr Lavelle.
	Mr Hall

6/LC
TRSY G
TRSY UI.....
SENT VIA ITT MAY 20 1983 1350 FROM 440276 TRSY UI
T 23



FROM: MISS M O'MARA

DATE: 20 May 1983

cc Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Carey
Mr Burns

MR LITTLER

AGENDA FOR FINANCE MINISTERS AT WILLIAMSBURG

The Chancellor has seen Mr Regan's telegram of 18 May suggesting some items for the Williamsburg agenda. He has questioned whether item 4 on international debt issues should include a discussion of IMF resources.

mom

MISS M O'MARA

Minister

H.M. TREASURY	
DATE	24 MAY 1983
ACTION	
POINTS	10

In flight mt.

- c. HMA
- Minister (C)
- Mr Walsh
- Mr Taylor
- Mr Smith

- ✓ PS/Chancellor, HM Treasury
- Mr Burns
- Mr Littler
- Mr Unwin
- Mr Lavelle
- Mr Gilchrist, Bank of England
- Mr Appleyard, ERD FCO

A "PRE-WILLIAMSBURG" INTERNATIONAL MONETARY CONFERENCE HELD AT WASHINGTON ON TUESDAY, 17 MAY 1983

You, and others, questioned Secretary Regan's statement, reported in paragraph 12 of my record of this Conference, that:

"(US exports had grown from 9% of GNP in 1970 to 19% in 1980 with some 75% more jobs in the same period coming from exports.)"

2. Secretary Regan certainly said this, but the US Treasury tell me that what he should have said was:

"US exports had grown from 9% on production of goods, excluding services in 1970 to 19% in 1980 ..."

He should not have referred to GNP.

N.L.W.

N L Wicks

20 May 1983

L.

*to see para's 2, 7, 12
of the Substantive report
has been given*

[Signature]



FROM: MISS M O'MARA
DATE: 20 May 1983

M

MR BOTTRILL

cc Mr Littler
Mr Anson
Mr Unwin
Mr Carey
Mr Lovell
Mr Gordon
Mr Mortimer
Mr Ridley

WILLIAMSBURG: LETTER FROM MR MURRAY OF 12 MAY

I see that no action recipient was designated on the circulation list for Mr Murray's letter of 12 May, enclosing the TUAC statement on the issues likely to be discussed at Williamsburg. However, the Chancellor thinks he should acknowledge the letter and should be grateful if you could provide us with a suitable draft.

mom

MISS M O'MARA

FROM: J ODLING-SMEE

DATE: 20 May 1983

Background with Williamsburg reading.

Spill.

MR LITTLER

cc Mr Burns
Mr Unwin
Mr Carey
Mr Lavelle
Mr Bottrill
Mr Peretz
Mr Sedgwick
Mr Matthews
Mr A Smith

THE EXTERNAL DEBT PROBLEMS OF NON-OIL DEVELOPING COUNTRIES

I attach a revised draft of Mr Matthews' paper, which is now in a form to send to the Chancellor as background to Williamsburg.

2. The aim of the paper is to present the debt problem in the context of developments in the economies of debtor countries and in the world economy as a whole. It does not consider it from the point of view of creditor banks or countries.
3. There are two parts. The first, longer one looks at the origins, nature and scale of the problem and the second at the future, assuming a continuation of present policies. Possible changes in policy, including schemes for refinancing debt, are not discussed. Most of the story is well known, from papers of the IMF and other sources. The data are nearly all IMF staff estimates. Nevertheless it may still be useful to set the issues down briefly in one place.
4. The origins of the debt problem are complex. There were three major interacting elements. First, some developing countries, especially a few middle-income rapidly-growing ones, had come to rely on a steady inflow of net new borrowing to close the gap between domestic investment and saving. Secondly, the world went into recession and real interest rates rose rapidly. Thirdly, banks became increasingly concerned about creditworthiness; this was reflected first in a shortening of maturities and later in a reluctance to

provide new medium- and long-term finance or even to roll over short-term credits.

5. Had only one of these elements been present the situation might have fallen short of crisis proportions. A higher level of borrowing by basically well-managed economies with good prospects (with one or two exceptions) would probably have been sustainable provided that the world economy continued to grow steadily and the finance was forthcoming. Alternatively, had borrowing been at a lower rate, most countries would have been able to adjust to either the recession and the high interest rates or to the reduction in lending without an intolerable compression of imports and activity. But the combination of all three elements together imposed a larger adjustment burden in the short-term on some countries than they were able to bear (and than would have been good for the world economy). Special arrangements, including rescheduling and refinancing of existing debt and mobilisation of new borrowing, were therefore necessary to make the adjustment tolerable and thereby avoid more serious disruption.

6. Looking to the future, some alleviation of present difficulties will come as the factors giving rise to them are reversed. Thus debtor countries are having to adjust so that the gap between domestic investment and saving is narrower and in some cases reversed, at which stage they will be able to live without net capital inflows. The world economy is beginning to recover and interest rates may come down further. In time banks may, without special arrangements, resume lending to countries where they have reduced it. But the process will be slow and uneven, and some individual countries may have to receive special treatment.

7. The paper does not discuss future problems, and solutions. Potential problems are of two types. First, it may become increasingly difficult to arrange the kind of rescue operations mounted so far, because some banks may refuse to provide new money or supervisors may discourage them from doing so. Secondly, assuming that rescue operations are initially successful, the resulting reduction in activity in debtor countries may be unacceptable to the countries

themselves and, when aggregated across all countries, to the world as a whole. The consequences of these problems, and possible solutions, are not pursued here.

John O-S

J ODLING-SMEE

THE EXTERNAL DEBT PROBLEMS OF NON-OIL DEVELOPING COUNTRIES

Introduction

The developing countries are a rather diverse group, and include countries at many different stages of development. More or less by definition, though, they comprise those countries in the process of developing from an economy characterised by little modern industry and by low per capita incomes to an economy characterised by sophisticated production techniques and high incomes. Most of these countries rely to some extent on external capital and/or aid to supplement their domestic saving and export earnings to finance this development. As a general rule therefore the developing countries run current account deficits financed by capital flows from the developed countries. In this respect present-day developing countries differ little from the "developing countries" of the nineteenth century such as the USA and Canada, which financed their development partly through flows from Europe.⁸⁰⁷ These flows were almost entirely private and were motivated by the higher returns available on investment outside Europe.

2. Private capital flows to developing countries (whether direct or portfolio investment or bank lending) may thus be regarded as a normal feature of the international balance of payments. The availability of opportunities for profitable private capital, however, varies widely between developing countries. Many of the poorer countries with limited natural resource endowments and traditional agricultural populations attract little private investment or commercial bank lending. Some of the low income developing countries are, nevertheless, among those having difficulty in servicing their debts. The bulk of developing countries' external debt, however, has been incurred by a comparatively small number of relatively more prosperous countries. About 70% of total borrowing and 80% of borrowing from banks is accounted for by some 20 countries.

3. The precise form taken by debt problems thus tends to vary from country to country. This note tries, however, to summarise the main features of the developing countries' debt problem: its origins, its nature and scale. It then considers the responses of the developing

countries and international community to the problem and how far changes in interest rates, growth in OECD countries etc might alleviate the problem.

PART 1: Origins, Nature and Scale of the Problem

The first oil shock and its aftermath

4. The origins of the recent debt problems faced by many non-oil developing countries (NODCs) can be traced back to the rises in oil prices in 1973-74 and the subsequent slowdown in the growth of the industrialised countries. The rise in oil prices and the recession - induced fall in other primary product prices more than doubled the NODC's current account deficits to some \$40 billion a year.
5. Most NODCs, however, were able to finance these deficits and were not forced to make major cuts in the volume of their imports. The large current account surpluses of OPEC producers such as Saudi Arabia and the Gulf States that arose because of their low absorptive capacity were reasonably successfully "recycled" through the international banking system and to a lesser extent the IMF, ie they were lent to countries with current account deficits - mainly developing countries, but also the UK, Italy and some of the smaller OECD countries. Some of these loans leaked into maintaining consumption, but most went to sustain investment and so generate the wherewithal for their repayment - although there were also some spectacular white elephants.
6. The NODCs were helped by the fairly rapid recovery of the OECD countries from the 1975 recession and the stimulus this gave to NODC exports and to commodity prices. The NODCs in fact took greater advantage of the recovery than OECD countries and the slowdown in the growth of the volume of their exports following the first oil price shock was less than that of OECD countries. Buoyant exports were the main factor enabling NODCs to reduce their non-oil deficits from around \$25 billion in 1974 and 1975 to around \$10 billion in 1977 and 1978, while maintaining a fairly strong growth in imports. This relatively satisfactory adjustment to the rise in oil prices was, however, helped by the fact that, unlike the OECD countries, their terms of trade did not deteriorate over the period 1973-78.

7. The NODCs as a whole suffered a less marked deceleration in growth than did OECD countries, although performance varied between countries. The major exporters of manufactures among the NODCs which include some of the principal debtor countries (eg Argentina, Brazil, Korea, Singapore) experienced a greater reduction in growth than other groups of NODC's, but their growth was nevertheless nearly twice the OECD rate (see table 2). There were signs, though, such as the upward trend in inflation, that many countries' economies had not fully adjusted to the rise in oil prices and that these structural weaknesses were being disguised by a relatively favourable external situation.

8. The success of NODCs in moderating the effects of higher oil prices on economic growth involved substantial external borrowing (see tables 4 and 5), but this was easily supportable while exports were performing well and real rates of interest on borrowing were low or even negative. Indeed, the commercial banks were keen to lend to countries such as Brazil, South Korea and Mexico which welcomed foreign borrowing and where economic growth was generating profitable investment opportunities. The banks had plenty of funds as a result of the OPEC surpluses and relatively easy US monetary policy. Moreover, at the start of the 1970's private medium and long term lending to developing countries was small and thus the banks' exposure in these countries built up only gradually over the decade.

Developments since 1979

9. Reactions to the second oil price shock in 1979 differed markedly from the response to the oil price increases of 1973-74. OECD countries pursued counter-inflation policies with greater vigour and were less inclined to encourage recycling. No special IMF facilities for recycling OPEC surpluses were set up in view of the apparent success of the international banking system in coping with the first shock. The banks at first maintained a fairly relaxed attitude to sovereign lending to developing countries. They tried, however, to reduce their risks to some extent by lending a greater proportion of funds on a short term basis. Thus developing countries' short term debt rose from around \$58 billion in 1979 to \$94 billion in 1981 (see table 5). Most of this increase was accounted for by Mexico, Brazil and Argentina. Lending short could, however, provide little protection for the banks as a whole. It also greatly increased the vulnerability of borrowers to changes in the international markets' assessment of their creditworthiness - which is, of course, precisely what happened.

10. Rapid growth in the volume of NODC's exports continued in 1979 and 1980 despite the reaction of most OECD countries to the second oil price shock. Although the debt servicing position of the countries that were taking on more short term debt deteriorated, the position of other developing countries was tending to improve thanks to higher exports and the effects of inflation in eroding the real value of their external debt. Interest rates did of course rise sharply in 1980, but the developing countries were protected from this to some degree by the fact that about half of their debt carried a fixed rate of interest. Nevertheless, the interest costs of servicing their external debt rose from about \$20 billion in 1978 to \$55 billion in 1981 and the richer developing countries, which had made extensive commercial borrowings from the banks, were hit particularly hard. The gravity of the situation for the major borrowing countries however, only became apparent in 1981 and 1982 when the growth of their export earnings slowed markedly.

11. While the debt servicing difficulties of developing countries have arisen largely because of changes in their external environment - high oil prices, high interest rates, a severe world recession and induced falls in commodity prices - in many cases they failed to adjust their domestic policies sufficiently quickly to the new circumstances. Unresolved structural weaknesses resulting from the first oil price shock (eg high rates of inflation) were aggravated and ^{for} a number of the major debtor countries the economic situation was further worsened by fiscal and monetary policies which were too expansionary and real exchange rates which were allowed to become unrealistically high. The result was larger current account deficits: the NODC's current account deficit was equivalent to a third of their exports in 1981 compared with a fifth in 1978. They were, furthermore, seeking to finance a relatively larger proportion of their increased deficit from commercial banks. To the banks this deteriorating position made new lending appear riskier, especially as their lending had been growing much more rapidly than their capital. The banks were therefore reluctant to make medium or long term loans and lent short term instead. Crises then arose when a developing country, faced with a further deterioration in its cash flow position, was unable to roll over this short term debt.

The countries most severely affected

12. At the end of 1982 the external debt of non-oil developing countries was estimated by the IMF staff to be around \$600 billion. To this may be added some \$75 billion for the debts of Algeria, Indonesia, Poland and Venezuela which are not classified as NODCs. About 60% of this \$675 billion of debts is owed to the banks.

13. A relatively small number of countries, however, account for most of this borrowing. Over 70% of total borrowing and 80% of bank borrowing is accounted for by 20 countries⁺, although the share of these countries in total NODC exports is little more than 50%. These countries are also those most severely affected by the shortening of maturities. (At the end of 1981 a quarter of their debt was short term, compared to less than 10% for other developing countries). Furthermore, they have a greater proportion of their debt on floating rate terms and were thus more vulnerable to the rise in (dollar) interest rates. Thus in 1982 their debt service ratio (interest payments plus amortization of debt with original maturity greater than one year as a proportion of exports of goods and services) was some 40%, while that for NODCs as a whole was about 24%. Not surprisingly these 20 countries include the main countries where the debt problem became a crisis in 1982 or could become one in 1983, eg Mexico, Yugoslavia, Brazil, Argentina. Table 6 compares the deterioration of the debt position of these countries between 1980 and 1982 (and particularly that of Brazil, Argentina and Mexico) with that of developing countries as a whole.

14. Broadly speaking, the developing countries with acute debt problems are confined to the middle income countries. The debt service ratio of the low income developing countries has changed relatively little over the past decade. The banks have lent comparatively little to these markets and they have remained dependent on official development assistance and other official flows such as export credit. Where they have run into debt problems, this has been

+ Footnote: Algeria, Argentina, Brazil, Chile, Ecuador, Egypt, Hungary, Indonesia, Israel, Korea, Mexico, Peru, The Philippines, Poland, Portugal, Romania, Thailand, Turkey, Venezuela and Yugoslavia. Note that in accordance with the IMF treatment all the tables in this note classify Hungary, Portugal, Romania, and Yugoslavia as NODCs.

largely due to economic mismanagement, such as the failure to devote external borrowings to productive investment and/or to mobilise the profits of the investment to enable repayment of the loan. Such failures also characterise some of the middle income debtor countries, eg Poland.

II

What level of external debt would have been sustainable without a crisis?

15. It is extremely difficult to gauge a country's capacity to service external debt and hence the amount of such debt that a country can reasonably incur. How a country makes use of the borrowed funds is obviously an important consideration. Some additional borrowing to avoid major cuts in imports during a short recession may be justified, especially if borrowing is correspondingly lower when export revenues recover. Sustained borrowing to finance imports of consumer goods, however, is likely to lead to a future debt problem. Ideally, lenders would wish to ensure that the additional expenditure financed by their loans is investment that will generate a market return sufficient to cover the repayment of the loan. Only a broad assessment of whether this^{is} in fact the case is generally possible. The apparently simple expedient of tying loans to projects is often not practicable where loans are made to governments, and even if it were, there is no way of being sure that the project would not have been carried out anyway, so that the lender is in effect providing untied foreign exchange.

16. Assessments of the appropriate level of debt thus have to rely on broad indicators such as the rate of return on total investment, the rate of economic growth, the rate of growth of exports etc. These indicators may then be compared with the interest rate on the debt, the maturity period of the debt, the extent to which the real cost of debt repayment is eroded by inflation and so on. Such comparisons can provide only crude rules of thumb for judging whether debt levels are too high. They would probably suggest that most of the middle-income debtor countries are capable of servicing their debts. Their current debt problems are thus more those of liquidity than of solvency and were brought to a head not by persistent economic mismanagement, but by the rapid build-up of short-term debt and debt service in a period of high interest rates and a deeper and more prolonged world recession than has been experienced for many years.

17. The nature of the developing countries debt problems can perhaps be summed up as follows: while a few countries were borrowing beyond their capacity to service commercial loans in the 1970's, for most developing countries their rates of borrowing and economic growth were sustainable; this was probably no longer the case following the second oil price shock, the rise in nominal and real interest rates, the severe world recession and falls in commodity prices; by trying to maintain economic growth in these circumstances through continued commercial borrowing many developing countries ran into balance of payments problems; the dependence of countries like Mexico on commercial borrowing from the banks and the banks' cumulated exposure in these markets turned these problems into a debt crisis when the banks lost confidence in their creditworthiness; as a result the countries affected now have to adjust their economies not only to reduce their current account deficits, but also to cope with the "crisis in confidence" and their reduced ability to attract capital inflows - commercial lending to NODCs in 1982 is estimated (at about \$20 billion) to have been less than half as great as in 1981 (see table 4).

Part 2: THE FUTURE OUTLOOK

18. While the implementation of sound macroeconomic policies by countries with severe debt problems should reduce the present crisis of confidence and help to avert short-term liquidity problems, the full restoration of confidence is likely to take considerable time. This partly reflects the political difficulties governments may have in cutting budget deficits and reducing inflation, but it also reflects adverse trends in the world economy. There has already been a drastic cut in the volume of imports: the IMF estimate a fall of 8% for NODCs as a whole between 1981 and 1982 and much larger falls for countries like Mexico, Argentina and Brazil. By itself this would have produced a \$35 billion improvement in the NODCs' combined current account, yet because of the slowdown in the growth on their export volume and fall in the price of their commodity exports, their current account deficit only improved by about \$20 billion between 1981 and 1982. The developing countries are likely to be compelled to reduce their current account deficits further in 1983; the growth in net bank lending to them may be even lower than in 1982 and a further reduction in official

foreign exchange reserves is probably not practicable, as reserves are already very low in relation to trade. A fall in Eurodollar interest rates from over 13% in 1982 to around 9% in 1983 may reduce NODCs' current account deficit by \$8-10 billion in 1983, but the weak economic recovery in OECD countries is likely to limit the increase in exports that the NODCs can achieve. As a result, there may be little or no growth in the volume of their imports in 1983.

IMF STAFF PROJECTIONS FOR 1982 AND 1983

<u>NODCs</u>	change over previous year	
	1982	1983
Export volume	1%	4½%
Import volume	-8%	2%
Terms of Trade	-2½%	1%
Current balance, \$ billion	+\$20 bn	+\$20 bn

19. With these changes in exports, imports and commercial bank lending, the IMF forecast a current account deficit for the NODCs in 1983 of approaching \$70 billion - roughly the same in real terms as in the mid-seventies. The level of output associated with this balance of payments performance would, however be much less satisfactory. GDP growth at around 1-2% a year for the years 1981 to 1983 implies a marked fall in living standards, when account is taken of population growth and the resources being put into improving the balance of payments.

20. The outlook for the world economy offers no prospect of a quick or dramatic improvement in the external debt position of non-oil developing countries, but it does offer the possibility of a continued gradual easing of the position. Economic growth in the major industrialised countries of 3-3½ per cent a year in 1984 and 1985 might be expected to be associated with growth in the volume of world trade roughly twice as fast. Competitive developing country exporters of manufactures could well achieve even faster rates of export growth, provided of course that the industrialised countries do not extend their protectionist measures to prevent this. Developing country exporters of primary commodities should also benefit from renewed economic growth in OECD countries. Although the responsiveness of

demand for primary products to changes in world income tends to be less than in the case of manufactures, it is nevertheless positive and, given short run supply constraints in producing these commodities, there may be some improvement in the terms of trade of the producing countries. As a rough rule of thumb,⁺ we would expect a one percentage point increase in GDP in the major industrialised countries to raise the export revenues of non-oil developing countries as a whole by about 2%, or \$6 billion, and a 1 per cent increase in NODCs' export prices would add about \$3 billion to their export revenues.

21. To get a rough idea of how such changes might interact to affect NODCs' imports, current balance and debt service ratio, we can look at a WEP model simulation of the effects of higher GNP in the major 7 OECD countries:-

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Major 7 GNP, % change from base	+1 $\frac{1}{4}$	+1 $\frac{3}{4}$	+1 $\frac{3}{4}$
Eurodollar rate	-	-	-
<u>NODCs.</u>			
export prices, % change from base	+2 $\frac{1}{2}$	+5 $\frac{3}{4}$	+8
import volume, % change from base	+ $\frac{1}{2}$	+2 $\frac{3}{4}$	+4
current balance, \$ billion	+4	+4	+2

Faster OECD economic growth would thus normally permit the NODCs to achieve both a higher import volume and some improvement in their current balance. The precise use to which they put their additional export revenues will, however, depend on the exigencies of their debt situation. Some countries may be forced to put more resources into improving their balance of payments and reducing their debts than the usual relationships would imply.

22. Some improvement in NODCs' current account may also be expected from lower interest rates. Other things being equal a one percentage point fall in interest rates will reduce developing countries' net interest payments by approaching \$3 billion.* (The reason why this figure is comparatively low is that a substantial proportion of their

+ Footnote: See for instance Goldstein and Khan, "Effects of Slowdown in Industrial Countries on Growth in Non-oil Developing Countries", IMF 1982.

* According to Mr De Larosière at Trade and Finance Ministers meeting in Paris on 10-11 May.

debt is on fixed rate terms, while their foreign exchange reserves are mainly placed in floating rate assets). The prospects for further reductions in interest rates are, however, not good as long as the US runs a large budget deficit, since the low level of private sector saving in the US and fears that the deficit will ultimately be monetised with adverse effects on inflation, serve to keep up American interest rates. As the American economy is so large in relation to the eurodollar market and international bank lending, domestic US interest rates inevitably play the dominant role in determining world interest rates. While a lower US budget deficit should enable lower nominal and real interest rates, it would not necessarily mean a return to the low or negative real interest rates that prevailed in the 1970's. This would imply that the amount of external debt which the developing countries can service comfortably is likely to be less than if the trends of the 1970's had persisted. There has thus in a sense been a reduction in the NODCs' maximum "acceptable" level of debt, but it is difficult to gauge its extent.

23. Since in the short term, external economic developments may be only moderately favourable to developing countries, a large part of the adjustment to ease debt problems will have to come through the pursuit of sound economic policies by the debtor countries themselves. The negotiation of IMF Stand-by Arrangements has been of particular importance in getting developing countries to accept such adjustment and in alleviating the crisis in confidence on the part of the banks. The compression of imports likely to be required as part of these agreements is substantial in the case of the countries most severely affected by the crisis. In Mexico and Brazil, for instance, imports in the mid-1980's could well be below their levels in 1981 even in nominal terms. Thus while the NODCs' debt problems are manageable they are likely to place an important constraint on their growth for many years to come, particularly in the case of the countries that borrowed most heavily from the banks in the 1970's and early 1980's.

TABLE 1

Summary of Payments Balances on Current Account, 1973-83

\$ billion	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
OECD	20	-11	20	1	-2	33	-6	-41	1	-1	17
OPEC	7	68	35	40	30	2	69	114	65	-2	-27
Non-oil developing	-15	-38	-47	-33	-29	-41	-61	-89	-108	-87	-68
Other (+ errors and omissions)	-12	-19	-8	-8	1	6	-2	16	42	90	78

Source: IMF Staff

TABLE 2

Economic Growth, 1968-83

	1968-72 average	1973-78 average	1979	1980	1981	1982	1983
<u>Real GNP</u>							
OECD	4.5	3.2	3.4	1.3	1.2	-0.3	1.6
NODC	6.0	5.2	4.6	4.3	2.4	0.9	1.9
of which:							
- net oil exporters	7.0	6.2	7.3	7.3	6.4	0.8	1.1
- exporter of manufactures	8.0	5.7	6.4	4.5	-0.2	0.2	0.4
- low income	3.4	4.2	-0.1	3.2	4.4	3.0	4.3
- other	5.4	4.8	3.4	3.0	3.1	0.5	3.4

TABLE 3

World trade 1963-83

Annual % changes	1963-72 average	1973-78 average	1979	1980	1981	1982	1983
<u>Volume of exports</u>							
OECD	9.0	6.2	6.7	4.8	2.5	-2.5	0.5
NODC	6.7	5.5	9.6	9.0	6.3	0.8	4.5
<u>Terms of trade</u>							
OECD	0.3	-1.5	-2.4	-7.4	-0.8	2.5	1.5
NODC	0.3	0	-0.3	-6.2	-3.9	-2.7	1.0

Source : IMF Staff

TABLE 4.

Non-oil developing countries' current account financing, 1973-83

US \$, billions

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Current account deficit	15	38	47	31	29	41	61	89	108	87	68
Increase in official reserves	11	3	-1	14	12	17	13	4	2	-7	7
TOTAL	26	41	46	45	41	58	74	93	110	80	75

Financed by:

1. Non-debt creating flows, net	10	15	12	13	14	18	24	24	28	25	24
2. Net long-term capital from official sources	5	7	12	11	11	14	13	18	23	20	24
3. Long-term capital from private sources	7	12	16	18	13	23	23	30	40	26	30
4. Net credit from IMF and other monetary authorities	-	2	2	5	-	-	1	2	6	11	11
5. Net other financing flows (mainly short term)	4	5	4	-2	3	3	13	19	13	-2	-14

Source: IMF Staff

TABLE 5

External Debt and debt service of non-oil developing countries, 1974-83

	1974	1975	1976	1977	1978	1979	1980	1981	Est 1982	Proj 1983
<u>Debt outstanding, \$ billion</u>										
short term	23	28	34	42	49	58	78	94	93	84
long term	140	166	198	240	291	338	387	453	506	564
TOTAL	163	194	232	282	340	396	465	547	599	648
<u>Debt service, \$ billion</u>										
Interest	9	10	11	14	19	28	40	55	59	55
Amortization payments on debt with original maturity greater than one year	13	15	17	21	31	37	36	40	48	44 ⁺
TOTAL	22	25	28	35	50	65	76	95	107	99
<u>Selected Ratios</u>										
1. Debt service ÷ exports of goods and services, %	14½	16	15½	15½	19	19	17½	20½	24	21
2. Short term debt ÷ total debt, %	14½	14½	15	15	14½	14½	16½	17½	15½	13
3. Average interest rate (interest payments ÷ stock of debt)	6.4	5.9	5.2	5.3	6.3	7.7	9.4	10.8	10.2	8.8
4. Debt ÷ exports of goods and services, %	105	122	125	126	130	119	113	125	143	144
5. External debt ÷ GDP, %	22	24	25½	27½	28½	27½	27½	31	34½	34½

Note ⁺ Takes account of rescheduling arrangements negotiated in 1982 and 1983

Source: IMF Staff

TABLE 6

MAJOR BORROWERS: PRINCIPAL DEBT INDICATORS

	(1)		(2)		(3)		(4)		(5)	
	Total external debt (incl. short term) \$bn at end year		(1) as % of GDP		(1) as % of exports		Debt service (excl. amortization short term debt) \$bn		(4) as % of exports	
	1980	1982	1980	1982	1980	1982	1980	1982	1980	1982
20 largest borrowers	364	475	29	38	157	201	66	90	29	38
of which:-										
Mexico	51	83	31	51	206	272	9	19	37	63
Brazil	63	81	25	28	270	351	13	15	56	67
Argentina	27	37	19	53	238	355	4	10	31	98
All NODCs (+ Algeria, Indonesia, Venezuela, Poland).	530	674	28	34½	113	143	92	119	18	24

Source : IMF Staff.

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WILLIAMSBURG AND THE UNGA SUMMIT

1. RASGOTRA (PUS IN THE FOREIGN MINISTRY) SUMMONED AMBASSADORS OF THE WILLIAMSBURG SEVEN TO A JOINT MEETING YESTERDAY EVENING. HIS MESSAGE, HE SAID, WAS POLITICAL NOT ECONOMIC. WE WERE ASKED TO PASS ON TO OUR GOVERNMENTS INDIA'S 'FERVENT PLEA' THAT THE WILLIAMSBURG MEETING SHOULD GIVE FAVOURABLE CONSIDERATION TO THE NAM PROPOSAL FOR A SUMMIT MEETING AT THE UNGA IN THE AUTUMN. INDIAN AMBASSADORS WERE BEING INSTRUCTED TO MAKE PARALLEL REPRESENTATIONS IN OUR CAPITALS.

2. IT SEEMS CLEAR THAT THE INDIANS ARE BEGINNING TO PANIC ABOUT

2. IT SEEMS CLEAR THAT THE INDIANS ARE BEGINNING TO PANIC ABOUT THE DAMAGE TO MRS GANDHI'S PRESTIGE IF NO ADEQUATE UNGA SUMMIT TAKES PLACE SEMICOLON AND ARE THEREFORE ANXIOUS TO PERSUADE THE WEST THAT THE NAM WILL NOT USE THE OCCASION FOR POLEMICS OR CONFRONTATION.

3. RASGOTRA'S MAIN POINTS WERE AS FOLLOWS:

(A) INDIA'S PROVISIONAL IDEA WAS A WEEK-LONG SUMMIT FROM 26 SEPTEMBER, IE THE SECOND WEEK OF THE SESSION. BUT ALTERNATIVES WERE POSSIBLE.

(B) INDIA WAS MAKING A SUGGESTION NOT A DEMAND. THE SUMMIT WOULD NOT SOLVE THE WORLD'S PROBLEMS. BUT IT COULD MAKE A BIG DIFFERENCE TO THE ATMOSPHERE OF THE NORTH-SOUTH AND EAST-WEST DIALOGUES. THE 1960 SUMMIT HAD HELPED TO MAKE THE SIXTIES A GOOD DECADE FOR ARMS CONTROL. THE SEVENTIES HAD BEEN MUCH MORE BARREN. IT WAS TIME TO TURN THE TIDE IN THE EIGHTIES.

(C) DECISIONS WOULD BE BY CONSENSUS, NOT MAJORITY. IT MIGHT BE THAT THE ONLY RESOLUTION EMERGING FROM THE SUMMIT WOULD BE A REAFFIRMATION OF EXISTING UN PRINCIPLES. ANYTHING MORE WOULD COME ABOUT ONLY IF CONSULTATION OVER THE NEXT 2-3 MONTHS REVEALED WIDER AREAS OF AGREEMENT BY ALL PARTIES.

(D) THE SUMMIT WOULD NOT NEED AS METICULOUS PREPARATION AS A BILATERAL OR REGIONAL ONE. BUT IF THE RESPONSE WAS FAVOURABLE INDIA WOULD BE READY THIS SUMMER TO RUSH TASK FORCES TO THE MAJOR CAPITALS INVOLVED FOR ADVANCE CONSULTATIONS ON ORGANISATION AND SUBSTANCE, AS SHE HAD SUCCESSFULLY DONE WITH ABOUT HALF THE NAM MEMBERSHIP IN ADVANCE OF THE NEW DELHI SUMMIT.

(E) THE UN HAD BEEN CHOSEN AS THE SETTING FOR THIS SUMMIT BECAUSE IT BELONGED TO US ALL AND THERE WAS A GENERAL FEELING THAT IT SHOULD BE MADE MORE USE OF. ATTENDANCE WOULD SYMBOLISE, BY ACTION RATHER THAN WORDS, EACH COUNTRY'S COMMITMENT TO THE PRINCIPLES OF THE CHARTER.

(F) ONGOING NEGOTIATIONS EG ON NAMIBIA WOULD NOT BE INTERRUPTED. SUCH ISSUES NEED NOT BE ADDRESSED AT ALL. INDIA HAD AN OPEN MIND. EVEN A GENERAL DEBATE COULD BE AVOIDED IF IT WAS NOT WANTED. THE MOST IMPORTANT FEATURE OF THE SUMMIT WOULD BE SMALL GATHERINGS OF KEY LEADERS, EG UNDER THE SECRETARY-GENERAL'S AUSPICES (NOT INDIA'S). AN INNER CAUCUS, EG OF CANCUN POWERS, MIGHT BE ONE

INDIA'S). AN INNER CAUCUS, EG OF CANCUN POWERS, MIGHT BE ONE ELEMENT. THE ESSENTIAL POINT WOULD BE FOR THE LEADERS TO GET TO KNOW EACH OTHER'S CHARACTERS AND PREOCCUPATIONS.

(G) THE EAST HAD NOT YET SHOWN ITS HAND ON THE SUMMIT PROPOSAL ANY MORE THAN THE WEST. IT WAS NOT KNOWN WHICH EASTERN LEADERS MIGHT ATTEND. NAM LEADERS WERE UNANIMOUSLY IN FAVOUR OF THE SUMMIT BUT NOT ALL OF THEM WOULD IN FACT BE THERE. INDIA HOPED FOR PERHAPS 50-70 HEADS OF STATE OR GOVERNMENT IN ALL.

(H) THE SUMMIT WOULD NOT DISCUSS MODALITIES FOR THE PROPOSED CONFERENCE ON MONEY AND DEVELOPMENT FINANCE. BUT GENERAL NORTH-SOUTH ECONOMIC ISSUES WOULD OF COURSE FEATURE.

(I) IT WOULD BE HELPFUL IF OUR PERMANENT REPRESENTATIVES IN NEW YORK COULD BE INSTRUCTED TO DISCUSS IDEAS ABOUT THE SUMMIT WITH THE INDIANS AND OTHERS THERE. THE SECRETARY-GENERAL TOOK A FAVOURABLE ATTITUDE AND HAD RESPONDED POSITIVELY TO MRS GANDHI'S APRIL LETTER ABOUT THE NEW DELHI MESSAGE.

(J) THE PRESENT APPROACH WAS NOT DIRECTLY CONNECTED WITH MRS GANDHI'S MORE GENERAL LETTER TO THE WILLIAMSBURG SEVEN, WHICH HAD BEEN DESPATCHED ON 9 MAY (MOST OF US SAID WE WERE NOT AWARE THAT IT HAD YET BEEN RECEIVED).

(K) INDIAN DID NOT UNDERSTAND WHY SOME IN THE WEST REGARDED THE NAM AS ANTI-WESTERN (SIC).

WADE-GERY

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TO IMMEDIATE F C O

TELEGRAM NUMBER 404 OF 21 MAY 1983

INFO WASHINGTON, BONN, PARIS, ROME, OTTAWA, TOKYO, UKREP BRUSSELS.

WILLIAMSBURG SUMMIT

1. THE SECRETARIAT SENT US LATE YESTERDAY EVENING (20 MAY) FOR FORWARDING A LETTER FROM THE SECRETARY-GENERAL TO THE PRIME MINISTER ABOUT THE WILLIAMSBURG SUMMIT.

2. TEXT IS AS FOLLOWS. ORIGINAL WILL BE IN BAG LEAVING HERE ON 24 MAY

BEGINS

DEAR PRIME MINISTER,

AS YOU WILL SHORTLY BE PROCEEDING TO WILLIAMSBURG, I AM TAKING THE OCCASION TO SHARE A FEW THOUGHTS WITH YOU, FROM THE PERSPECTIVE OF THE UNITED NATIONS, ON THE PRESENT CRITICAL JUNCTURE IN THE WORLD ECONOMIC SITUATION AND IN NORTH/SOUTH RELATIONS.

IN RECENT MONTHS, I HAVE BEEN IN CONTACT WITH MANY LEADERS OF DEVELOPING COUNTRIES ON THESE MATTERS. DURING THIS PERIOD, I HAVE BEEN HEARTENED BY THE PRAGMATIC AND FLEXIBLE ATTITUDE THAT HAS BECOME EVIDENT ON THEIR PART. THIS TREND HAS BEEN CONFIRMED IN THEIR HIGH LEVEL MEETINGS IN NEW DELHI AND BUENOS AIRES.

I AM EQUALLY ENCOURAGED BY THE OUTCOME OF THE RECENT MINISTERIAL MEETING OF OECD, FOR I BELIEVE THAT A RESPONSIVE ATTITUDE IS NECESSARY ON ALL SIDES IF RESULTS ARE TO BE ACHIEVED. WILLIAMSBURG PROVIDES A MOST TIMELY OPPORTUNITY TO CARRY THAT PROCESS FURTHER AS DOES THE FORTHCOMING SIXTH SESSION OF THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT IN BELGRADE.

IT SEEMS TO ME THAT A MAJOR EFFORT IS NOW REQUIRED TO GIVE A CONCRETE FORM TO THE PRESENT PROMISING TRENDS.

THE ECONOMIC SITUATION FACING MOST OF THE DEVELOPING COUNTRIES IS STILL EXTREMELY DIFFICULT. OVERALL, 1983 WILL MARK THE THIRD YEAR OF DECLINING PER CAPITA INCOMES IN THESE COUNTRIES. IN THE FACE OF SUCH ADVERSITY, DOMESTIC ADJUSTMENT IN DEVELOPING COUNTRIES IS INEVITABLE. INDEED SUCH PROGRESS

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/ HAS BEEN

HAS BEEN MADE IN THIS RESPECT, BUT THE PROCESS NEEDS TO CONTINUE. CLEARLY SUCH ADJUSTMENT WILL BE MORE SUCCESSFUL AND BEARABLE IF THE EXTERNAL ENVIRONMENT IS MORE CONDUCTIVE TO DEVELOPMENT. THE RECOVERY IN THE INDUSTRIAL COUNTRIES, SIGNS OF WHICH ARE NOW BEING CONFIRMED IN SEVERAL OF THEM, WILL UNDOUBTEDLY HELP IMPROVE THE SITUATION IN DEVELOPING COUNTRIES. BUT INDICATIONS ARE THAT THE RECOVERY IN THE INDUSTRIAL WORLD MAY NOT, AT LEAST IN THE INITIAL STAGES, BE STRONG ENOUGH. FURTHERMORE, THERE IS AN INEVITABLE TIME LAG INVOLVED IN THE BENEFITS OF SUCH RECOVERY BEING TRANSMITTED TO DEVELOPING COUNTRIES.

IN SUCH CIRCUMSTANCES, IT APPEARS TO ME THAT FOUR AREAS DESERVE PARTICULAR ATTENTION AT THE INTERNATIONAL LEVEL:

- STRENGTHENING THE LIQUIDITY POSITION OF DEVELOPING COUNTRIES: SERIOUS THOUGHT COULD BE GIVEN TO A SPECIAL ALLOCATION OF SDRS,

- INCREASING AID, ESPECIALLY THROUGH MULTILATERAL INSTITUTIONS, AND COMMERCIAL FINANCE (INCLUDING PRIVATE INVESTMENT),

- STRENGTHENING AND STABILIZING OF COMMODITY MARKETS AND EARNINGS,

- HALTING AND ROLLING BACK PROTECTIONIST MEASURES AGAINST DEVELOPING COUNTRIES.

IN THE LONGER RUN, REINVIGORATED DEVELOPMENT IN THE DEVELOPING COUNTRIES WILL NOT BE SUSTAINABLE IF THE WORLD ECONOMY DOES NOT ACHIEVE HIGHER GROWTH. THIS IS WHY I TAKE HEART FROM THE EMPHASIS NOW BEING GIVEN IN THE INDUSTRIAL COUNTRIES TO TURN TOWARDS POLICIES TO PROMOTE NON-INFLATIONARY GROWTH AND EMPLOYMENT. I WELCOME THE PROSPECT THAT WILLIAMSBURG MAY MARK A TURNING POINT IN THIS REGARD THROUGH THE FORMULATION OF POLICIES AIMED AT BRINGING DOWN INTEREST RATES, REDUCING VOLATILITY IN EXCHANGE RATES, AND CONTAINING PROTECTIONIST PRESSURES.

THE SEVERITY OF CURRENT ECONOMIC DIFFICULTIES HAS PROMPTED IMPORTANT QUESTIONS, INCLUDING IN THE INDUSTRIAL COUNTRIES, ON THE FRAMEWORK OF INTERNATIONAL ECONOMIC RELATIONS COVERING THE TRADING, MONETARY AND FINANCIAL SYSTEMS. I WOULD NOT BELITTLE THE DIFFICULTIES INVOLVED IN TACKLING SUCH COMPLEX PROBLEMS, BUT THE SIXTH SESSION OF UNCTAD PROVIDES AN IMPORTANT OPPORTUNITY TO DEAL WITH THEM.

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/ A SUCCESSFUL

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A SUCCESSFUL CONFERENCE IN BELGRADE WOULD GREATLY IMPROVE THE CLIMATE OF INTERNATIONAL COOPERATION AND HELP EASE DIFFERENCES THAT EXACERBATE POLITICAL TENSIONS. SUCH AN OUTCOME WOULD ALSO ALLOW A FRESH LOOK AT THE WIDER ISSUE OF GLOBAL NEGOTIATIONS WHICH IS ON THE INTERNATIONAL AGENDA.

POSITIVE DEVELOPMENTS FOR THE FUTURE GREATLY DEPEND UPON YOUR DELIBERATIONS IN WILLIAMSBURG. AS THE LEADERS OF KEY INDUSTRIAL COUNTRIES YOU ARE UNIQUELY PLACED TO GIVE THE NEEDED IMPULSE TO ACTIONS THAT CAN HAVE FAR-REACHING BENEFITS BOTH DOMESTICALLY AND INTERNATIONALLY. YOU ARE DEEPLY CONSCIOUS, I KNOW, OF THE CLOSE RELATIONSHIP BETWEEN THE ECONOMIC AND SOCIAL WELL-BEING OF PEOPLES, AND THE PEACE AND SECURITY OF NATIONS. IT IS IN THIS SPIRIT THAT I AM COMMUNICATING THESE THOUGHTS TO YOU.

PLEASE ACCEPT, PRIME MINISTER, THE ASSURANCES OF MY HIGHEST CONSIDERATION.

JAVIER PEREZ DE CUELLAR

ENDS

THOMSON

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TO IMMEDIATE FCO

TELEGRAM NUMBER 445 OF 23 MAY

INFO BONN, OTTAWA, ROME, TOKYO, WASHINGTON, UKREP BRUSSELS

IMMEDIATE

MY TELEGRAM NUMBER 369:

THE FRENCH APPROACH TO WILLIAMSBURG

SUMMARY

1. MITTERRAND'S INTENTIONS AT WILLIAMSBURG REMAIN OBSCURE AND MAY BE PARTLY CONTRADICTORY. SOURCES CLOSE TO HIM INSIST THAT HE IS LOOKING FOR A CONSTRUCTIVE OUTCOME, BUILDING CONFIDENCE IN WORLD RECOVERY, AND DOES NOT WANT TO PROVOKE A ROW. BUT HE HAS ENCOURAGED OTHERS TO EXPECT THAT HE WILL TAKE A FIRM LINE WITH REAGAN, HOLDING US ECONOMIC POLICY RESPONSIBLE FOR MANY OF FRANCE'S AND THE WORLD'S ILLS, AND PROPOSING AN ALTERNATIVE PLATFORM ON BEHALF OF FRANCE AND OTHER SOCIALIST AND THIRD WORLD GOVERNMENTS

BEHALF OF FRANCE AND OTHER SOCIALIST AND THIRD WORLD GOVERNMENTS (MY TELNO 439). FRENCH BRIEFING AT WILLIAMSBURG WILL TEND TO MAKE THE MOST OF MITTERRAND'S PRESENTATION OF HIS CASE FOR STIMULATING GROWTH, REDUCING THE US BUDGET DEFICIT, CUTTING INTEREST RATES AND RESTORING EXCHANGE RATE STABILITY, THUS FEEDING THE APPETITE OF THE MEDIA FOR EVIDENCE OF A CLASH OF OPINION.

at least
has not
saying

2. MITTERRAND WILL PROBABLY DECIDE ONLY AT A LATE STAGE AT WILLIAMSBURG WHETHER TO PRESENT THE RESULT AS A MODEST SUCCESS, IN THAT OTHERS MOVED SOME WAY IN THE RIGHT DIRECTION AND FURTHER WORK WILL BE DONE ON EXCHANGE RATES ETC, OR AS A RELATIVE FAILURE BECAUSE OF US OB DURACY. IN THE LATTER CASE HE WOULD HAVE FRESH AMMUNITION TO USE IN BLAMING THE US FOR FRANCE'S ECONOMIC PROBLEMS AND IN JUSTIFYING EVENTUAL FURTHER ACTION TO COPE WITH THEM. ON BALANCE I THINK HE WILL WANT TO POINT TO A FEW SMALL SUCCESSES AT WILLIAMSBURG AND TO RATHER MORE INADEQUACIES.

DETAIL

3. THE FIRST SECRETARY OF THE SOCIALIST PARTY, JOSPIN, SAID IN PUBLIC RECENTLY THAT THE ATLANTIC ALLIANCE SHOULD NOT ONLY BE BASED ON MILITARY COMMITMENTS, IT ALSO PRESUPPOSES RESPECT, BETWEEN PARTNERS, FOR A CODE OF GOOD CONDUCT IN THE ECONOMIC, MONETARY AND COMMERCIAL FIELDS, AND GLOBAL RESPONSIBILITIES. HUNTZINGER, INTERNATIONAL SECRETARY OF THE SOCIALIST PARTY, HAS WRITTEN "SOCIALISTS SHOULD FIGHT FOR A CONCERTED RELAUNCHING OF THE WORLD ECONOMY . . . AND THE BLINDNESS AND EGOTISM OF CONSERVATIVE RULERS SHOULD BE DENOUNCED BECAUSE THEY MAKE THE PEOPLES OF THE INDUSTRIALISED COUNTRIES AND THE THIRD WORLD SINK DEEPER DAILY INTO TOTAL ECONOMIC INSECURITY". MERMAZ, SOCIALIST PRESIDENT OF THE NATIONAL ASSEMBLY, HAS SAID THAT WILLIAMSBURG IS THE PLACE TO TELL THE AMERICANS TO THEIR FACE THAT THE US BUDGET DEFICIT AND THE HIGH RATE OF THE DOLLAR ON FOREIGN EXCHANGE MARKETS ARE THE PRINCIPAL CAUSES FOR THE CONTINUATION OF THE RECESSION. THE HOLDING OF THE SECOND SESSION OF THE "ACTEURS DE CHANGEMENT" CONFERENCE IN PARIS ON 18/19 MAY (MY TELNO 439) HAS GIVEN MITTERRAND, BY ASSOCIATION, THE ROLE OF SPOKESMAN FOR OTHER GOVERNMENTS WHICH WOULD LIKE TO REVIVE THE LOCOMOTIVE THEORY. FABIOUS, MINISTER OF INDUSTRY AND KNOWN AS A FAVOURITE SON OF THE ELYSEE, TOOK UP THESE THEMES ON TELEVISION ON 15 MAY, SAYING "THE ATTITUDE OF THE US IS STOPPING US FROM CLEARING OUR HOUSE . . . IT IS NOT THE AMERICANS WHO PAY FOR THE BUDGET DEFICIT, IT IS THE EUROPEANS, NOTABLY THE FRENCH". HE TOO SAID IT WAS WRONG FOR THE US TO CALL FOR SOLIDARITY WITHIN THE ATLANTIC ALLIANCE WHILE MAINTAINING ECONOMIC POLICIES THAT ARE RESPONSIBLE FOR WORSENING THE ECONOMIC SITUATION IN EUROPE.

True

SITUATION IN EUROPE.

4. WHEN RECEIVING THE OECD TRADE AND FINANCE MINISTERS, EARLIER THIS MONTH, MITTERRAND HIMSELF LAUNCHED A THEME WHICH HE IS BOUND TO REPEAT AT WILLIAMSBURG: THE CALL FOR A NEW BRETTON WOODS CONFERENCE. AT HIS JOINT PRESS CONFERENCE WITH CHANCELLOR KOHL AT THE CONCLUSION OF THE FRANCO/GERMAN SUMMIT, HE COMPLAINED OF EUROPEANS HAVING TO PAY FOR THE AMERICAN BUDGET DEFICIT AND BLAMED THE DEFICIT FOR THE ILLS OF THE WORLD IN TERMS VERY CLOSE TO THOSE FABIVS HAD USED.

5. WHEN I ASKED GUTMANN, THE SECRETARY GENERAL OF THE QUAI, HOW HE SAW PROSPECTS FOR WILLIAMSBURG, HE INSISTED THAT WHILE MITTERRAND WOULD OF COURSE HAVE POINTS TO MAKE, HE WAS NOT GOING THERE WITH THE INTENTION OF STAGING A CONFRONTATION. MOREL OF THE ELYSEE HAS REPEATED TO US THAT THE FRENCH WERE NOT GOING TO WILLIAMSBURG TO CREAT AN INCIDENT. IT WAS NOT A LAST CHANCE MEETING AND THEY CERTAINLY DID NOT WISH TO GIVE SATISFACTION TO THOSE WITH A PROFESSIONAL INTEREST IN A ROW. (BUT THERE CAN BE NO DOUBT THAT THEY HAVE ALREADY GIVEN THE MEDIA COPIOUS COPY).

6. SPEAKING PRIVATELY AT A LUNCH FOR DIPLOMATS ON 19 MAY, JOSPIN TOOK MUCH THE SAME LINE AS HE HAS IN PUBLIC BUT WAS MORE CAUTIOUS AND DID NOT GIVE THE IMPRESSION THAT THE SOCIALIST PARTY WAS URGING THE PRESIDENT TOWARDS A CONFRONTATION. THE US EMBASSY HAVE TOLD US THAT THEY TALKED TO ATTALI WHO SAID THAT THE PRESIDENT WAS LOOKING FORWARD TO AN UNEVENTFUL SUMMIT. HE EXPECTED MITTERRAND'S IDEAS TO BE LISTENED TO WITH RESPECT EVEN IF THERE WAS NO POSSIBILITY OF THEIR BEING ADOPTED. BUT IT WAS DIFFICULT TO PLAY THING COOLY WHEN STORIES CAME OUT OF WASHINGTON ABOUT FRENCH ECONOMIC WEAKNESS AND WHICH COMPARED FRANCES ECONOMIC SITUATION TO THAT OF ITALY. THE ITALIAN EMBASSY TELL US THAT FANFANI TOOK AWAY FROM HIS BRIEF DISCUSSIONS WITH THE PRESIDENT ON 18 MAY THAT MITTERRAND WAS NOT SET ON A CONFRONTATION.

7. FURTHER EVIDENCE OF MITTERRAND'S INTENTIONS WILL BE REPORTED AS IT BECOMES AVAILABLE.

FRETWELL

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PS / CHANCELLOR ✓

SIR ROBERT ARMSTRONG

MR LITTLER } TREASURY
MR LAVELLE }

MR LOEHNIS, BANK OF ENGLAND

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WASHINGTON 232342Z

PRIORITY FCO

TELEGRAM NUMBER 1452 OF 23 MAY 1983

NEW QUOTE BRETTON WOODS UNQUOTE; OUR TELNO 1433 OF 20 MAY

TREASURY SECRETARY REGAN HAD MADE TWO PUBLIC COMMENTS ON
THE POSSIBILITY OF STUDIES OF THE INTERNATIONAL MONETARY SYSTEM
IN OUR TELNO 1433 OF 20 MAY.

ON SUNDAY, 22 MAY, ON THE TELEVISION PROGRAMME QUOTE THIS WEEK
BY DAVID BRINKLEY UNQUOTE, HE SAID QUOTE I DO NOT THINK THAT
WE SHOULD AGREE TO MOVE TOWARDS A (BRETTON WOODS) CONFERENCE.
I THINK THAT WE SHOULD AGREE TO TRY TO STUDY THE PROBLEM MORE
CLOSELY BECAUSE CERTAINLY THE WORLD'S MONETARY SYSTEM IS IN NEED
OF A LOT OF STUDY AND A LOT OF THOUGHT UNQUOTE. WHEN ASKED WHETHER
THE STUDY WOULD MERELY SERVE TO BURY THE PROBLEM, REGAN SAID QUOTE
NO FROM IT. YOU'LL RECALL THAT LAST YEAR AT VERSAILLES WE AGREED
TO STUDY WHETHER OR NOT WE SHOULD INTERVENE IN THE EXCHANGE
MARKETS. WE PRODUCED THAT STUDY, AND AS A RESULT WE ARE MORE
COMFORTABLE WITH WHAT WE ARE DOING UNQUOTE.

ON 23 MAY, IN AN ARTICLE IN THE WASHINGTON POST, HE SAID
THAT IN RECENT DAYS THERE HAVE BEEN CALLS FOR A NEW BRETTON
WOODS-TYPE CONFERENCE. LATE LAST YEAR I SAID PUBLICLY, NOT THAT
A CONFERENCE WAS NEEDED, BUT THAT WE NEED TO START GIVING
SERIOUS ATTENTION TO THE INTERNATIONAL MONETARY SYSTEM

WE ARE SET UP TO HANDLE MAJOR DEBT PROBLEMS, AND HOW WE
ATE TRADE AND FINANCIAL ISSUES. THERE HAS BEEN AN UNFORTUNATE
DENCY IN RECENT YEARS TO LURCH FROM CRISIS TO CRISIS IN A
D OF AD HOC FASHION, AND I THINK WE CAN DO BETTER.
NO ONE SHOULD THINK THAT CONVENING A MAJOR INTERNATIONAL
FERENCE WOULD BE A PENACEA FOR ALL OUR PROBLEMS. A LOT
THOUGHT AND STUDY IS FIRST NEEDED. UNQUOTE.

THE AMERICANS WILL NOT DOUBT RESIST ANY PROPOSALS AT
LIAMSBURG FOR A STUDY OF A NEW BRETTON WOODS CONFERENCE.
SECRETARY REGAN'S MOST RECENT STATEMENTS DO NOT APPEAR
ONSISTENT WITH THEIR AGREEING TO STUDIES OF INTERNATIONAL
ETARY ISSUES, POSSIBLY AS A PROCEDURAL DEVICE TO RELIEVE
SSURE FROM THE FRENCH FOR MORE DIRECT ACTION.

FCO PLEASE ADVANCE TO PS/CHANCELLOR, SIR ROBERT ARMSTRONG,
TLER AND LAVELLE (TREASURY) AND LOEHNIS (BANK)

GHT

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EXCHEQUER	
NO.	23 MAY 1983
ACTION	
REMARKS	Mr Hitler Mr Lawson

Foreign and Commonwealth Office

mpw

London SW1A 2AH

mpw

23 May 1983

Jon [unclear]

c.
Your progress are
not, clearly, seen
as independent
of [unclear]

Economic Summit, Williamsburg: Church Service
Sunday, 29 May

The Church Service on Sunday 29 May will start at 0830 and last 15 minutes. Up to 200 of the normal congregation will be admitted with passes. Heads of Governments will be met by President Reagan at the street door and will sit in the Governor's Pew marked x on the enclosed plan.

The Americans have been notified that the Prime Minister will attend.

The Americans have also now informed us that no Ministers other than Heads of Delegation are invited to this Service.

Yours [unclear]
[unclear]

(R B Bone)

cc: PS/Chancellor of the Exchequer

A J Coles Esq
10 Downing Street

FROM: J.G. LITTLER

DATE: 23 MAY, 1983

HANCELLOR

C.
I sent a copy of this
to you in 'Bum.

RTA's briefing is below.

And the folder for Williamsburg
in case you want to skim any

- cc Mr. Middleton
- Mr. Burns
- Mr. Lavelle
- Mr. Unwin
- Mr. M. Hall
- Mr. Bottrill

WILLIAMSBURG: ADVANCE PRESS BRIEFING of re briefs. *JGL*

I attach a draft of a speaking-note for you to open the press conference which you are giving on Wednesday morning, 25 May.

(J. G. LITTLER)

THE WILLIAMSBURG SUMMIT

Speaking Note for Chancellor's Press Conference: 25 May

Introduction

Many of you will have been present at the Press Conference I gave on 26 April, in which I gave an outline of the approach to the Williamsburg Summit and the several international meetings which have taken place between then and now. The two principal meetings were those of the Development Committée in Washington at the end of April and of the Ministerial Committee of the OECD in Paris on 9-10 May (the latter of which I was unable to attend myself). In the margins of these and other meetings, there have been opportunities for Finance Ministers of Summit countries to get together for more private discussions.

We now have the Summit itself this weekend, beginning on Saturday afternoon. As you will know, the Prime Minister will have to leave Williamsburg on Sunday evening, but will have been present for the main meetings, including discussion of the central issues of the world economy. Francis Pym and I will stay on until the end of the meetings on Monday afternoon.

Form of Meetings

I must advise you - not for the first time - that you should not expect the forthcoming Summit to result in a series of specific new decisions. A Summit meeting is in any case not the right forum for most important economic decisions: those rest more appropriately either with individual governments, or with established international bodies of wider representation. The main point of the Summit is to provide an opportunity for those concerned to reach a better

/understanding

understanding with each other and discuss the general direction of events and policies. As you know, President Reagan has made a determined effort on this occasion to give the maximum amount of time for informal discussion among the eight leaders alone. There will be - indeed there should be - differences of perception and emphasis among them. But I hope there will emerge a valuable shared understanding of some of the important problems which confront the world economy and a stronger will to cooperate in tackling them.

Main Themes

The last six months have seen an important change of climate in the world economy. The atmosphere - and the evidence - of recovery have become stronger and a little wider. The prospects for world economic recovery will be at the heart of the Summit discussions, but the main thread of discussion will not be a search for means of promoting recovery. Rather it will be a confirmation of the strategy to maintain the right kind of recovery, and a study of some of the still worrying possibilities which might stand in the way of success.

After a deep and prolonged recession, and with prospects of gradual recovery which will not enable us rapidly to reduce high levels of unemployment, it is not surprising that there have been demands for measures to stimulate more rapid growth of activity. To give way to such demands now would be a profound mistake, putting at risk the longer-term benefits of the adjustments so many countries have been painfully making. The belief that recovery on a durable basis is obtainable only if the continuing fight against inflation is successful, already expressed at the Versailles Summit a year ago, has been reinforced since then. The fact that the best recovery prospects are being shown in the countries which have achieved the lowest rates of inflation carries great weight. Measures taken

/during

during the last year in France are an important commitment to the counter-inflationary strategy. The Summit is likely to endorse the strategy, and note with some confidence that the opportunity is now there for sustainable non-inflationary growth over the coming years.

That confidence must be tempered by some particular worries and problems, among which I think four may attract particular attention: the high interest rate/budget deficit problem; the international debt problem; problems facing developing countries generally; and protectionism.

The High Interest Rate/Budget Deficit Problem

High real interest rates - particularly in the United States which inevitably sets a pattern for other countries - are troublesome from several points of view:

- they must inhibit the scale of recovery of new investment, which is a vital need for sustained future economic growth;
- they are a very significant part of the costs of debt which are weighing so heavily on some of the more advanced developing countries;
- they are contributing to a high \$ exchange rate which in turn is damaging United States external trade and encouraging protectionist pressures in that country.

There is room for argument about the mechanisms through which high real interest rates have emerged, but it is a widespread opinion - which I certainly share - that the most important single action which would improve the situation would be for the United States authorities - Administration and Congress - to demonstrate their determination

/and

and ability to bring down over the next few years the present very large United States fiscal deficit.

The International Debt Problem

A second worry which is bound to be discussed is the problem of excessive debts of certain countries, particularly some of the more advanced developing countries.

Important action has already been taken. Rescue operations have been mounted speedily for several countries, based on adjustment programmes worked out with, and approved by, the International Monetary Fund. Increases in the resources potentially available to the IMF have been agreed, and it is important that they now be ratified promptly. Some principles for handling difficult cases have been developed: the insistence on appropriate adjustment of domestic policies by debtor countries: the central role of the IMF; the desirability of maintaining commercial bank financing, indeed providing some flow of new funds although on a very much smaller scale than in the past; and readiness of all concerned to cooperate and to react promptly.

The leaders at the Summit will want to satisfy themselves that these problems are being continuously and effectively monitored. They will want also to look a little further ahead. They are bound to share the widespread dissatisfaction with the kinds of financing which have led to some present problems of excessive short-term debt. They will want to explore ideas for healthier financing in the future.

Other Developing Country Problems

The dominance of the problems of sovereign debt must not distract attention from the problems of other developing countries - poorer ones - which have in different ways suffered severely from the

/recession.

recession. Summit leaders will have very much in mind the forthcoming meeting of UNCTAD, and will want to respond to the moderate and realistic tone of statements on behalf of developing countries in the recent past, particularly from the meetings in New Delhi and in Buenos Aires. Recovery of economic growth by industrial countries will be a necessary and valuable condition for recovery in all developing countries. But Summit leaders will also want to consider the importance of keeping open trading markets - both ways - and of maintaining adequate flows of aid. They will have very much in mind that there is inter-dependence between industrial countries and developing countries, as well as between industrial countries themselves.

Protectionism

Protectionist pressures have been growing, in some Summit countries as in many others. It is hardly surprising in the circumstances of recession, with the particular hardships it has brought to some individual industries. But there can be no doubt that more open markets should be an aid to world economic recovery, and that rising protectionism would threaten to restrict healthy growth. I expect the leaders at the Summit to discuss possibilities of encouraging greater openness of trade as the recovery gathers pace, so that each can reinforce the other.

Future Co-operation

The theme of future co-operation is likely to be strong. And this must surely be welcome. In recent weeks, Finance Ministers of Summit countries have been developing their thinking and practice in co-operation with each other in two important respects. Both stem from decisions taken at and immediately following the Versailles Summit last year.

First, in relation to exchange rates. You will no doubt have seen the Jurgensen Report, and the statement by Finance Ministers of Summit countries issued when it was published. That Report was about the relatively narrow question of intervention in foreign exchange markets by the monetary authorities of individual countries, to influence or support their exchange rate. There was some coming together of extreme views in relation to this particular kind of operation, with a recognition that it can have a beneficial effect in some limited circumstances. But our discussions as Finance Ministers went wider than this, in a more general recognition - with the agreement of all - that the exchange rate is an important aspect of a country's economy, important for itself and others; and that the authorities of any one country should have regard to their exchange rate in considering domestic policies and their effects. You may call this a hesitant beginning. But it is an important foundation for future development.

I expect that Summit leaders will note the outcome of our discussions. It may be that some will wish to explore more ambitious ideas. The thought of a new Bretton Woods Conference has been suggested, and may well be mentioned at the Summit. I would myself think such an idea premature at present, although perhaps not to be ruled out for a later stage, perhaps when progress has been made on the second area of co-operation which we have been developing.

[On Bretton Woods, you might find it helpful to use the comment which Sprinkel and I developed together and have used only privately: It took 2 men four years and 150 drafts to lay the foundations for Bretton Woods.]

The second line of co-operation launched from last year's Summit was the idea that certain countries, particularly the five whose

/currencies

Currencies constitute the SDR, should try to co-operate particularly closely, with the help of the Managing Director of the IMF, in analysing their own policies and their impact on each other and the rest of the world. The process began hesitantly, but the most recent meeting under this heading - in Washington at the end of April - involved a very thorough and critical analysis and much frank and valuable discussion. The participants felt that they were making progress and determined to continue and intensify their arrangements. This will be reported to leaders at the Summit and I believe they will find it a welcome and promising development for the future.

Conclusion

It will not escape you that the various problems I have mentioned as likely to be occupying us at Williamsburg are closely related - each has an impact on the other - and the achievement of a sustainable non-inflationary recovery is a key to all of them.

FROM: J.G. LITTLER
DATE: 23 MAY, 1983

MISS O'MARA ✓ C.

cc Mr. Unwin
Mr. Lavelle
Mr. Bottrill
Mr. Carey
Mr. Burns

AGENDA FOR FINANCE MINISTERS AT WILLIAMSBURG

The agenda circulated by Mr. Regan in his telegram of 18 May is, I think, designed simply as a framework to cover any useful subject, and a particular reminder of points on which Mr. Regan may want to report from the Group to the Plenary Session of Summit leaders and others.

2. I aim to put forward a steering brief on Thursday. I shall cover a number of other subjects, partly ones which will be reported to Ministers at Williamsburg from a meeting of Deputies which we are trying to arrange for late Saturday afternoon/evening. The point which the Chancellor has raised will be on our list of topics, which is:

- coordination on debt problems (the Camdessus paper);
- compensatory financing facility and oil export earnings (how to cope with tiresome pressure from OPEC to regard them as eligible when oil export earnings decline!);
- arrangements for consultations on exchange market conditions and policies;
- country debt situations, particularly including Brazil (likely to be topical);
- other IMF issues, including short-term liquidity, remuneration, charges and enlarged access. ✓

3. Much of this is material which Finance Ministers will want to consider at various stages, although not appropriate for detailed reporting to Heads of Government. ✓


(J. G. LITTLER)

ECONOMIC SUMMIT

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

IMMEDIATE
ADVANCE COPY

(pwp)

GR 100

CONFIDENTIAL

DESKBY 240730Z

FM WASHINGTON 232250Z

TO IMMEDIATE FCO

TELEGRAM NUMBER 1445 OF 23 MAY 1983

INFO IMMEDIATE PARIS, BONN, TOKYO.

ROUTINE OTTAWA, ROME, UKREP BRUSSELS.

DESKBY 240730Z

MY TELNO 1421: WILLIAMSBURG SUMMIT BILATERALS

THE PRESIDENT HAS NOW OFFERED 1820-1905 ON SUNDAY 28 MAY FOR HIS BILATERAL WITH THE PRIME MINISTER. IT WILL TAKE PLACE AT PROVIDENCE HALL.

2. THE PRESIDENT WILL PROBABLY HAVE WITH HIM AT THE MEETING SHULTZ, REGAN, CLARK AND WALLIS.

WRIGHT

So you should be there. We have asked for a bilateral with Regan on Saturday pm



FROM: J.G.LITTLER
DATE: 23 MAY, 1983

(pwp)

CHANCELLOR

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

WILLIAMSBURG: ADVANCE PRESS BRIEFING

I attach a draft of a speaking-note for you to open the press conference which you are giving on Wednesday morning, 25 May.



(J. G. LITTLER)

*Submission seems fine
seems, however, a bit
long - especially
the last bit on page.*

*Can you type any
~~edit.~~ changes
that will shorten?*

*D me.
JGL.*



cc: PS/CST
 PS/FST
 PS/EST
 Mr Middleton
 Mr Burns
 Mr Littler
 Mr Odling-Smee
 Mr Lavelle
 Mr Kemp
 Mr Sedgewick
 Mr Bottrill

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

PRIME MINISTER

THE US DEFICIT

In my minute of 4 May I suggested that it would be valuable if, during our forthcoming US visit, you could have a word with the President, in private, about the US deficit. I then had in mind that this might be best done during our visit to Washington just before the Williamsburg Summit; though that is no longer possible, I still think it well worth doing during your bilateral talk with Reagan at Williamsburg. I see from Washington telegram No 1363 that Sir Oliver Wright takes the same view.

2. I don't need to spell out the message which we want to get across: you have already conveyed it to Shultz and Volcker, as indeed I have done with Feldstein, Meese, and of course regularly with Don Regan. But it is getting it across to the President that counts; and you might like to glance at the attached short brief and charts. The brief picks up a suggestion, put to me by Feldstein last month, that the President would be interested in an account of our 1981 Budget, and its effects; and the first of the charts is an improved version of one which I showed Meese during his recent visit.

3. Copies of this minute and enclosures go to Francis Pym and Sir Robert Armstrong.

A handwritten signature, likely of G.H., consisting of a stylized, cursive script.

(G.H.)

24 May 1983

MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT REAGAN

Points to make on US economic policy

(i) It is not only in the United States that there is great concern about high US real interest rates. Many of us fear that if they remain high, even more if they rise still further, they will cause enormous damage both to the US and the rest of the world:

- world recovery will be lopsided and difficult to sustain. Because of the damaging effect to investment longer term growth rates will suffer;
- interest rates in other industrial countries will be higher than they might otherwise be because of the importance of the dollar in the world capital markets and the competitive attraction of current dollar rates;
- the resulting high interest rates are a very large part of the immediate pressure on debtor countries;
- by increasing the trade deficit, interest rates and the exchange rate, the high budget deficit means that capital is being attracted to the US. The high exchange rate in turn is causing protectionist pressures in the US and the capital outflow to the US is causing resentment elsewhere at a time when the world needs more efficient long term investment;

(ii) We fear that markets will hold interest rates high unless the US can demonstrate its ability to maintain anti-inflationary monetary policy in a balanced way without distorting capital markets. This requires that the US authorities demonstrate their determination and ability to get a better control - over time - of the structural budget deficit.

(iii) The contrast between recent British and American experience shows the importance of budget deficits for interest rates. We have aimed to reduce our budget deficit (relative to GDP) in each of the last three budgets and the trend is unmistakably downward. At the same time the American deficit has been rising - and is now much larger than ours, an unusual state of affairs, particularly as the UK typically has a higher savings ratio than the US (Chart 1). As a result British long term interest rates were lower than American ones in 1982 for the first time in the post-war period (Chart 2). This is not only because of UK success on inflation which has been matched by similar progress in the US but must also reflect the balance of saving and borrowing in our respective countries.

(iv) The turning point for us came early in 1981, when we were faced with the choice between reducing the budget deficit and raising interest rates to keep monetary conditions under control. Domestic demand had been weak; the budget deficit had risen in the previous year; the exchange rate and interest rates were high. Despite rising unemployment and warnings from many commentators that it would intensify recession, we cut our budget deficit, mainly by raising taxes. The real burden of personal income tax was raised (by failing to increase allowances and thresholds by the inflation rate of 15%); real excise duties were raised (on alcoholic drinks, hydrocarbon oils and tobacco); and a supplementary petroleum duty and a special tax on bank deposits were introduced. The impact on inflationary expectations was as important as the direct financial effects; the message was that the Government was determined to stick to its course of reducing deficits. Since then the exchange rate has fallen to a more sustainable level; after some further upward pressure due to world interest rate levels, long term interest rates have fallen sharply; and domestic demand has been rising at about 3% per annum (Chart 3).

Background

(see also brief on World Economy, especially paragraphs 15-17)

There is some danger of overplaying the link between large budget deficits and high interest rates; other factors, particularly inflationary expectations, also have an important role. Nevertheless, if inflation is to be kept under control over the long-term, the budget deficit should not be monetised and high - perhaps rising - interest rates would be required to raise the necessary long-term finance.

2. Part of the explanation for the high interest rates in the US may be high inflationary expectations. These may in turn derive from the large present and prospective budget deficits and the fear that they may eventually be monetised. Mr Volcker said in Brussels on 19 May that the prospects for future deficits are a major part of the problem of reducing US interest rates in the long term: "This is not a problem that can be solved by pure monetary policy. I am looking ahead rather than at the current situation".

3. The administration argue that it is total world budget deficits that have caused high interest rates rather than just the US one, because the capital markets from which governments borrow are well integrated. There is some truth in this, but the US is a greater culprit (in terms of both the level of and the increase in the budget deficit) than Japan, Germany or the UK (but lesser than France and Italy). The administration's figures for the US Federal deficit are:

Fiscal year	Deficit (\$ bill)	GNP (\$ bill)	Deficit/GNP (per cent)
1981	80	2872	2.8
1982	128	3033	4.2
1983	225	3194	7.0
1984	203	3489	5.8
1985	205	3807	5.4

X There are reasons to believe that the estimates for 1984 and 1985 may be optimistic: the administration has always revised their estimates upwards in the past, and the Congressional Budget Office - probably more impartial - show a rising deficit (in \$) rather than a falling one from 1983 onwards. The largest general government deficits expected elsewhere in 1983 are about \$40 bn (in Italy and Japan).

4. There is little controversy about the adverse effects of high interest rates.

5. The presentation of the British experience by the Prime Minister should impress the President. It benefits from avoiding a too-direct criticism of American policy. A full interpretation of what happened would involve some qualifications to the simple "points to

make" above. In particular, some of the fall in UK interest rates in 1981-82 is attributable to the fall in US rates rather than to the reduced PSBR. Another strong point to be made is that the UK at the time was just as concerned as the President now is to ease the burden of taxation and give incentives to industry and people; we judged - and have been confirmed in that judgment since - that the rise in taxes in 1981 is not inconsistent with the fundamental target of reducing taxation over the medium term.

CHART 1

US and UK Government Deficits as a percentage of Gross National Product

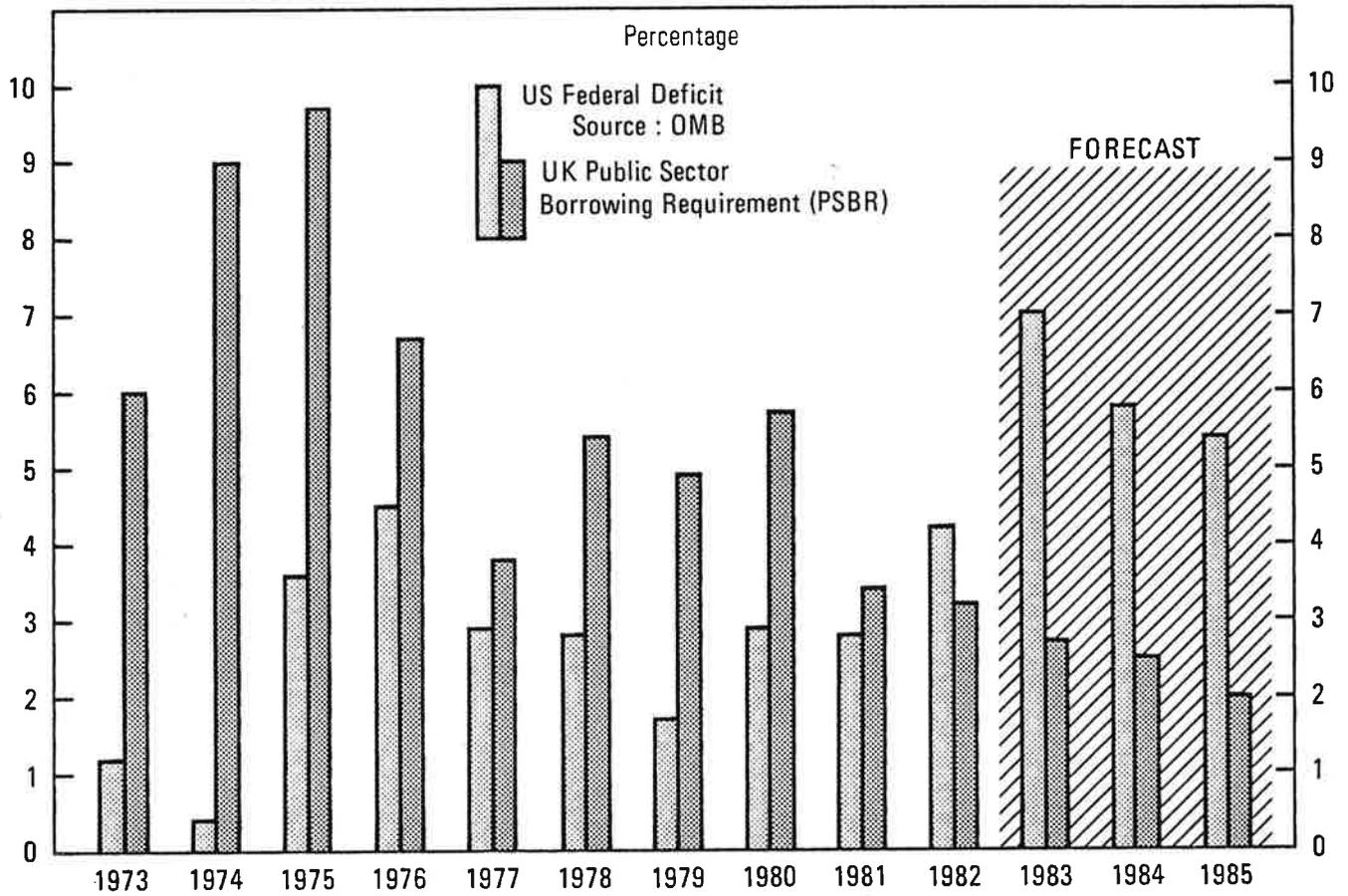
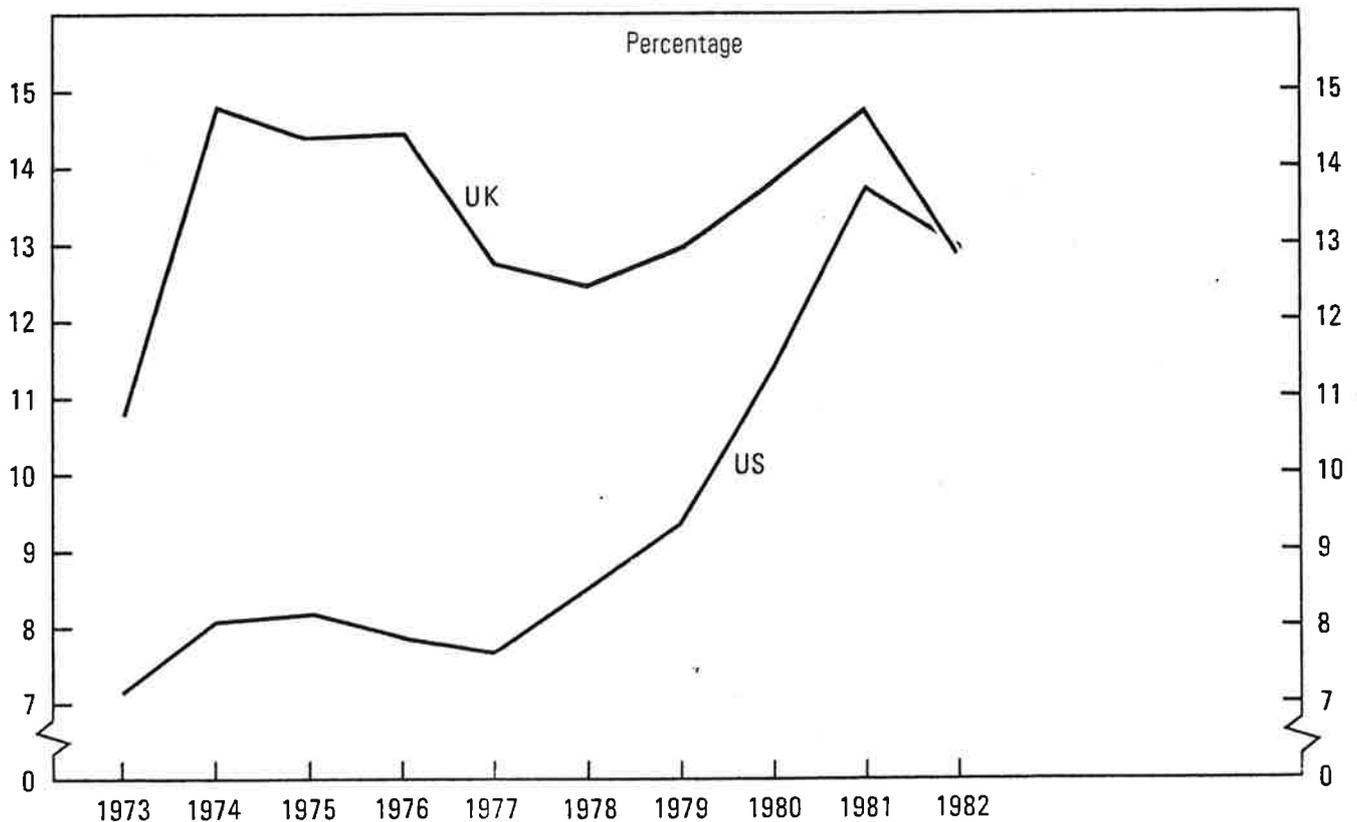
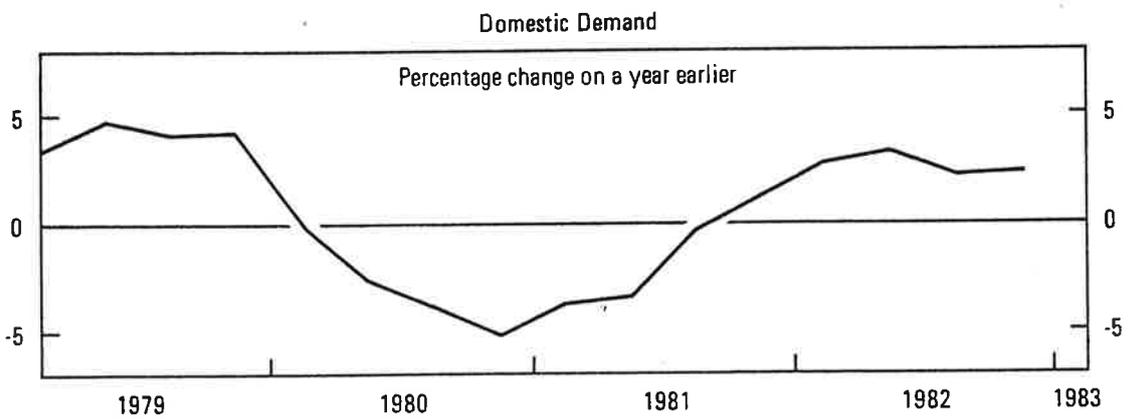
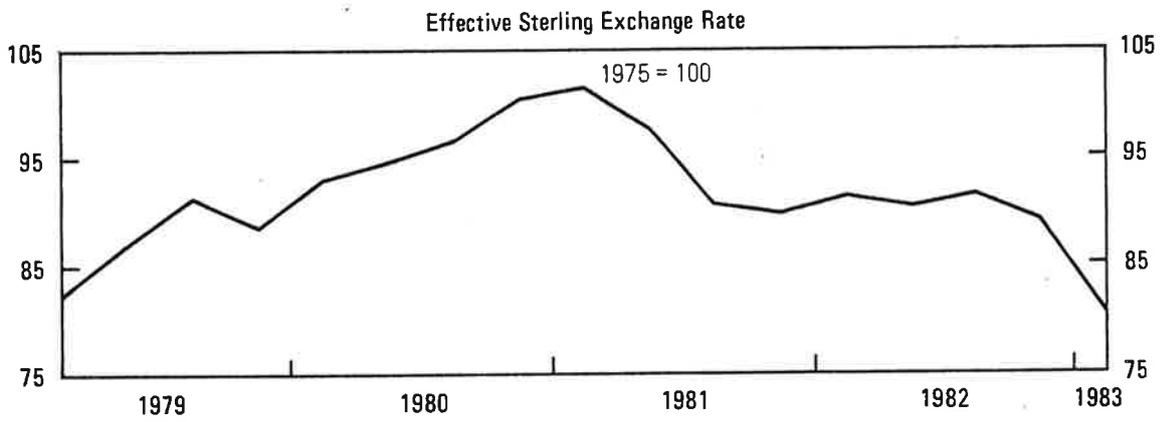
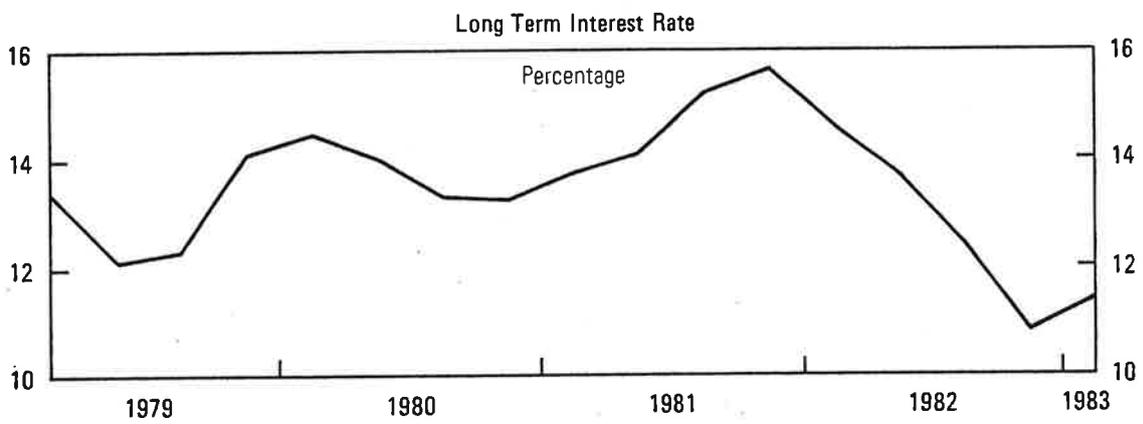
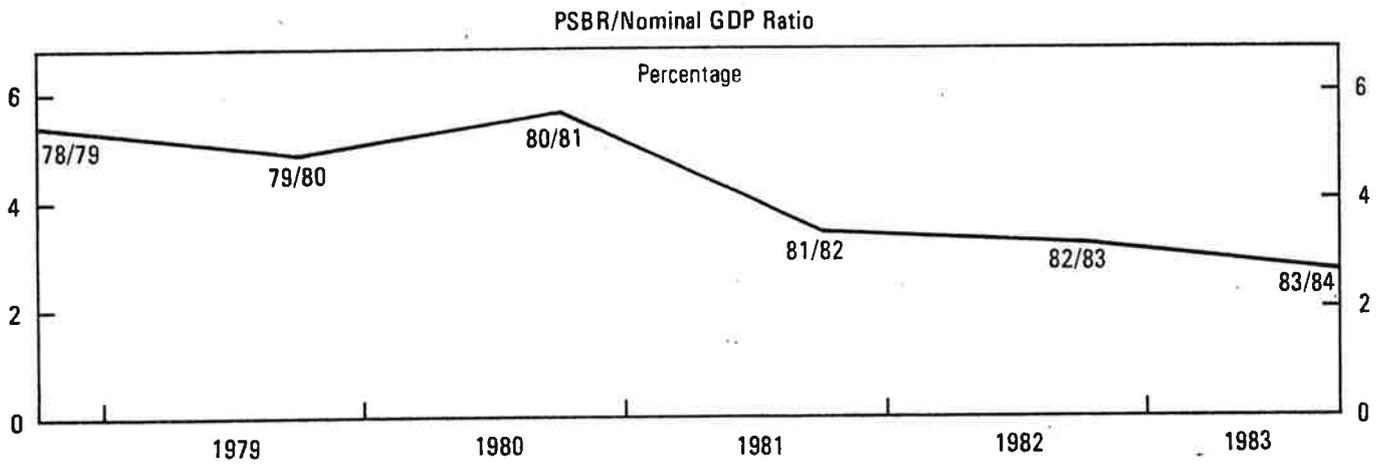


CHART 2

US and UK Long Term Interest Rates



UK PSBR, Interest Rate, Exchange Rate and Domestic Demand



FROM: J ODLING-SMEE
DATE: 24 MAY 1983

PS/CHANCELLOR

C. I've asked TB to revise

this, to bring in (at x) an account of the key features of the '81 Budget, and its effect in the markets; and (at Y) some figures on the US deficit.

cc Mr Burns
Mr Unwin
Mr Littler
Mr Lavelle
Mr Bottrill
Mr Sedgwick
Mr A Smith

Now see revised version at x: which states me as rather good.

WILLIAMSBURG: BRIEFING FOR PM'S MEETING WITH PRESIDENT REAGAN

I attach the briefing on US economic policy for this. We are having the charts drawn properly by the CSO graphics people, but I am afraid that they will not be available before close of play on Wednesday. However, the Chancellor should be able to get the general message from the working versions attached.

Doc 0-8

J ODLING-SMEE

ENC.

Must check both too comforting? Don't argue between them? (No' in the memo then!)

Further passage added.

OK.

MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT REAGAN

Points to make on US economic policy

(i) It is not only in the United States that there is great concern about high US real interest rates. Many of us fear that if they remain high, even more if they rise still further, they will cause enormous damage both to the US and the rest of the world:

- world recovery will be lopsided and difficult to sustain. Because of the damaging effect to investment longer term growth rates will suffer;
- interest rates in other industrial countries will be higher than they might otherwise be because of the importance of the dollar in the world capital markets and the competitive attraction of current dollar rates;
- the resulting high interest rates are a very large part of the immediate pressure on debtor countries;
- by increasing the trade deficit, interest rates and the exchange rate, the high budget deficit means that capital is being attracted to the US. The high exchange rate in turn is causing protectionist pressures in the US and the capital outflow to the US is causing resentment elsewhere at a time when the world needs more efficient long term investment;

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→x (iv) The turning point for us came in early 1981, when we were faced with the choice between reducing the budget deficit and raising interest rates to keep monetary conditions under control. Domestic demand had been weak; the budget deficit had risen in the previous year; the exchange rate and interest rates were high. Despite rising unemployment and warnings from many commentators that it would intensify recession we cut our budget deficit, mainly by raising taxes. Since then the exchange rate has fallen to a more sustainable level; after some further upward pressure due to world interest rate levels, long term interest rates have fallen sharply; and domestic demand has been rising at about 3% per annum (Chart 3).

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(see also brief on World Economy, especially paragraphs 15-17)

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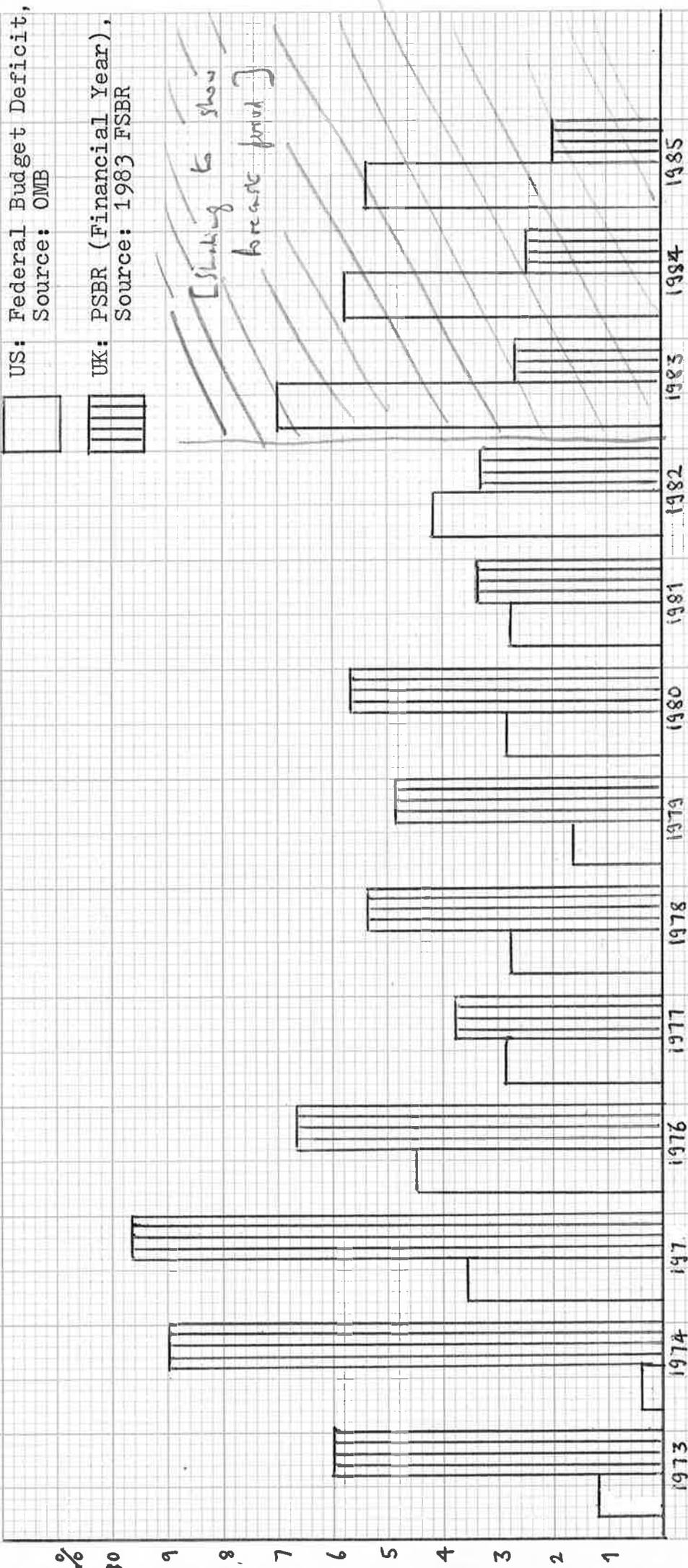
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CHART 1

US and UK Government Deficits as a percentage of GDP/GNP



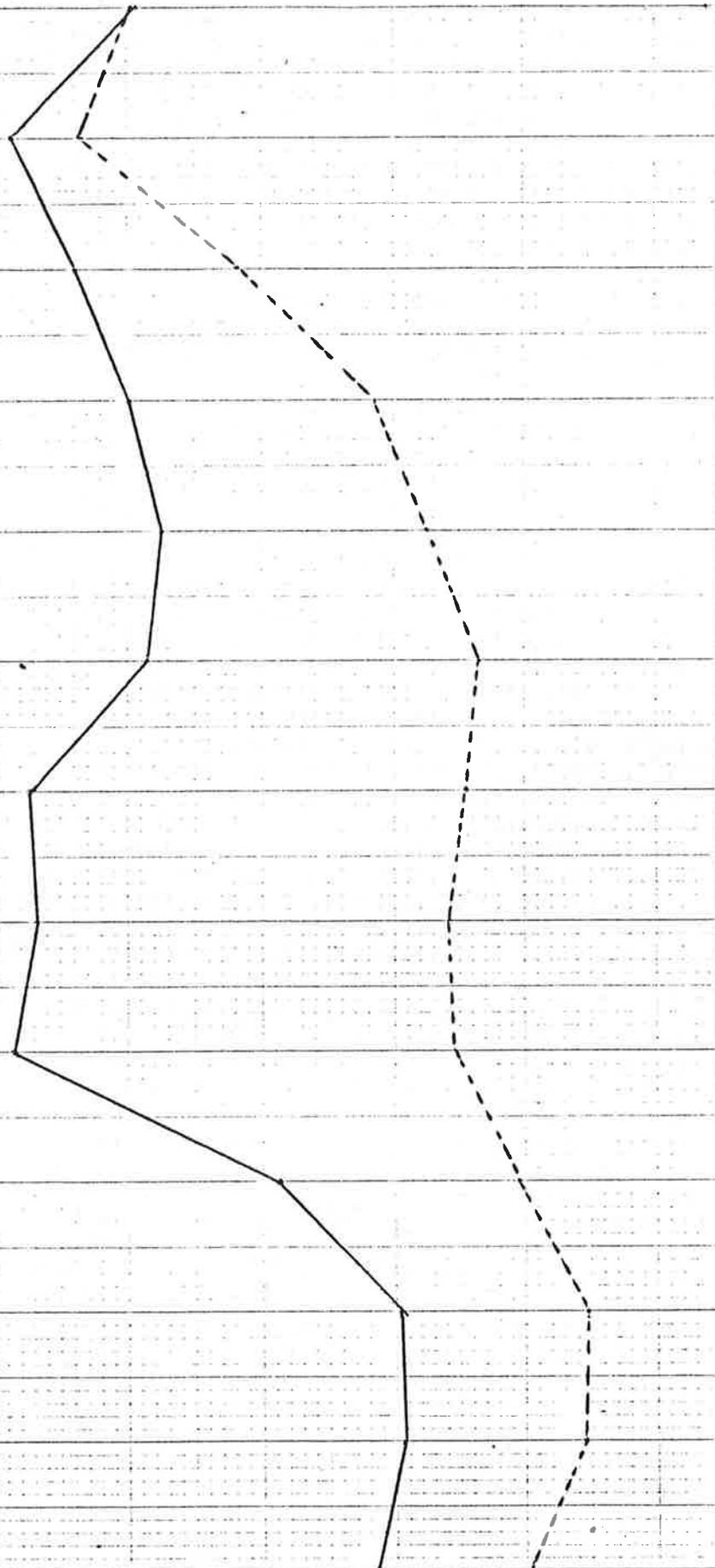
US AND UK LONG-TERM GOVERNMENT BOND YIELDS
(Annual Averages)

UK
US

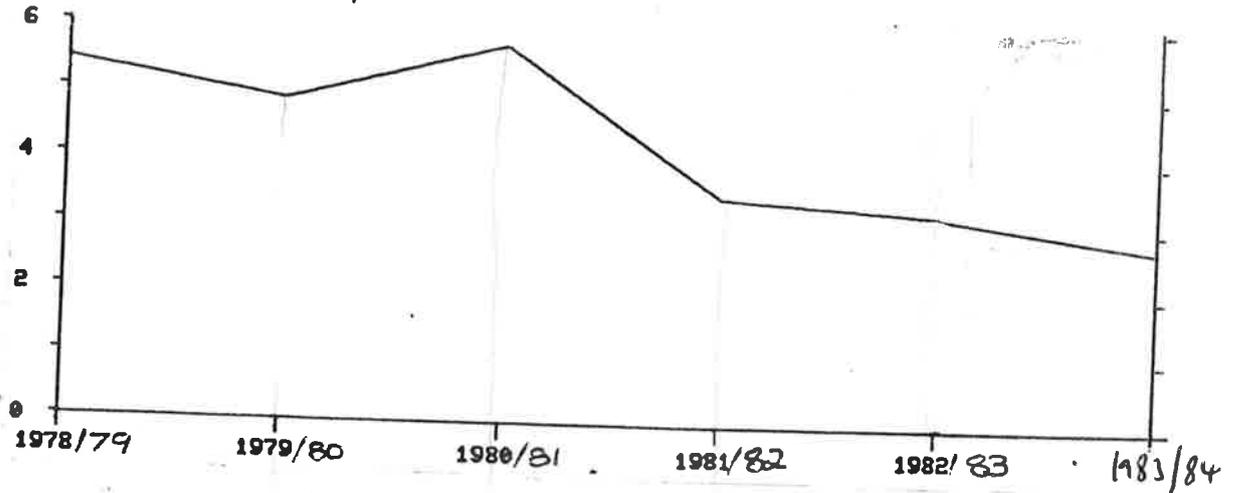
%
15
14
13
12
11
10
9
8
7
6
5

1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982

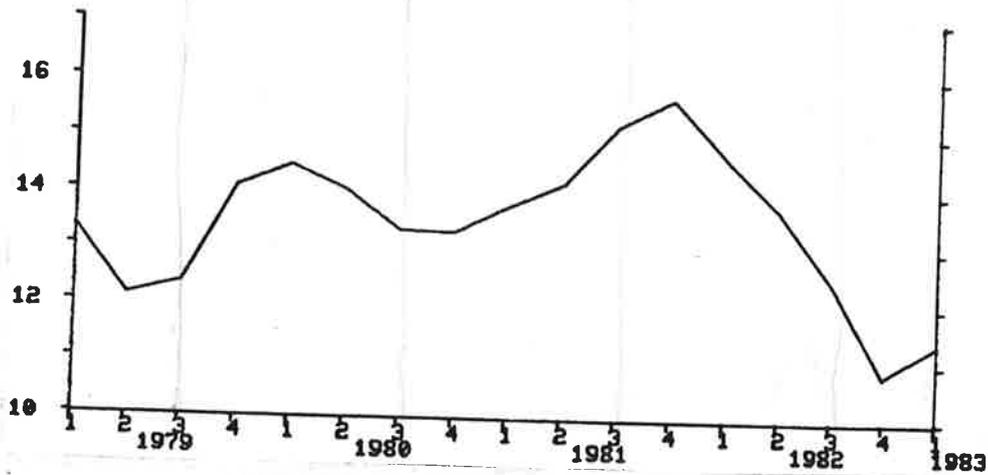
CHART 2



PSBR/NOMINAL GDP RATIO

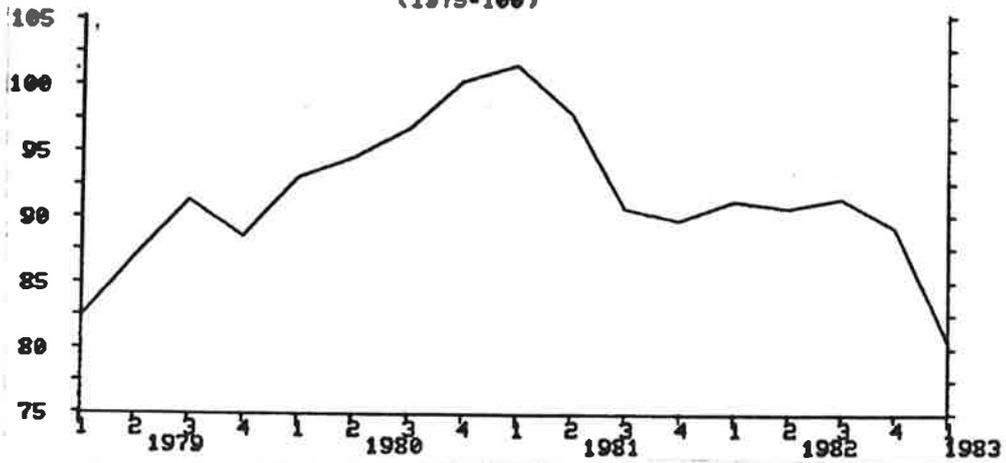


LONG TERM INTEREST RATES

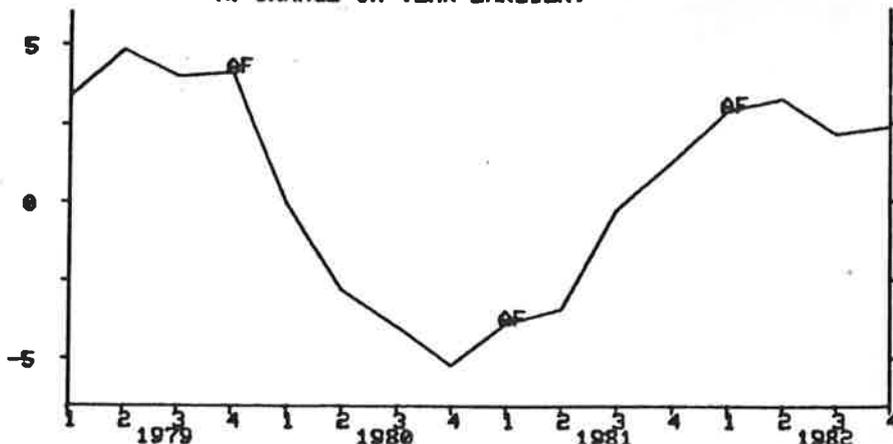


EFFECTIVE EXCHANGE RATE

(1975=100)



DOMESTIC DEMAND
(% CHANGE ON YEAR EARLIER)



CONFIDENTIAL

10835 - 1

DD 241600Z WASHINGTON
PP OTTAWA
GRS 125

(PWP)

CONFIDENTIAL

DESKBY 241600Z

FM FCO 241444Z MAY 83

TO IMMEDIATE WASHINGTON

TELEGRAM NO 874 OF 24 MAY

AND TO IMMEDIATE BONN

INFO IMMEDIATE TOKYO (DESKBY 250100Z)

PRIORITY PARIS, ROME, UKREP BRUSSELS AND OTTAWA.

WASHINGTON TEL NO 1445: WILLIAMSBURG BILATERALS

1. PLEASE ACCEPT THE AMERICAN OFFER OF 1820-1905 ON
SATURDAY, 28 MAY.

2. (FOR BONN) TUR LEAVES THE WAY OPEN FOR A BILATERAL MEETING
WITH CHANCELLOR KOHL FROM 1730 TO 1810 ON 28 MAY. THIS IS
WITHIN THE TIMES ACCEPTABLE TO THE GERMANS (1730-1830, YOUR
TEL NO. 529). PLEASE THEREFORE CONFIRM THIS TIMING. IT
WOULD ALSO BE HELPFUL IF YOU WOULD ENQUIRE WHETHER
IT WOULD BE CONVENIENT FOR CHANCELLOR KOHL TO CALL ON THE
PRIME MINISTER AT CHISWELL HOUSE.

3. (FOR TOKYO) WE SHALL TELEGRAPH ON THE BILATERAL WITH
NAKASONE AS SOON AS POSSIBLE.

PYM

LIMITED

ERD
ESID
WED
FED
NAD
ECD
PLANNING STAFF
TRED
ESSD
EESD
NEWS D
PCD

Ps

PS/LORD BELSTEAD
PS/MR RIFKIND
PS/MR HURD
PS/MR RAISON
PS/PUS
SIR J BULLARD
MR EVANS
MR HANNAY
MR THOMAS
MR DONALD
MR HAYES
MR ADAMS

ADDITIONAL DISTRIBUTION
ECONOMIC SUMMIT

CONFIDENTIAL

EXCHEQUER	
25 MAY 1983	
Mr BITLER	
Mr Clavin	
Mr Lavelle	
Mr Mall	
Mr Burns	

pmw

[Handwritten mark]

Ref. A083/1505

MR COLES

Economic Summit: Williamsburg

Thank you for your minute of 24 May, attaching a copy of the message which the Prime Minister has received from President Reagan.

2. On the economic side it contains no surprises: it is consistent with the United States thematic paper and with our discussion of it at the final meeting of Personal Representatives in Paris a fortnight ago.

I hope so my husband!

3. I was, however, surprised to see that he hoped for a public statement from the Summit on INF, since it had been suggested at the final meeting of Personal Representatives that that proposal ought not to be proceeded with unless Heads of State or Government were unanimously in favour of a statement, and I was given to understand that, following the meeting between President Mitterrand and Chancellor Kohl in Paris, a message had gone to President Reagan to say that neither President Mitterrand nor Chancellor Kohl thought that a statement on INF should be issued at Williamsburg.

4. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Secretary of State for Defence; and to Sir Julian Bullard.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

24 May 1983

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

EXCHEQUER	
REC	24 MAY 1983
DELIVERED	Mr Lintler.
COPIES TO	Mr Carey.
	Mr Lavelle.
	Mr Unwin.
	Mr Hall.

SIR ROBERT ARMSTRONG

ECONOMIC SUMMIT: WILLIAMSBURG

I attach with this minute a copy of a message which the Prime Minister has just received from President Reagan.

The President suggests how discussion of economic issues at the Summit might be organised, indicates how he envisages the joint statement on economic questions being prepared, suggests a strong re-affirmation of the commitment to reverse protectionism and to move towards liberalisation of trade and confirms that he hopes for a public statement by the Summit on INF.

The message does not appear to require a reply.

I am copying this minute and enclosure to Mr. Fall (Foreign and Commonwealth Office), Mr. Kerr (H.M. Treasury) and Mr. Mottram (Ministry of Defence).

AM & COLES

24 May 1983

CONFIDENTIAL

D.D

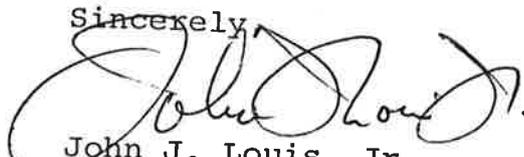
EMBASSY OF THE UNITED STATES OF AMERICA
LONDON

May 24, 1983

Dear Prime Minister:

I have been asked to deliver the attached message to you from President Reagan, which was received at the Embassy early this morning.

Sincerely,



John J. Louis, Jr.
Ambassador

Enclosure

CONFIDENTIAL

The Rt. Hon. Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London, S.W.1.

CONFIDENTIAL

Dear Margaret,

I look forward to greeting you in a few days in Williamsburg.

The preparations for our meeting have been comprehensive and thorough. In the revised thematic paper, we have identified all of the serious issues we might address and on which we might decide to make public commitments. I do not anticipate that we will actually cover all these issues and certainly our discussion should not be limited to the preparatory materials. But I am sure you agree with me that in the preparatory work we have laid an excellent basis for our discussion at the Summit.

Let me offer some ideas as to how we might organize our discussion of the economic issues. We can review this agenda at our opening dinner on Saturday night and make any changes we wish. I am seeking only to stimulate your thinking before we arrive in Williamsburg.

At our heads only session on Sunday morning, I envision a general wide-ranging discussion of our respective approaches to the achievement of sustained non-inflationary domestic and world economic recovery. In this discussion, we might touch on many of the ideas contained in the first two sections of the thematic paper:

--Our domestic policies for non-inflationary, sustained growth;

--An assessment of our progress and persisting problems, both at home and abroad;

--An evaluation of convergence among our economies;

--The role of trade in achieving non-inflationary, sustained growth, especially in relations with developing countries;

--The role of finance in supporting trade and growth in the world economy;

--The coordination of trade, debt and finance issues and institutions to promote longer-term development; and

--An assessment of the underlying human and moral purpose of our economic efforts.

CONFIDENTIAL

CONFIDENTIAL

-2-

In the afternoon, we can pick up more specific matters with our ministers. This discussion might include many of the items identified in the third and fourth sections of the thematic paper. The organization of the discussion into the short and long term elements of a Williamsburg program for economic recovery and growth seems to me to be quite appropriate. It corresponds to the integrated manner in which we are dealing with subjects at this Summit, and avoids the compartmentalization of the agenda, an objective we have sought since the outset of our preparations.

By the end of that first day's discussion, I hope that we will have identified most key elements of the message we will issue from Williamsburg. We can then discuss with our personal representatives the structure, tone and key themes of the Williamsburg message. I do not anticipate protracted negotiations of the joint statement if we issue full instructions to our personal representatives and ask them to confer periodically with us, perhaps at coffee later that evening, to clarify issues and to obtain our guidance. As we agreed at the beginning of our preparations, this statement should be a message that we personally design and develop to reflect our unique responsibilities as heads of government and state of the major industrial democracies.

I am excited by the prospect of our gathering. The economic situation is unquestionably improving. We want to build on this progress to meet continuing dangers in a spirit of realistic optimism. This spirit should recognize that the success of each of our countries is linked to the success of all our countries and indeed to the success of all countries of the free world. The only solution for ourselves and for the youth, who comprise the successor generations, is durable growth. We need to convey from Williamsburg a medium-term strategy that offers hope for such growth, and I hope that we can do so in part through the short annex to our joint statement on improving economic convergence.

In addition, building on the fine work done at the OECD Ministerial conference, I would favor a strong reaffirmation of our commitment to reverse protectionism and to continue to move, also in the medium-term, toward further liberalization of trade, especially with developing countries. This commitment provides the underlying rationale for seeking greater international monetary stability and financial soundness.

CONFIDENTIAL

CONFIDENTIAL

-3-

Finally, all of our economic effort is related to the expression and preservation of our shared democratic values and our security. Among the security issues we will discuss, perhaps the most important for this year will be INF where I believe we are in broad agreement. I therefore hope that we will be able to express publicly our continuing shared commitment to deploy intermediate range nuclear forces this fall at the same time that we pursue unremittingly the quest for effective arms control agreements.

I await your arrival at Williamsburg with great eagerness.

Sincerely,

/s/

Ron

CONFIDENTIAL

FROM: J ODLING-SMEE
DATE: 24 MAY 1983

PS/CHANCELLOR

cc Mr Burns
Mr Unwin
Mr Littler
Mr Lavelle
Mr Bottrill
Mr Sedgwick
Mr A Smith

WILLIAMSBURG: BRIEFING FOR PM'S MEETING WITH PRESIDENT REAGAN

I attach a revised version of the text, taking account of the suggestions you made to Mr Burns this morning.

JL OS

J ODLING-SMEE

ENC

MEETING BETWEEN THE PRIME MINISTER AND PRESIDENT REAGAN

Points to make on US economic policy

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(iii) The contrast between recent British and American experience shows the importance of budget deficits for interest rates. We have succeeded to reduce our budget deficit (relative to GDP) in each of the last three budgets and the trend is unmistakably downward. At the same time the American deficit has been rising - and is now much larger than ours, an unusual state of affairs, particularly as the UK typically has a higher savings ratio than the US (Chart 1). As a result British long term interest rates were lower than American ones in 1982 for the first time in the post-war period (Chart 2). This is not only because of UK success on inflation which has been matched by similar progress in the US but must also reflect the balance of saving and borrowing in our respective countries.

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2. Part of the explanation for the high interest rates in the US may be high inflationary expectations. These may in turn derive from the large present and prospective budget deficits and the fear that they may eventually be monetised. Mr Volcker said in Brussels on 19 May that the prospects for future deficits are a major part of the problem of reducing US interest rates in the long term: "This is not a problem that can be solved by pure monetary policy. I am looking ahead rather than at the current situation".

3. The administration sometimes argue that it is total world budget deficits that have caused high interest rates rather than just the US one, because the capital markets from which governments borrow are well integrated. There is some truth in this, but the US is a greater culprit (in terms of both the level of and the increase in the budget deficit) than Japan, Germany or the UK (but lesser than France and Italy). The figures for the US Federal budget deficit are:

Fiscal year	Deficit (\$ bill)	GNP (\$ bill)	Def't/GNP (per cent)
1981	80	2872	2.8
1982	128	3033	4.2
1983	225	3194	7.0
1984	203	3489	5.8
1985	205	3807	5.4

The largest general government deficits expected elsewhere in 1983 are about \$40 bn (in Italy and Japan).

4. There is little controversy about the adverse effects of high interest rates.

5. The presentation of the British experience by the Prime Minister should impress the President. It benefits from avoiding a too-direct criticism of American policy. A full interpretation of what happened would involve some qualifications to the simple "points to make" above. In particular, some of the fall in UK interest rates in 1981-82 is attributable to the fall in US rates rather than to the reduced PSBR. Another strong point to be made is that the UK at the

time was just as concerned as the President now is to ease the burden of taxation and give incentives to industry and people; we judged - and have been confirmed in that judgment since - that the rise in taxes in 1981 is not inconsistent with the fundamental target of reducing taxation over the medium term.

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FM WASHINGTON 232250Z
TO IMMEDIATE FCO
TELEGRAM NUMBER 1445 OF 23 MAY 1983
INFO IMMEDIATE PARIS, BONN, TOKYO.
ROUTINE OTTAWA, ROME, UKREP BRUSSELS.

MY TELNO 1421: WILLIAMSBURG SUMMIT BILATERALS

THE PRESIDENT HAS NOW OFFERED 1820-1905 ON SUNDAY 28 MAY FOR HIS
BILATERAL WITH THE PRIME MINISTER. IT WILL TAKE PLACE AT PROVIDENCE
HALL.

2. THE PRESIDENT WILL PROBABLY HAVE WITH HIM AT THE MEETING SHULTZ,
REGAN, CLARK AND WALLIS.

WRIGHT

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PS/NO 10 DOWNING STREET
PS/CHANCELLOR OF THE)
EXCHEQUER)
MR LITTLER) TREASURY
MR BOTTRILL)

SIR R ARMSTRONG
CABINET OFFICE

MR J CAINES)
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MR MCMAHON BANK OF ENGLAND

MR BUIST ODA

MS BOYS DEPT OF ENERGY
MISS DICKSON DEPT OF ENERGY

GRS 40
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FM BONN 241655Z MAY 83
TO IMMEDIATE FCO
TELEGRAM NUMBER 535 OF 24 MAY
INFO IMMEDIATE WASHINGTON

YOUR TELNO 874 TO WASHINGTON: WILLIAMSBURG BILATERALS.

1. THE CHANCELLOR'S OFFICE ARE CONTENT WITH THE TIMING
1730 TO 1810 ON 28 MAY FOR HHS BILATERAL WITH THE PRIME MINISTER,
AND SEE NO DIFFICULTY ABOUT HHS CALLING ON HER AT CHISWELL HOUSE.

TAYLOR

NNNN

FROM: J ODLING-SMEE
DATE: 25 MAY 1983

PS/CHANCELLOR

*letter
issued,
JW*

cc Mr Burns
Mr Littler
Mr Unwin
Mr Lavelle
Mr Bottrill
Mr Sedgwick
Mr A Smith

WILLIAMSBURG: BRIEFING FOR PM'S MEETING WITH PRESIDENT REAGAN

... I attach two copies of the final version. The text includes the addition to background note 3 that we discussed this morning, and the two sets of charts are the only printed versions (on fancy paper) that we could make in the time.

JL OS

J ODLING-SMEE

(PWP)

Ref. A083/1503

MR COLES



 EXCHEQUER
 25 MAY 1983 25/5
 Mr Lintler
 Mr Unwin
 Mr Lavelle
 Mr Hall

Economic Summit 1984

As you know, next year's Economic Summit is due to take place in the United Kingdom. The Prime Minister agreed that at Williamsburg she should invite her colleagues to meet next year in the United Kingdom. It is proposed that the venue be London; and the dates provisionally suggested (which would be convenient for The Queen) are 8-10 June 1984.

2. In the circumstances it might be prudent for the Prime Minister to let Mr Foot know that she is proposing to issue this invitation, and to make sure that he is content. I attach the draft of a letter which the Prime Minister could send to Mr Foot, if she agrees with this suggestion.

3. I am sending copies of this minute and the draft letter to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

24 May 1983

DRAFT LETTER FROM THE PRIME MINISTER TO

The Rt Hon Michael Foot Esq,
House of Commons

Economic Summit 1984

As you may know, it is the United Kingdom's turn to host the Economic Summit in 1984. It has been the tradition that the Head of the State or Government of the host country should issue the invitation to his colleagues at the previous year's Summit Meeting.

When I go to Williamsburg, therefore, I am proposing to tell the other Heads of State or Government that the United Kingdom would like to invite them to meet in London next year, at a date to be arranged. I should like to be able to tell them also that I had your approval and support for issuing this invitation. I hope that you will agree that I should do so..

ADVANCE COPIES

put

ECONOMIC SUMMIT

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PS/MR RIFKIND
PS/LD BELSTEAD
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MR THOMAS
MR HAYES

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EXCHEQUER)
MR LITTLER) TREASURY
MR BOTTRILL)

SIR R ARMSTRONG
CABINET OFFICE

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HD/ECD (4)
HD/ES & SD (2)

MR J CAINES)
MR E BESTON) DOT
MR MCMAHON BANK OF ENGLAND

HD/NAD
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FM BONN 251321Z MAY 83

TO IMMEDIATE FCO

TELEGRAM NUMBER 538 OF 25 MAY

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INFO PRIORITY WASHINGTON

INFO ROUTINE ATHENS BRUSSELS COPENHAGEN DUBLIN THE HAGUE

LUXEMBOURG PARIS ROME OTTAWA TOKYO UKDEL OECD UKDEL IMF/WBRD

MOSCOW

BY TELNO 460

PREPARATIONS FOR WILLIAMSBURG: GERMAN EXPECTATIONS

1. IN A PRESS INTERVIEW PUBLISHED YESTERDAY (24 MAY) CHANCELLOR

2

1. IN A PRESS INTERVIEW PUBLISHED YESTERDAY (24 MAY) CHANCELLOR KOHL GAVE A CLEAR STATEMENT OF HIS EXPECTATIONS OF WILLIAMSBURG. HE HIGHLIGHTED THE NEED FOR GENERAL AGREEMENT. IN AN OBVIOUS ATTEMPT TO CONTRAST HIMSELF WITH SCHMIDT, HE SAID: QUOTE NO SOLO NUMBERS ON THE TRAPEZE FOR ME UNQUOTE.

2. KOHL SAID HE WAS WHOLLY CONVINCED THAT THERE WOULD BE NO CONTROVERSY OVER EAST/WEST TRADE. BUT THERE WAS QUOTE LITTLE SENSE UNQUOTE IN HELPING SOVIET MILITARY CAPABILITY BY SELLING GOODS IN SENSITIVE AREAS. A WHOLE RANGE OF EXPERT DISCUSSIONS WERE NECESSARY ON THIS. QUOTE I SEE MUCH GOODWILL ON ALL SIDES. UNQUOTE.

3. ON ECONOMIC POLICY, KOHL SAID THERE WAS NO QUESTION OF THE FEDERAL REPUBLIC PLAYING A LOCOMOTIVE ROLE. LASTING ECONOMIC GROWTH WAS ONLY TO BE ACHIEVED THROUGH STIMULATION OF INVESTMENT. A NEW WORLD MONETARY SYSTEM CAME UP AGAINST THE REALITY OF DIFFERING RATES OF INFLATION AND DIFFERENT ECONOMIC POLICIES.

4. GERMAN OFFICIALS CONFIRM THAT THEY ARE NOW WHOLLY CONFIDENT THAT EAST/WEST ECONOMIC RELATIONS WILL NOT BE A SUBJECT FOR ARGUMENT. THEY REMAIN SLIGHTLY NERVOUS ABOUT FRENCH INTENTIONS. THEY SAY THAT THE FRG MAY BE READY TO AVOID A ROW BY GOING A LITTLE WAY, IF PRESSED, TO MEET FRENCH DEMANDS ON CURRENCY MANAGEMENT BY CONCEDED SLIGHTLY CLOSER INTERNATIONAL SURVEILLANCE OF EXCHANGE RATES AND A LITTLE MORE OFFICIAL INTERVENTION WHEN NECESSARY. APPARENTLY THE BUNDESBANK WOULD BE PREPARED TO GO ALONG WITH THIS.

5. OFFICIALS ALSO SAY THAT CHANCELLOR KOHL, AT PRESENT INVOLVED IN A CDU PARTY CONGRESS, HAS NOT YET DECIDED WHAT THEMES TO EMPHASISE IN THE POLITICAL DISCUSSION AT WILLIAMSBURG. HE MAY BE ABLE TO REPORT MORE ON THIS WITHIN A DAY OR TWO. MEANWHILE, WE ARE INFORMED THAT THE BRIEFS SUBMITTED TO KOHL COVER ONLY THE BROAD POLITICAL THEMES IDENTIFIED AT THE PREPARATORY MEETING ON 11 MAY (PARIS TELNO 382 TO FCO). KOHL HAS SHOWN SOME INTEREST (WASHINGTON TELNO 1461) IN RAISING THE INDIAN PROPOSAL FOR A SUMMIT DURING THE UN GENERAL ASSEMBLY.

6. IN HIS BILATERAL WITH REAGAN, KOHL WILL NO DOUBT WISH TO OBTAIN AUTHORISATION TO PASS SOME MESSAGE ABOUT INF TO ANDROPOV DURING HIS VISIT TO MOSCOW BEGINNING ON 4 JULY. GERMAN OFFICIALS SAY THAT KOHL IS WELL AWARE THAT HE CANNOT ENTER INTO ACTUAL NEGOTIATIONS WITH THE RUSSIANS. BUT HE MAY WANT TO PASS ON SOME ASSURANCE FROM REAGAN OF US READINESS TO NEGOTIATE SERIOUSLY

OFFICIALS SAY THAT KOHL IS WELL AWARE THAT HE CANNOT ENTER INTO
ACTUAL NEGOTIATIONS WITH THE RUSSIANS. BUT HE MAY WANT TO PASS
ON SOME ASSURANCE FROM REAGAN OF US READINESS TO NEGOTIATE SERIOUSLY
IF THE RUSSIANS WILL DO THE SAME. IT IS THIS RATHER GENERAL IDEA
WHICH MAY LIE BEHIND THE REPORT IN THE INTERNATIONAL HERALD
TRIBUNE OF 24 MAY TO THE EFFECT THAT KOHL HOPED AT WILLIAMSBURG
TO OBTAIN NEW ASSURANCES OF US FLEXIBILITY IN THE GENEVA TALKS.

TAYLOR

NNNN

SENT AT 251403Z LCD

CONFIDENTIAL

From: J B UNWIN
25 May 1983

pwp

MR LITTLER

✓
47 mins
myh

cc PS/Chancellor
Mr Middleton
Mr Burns
Mr Carey
Mr Lavelle
Mr Bottrill
Mr Hall
Mr Hawtin
Mr R M Evans - FCO

COPY FOR

WILLIAMSBURG: INTERVIEWS

Two points directly relevant to Williamsburg came up at the Treasury to Treasury bilateral I had in Paris yesterday with Philippe Jurgensen (incidentally, the only bilateral of this kind that the French Finance Ministry hold).

Bretton Woods

2. I asked whether President Mitterrand intended to table specific proposals at Williamsburg. Would he, for example, expect any more than, say, agreement on an official working party which might examine the prospects for the kind of conference he seemed to have in mind?
3. Philippe Jurgensen said that the President would probably propose that a preliminary conference of Heads of Government (probably the Interim Committee 21) should be held before the end of the year. This would agree in principle on the shape and objectives of a new Bretton Woods type conference and then set up a number of working groups with instructions to prepare the detailed ground work for the conference over the next couple of years.
4. Unless you have had other intelligence on this, this seems much more ambitious, and less realistic, than we had previously thought and could create very awkward problems at Williamsburg. I see, for example, that Mr Regan has made another public statement casting doubt on any move towards a new conference, but not excluding the possibility of agreement to some further studies. The latter might, therefore, be the compromise to aim ^{at} Williamsburg if President Mitterrand is not to be left high and dry. In discussion yesterday I told Philippe Jurgensen that it seemed to me that it was too ambitious to aim at a Heads of Government meeting before the end of the year. I added personally that I thought that, if still Prime Minister, Mrs Thatcher would be unlikely to be enthusiastic about such a proposal.

International Debt Problems

5. We also discussed the possibility of setting up some "early warning system" among the major countries. The French said that Michel Camdessus would be producing a paper for the G5 Deputies at Williamsburg. This would envisage two operations:-

(i) An informal (probably G5 plus IMF) group of government coordinators, who would work together - occasionally through meetings, but more often through telephone etc contact - in great secrecy. One of their main tasks would be to spot difficult situations in advance, so that the necessary coordinated action could be taken earlier than at some times proved possible hitherto;

(ii) separate arrangements (unspecified) for follow up contacts as necessary between governments and banks (both central and commercial). This would, as it were, be the follow-up action in particular situations as they had been identified by the "early warning system" above.

6. I said that we would look forward to seeing these proposals, and in principle I thought they could be extremely useful. I described briefly the monitoring arrangements we have here in my Group, and I added that, for our part, we should probably want to involve the Bank of England in the first arrangement above, although I realised that the arrangements for cooperation with central banks would differ from country to country.

7. I hope, therefore, that it will prove possible at Williamsburg to reach agreement on some new arrangements which could usefully fill some of the gaps that at present exist in the Paris Club and other dispositions. You will want to note, however, the French emphasis on the secrecy that should attach to any new arrangements. My own view is that this is right. Public knowledge of, and speculation on, the activities of some new senior level monitoring group could have an adverse effect on confidence rather than the reverse. And there would be some danger too of relaxing the pressure on the commercial banks if it were known that governments themselves were beginning to take a more direct level. On the other hand, agreement that any new group should operate in this way would not make it possible to advertise the new arrangements as one of the major specific outcomes of Williamsburg.

Quite: but one cd announce that we had arrived / improved monitoring arrangements

8. I had very useful discussions also yesterday with Jurgensen and his colleagues on Community financing and other matters, but will report these separately.


J B UNWIN



EXCHEQUER

25 MAR 83

10 DOWNING STREET

ATTENTION

TO

Mr LITTLE

Mr Urwin

Mr Lavelle

Mr Hall

Mr BURNS.

From the Private Secretary

SIR ROBERT ARMSTRONG

Williamsburg

I attach a copy of another message which the Prime Minister has received from President Reagan. I have submitted a draft reply to the Prime Minister and hope that she will be able to look at it tonight.

I am copying this minute and the attachment to Mr. Fall (Foreign and Commonwealth Office) and Mr. Kerr (H.M. Treasury).

A. J. COLES

Dear Mr. [Name],

Dear Mr. [Name],

I am glad to hear you are well and hope you are enjoying your trip to [Location]. I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

Yours truly,

I am sure you will find it very interesting and profitable. I am sure you will find it very interesting and profitable.

Sincerely,

[Signature]



J O Kerr Esq.



CABINET OFFICE

With the compliments of
Sir Robert Armstrong GCB, CVO
*Secretary of the Cabinet
and Permanent Secretary to the
Management and Personnel Office*

70 Whitehall, London SW1A 2AS

Telephone: 01-233 8319

Ref. A083/1518

MR COLES

cc Mr Kerr
Mr Bone

EXCHEQUER	
DATE	20/5/1983
✓	Mr Litterer
	Mr Urwin
	Mr Lavelle
	Mr Hall

Economic Summit, Williamsburg

The United States Personal Representative rang this afternoon about the Prime Minister's press briefing at Williamsburg on the evening of Sunday 29 May, before she departs.

2. He said that in the exceptional circumstances they saw no difficulty in accepting that the Prime Minister should give such a briefing, even though other Heads of State or Government were being asked not to brief until the Conference was over. She would presumably be briefing in place of the Foreign and Commonwealth Secretary on the Sunday evening; other briefings would be provided by Foreign Ministers at this time. They have consulted the other countries concerned, and all saw no difficulty, though some had expressed the hope that the Prime Minister's briefing would be closely based on the agreed conclusions from the afternoon's meeting of Heads of State or Government and would not pre-empt the final declaration.

3. I am sending copies of this minute to the Private Secretaries to the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

25 May 1983

