

# TREASURY

**CONFIDENTIAL**  
(Circulate under cover and notify REGISTRY of movement)

FILE BEGINS 1/4/87

ENDS 20/4/87



PO -CH /NL/0002



PART A

VENICE ECONOMIC SUMMIT  
1987

FOR DISPOSAL ADVICE SEE INSIDE COVER

DATE

22/10/93

SIGNATURE

*Adunt*

DISPOSAL DIRECTIONS

DESTROY AFTER 25 YEARS

PRESERVE

PO -CH /NL/0002

PART A

SECTION USE ONLY

REFER TO

DATE

REFER TO

DATE

PA(20/4/87) PAR 22/10/93

**CLOSED**

CLOSED ON:-

PART **B**

FOR RECORDS SECTION USE ONLY



CONFIDENTIAL

*AA*  
*we spoke. Hat as*  
*comm 6 or so*  
*(Helen) (Prison)*

From: Sir G.Littler  
Date: 1 April 1987

CHANCELLOR

WASHINGTON G7 : VENICE SUMMIT REPORT

Goria intends to offer at the G7 meeting in Washington next week a first draft of the report to the Venice Summit commissioned in paragraph 7 of the Tokyo Summit Declaration.

2. Sarcinelli has just circulated to Deputies the attached draft. I think it is very much on the right lines - smoothing over the G5/G7 argument, taking credit for Plaza, Louvre and generally improved cooperation, avoiding commitments or invitations to future reports. I propose to take with me to Knokke a version with mainly linguistic amendments to give to Sarcinelli.

*nice to know what they are.*

3. It is not necessary for you to spend time on this now. But if you do have time to glance at it, please let me know if there are any important features you dislike.

*Ch*  
*Novel twist on Paris:*  
*not G6 but G7 with*  
*Italians deciding not to*  
*participate*

(Geoffrey Littler)

*AA*



Report on G-7 activities to the Venice Summit  
by the Treasury Minister of Italy

1. Heads of State or Government of the seven major industrialized countries meeting in Tokyo for the twelfth Economic Summit agreed to form a Group of Seven (G-7) Finance Ministers as a means of promoting more effective co-ordination of international economic policy.

Pursuant to this agreement, the Group of Seven Finance Ministers with the participation of the Managing Director of the IMF, met in Washington, on the 27<sup>th</sup> September 1986, in Paris, on the 22<sup>nd</sup> of February and in Washington on the 8<sup>th</sup> of April 1987. The last two meetings were also attended by the central bank Governors, since agreement has been reached that their presence would be useful or even essential whenever monetary or foreign exchange matters are discussed. Italy decided not to participate in the Paris meeting because of differing views on the rôle of the new Group of Finance Ministers vis-à-vis ~~an older one~~. *the G-5.*

*What about at Summit?*

2. The purposes of the new, more forceful attempt to improve the coordination mechanism among the Summit countries were also spelled out in Tokyo. First and foremost, the process should aim to achieve non-inflationary economic growth, strengthen market-oriented incentives for productive investment as well as employment, unclose national trading and investment systems, foster greater stability in exchange rates.

*open up*

While all these aims have been present in our full meetings as well as in our bilateral contacts, in view of the importance



of the external disequilibria, of the consequences for the welfare of both industrialized and developing countries, of the growing threat to the liberty of commerce among free nations, stability of exchange rates has been the subject of prominent attention, serious analysis, and concerted action. In order to appreciate fully how the process of international coordination has evolved over recent years and what impetus has been imparted by the Tokyo decisions to international cooperation, a short history of exchange rate developments and understandings seems to be opportune.

3. The dollar surged vigorously and almost continuously from the end of summer 1980 until February 1985, when it was 45 per cent higher in effective terms than in 1980. Its bilateral rates with the DM and the Yen climbed to 3.30 and 260 respectively. This movement occurred since 1983 in spite of fundamental economic conditions. In particular, the US current account deteriorated sharply turning into a very large deficit.

At the end of February 1985 the central banks of the major industrialised countries decided to intervene to halt the dollar rise, sustained by self-fulfilling expectations. The market reacted as desidered and the dollar started to drop.

By late summer, however, the dollar was rising again. Further initiatives by Ministers and Governors were decided at the end of September. They were highly publicized in order to affect market expectations through the clear statement of economic policy intentions or directions.

Coordinated interventions by Central Banks were the major tool used to drive the dollar down. This was possible because these interventions were consistent with the development of economic fundamentals. The downward movement of the dollar regained strength.



*The passage  
explains with  
1 curve, first  
tags etc.*

4. In the first part of 1986 the dollar "spontaneously" maintained its downward tendency, propelled by an expanding US current account deficit, by increasing Japanese and German surpluses and by the market perception that domestic policies were not adjusting fast enough in the three largest economies. Official interest rates reductions in successive steps was mainly a response to rapidly dropping inflation, following the oil price fall.

The economic declaration of the Tokyo Summit, while recognizing that important progress had been made in the exchange rate area, expressed concern over the external imbalances which, if allowed to persist for too long, could present an increasing threat to world economic growth and to the open multilateral trading system.

Afterwards, it became increasingly evident that further progress was made on the inflation front, while growth generally slowed down and the external imbalances increased. The necessary exchange rate adjustments since February 1985 had two undesired features: (i) they were imposing a contractive bias on investment and on overall economic activity in the appreciating currencies' countries and not promoting faster growth through the improvement of the external balance in real terms in the opposite case; (ii) they were not helping to reduce external imbalances promptly enough, because the steady change in nominal rates was inducing adverse terms-of-trade modifications, larger than the favourable effect deriving from the adjustment of exports and import volumes.

~~Besides these considerations,~~ the strains on the export industries of the appreciating currencies' countries and the fear that excessive depreciation of the dollar could lead to a rekindling of inflationary pressures in the US led to the conclusion that a pause in the decline of the dollar was desirable. A step towards the implementa-

*V odd way  
to put it  
- and  
study not  
main  
reason  
anyway*

*NO!  
Shm...  
M...  
J-curve*

*and change  
something*

*Given the substantial exchange rate changes that have taken place,  
Besides these considerations, the strains on the export industries of the appreciating currencies' countries and the fear that excessive depreciation of the dollar could lead to a rekindling of inflationary pressures in the US led to the conclusion that a pause in the decline of the dollar was desirable. A step towards the implementa-*

*? "period of stability" - though earlier episode ✓*



tion of a strategy for achieving such an objective was taken by the EEC countries in the ECOFIN meeting at Gleneagles in September; the US and Japan reached a separate, bilateral agreement at the end of October.

5. On the occasion of the 27<sup>th</sup> September meeting of the G-7 Finance Ministers, although it was noted that some current account imbalances were unsustainable and therefore that cooperative efforts needed to be intensified in order to reduce the imbalances in the context of an open, growing world economy, it was regarded as untimely to take additional, immediate action on either interest rates or exchange rates. However, market perception of the extent of policy adjustment effectively realized and market reaction to what had come to be expected from the meeting made the stabilization of exchange rate of the dollar last only a few weeks. At the end of the year pressures on the US currency revived, and even intensified in January of this year.

The market clearly perceived that the required correction of economic policy in the three major countries was still going through a difficult decision process. In particular, fiscal policies, enlarged to cover major overhauls of tax systems to provide incentives, were still divergent. The US authorities were striving to maintain their commitment to a reduction of the budget deficit in spite of the majority shift in Congress. The Japanese budget was in the throes of an intense debate in the Diet; and the fiscal policy of the new German government was the subject of discussion between coalition partners; in both countries fiscal stance seemed insufficient to counter the slowdown in domestic activity .

Moreover, the markets do not seem to be aware of the fact that imbalances both on the fiscal and external sides of the magnitude major countries are experiencing can and should be cured over a reasonable span of time. No short cut is available: medium-term,



persistent efforts are needed to re-equilibrate our economies. ! !

6. [ Although marred by misunderstandings and misconception, ]  
the Louvre Agreement is to be viewed in such a situation as an effective attempt to strengthen multilateral cooperation on the basis of a common analysis of the development of the world economy, as well as a joint effort to stabilise exchange markets. The participating countries committed themselves to the general objective of promoting more balanced global growth and of reducing existing imbalances. To this end each of the countries represented undertook specific commitments with a view to strengthening domestic demand in case it enjoyed an external surplus, or to promote steady, low-inflation growth of output in case its current account was in deficit. Moreover, it was agreed that the exchange rate changes already achieved were such as to put the rates of the major currencies within ranges broadly consistent with underlying economic fundamentals, given the commitments undertaken. Therefore, it was decided to co-operate closely to foster stability of exchange rates around ~~existing levels, i. e. DM 1.80 and Y 150 respectively for a dollar.~~ *Re New currency* *??* Official interest rates were lowered in some countries and short-term funds started flowing out of Germany and Japan.

The agreement was well received by the market. Pressures on the dollar vanished in the weeks immediately after the meeting and the US currency even showed some tendency towards appreciation. *holding*  
Nonetheless, more recently there has been a resurgence of speculative pressures. ~~the DM moved again towards 1.80 and the yen overcame the psychological barrier of 150.~~ *the DM moved again towards 1.80 and the yen overcame the psychological barrier of 150.* *with below 150*

7. | Short paragraph on the meeting to be held in Washington on 8<sup>th</sup> April as regards exchange and interest rates, as well as developments from April to June in the same field |.



8. Building on the progress made by the G-10 Ministers and Governors who in Tokyo agreed to foster multilateral surveillance through peer pressure, the Heads of State or Government last year entrusted the newly formed G-7 with the task of reviewing each participating country's economic forecasts in conjunction with the Managing Director of the International Monetary Fund and utilizing a set of economic indicators. Some of them are related to the performance of the economies, others are intermediate goals to be pursued by the countries, still others are policy instruments to be used by the authorities. Although not new, the indicators approach has never before received so much attention: it has been the subject of in-depth research by international organizations such as the IMF and the OECD, and has been adopted by small groups of countries as a reference framework to conduct multilateral surveillance.

A reference framework in order to be useful over time and effective among countries must involve a three-stage process, in which the economic objectives and forecasts of each participating country are assessed for internal consistency and mutual compatibility. In case the evaluation phase leads to the conclusion that convergence towards the attainment of common goals is insufficient, a serious effort must be made to increase the degree of compatibility of the independently set policies. Then, a periodic or ad hoc review is needed to detect any major deviation from the intended course, as well as to try to find remedial actions consistent with the underlying policy fundamentals.

Having in mind the Tokyo mandate, we Ministers have agreed that each participating country will present, early in the year, the medium course of its intended policies and establish its economic projections and objectives for the year with reference to growth, inflation, current accounts/trade balances, budget performance, monetary



conditions, and exchange rates. This sub-set of the Tokyo list puts the emphasis on those indicators which reflect the domestic and external performance of our economies, as well as their interactions. An attempt will be made also to develop <sup>a)</sup> mutually consistent ~~objectives~~ <sup>set of indicators</sup> for the G-7 as a whole. X

The Ministers and Governors will, therefore, meet on a regular as well as on an ad hoc basis to set objectives and projections, to review national economic policies and performances, to assess current trends and prospects, to reach agreement on policy actions, if necessary to achieve objectives regarded as essential. The IMF will play a crucial rôle in this exercise through the provision of consistent and comparable data on each participating country, as well as an independent assessment of economic developments and required policy actions. Moreover, the Managing Director will be invited to participate in part of any surveillance discussion.

Pragmatism and flexibility are the two paramount criteria that have been followed so far in choosing the relevant indicators, the number or composition of which may change over time, and in setting the procedures to appraise performances and prospects. There is an element of learning by doing, which we all wish to grasp. That is why we see the rôle of the indicators in shaping multilateral surveillance and fostering international cooperation as a dynamic one. At present no element of automaticity has been built in the reference framework, which can be likened to an early warning system in the pursuit of consistent policies in a compatible environment.

There is no denying that in the context of sovereign nations perception of how events are unfolding and conviction of how policies should be framed are necessary, but not sufficient conditions to ensure action in the areas where it is needed most. The political process has to provide the catalytic element so that peer pressure can



be brought to fruition. Indicators therefore are no substitute for willingness to cooperate and to identify both domestic and international responsibilities; they are only a better tool, which, if adequately exploited, can make for more precision and discipline in the cooperative effort to steer our economies.

9. We are all convinced that it is hard to contain market forces for long by a manoeuvre based only on large central banks interventions and limited interest rates changes. The implementation of commitments to modify the fiscal policy stance in the three major countries has to become more credible and visible. Only by speeding up the process we may have the hoped-for reduction in the saving-investment imbalances this year.

This hysteresis in fiscal policy corrections combines with the spontaneous development of the economies, which is still not conducive to substantial external adjustment, while global growth is below the expected rates almost everywhere.

As is supported by the intra-EEC experience, agreements on exchange rates can guide them on a path that does not contrast with the development of the fundamental economic variables, but this is so if, and only if, compatibility of economic developments is also actually sought by appropriate policy adjustments. It is worth repeating that, given the extent of the imbalances accumulated in the past among the major economies, such a goal cannot be achieved overnight, but more can and must be done to convey to the market the perception that substantial improvements are beginning to take place and will bear fruit.

Moreover, surplus countries not in the G-7 (small European countries and the NICs) should be urged to assume some responsibility for fostering more balanced worldwide growth. The urgency of wider coordinated policy action is all the more evident in that



protectionist pressures are still increasing and the debt problem of the developing countries is becoming more acute.





FROM: A C S ALLAN  
DATE: 6 April 1987

RP

SIR G LITTLER

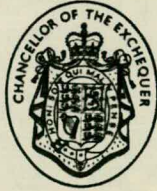
**WASHINGTON G7: VENICE SUMMIT REPORT**

The Chancellor was grateful for your minute of 1 April, attaching Sarcinelli's draft of the report to the Venice Summit. He has the following comments:

- (i) at the end of paragraph 1: replace "an older one" by "that of the G5";
- (ii) in the fifth line of paragraph 2: replace "unclose" by "open up";
- (iii) he felt the third sub-paragraph of paragraph 4 needed to be completely rewritten. The J-curve is not a "undesired feature": it is inevitable. The paragraph should be replaced with an explanation of the J-curve, time-lags etc;
- (iv) the next sub-paragraph of paragraph 4 should start "Given the substantial exchange rate changes that had taken place, ..." and that sentence should end "... led to the conclusion that a period of exchange rate stability would be desirable";
- (v) delete "Although marred by misunderstanding and misconception" at the start of paragraph 6. Lower down that paragraph delete the references to DM 1.80 and Y 150, and say "... foster stability of exchange rates around the then current levels";
- (vi) change the end of paragraph 6 to read "Nonetheless, more recently there has been a resurgence of speculative pressure concerning the Yen, taking the Yen/\$ rate below the psychological barrier of 150";



CONFIDENTIAL



- (vii) at the end of the third sub-paragraph of paragraph 8 (top of page 7) change the last sentence to read "An attempt will be made also to develop a mutually consistent set of indicators for the G7 as a whole".

*ACSA*

A C S ALLAN



CONFIDENTIAL

April 8, 1987

Economic Policy Coordination

We have agreed on refinements of the Tokyo arrangements on closer economic policy coordination. The objectives of the agreement are (1) simplification of the indicators and (2) the provision of greater discipline to the process.

The Establishment of Economic Objectives and Projections

In order to provide a framework for surveillance, each country will present, early in the year, the medium-course of its intended policies and establish its economic objectives and projections. In this context, a small group of indicators that measure domestic and external economic performance and policies will be used with a special focus on those which reflect interactions among our economies. The objectives and projections will in some cases be quantified; in others they may be more general in nature. Broad, mutually consistent objectives will be developed also for the group as a whole. Both the collective and individual country objectives and projections are to be consistent and will serve as standards against which to assess country policies and performance. Initially, the objectives and projections involve the following key variables: growth, domestic demand, inflation, current account balances, budget performance, monetary conditions and exchange rates.

Review Process

The Ministers and Governors will meet regularly to develop objectives and projections, to review national economic policies and performance, and to assess current trends and prospects.

In order to assist in these meetings, the IMF will develop further the approach taken in the initial surveillance exercise by preparing papers for each meeting. Such papers, including tables on the indicators, will examine economic developments and prospects in each country, and assess the progress and problems in achieving the objectives and projections. In this context, an assessment will be made of the possible need for policy action to assure that current and prospective trends are consistent with achievement of the objectives or to modify them.

In order to assist in this assessment, interim performance indicators will be developed. In selecting the interim performance indicators, attention will be focused on specific measures from a range of variables such as those referred to in the Tokyo Communique. The selection of interim performance indicators may vary from year to year to cover in the best possible way the full range of the underlying economic policies and performance.

CONFIDENTIAL



CONFIDENTIAL

- 2 -

Ministers and Governors will meet to review progress and prospects and undertake best efforts to reach understandings regarding appropriate remedial action if necessary. Substantial deviations from the intended course will lead to consultations. When circumstances warrant, a special meeting of Ministers and Governors would be convened.

Role of IMF Managing Director

The Managing Director of the IMF would be invited to express his views about underlying economic policies, performance, and prospects and to offer his advice on improvements in policies, including exchange rates, necessary for the smooth functioning of the international monetary system.

The Role of Exchange Rates

Exchange rates are one of the key variables in the international adjustment process. A common understanding of the role of exchange rates is essential to reaching judgments concerning the extent to which imbalances are expected to be reduced through exchange rates or by other adjustment measures. In connection with their consideration of desirable adjustments of underlying policy fundamentals, Ministers and Governors will seek to reach informal, confidential understandings on the appropriateness of exchange rates and, if necessary, of desired exchange rate changes, taking into account the established economic objectives and projections. If they agree that it would be helpful either to stabilize or to promote adjustment of exchange rates, they will seek joint action to that end. This could, under certain circumstances, involve the use of ranges.

CONFIDENTIAL



CONFIDENTIAL

95/97

NOTE FOR THE RECORD

*Comunique at back of G7 note*

cc: Chancellor ✓  
Sir P. Middleton  
Sir T. Burns  
Mr. Cassell  
Mr. Peretz  
Mr. Kelly  
  
Governor  
Mr. Loehnis

MEETING OF G5

A meeting of the Group of Five Finance Ministers and Central Bank Governors was held in the United States Treasury from 11.00am until just after 2.00pm on Wednesday, 8 April 1987. (Press and television were aware of the meeting and witnessed arrivals and departures, but cordoned off to avoid direct contact with participants).

2. The attendance was the full normal complement of three per country, plus Camdessus (Managing Director of the IMF) for the first part of the discussion.
3. Opening the discussion Camdessus reviewed the estimates and forecasts he had circulated, which incorporated assumptions based on the Louvre Accord. He drew attention to the disappointingly weaker domestic demand growth forecasts, some half per cent less than projections of last September which had been described as "satisfactory, but only barely so". All G5 countries except the United Kingdom were expanding at below potential. Prospects for inflation were not worrying. Current account imbalances showed a very slight improvement, mainly due to assumptions of slower domestic growth in the United States, but left grave doubts about sustainability.
4. In conclusion, he said that:
  - there had been impressive support for the Louvre Accord: Executive Directors of several countries who were not participants had asked him to convey their warm welcome of this initiative;
  - market reactions to the Accord had been interesting: apparent endorsement of the dollar rate against European currencies, but doubts about the dollar/yen relationship;
  - there was a growing worry over trade issues and prospective conflicts and he begged that all should try to prevent these from escalating;
  - in the trade-off between growth and inflation, he felt that the risks lay rather in the threat of inadequate growth than in the threat of excessive inflation.



5. Baker (United States) drew the broad conclusion that things looked worse since the Paris meeting, rather than better, with some clear danger signals on world growth. There had to be general agreement that not enough corrective action had yet been taken. As far as the United States economy was concerned, he thought they were on track for 1987 on the reduction of the fiscal deficit to around \$175 - 180 billion (3.9% of GDP). The aim would be to carry this forward with a further reduction to about 2.9% of GDP in fiscal 1988. The general run of economic statistics so far this year was reasonably satisfactory, with growth sustained and unemployment actually reduced. The latest estimates of GDP growth, fourth quarter on fourth quarter, were 3.2% up to end 1987 and 3.7% to end 1988. But there would be a modest reduction only in current account imbalances, by no more than \$15 billion in 1987, and prospective figures beyond 1987 were sobering. It was not surprising that the protectionist threat had grown stronger.

6. Stoltenberg (FRG) acknowledged that the growth projections were disappointing and would give rise to concern during Interim Committee discussion. Germany was one of the countries over which disappointment was being expressed. He felt that the figures were by no means so bad as represented. There had undoubtedly been a slackening of growth. Part of the problem was to convince the German public, trade unions and managers, of the need to adjust to new prices and conditions. But he was confident that the German external surplus would decline faster than the IMF forecasts suggested.

7. Balladur (France) spoke briefly of the French position, not significantly different from the IMF figures. He said he was confident that the policies embodied in the Louvre Accord were the only route to sustained non-inflationary growth. He noted that some countries plainly had more room for manoeuvre than others - largely because of the success of good policies in the past - and suggested that they should use that room for manoeuvre now.

8. The Chancellor began with a request to the Managing Director to carry forward the IMF staff work on the world current account deficit, and attempt roughly to assign it among countries and groups of countries, which might be helpful in giving a better picture for some countries. He then spoke briefly of the recent UK Budget, in which he had reduced both public sector borrowing and taxation, and noted that his estimates for it were based on an oil price of \$15 per barrel - a higher price would tend to improve UK government revenues and current account balance.

9. On the world prospect, he accepted the downward revision of forecasts of world growth. There was an element here of the unavoidable cost of adjustment, which involved not only political difficulties, but frictional costs in the form of poorer economic performance in the short-term. We should not be surprised: much the same had happened in 1986 as a result of the shock of large price reductions in oil and many other commodities. The problem of making the adjustment process more efficient took us into the micro-economic field. He agreed with Stoltenberg that it was vital to get managers and unions to understand changed conditions and work with them. This was particularly true in Japan, given the scale of the adjustment needed from a traditionally export-based economy. He recalled the Plaza Communique



in which Japan had undertaken - as the first in a series of important policy directions - to open up its domestic markets to foreign goods and services. He had to say that he was not satisfied that the commitment had been honoured - and it must be. Protectionist pressures were building up now in the United Kingdom and other countries as well as the United States.

10. Miyazawa (Japan) spoke of the current budget situation in Japan due to difficulties in the Diet. He described the new package of measures decided the day before by the Liberal Democratic Party. (He explained that the Japanese Government had been unable to present such an agreement because it was constitutionally impossible for them to suggest a supplementary budget until Parliament had cleared the main budget: that was why agreement had been reached in the Party, but under the Chairmanship of the Prime Minister). The package involved accelerating public works and other expenditures, but also a later supplementary budget so that the higher level of expenditure could be maintained throughout the year. The total additional stimulus could be of the order of \$35 billion (worked out on the spot as being 1.5% of GDP). He wanted to emphasise that there was a real break-through in Japanese thinking reflected in a decision by the Liberal Democratic Party of this kind, to abandon the broad austerity approach of previous budgets, and go for expansion. He concluded by thanking colleagues warmly for the cooperative help they had given in stabilising the yen/dollar rate.

11. Baker said that others might be interested to know that the United States had talked bilaterally with Taiwan and South Korea recently about their exchange rates. They intended also to talk with the Hong Kong authorities. The Chancellor briefly rehearsed the special position of Hong Kong, arguing also that the total freedom of trade in Hong Kong distinguished the colony from the other newly-industrialised Asian countries. Baker suggested that others would not be prepared to move unless Hong Kong did, but the Chancellor crisply rejected this as an unsatisfactory excuse. At this point Camdessus left the meeting.

12. Introducing a discussion of the Louvre Accord, and after recapitulating developments since it took place, Baker said that he would be willing to extend the arrangement, in the form of a G7 agreement, on three conditions, all relating to the yen which had proved the most vulnerable part of the arrangement:

- he would want a public statement containing an adequate expression of the expansionary measures agreed by the Liberal Democratic Party
- the central point of the yen in understandings about cross-rates must be rebased
- there must be European undertakings actively to support the dollar/yen relationship as well as the relationship between the dollar and European currencies.

On that basis, he would be prepared to increase the US commitment (in terms of total intervention). He thought it would be right to aim to hold the position until the OECD meeting, rather than committing ourselves now to go as far as the Summit.



13. Balladur said that the Louvre Accord had worked well. German announcements and the UK Budget in the intervening period had both been important steps in the direction of implementing policy undertakings. The problem lay with the yen, where the market had undoubtedly tested the agreement and there was need for signs of a strengthening of Japanese policy. But he wanted to see the agreement continue, and wondered whether there might be advantage in strengthening the scale of resources available to participants to support it. He differed from Secretary Baker on the idea of an extension only until May. If the original agreement came to be reviewed very frequently, it would begin to take on the form of a continual negotiation. We should as a minimum agree to extend until the Venice Summit. (In a brief exchange with Secretary Baker, Balladur accepted that the agreement might be kept under regular review, but insisted that this must not be on the basis of revising the agreement every time, or having ministerial review meetings).

14. Stoltenberg expressed strong agreement. It was important to present at the Venice Summit evidence of improved international economic cooperation. It would be a bad failure to give up the Louvre Accord now. There was indeed a special problem over the yen, but we must find ways of coping with that. He could go along with the conditions suggested by Baker. He added that he thought it particularly important to keep under control the problem of trade disputes. Japan must understand the attitudes of other countries, which had been given pledges in various forms (in the Plaza Communique, at the Tokyo Summit, in the Maekawa Report, etc.) which they felt there was little evidence of Japan fulfilling. What was needed was some early decisions and actions which would give a real signal of more open markets.

15. Discussion continued over lunch. The Chancellor said that all seemed to agree with the objective of maintaining the Louvre Accord, and he certainly shared with European colleagues a desire to extend it until the Venice Summit and beyond. He would like to follow the thought in Secretary Baker's three conditions with slight modifications following what Stoltenberg had said. Certainly the yen would have to be rebased. If that was done, he thought there would be no problem of principle in European support, and the technical problems should be left to technicians to resolve. On the important first condition, he welcomed Miyazawa's account of the Liberal Democratic Party intentions but he would like also to emphasise the importance of a contribution on more open trade in goods and services. He saw this as being important in economic terms, in political terms and in terms of impact on markets. He very much hoped that an appropriate sentence could be included in the public statement - indeed failure to make some mention of this problem would have an odd appearance in present circumstances. Finally, he offered the general thought that, if we wanted stability of exchange rates, all - particularly including the largest countries - must be prepared occasionally to subordinate domestic policies to external needs. This meant using interest rates, not merely intervention.



16. Miyazawa indicated acceptance of the conditions proposed by Secretary Baker, and of the additional point on trade suggested by the Chancellor. Summing up this part of the discussion, Secretary Baker suggested that there should be - for discussion among the G7 - a short statement reaffirming the Louvre Accord, referring to the two points of Japanese policy (supplementary fiscal measures and opening up markets) and repeating the aim of stabilising exchange rates.

17. Further discussion on intervention is recorded in a separate note with limited circulation.



Sir G. Littler  
9 April, 1987

*seemingly not to you, will chase tomorrow.*





10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

*Chancellor's Registry*  
I have told Mr. Allan  
that no Treasury  
intervention is required  
(having consulted Sir G. H. Butler  
who is more involved than  
me in Summitry)

22 April 1987

*Jay/Jayet*

A note that Sir GL takes

*M 23  
4*

Dear Lynn, the lead for Venice Summit.

VENICE ECONOMIC SUMMIT

The Italian Ambassador has been in touch to say that Senor Fanfani would like to pay a brief visit to London (and similar visits to Paris and Bonn) in the period 18-31 May as part of the preparations for the Venice Economic Summit. He would probably want to come for only a couple of hours and perhaps a working meal, with a very small delegation. He would not wish to discuss details but the general political content of the Summit. I said that I would put this proposal to the Prime Minister and let him have a reply as soon as possible. As he realised, the second half of May was likely to be a very busy time. I should be grateful to know urgently whether there are any points you would wish me to make in consulting the Prime Minister.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

ADVICE A.S.A.P PLEASE

CH/EXCHEQUER	
REC.	22 APR 1987
ACTION	MR LAVELLE
COPIES TO	CST FST EST MST
	SIR P MIDDLETON
	SIR T BURNS
	SIR G LITTLE
	MR H BURNS
MR A EDWARDS	
MR WASH	
MR S MATTHEWS	

*My mistake!*

*gens dicere.  
Chris...*

C D POWELL

Lyn Parker, Esq.,  
Foreign and Commonwealth Office



RESTRICTED

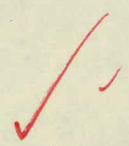


ALEX  
my

10 DOWNING STREET  
LONDON SW1A 2AA

From the Private Secretary

22 April 1987



Dear Lyn,

VENICE ECONOMIC SUMMIT

The Italian Ambassador has been in touch to say that Senor Fanfani would like to pay a brief visit to London (and similar visits to Paris and Bonn) in the period 18-31 May as part of the preparations for the Venice Economic Summit. He would probably want to come for only a couple of hours and perhaps a working meal, with a very small delegation. He would not wish to discuss details but the general political content of the Summit. I said that I would put this proposal to the Prime Minister and let him have a reply as soon as possible. As he realised, the second half of May was likely to be a very busy time. I should be grateful to know urgently whether there are any points you would wish me to make in consulting the Prime Minister.

I am copying this letter to Alex Allan (HM Treasury) and Trevor Woolley (Cabinet Office).

ADVICE A.S.A.P. PLEASE

CH/EXCHEQUER	
REC.	22 APR 1987
ACTION	MR LANGLÉ
COPIES TO	CST FST EST MST
	SIR P MIDDLETON
	SIR T BURNS
	SIR G LITTLE
	MR H EVANS
	MR A EDWARDS
MR WASH	
MR S MATTHEWS	

gens direct.  
C D Powell

C D POWELL

Lyn Parker, Esq.,  
Foreign and Commonwealth Office

RESTRICTED





You will see that I  
would like to discuss this  
with Sir TB - with  
whom I shall have a  
related ASOP - psc fix.

Meanwhile, post tell Sir  
GIL that I am not at  
all happy with the original  
version, & had much  
prefer to stick to the ~~original~~  
original Italian version,  
amended as I indicated  
(see your note of 6/4). In  
my view, it seems to me  
no benefit of discounting,



to the Italians,  
as Sumner looks  
(even if they do not  
person much of a  
law @ the public  
time) to take that  
out of their hands  
in a high-level  
way Puffin has  
done.

I suggest we reject  
altogether the US  
take over & agree to  
to work on the Italian  
version — as indeed France  
Marshall agreed @ the 97.

P.S. Please return this dossier  
to me before I see Cope. etc.



CONFIDENTIAL

From: Sir G. Littler  
Date: 24 April 1987

CHANCELLOR

VENICE SUMMIT REPORT

I shall be attending a meeting of G7 Deputies in Rome on Thursday, 30 April at which this is the main item on the agenda.

2. In the Washington G7 it was suggested that Sarcinelli's draft should be updated and shortened to about half the length, but there was no detailed discussion. Mulford has pre-emptively offered a revised and shortened draft, which I guess others will be prepared to take as a basis. I attach a copy. There are just two points of substance which I should like to check with you - subject to which (and any other comments you may have) I would go along with the draft with only a few drafting improvements.

3. The two points are:

- I find paragraphs 4-6 unsatisfactory in failing to carry the message that, following the Plaza adjustment, we are now looking for stability and policies to support it: I should like to offer something like the attached redraft;
- Paragraphs 7-11 reproduce fairly accurately the substance of the 'indicators' <sup>attached text</sup> paper agreed in Washington: I think we may as well accept the idea of incorporating this material - indeed, since the text was agreed, I would have some difficulty in arguing against allowing it to be reported in this way: the Report will surely not be officially published; it may well leak (? via Baker) but that risk already exists.

Ch  
Not completely  
accounted i  
some places, and  
I don't like  
para 12

AA

(Geoffrey Littler)

Paper  
TB balance  
(to be fixed ASAP)



SUGGESTED REVISED DRAFT OF PARAS 4 - 6

4. Our efforts at closer economic policy coordination have met with some success. Our economies are in <sup>at this</sup> the fifth year of expansion. Inflation remains low and interest rates have <sup>on the whole</sup> declined substantially.

5. Certain external imbalances remain <sup>unmyth</sup> ~~troublesomely~~ large and continue to encourage dangerous protectionist pressures and to trouble markets. But the growth of these imbalances has at least been halted. The substantial adjustment of exchange rates since the 1985 Plaza Accord has contributed to this and its effects should become stronger. Indeed a key element of the February Louvre Agreement, reaffirmed and enhanced at our April meeting in Washington, was that [exchange rates had reached levels which were broadly consistent with economic fundamentals. That being so,] there was a strong argument for an extended period of stability, giving time for the beneficial effects of past changes to work through, and avoiding potentially damaging further changes. This was and remains the basis on which we agreed to cooperate in fostering stability of exchange rates around current levels.

6. But an equally important part of our recent accords has been the recognition that stability can be achieved only if the appropriate supporting domestic policies are being pursued - and pursued with determination during what is bound to be a long period of gradual unwinding of imbalances. The public statements of policies of our individual countries in our recent agreements have concentrated on the need for those among us with large external surpluses to increase domestic demand and open up markets and for those with large external deficits to reduce their domestic imbalances and improve competitiveness.



G-7 FINANCE MINISTERS  
PROGRESS REPORT  
TO THE VENICE SUMMIT  
ON INTERNATIONAL ECONOMIC COORDINATION

1. Heads of state or government of the seven major industrialized countries meeting in Tokyo for the twelfth economic summit in 1986 agreed to new arrangements for closer, more effective coordination of their economic policies and performances. For this purpose, the Finance Ministers of the seven Summit countries was constituted as a new Group of Seven (G-7) to undertake multilateral surveillance of their economies, including:

- to work together more closely and more frequently in the periods between the annual Summit meetings; and
- to review their individual economic objectives and forecasts collectively at least once a year, using specified indicators, with a particular view to examining their mutual compatibility.

2. Pursuant to this Summit agreement, the Finance Ministers have met on three occasions to undertake multilateral surveillance of their economies and to develop a strengthened process for coordinating economic policies and performance: in Washington on September 27, 1986; in Paris, on February 22, 1987; and in Washington on April 8, 1987. The Managing Director of the IMF joined the Ministers for the purpose of assisting in the conduct of multilateral surveillance.

} Estm



- 2 -

Finance Ministers invited Central Bank Governors to attend their last two meetings, reflecting the critical role played by the central banks in achieving sustainable, non-inflationary growth and exchange rate stability.

*Issued*

3. We are pleased to report significant progress in our efforts to improve multilateral surveillance and economic policy coordination. A process for implementing the new coordination arrangements has been agreed and put in place. Understandings and commitments have been developed to promote global growth, reduce trade imbalances, and foster exchange rate stability. The coordination of economic policies is an ongoing effort, however, and additional actions will be necessary to achieve a sound world economy and a more smoothly functioning international monetary system.
4. Our efforts at closer economic policy coordination have met with some success. Our economies are in <sup>at least</sup> the fifth year of expansion. Inflation remains low and interest rates have <sup>on the whole</sup> declined substantially. The growth in external imbalances has been halted. The substantial adjustment of exchange rates since the 1985 Plaza Accord should contribute over time to a reduction in these imbalances, and has brought our currencies within ranges broadly consistent with economic fundamentals.
5. Despite these important improvements we still face serious problems. The large external imbalances -- both deficits and surpluses -- are likely to remain with us in the medium term. While the growth in these imbalances appears to have been



arrested, largely through the adjustment in relative exchange rates, inadequate progress has been made in establishing a sound basis for sustained reductions in the imbalances over the medium term. There is a need for improved growth, particularly in countries with large external surpluses, to reduce significantly unemployment in some countries and to provide sufficient market growth to help the heavily indebted developing countries. There is also a need to implement structural reforms more vigorously and to resist strengthening protectionist pressures.

6. As part of the February Louvre Agreement, reaffirmed and enhanced at the April G-7 meeting, a cooperative approach is being implemented to deal with remaining problems and to achieve the sustainable non-inflationary expansion and more balanced external positions necessary for a smoothly functioning international monetary system and stable exchange rates. Each of us has committed to take specific actions, including measures by those among us with large external surpluses to increase domestic demand, while countries with large external deficits reduce domestic imbalances and improve competitiveness. Moreover, we are cooperating closely to foster stability of exchange rates around current levels.
7. The experience of the past year have pointed up the need to simplify and strengthen the coordination arrangements. Toward this end, we have agreed upon refinements to the



surveillance arrangements to provide greater discipline to the process.

8. Having in mind the Tokyo mandate, we have agreed that each participating country will present, early in the year, the medium-term course of its intended policies and establish its economic objectives and projections. Broad mutually consistent objectives for the G-7 as a whole will also be developed. Initially, the objectives and projections involve the following key variables: growth, domestic demand, inflation, current account balances, budget performance, monetary conditions, and exchange rates. This sub-set of the Tokyo list puts the emphasis on those indicators which best reflect at the present time the key issues relating to the domestic and external performance of our economies, as well as their interactions.
9. The Ministers and Central Bank Governors will meet on a regular basis to <sup>develop</sup> ~~set~~ objectives and projections, to review national economic policies and performances, to assess current trends and prospects, and to reach understanding on policy actions if necessary to achieve the objectives and projections. <sup>Interim</sup> Performance indicators will also be developed to assist in assessing whether current trends are consistent with the agreed medium term objectives and whether consideration needs to be given to possible remedial actions.
10. Exchange rates are one of the key variables in the international adjustment process. A common understanding of the role of exchange rates is essential to reaching judgments



concerning the extent to which imbalances are expected to be reduced through exchange rates or by other adjustment measures. In connection with their consideration of desirable adjustments of underlying policy fundamentals the Ministers and Governors will seek to reach informal, confidential understandings on the appropriateness of exchange rates and, if necessary, of desired exchange rate changes, taking into account the established economic objectives and projections. If they agree that it would be helpful either to stabilize or to promote adjustment of exchange rates, they will seek joint action to that end. This could, under certain circumstances, involve the use of ranges.

11. The IMF will play a crucial role in this exercise through the provision of consistent and comparable data on each participating country, as well as through its independent assessment of economic developments and required policy actions. The Managing Director will be invited to participate in part of any surveillance discussion.
12. Pragmatism and flexibility are the two paramount criteria that have been followed so far in choosing the relevant indicators, the number or composition of which may change over time, and in setting the procedures to appraise performances and prospects. [That is why we see the role of the indicators in shaping multilateral surveillance and fostering international cooperation as a dynamic one. At present no element of automaticity has been built into the

4

al?

no



reference framework, which can be likened to an early warning system in the pursuit of consistent policies in a compatible environment. Nevertheless, it has been agreed that substantial deviations from the intended course will lead to consultation and that, when circumstances warrant, a special meeting of Ministers and Governors would be convened.

13. We represent sovereign nations. A framework for sharing perceptions about how events are unfolding, how policies should be framed is a necessary, but not a sufficient condition to ensure action in the areas where it is needed most. The political process has to provide the catalytic element so that multilateral surveillance can be brought to bear effectively. Indicators therefore are no substitute for willingness to cooperate and to identify both domestic and international responsibilities, but they can help each of us to foster this political willingness to do so; they are a better tool, which, if adequately exploited, can make for more precision and discipline in the cooperative effort to steer our economies.
14. We are convinced that durable exchange rate stability can be achieved only on the basis of coordinated and convergent monetary and fiscal policies. Cooperation on exchange rates can help to establish a framework that does not conflict with the development of the fundamental economic variables, but this is so if, and only if, compatibility of economic developments is also actually cultivated by appropriate policies. It is worth repeating that, given the extent of



the imbalances accumulated in the past among the major economies, such a goal cannot be achieved overnight, but more can and must be done to convey to the market the perception that substantial improvements are beginning to take place and will bear fruit.

15. We have made an important beginning in our efforts at closer economic coordination and progress is being made. The attainment of a sound, growing world economy, improved balance in external positions, and greater exchange rate stability will, however, require continuing efforts on the part of each of us. The process upon which we have embarked provides the framework for effective cooperation. We are determined to make it work well, for the benefit of the global economy and for each of our countries.



- opies to Mr Loehnis  
 Mr George  
 Mr Walker  
 Mr Galpin  
 Mr Cooke  
 Mr Flemming  
 Mr Dawkins  
 Mr Coleby  
 Mr Somerset  
 Mr Quinn  
 Mr Plenderleith  
 Mr Gill  
 Mr Kent  
 Mr Kirby  
 Mr Price  
 Mr Wayland  
 The Secretary  
 Mr Arrowsmith  
 Mr S B Collins  
 Mr N Carter  
 Mr M R Lewis  
 Mr R C Ware  
 Mr Farrant  
 The Security Officer  
 The Motor Transport  
 Supervisory  
 The Doorkeeper  
 Court Section  
 DGPS

*purp*

CH/EXCHEQUER	
REC.	24 APR 1987
ACTION	Sir G. Huttler
	CST FST EST MST Sir P Middleton
	Sir T Burns
	Mr FER Butler
	Mr Cassell Mr Kavelle
	Mrs Komax Mr Edwards

Mr Allan, Chancellor's Office

**VISIT BY M. DE LAROSIERE: MONDAY 18 MAY**

As you are aware, M.de Larosiere, the Governor of the Bank of France, will visit the Bank on Monday 18 May. Details of the arrangements that we have made are attached.

Governor's Office HO-P  
24 April 1987

*D* Miss D E Wells (4421)



0176F

PROGRAMME FOR M. DE LAROSIERE'S VISIT  
SATURDAY 16 - MONDAY 18 MAY 1987

SATURDAY 16 - Torry Hill  
SUNDAY 17

SUNDAY 17

7.30 pm for Dinner hosted by the Governor and  
8.00 Mrs Leigh-Pemberton (New Change Official  
Quarters) (Guest List attached)

MONDAY 18

10.00 am Visit to the Stock Exchange including call on  
Sir Nicholas Goodison

11.00 Call on Mr Evelyn de Rothschild, Chairman of  
the AHC, at N M Rothschild & Co

11.30 Meeting in the Bank to discuss convergence of  
Banking Supervisory systems - The Governor,  
Mr Loehnis, Mr Galpin, Mr Cooke, Mr Quinn and  
Mr Farrant

12.15 pm Meeting in the Bank to discuss international  
debt - The Governor, Mr Loehnis, Mr Galpin,  
Mr Kent, Mr Price and Mr Ware

1.00 for Court Room lunch hosted by the Governor  
1.15 pm (Guest List attached)

3.00 Meeting with the Chancellor of the Exchequer,  
The Rt Hon Nigel Lawson MP (accompanied by the  
Governor) at 11 Downing Street

Early Return to Paris  
Evening



1987-88 18-38 Bank of England 81 881 4503 7.83

0167F

DINNER ON SUNDAY 17 MAY; 7.30 for 8.00 PM;  
NEW CHANGE OFFICIAL QUARTERS

The Governor and Mrs Leigh-Pemberton  
M. and Mme de Larosiere  
Mr and Mrs Loehnis  
Lord and Lady Hunt  
M. and Mme Rambosson



0165F

COURT ROOM LUNCH FOR M.DE LAROSIERE; MONDAY 18 MAY;  
1.00 FOR 1.15 PM

The Governor  
Mr Loehnis  
Mr George  
Mr Walker  
Mr Galpin  
Mr Cooke  
Mr Dawkins  
Mr Flemming  
Mr Somerset  
Mr Gill  
Mr Plenderleith  
Mr Kirby  
Mr Arrowsmith  
Mr S P Collins  
Mr R G Ware  
?Mr N Carter

?Sir Martin Jacomb  
John Quinton  
Lord Boardman  
Evelyn de Rothschild  
Nigel Hudson  
Sir John Baring

M de la Barre de Nanteuil, French Ambassador  
M Bertrand Schneiter, Minister-Financial, French Embassy

Christian Tran Ba Huy  
Banque Francaise du Commerce Exterieur

?Adrian Phares  
Banque Indosuez

Martin Saxby  
Banque Internationale Pour L'Afrique Occidentale

Jacques Rambosson  
Banque Nationale de Paris

Olivier Michon  
Banque Paribas

Alan de Truchis  
Caisse Nationale de Credit Agricole

Guy Fouchet  
Credit Industrial et Commercial



J J Bouniot  
Credit Commercial de France

C Menard  
Credit Lyonnais

Bernard Tailhades  
Credit du Nord

M Barat  
Societe Generale

Mr McKinnon  
Louis Dreyfus Securities Ltd

Mr Robert Chanhalls-Walker  
Locabail UK Ltd



Chancellor



Chief Economic Adviser to the Treasury

*Thinking  
Poli  
the  
Sho*

*maybe  
this  
Gough  
with links*

1. I agree that Italian draft should be focus of attention although it needs a lot of work on drafting.
2. I liked para 3 of Italian draft - i.e. starting the story with the dollar rise from 1980.
3. The material on indicators cover come later. It is already in Italian draft at bottom of page 6 - maybe needs to be more on line with 'indicators' paper agreed in Washington [I note Italian version also has 'set' objectives in first full para of p. 7]
4. We need more about the development of indicators for the G7 as a whole - there is something in para 8 of Muller draft but it could be signposted more clearly.

*we  
suggest  
this  
the  
with  
which*

*with  
the*



5 In the Muefer draft I fear  
like the final sentence of  
para 10 - particularly where  
it is; but it is in the  
Washington note in the  
same way.

key

J.  
3

LA can  
the:  
Chin  
it was a  
compromise  
agreed after  
much discussion.



pup



FROM: A C S ALLAN  
DATE: 27 April 1987

SIR G LITTLER

cc Sir P Middleton  
Sir T Burns

**VENICE SUMMIT REPORT**

The Chancellor was grateful for your minute of 24 April. He is not at all happy with the Mulford version, and would much prefer to stick to the original Italian version, amended as indicated in my note of 6 April. In any event, it seemed to him the height of discourtesy to the Italians, as Summit hosts, to take this out of their hands in the high-handed way Mulford has done.

2. He suggests we reject altogether this US takeover and agree to work on the Italian version - as indeed Finance Ministers agreed at the G7.

3. The Mulford draft contained several points where it was clearly trying to go much further than had been agreed in Washington: "set objectives" rather than "develop objectives" in the agreed paper; and paragraph 12, which gives a clear steer towards automaticity in the future.

A handwritten signature in dark ink, appearing to read "ACSA", with a horizontal line underneath.

A C S ALLAN



Attended to  
RA → PM  
27/4

*Italian Embassy,  
14, Three Kings Yard,  
London, W.1.*

THEMATIC PAPER FOR VENICE SUMMIT

I. INTRODUCTION

1. Since the Tokyo summit, economic performance in the seven nations has shown improvements notwithstanding the persistence of large domestic and external imbalances. Average inflation rates and inflation differentials have come down. Growth is continuing into its fifth consecutive year. Interest rates have declined significantly. Exchange rate changes have occurred among leading currencies which will contribute to a more sustainable pattern of current account positions; in volume terms the adjustment of trade flows is underway.

Some progress can be seen also in the situation of the developing world where there has been substantial external adjustment coupled with accelerating growth in the non-oil LDCs. Debt service ratios, which worsened in 1986, are tending to move lower and new financing needs have been reduced.

These developments have occurred in the context of a world economy characterized by greater complexity and stronger interactions between regions and countries as regards growth, trade and finance.

Since Tokyo there is a stronger consensus among the Summit Nations that such interactions call for "close and continuous coordination of economic policy" with a view to ensuring consistency across Countries and ultimately achieving greater convergence of economic performance. It is recognized, however, that no easy solutions are available, in a more interdependent world, for designing a configuration of compatible policies to achieve a plurality of interconnected objectives and obtaining quick results. The commitment to intensify policy coordination in order to promote global growth and reduce existing imbalances has been reaffirmed in the context of the group of seven meetings at the Louvre and in Washington. There is a consensus that a more stable exchange rate is an essential condition for the attainment of such goals in recognition of the fact that further major shifts in exchange relationship could damage growth and adjustment prospects in the Summit Countries and in the world economy. The credibility of the strategy which has emerged since Tokyo would require swift implementation of the undertakings by



the Countries concerned. This would certainly reduce the risk of recurrent turbulence in currency markets.

2. This year, according to the forecasts recently released by International Organizations involving a further downward revision, domestic demand in the Summit Countries should slow to rates below three percent and output should grow at roughly the same rate as in 1986, two and half percent.

The positive feature of the outlook is that growth, albeit at lower rates, will continue for a fifth year without a resurgence of inflation. The expected slowdown of domestic activity in the industrial world, however, will lower the prospects for developing Countries to grow, find the markets they need and service their foreign debt.

3. The current situation of the world economy is thus characterized, together with many positive factors also by the persistence of major imbalances which can be corrected only over the medium term. These, however, need to be tackled without delay and with determination in order to avoid the great risks they entail for growth and stability. The imbalances include:

- continuing large disequilibria in current payments and associated net foreign positions between the major Countries which represent a permanent threat to the stability of the international monetary system;
- persisting high unemployment rates - particularly in Europe - especially among the young and those out of work for long;
- large public sector deficits in the US, Italy and some other Countries;
- high real interest rates, generally in excess of growth rates;
- continuing trade restrictions and growing dangers of an intensification of protectionism;
- the persistence of a large debt overhang for many developing Countries;
- the continuing weakness of commodity markets with the prospectus of further deterioration in the terms of trade of primary producing Countries.



## II. BASIC TASKS AND POLICY ACTIONS BY THE SUMMIT COUNTRIES

### 1. POLICY COORDINATION FOR SUSTAINED GROWTH AND EXTERNAL ADJUSTMENT.

1.1. Summit Countries should reaffirm that the correction of world payments imbalances is the key medium-term priority and that continuing and sustained non-inflationary growth worldwide is essential for the process of international adjustment to be more effective and its burden more evenly shared. Such developments would also contribute importantly to the reduction of unemployment, the improvement of the LDCS external debt situation and the alleviation of world trade tensions.

1.2. Summit Countries should stress their determination to play a central role in a cooperative effort to sustain economic activity worldwide. While recognizing that the correction of payments imbalances will be a difficult process, which cannot rest solely on exchange rate changes, summit countries should commit themselves to following policies aimed at achieving the needed differentials in domestic demand. Surplus countries should design their macro-policies to support domestic expenditure, while deficit countries should focus on reducing their fiscal and external imbalances.

In recognition of the fact that the pursuit of worldwide growth must be a collective endeavour, the Summit Nations should call on other industrial countries in Europe and the newly industrialized nations in Asia with large external surpluses, to participate in this effort, by pursuing policies supportive of the common objective of strengthening the prospects of a balanced growth of the world economy.

1.3. Among the Summit Nations, budgetary discipline remains a valid medium-term objective and the reduction of existing public sector imbalances a necessity for a number of them. There is, however, a risk that fiscal positions, which are exhibiting greater convergence than in the past, might lead to a globally contractionary effect this year. Tax reform and other supply policies can provide incentives for investment and help improve resource use. But in addition, Summit Countries should commit themselves to moderating the pace



of budgetary restraint if needed in the light of the evolution of domestic activity, especially in those countries where greatest progress has been made in fiscal consolidation and control of inflation. Summit Countries might review the role of fiscal policy in sustaining growth in this juncture since there seems to be limited scope for further monetary accommodations as monetary policy appears to be overburdened by the goals of supporting activity, managing exchange rates and, where needed, checking inflation.

1.4. Summit Countries should agree on the need to supplement their macroeconomic strategy with effective microeconomic and structural policies to sustain progress towards non-inflationary growth and employment creation which has been insufficient, notably in Europe, to match the increase in the size of the labour force. Summit Countries might stress the need to:

- promote competition and deregulation of business in order to speed up industrial adjustment;
- reduce major imbalances between agricultural supply and demand and gradually adapt agriculture to market conditions;
- promote job creating investment;
- improve the functioning of labour markets through greater mobility and adaptability of the work force, wider wage differentials and more flexible contractual arrangements;
- encourage the elimination of restrictions to capital flows in order to foster international financial integration.

1.5. The cooperative management of economic policies by the Summit Countries should be seen in the context of the Tokyo Agreement on policy coordination and multilateral surveillance. Summit countries might want to stress that they now consider policy coordination as a permanent ongoing process and they fully accept the principle of discipline that it involves. Recognizing that domestic policies have important international repercussions which in turn exert a feedback effect on domestic performance, Summit Countries should reaffirm that the focus for the exercise of coordination should be the compatibility of policies designed to attain sustainable external positions and non-inflationary growth over the medium term.



In the present situation in which there is a need to contain the extent and the impact of the slowdown in economic activity, Summit Countries might want to re-emphasize their commitment to strengthen the process of policy coordination to that end. In this connection they should:

- welcome the report by the finance Ministers on the progress made to date in the management of the International Monetary System and endorse the conclusions they have reached, in particular in the contest of the Group of Seven meetings at the Louvre and in Washington as well as the policy actions undertaken since then (subject to revision in the light of the content of the report);
- invite finance Ministers and Central Bank Governors to consolidate procedures for carrying out periodic collective reviews of policies in force and for the adoption of remedial measures whenever there are significant deviations from the intended policy course;
- agree that the process of policy coordination should be based on the regular use of indicators of economic policies and performance;
- welcome the work done by the IMF to analyze and refine the instruments for effective surveillance, focusing attention on inconsistencies in national policies among the larger countries.

## 2. STRENGTHENING THE OPEN MULTILATERAL TRADING SYSTEM

2.1. Summit Countries should fully support the successful outcome of the new round of multilateral trade negotiations and reaffirm their political commitment to join efforts in order to achieve further liberalization and expansion of world trade to the benefit of all countries. To this end it will be essential to reverse the erosion of the GATT system through an effective strengthening of the multilateral trading system based on its principles and rules.

2.2. Recognizing the interrelationship between growth, trade and development, Summit Countries should underline the importance of a supportive international environment, and notably of an improved functioning of the International Monetary System, sustained growth and the reduction of the debt burden and external imbalances.

Summit Countries should underline that in volume terms the adjustment of trade flows is underway. Frictions arising out of large bilateral imbalances should be reduced by the adoption



of measures to open markets and stimulate economies, not by import restraints or deflation.

2.3. Summit Countries should also stress that the objective of further trade liberalization demands a strong effort by industrial and developing countries alike to promote effective structural adjustment.

2.4. Summit Countries should endorse fully the commitment to adopt appropriate policies and concrete measures in compliance with the principles of standstill and rollback which have been reaffirmed in the ministerial declaration on the Uruguay round. Protectionist pressures must be met vigorously and overcome. They look forward favourably to the eventual inclusion of trade in services under the GATT discipline and to the expansion to new areas such as those of investments and intellectual property.

2.5. On the basis of the ministerial declaration on the Uruguay Round, Summit Countries should also consider favourably the possibility of a mid-term review of the progress which has been achieved at an early stage. To this end a meeting of the TNC at ministerial level might take place in the fall of 1988.

(following paragraphs from 2.6 to 2.12 to be reviewed in the light of the OECD ministerial session)

2.6. Concerning agriculture, Summit Countries acknowledge that the global structural imbalance between supply and demand reflected in depressed world market prices and tensions among producing and exporting countries, has its root not only in stagnating demand and rapidly increasing productivity, but also in domestic support policies sheltering producers from market realities and delaying the necessary structural adjustments.

They should also acknowledge the collective responsibility for this imbalance and for the search for equitable solutions. The improvement of the functioning of the International Monetary System will facilitate the prospects for the reduction of these imbalances.



2.7. Summit Countries should recognize that a durable improvement of the situation in international agricultural markets requires concerted adjustments of domestic agricultural policies worldwide. Such adjustments should aim at exposing increasingly producers more directly to market signals.

These adjustments should primarily consist in a gradual and balanced reduction of direct and indirect support without excluding other means such as production control by quotas or set-aside programs. Each country or group of countries should be able to retain flexibility with regard to the measures to be adopted.

2.8. Attention should also be paid to the measures aimed at strengthening the demand side and developing alternative or complementary activities in rural areas.

2.9. Adjustment of agricultural policies cannot ignore the contribution the farming population provides to society, to a balanced regional development and to the protection of the environment. Income support should be granted only to sustain revenues of low income farmers and of those living in less favoured regions.

2.10. Summit Countries should appreciate the work carried out by the OECD in the framework of the 1982 ministerial mandate, the report of the Secretary General following the invitation of the Tokyo Economic Summit, and should invite the OECD to further develop and regularly up-date this work.

2.11. Summit Countries should strongly reaffirm their belief that the above mentioned changes of domestic policies will give strong impulse to the successful negotiations of the Uruguay Round.

Underlining the importance of the fact that a number of countries and the European Community have already begun to implement adjustments of their agricultural policies, Summit Countries should agree that credit should be given to earlier and current unilateral adjustment efforts.

2.12. Recognizing that any agreement on gradual adjustment in domestic policies will not have immediate effects, Summit Countries, in order to improve the climate for negotiations in the Uruguay Round,



share the view that there is a need for an understanding among OECD countries on some immediate action including:

- a commitment to refrain from measures which aggravate the existing imbalance between supply and demand;
- a commitment to abstain from aggressive subsidization of exports ("ceasefire") and to improve stabilization of international prices and markets;
- an understanding on the need for a responsible management and disposal of surplus stocks.

### 3. THE DEBT STRATEGY

3.1. Summit Nations should reaffirm that they see no alternative to the present growth-oriented strategy launched following the US initiative of October 1985. Such strategy calls for a cooperative approach by all concerned parties in an effort to alleviate on a case-by-case basis the strains on debtor countries and to re-establish normal relations with financial markets and institutions.

Three elements are needed to this end: a supportive world economic environment; the pursuit of domestic structural reforms in debtor countries; the provision of adequate external finance.

All parties have a role to play in the strategy: first of all the debtor countries themselves, as they bear a primary responsibility for the restoration of their creditworthiness, but also the commercial banks and the international financial institutions, which will continue to be the main sources of financing for indebted countries.

3.2. In this context Summit Nations should reiterate their commitment to create a supportive environment through policies to promote sustained growth and the expansion of world trade, low interest rates, open markets, increased flows of finance.

3.3. The debt strategy has proved to be a flexible and effective framework for a number of agreements which through a combination of adjustment measures, debt reschedulings and provision of new money has allowed some resumption of growth and correction of imbalances, despite unfavourable developments in export earnings.



Progress in implementing the strategy, however, has been uneven and there is a need to adapt and strengthen its framework, taking account of new needs and instruments.

3.4. Summit Countries should stress that progress in restoring credit worthiness has been limited in some important cases, were there is still lack of adequate policies of structural adjustment and growth designed to encourage the efficient use of domestic savings and the repatriation of flight capital. On the other hand, there is a need to restore the conditions for a resumption of spontaneous lending by commercial banks which continues to be insufficient.

3.5. In this context, Summit Countries should encourage commercial banks to develop new and flexible financing techniques designed to alleviating the debt-servicing burden including lower spreads on new or rescheduled loans, exit bonds, debt-to-equity swaps.

Summit Countries should also review the adequacy of differing tax provisions as well as of regulatory and supervisory structures in the area of international bank lending.

3.6. Summit Countries should strongly support the activities of international financial institutions, including regional development banks. These may be called to play an expanded role in the light of lower-than-expected growth in the world economy and of LDCS' export markets, of worsening terms of trade for primary producers and of a shortfall in financing to LDCS from private sources.

Such additional support should be made available on a selective basis and in connection with programs of structural adjustment.

In particular, Summit Countries might:

- note with satisfaction the contribution made by the replenishment of IDA VIII;
- recognize the positive role played by the IBRD through its increased lending activity with special reference to its quick-disbursing loans;
- make progress towards an agreement on general capital increase of the IBRD;



- promote closer cooperation between the IBRD and the IMF in their structural adjustment loans and facility.

3.7. Summit Countries should encourage measures aimed at promoting non-debt-creating capital flows, especially direct investment: the newly established MIGA can play significant role in this context.

3.8. Summit Countries should further support growth oriented strategies in developing countries by:

- increasing official development assistance, particularly to the poorest countries;
- recognizing the importance of necessary flexibility on the part of export credit agencies in promptly resuming or increasing cover for countries that are implementing comprehensive adjustment programs;
- supporting longer repayment and grace periods in official rescheduling agreements, possibly also granting exceptional financial relief to highly indebted low-income countries, particularly in sub-saharan Africa.

### III. OTHER ISSUES

#### 1. TERRORISM (PROPOSED TEXT BY THE GROUP OF EXPERTS)

Summit Countries should reaffirm their condemnation of international terrorism, in all its forms, of its accomplices and of those, including Governments, who sponsor or support it, and are resolved to further intensify their joint efforts to combat international terrorism (further appropriate opening to take into consideration the political circumstances of the moment).

They should recall that in the Tokyo statement on international terrorism they agreed to make the 1978 Bonn declaration more effective in dealing with all forms of terrorism affecting civil aviation. To this end, in cases where a country refused extradition or prosecution of those who have committed offences described in the Montreal Convention for the suppression of unlawful acts against the safety of civil aviation and/or does not return the aircraft involved,



they should be jointly resolved that their Governments shall take immediate action to cease all flights to that country.

At the same time, their governments should initiate action to halt all incoming flights from that country or from any country by the airlines of the country concerned.

They should intend also to extend the Bonn declaration in due time to cover any future relevant amendment to the above Convention or any other aviation conventions relating to the extradition or prosecution of the offenders.

They should urge other governments to join in this commitment.

## 2. ENVIRONMENT (BASED ON THE GERMAN PROPOSAL)

As to their previous commitment to preserve a healthy environment and to pass it to future generations, Summit Countries should welcome the report by the environment experts on the improvement and harmonization of techniques and practices of an environmental measurement. Accordingly, they should encourage the United Nations environment program (UNEP) to institute a forum for information exchange and consultation in cooperation with the international organization for standardization (ISO) and the International Council of Scientific Union (ICSU), assisted by other international organization and interested countries, so that continuing progress in this important field can be ensured.

The priority environmental problems identified by the environment experts in their reports should receive full attention.

### (ITALIAN PROPOSAL)

Summit Countries, also taking into account the report of the World Commission for Environmental Development (WCED), affirm that the main objective of their action remains a common response to global changes and effective international cooperation in managing environmental development challenges as well as ecological and economic interdependence.

## 3. ENERGY (PROPOSED TEXT)

Summit Countries should promote the increase of international cooperation in the field of energy particularly in the competent fora.



They welcome the important progress made in the International Atomic Energy Agency (IAEA) and Organization for Economic Cooperation and Development (OECD) in further improving nuclear safety. They urge prompt ratification of the IAEA conventions on early notification and mutual assistance in the case of nuclear accident.

They note with satisfaction that the United States, Soviet Union, Japan and the E.E.C. have started a collaboration in the field of nuclear fusion, under the auspices of IAEA, in order to jointly conduct a conceptual design and support research and development for an international thermonuclear experimental reactor.

#### 4. EDUCATION (BASED ON THE TEXT PROPOSED BY THE JAPANESE PERSONAL REPRESENTATIVE)

Summit Countries should welcome the positive contribution made by the Conference of high level experts on education, held in Kyoto in January 1987, which provided them with an opportunity to deepen their understanding on the importance of education for social-economic development and to deliberate on the future role of education in our society.

#### 5. AIDS (PROPOSED TEXT)

Summit Countries should reaffirm that AIDS is an international problem and at the moment the biggest potential health problem in the world. Control of AIDS will therefore be one of the prime tasks of all the countries concerned. National efforts may and have to be intensified and made more effective by international cooperation and concerted campaigns to prevent AIDS from spreading further. Such campaigns will have to be based on common principles and objectives and will have to ensure that the measures taken are in accordance with general principles and human rights.

In this connection Summit Countries should agree that:

- they will promote further cooperation for basic and clinical studies on prevention and treatment and exchange of information. They welcome and support joint action of researchers in the Summit Countries (as in the case of the French-American program, which has to be further enlarged) and all over the world for the cure of the disease, the clinical testing on components of the virus, the development of a successful vaccine;



- international cooperation will not be improved by duplication of effort. Priority will have to be given to strengthening existing organizations by giving them full political support and by providing them with the necessary financial, personnel and administrative resources. The World Health Organization (WHO) is the best focus for it and all countries should be encouraged to cooperate to the full with the WHO and support its special program of AIDS related activities;

- in the absence of a vaccine or therapy, the best hope for prevention of AIDS rests on a strategy based on educating the public about the seriousness of the AIDS epidemic, the ways the AIDS virus is transmitted and the practical steps each person can take to avoid acquiring or spreading it. Appropriate opportunities should be used for exchanging information about national education campaign and other domestic policy issues.

6. DRUGS (PROPOSED ORAL STATEMENT BY THE ITALIAN PRESIDENT AT THE PRESS CONFERENCE)

Summit Countries have finally examined a problem affecting people all over the world, particularly young people and their families: the drugs problem which has already caused a tragic loss of human lives. They are committed to fight, to eradicate it and to undertake a global strategy in support of national legislations, aiming to prevent illegal production and commercialization of drugs and to create all necessary conditions for a more effective international cooperation. In this context, they welcome the agreements already reached on bilateral and multilateral basis."





Congress House  
Great Russell Street  
London WC1B 3LS

*Personal  
Notes  
JP*

01-636 4030

**Trades Union Congress**

Rt. Hon. Margaret Thatcher, MP,  
Prime Minister,  
10 Downing Street,  
LONDON SW1.

Your reference:

Our reference:

I/NDW/MRB/TP

Date:

April 28, 1987

Dear Prime Minister,

World Economic Summit, Italy

I am enclosing a copy of the statement prepared by the Trade Union Advisory Committee to the OECD for presentation to the governments at the OECD Ministerial Council and the world economic summit in Venice in June.

*ch?*

The statement draws attention to the need to make the reduction of high levels of unemployment the main economic goal of governments in the OECD area. In our view there are no grounds for governments to be complacent about the rising level of unemployment nor about falling growth rates.

The General Council hope that you will take account of the statement in your contributions during the economic summit. I shall represent the General Council at a meeting with the Italian Prime Minister in Rome on May 19 when the statement will be presented by trade unionists from the seven summit countries.

Yours sincerely,

*NW*

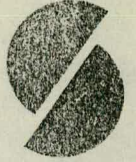
General Secretary.

cc Rt. Hon. Nigel Lawson, MP

CH/EXCHEQUER	
REC.	05 MAY 1987
ACTION	CST EST SIR P MIDDLETON
COPIES TO	SIR T BURNS
	SIR G LITTLER
	MR MONCK
	MR LIVELLE
	MR BURTON
	MR H.P. EVANS
	MR S. MATTHEWS
	MR P GRAY

*SP*





Réf.

STATEMENT TO THE OECD'S MINISTERIAL COUNCIL  
AND THE VENICE SUMMIT  
MAY - JUNE 1987

---

CONTENTS

	Paragraphs
I - The Priority: Fighting Unemployment	1 - 3
II - Summary of Proposals	4
III - Social Dialogue	5 - 7
IV - Economic Co-ordination	8 - 17
V - Investment and Structural Policies	18 - 25
VI - Active Manpower Policies: Training and Working Time	26 - 32
VII - Trade and International Investment	33 - 40



## I - The Priority: Fighting Unemployment

1. The priority for economic policy must be to fight unemployment and to rebuild a full employment society. The OECD Ministerial Council and the Economic Summit should discuss unemployment as a subject in its own right, and agree on those policy changes which are necessary to bring unemployment down. This is also the common message of the BIAC-TUAC statement on "Full Employment and Growth as the Social and Economic Goal". In addition, OECD Manpower and Social Affairs Ministers, meeting in November 1986, recognised that unemployment cannot be solved by manpower and social policies alone and they urged that "many government policies should contribute in their several ways to a concerted attack on the problem of unemployment". These messages have to be understood and acted on by the Economics and Finance Ministers and by the Prime Ministers and Heads of State.

2. Governments cannot afford to be complacent. Registered unemployment has remained at around the level of 31 million in the OECD countries for the last four years, and is now rising again. The lengthening duration of unemployment is leading to growing poverty and untold social damage. Growth rates are falling and forecasts are being continually revised downwards. OECD governments are failing to deliver the jobs and rising living standards which were promised from one supposed "solution" after another. Inflation has been reduced but unemployment remains high; real wages have been depressed but sufficient jobs have not been created; profits have grown, but this has not led to productive investment, rather there has been a growth in the speculative economy; cuts in public expenditure have led to higher not lower unemployment. Businesses have adjusted to a stagnant situation.

3. On top of this, the world economy is faced by the dual threat of a dollar collapse and a debt default. International trade tensions reflect the mis-management of the world economy. The opportunity to take action which was offered by the fall in oil prices in 1986 was thrown away. International declarations on economic policy co-ordination have not been honoured. The Tokyo Summit communiqué on economic policy committed the Finance Ministers and Central Banks of the seven leading OECD countries "to make their best efforts to reach an understanding on appropriate remedial measures whenever there are significant deviations from an intended course, and recommend that remedial efforts focus first and foremost on underlying policy fundamentals". No clear changes of wider policy have been made which could give hope for the return of OECD economies to an "intended course" of falling unemployment and reduced imbalances. Governments have instead resorted to exchange rate brinkmanship.



## II - Summary of Proposals

4. Governments have the responsibility to break the vicious circle of high unemployment, low growth and investment, and social polarisation. The main priorities for action are the following:

- i) Governments must support and encourage social dialogue and collective bargaining between employers and trade unions at all levels of the economy. They are a means to widen opportunities for action. At national level social dialogue between governments, employers and trade unions must identify the potential sources of employment growth and the measures necessary to realise them (paragraphs 5-7).
  
- ii) In the face of a deteriorating economic situation, international economic co-ordination must commit governments to take joint action to achieve faster and more employment-orientated growth. This requires:
  - for Japan, an expansion of the domestic economy through increased purchasing power, infrastructure investment and reduction of working time;
  - for Western Europe, as a first step governments must change policies to implement the Co-operative Growth Strategy;
  - for the USA, the reduction of trade and fiscal deficits through growth, structural policy and taxation;
  - for the developing countries, a resumption of development, increased private and official resource flows, and debt repayments based on growth and productive investment rather than through continuing austerity.Tax cuts for those on high incomes and companies will not aid growth and employment (paragraphs 8-17).
  
- iii) Governments must ensure that productive capacity is built up, rather than destroyed. They must develop investment policies to transform profits into productive investment geared to job-creating and qualitative growth. Increased profits have not been invested but rather wasted in financial, property and exchange rate speculation. A major initiative is required to increase infrastructure investment. Other structural policies need to be extended: regional policy; research and development; technology policies; and environmental protection (paragraphs 18-25).
  
- iv) Active manpower policies are needed in order to: manage structural change in a way which meets social and economic goals; raise the quality of jobs; and to ensure that growth leads to higher job creation. The OECD area suffers from polarisation and degeneration in the quality of employment. Policies should: improve employment services, particularly for the young and long-term



unemployed; increase education, training and retraining; maintain and improve basic labour standards; reduce working time; develop trade adjustment policies; and coordinate manpower policies with other structural policies (paragraphs 26-32).

- v) International economic co-ordination must eliminate large trade imbalances through faster and more balanced growth. A collapse of world trade would be a further blow to growth and employment. A new framework for trade must be established covering: the observance of minimum labour standards everywhere; the upward harmonisation of living and working conditions between countries of comparable economic development and strength; anticipatory adjustment policies; the transparency of non-competitive trade; and the implementation of obligations on direct foreign investment (paragraphs 33-40).

### III - Social Dialogue

5. Governments have to support and encourage collective bargaining between employers and trade unions at all levels of the economy. It is a means to widen opportunities for action. At all levels social dialogue between public authorities, employers and trade unions must identify the potential sources of employment growth and the measures necessary to realise them. Governments cannot abandon their responsibilities for employment policies and leave it up to trade unions to negotiate in a hopeless general economic environment, while excluding them from having a voice in policy formulation.

6. In the post-war period, prosperity and successfully managed structural change went hand in hand with social progress, the spread of collective bargaining and the identification of shared goals. This can be contrasted with the current situation of unemployment and growing poverty. Real wages have stagnated and in many cases decreased resulting in depressed purchasing power and living standards. Collective bargaining is being attacked by some governments which have sought to individualise industrial relations. Such attempts disrupt the functioning of industrial relations systems, with damaging social and economic consequences. This approach is a recipe for chaotic industrial relations. Unemployment is being used as a way of keeping the balance of bargaining power tilted against working people. It has become an instrument for achieving other policy objectives, in spite of the governments' pledge at the time of the founding of the OECD to work for full employment.

7. Collective bargaining systems must be protected and promoted. OECD economies are increasingly dependent upon skills, knowledge and education of workers. Without well trained, well motivated and well paid people new technological systems will not operate effectively. Yet without strong trade unions, workers have no voice. People need and want to have a



say in their future. Changes in economic structures must be managed in a way which maintains social cohesion and leads to positive economic and social results.

#### IV - Economic Co-ordination

8. International economic co-ordination must primarily aim at increasing complementarity between countries. It must be used to reduce imbalances and uncertainty in the world economy and must raise growth and fight unemployment. Yet, growth in the OECD area has fallen from 4.7% in 1984 to only 2.5% in 1986, and on present policies growth will slow down even further. Job creation has fallen from 1.6% to just over 1% per year, with the consequence that registered unemployment is rising again. Developing countries have ceased to develop, as global interdependence has taken a new and more threatening meaning. The opportunity offered by the fall in oil prices has been wasted and has only resulted in increased dependence on OPEC. The Tokyo summit agreement to coordinate policies on the basis of objective indicators has not been implemented.

9. Governments have often agreed to coordinate monetary and fiscal policies, but in fact they have not fulfilled their own agreements and instead have resorted to exchange rate brinkmanship. Over-reliance on exchange rate changes has proved to be a very blunt way of reducing international imbalances. Achieving exchange rate stability in the medium term requires a major reduction in trade imbalances between the main countries. Trade imbalances can only be reduced in a way which does not lead to even higher unemployment if there is faster growth outside the United States. On present policies this will not happen. The fiscal measures which have been taken or announced by the major governments in recent months are unconvincing. Tax cuts for those on high incomes and companies will not aid growth and employment. Cuts in public expenditure even when matched by tax cuts have led to higher not lower unemployment. Tax reforms must not shift the burden of taxation from higher to lower income earners and thereby depress consumption without raising productive investment, and tax reductions are an inefficient way of promoting jobs and investment compared with targeted policies.

10. International co-ordination must identify the areas where higher growth is possible, where there can be a deployment of extra investment resources, and where opportunities exist for increased employment. Measures must be targeted so as to achieve higher quality growth and which leads to higher rates of job creation. This does not mean all countries follow the same policy; on the contrary, policies should be compatible and complementary. If the concept of 'objective economic indicators' agreed at the Tokyo Summit is to have any value it must commit countries to take action.



11. In Japan these objective indicators point to the need to expand the domestic economy. The trade surplus remains excessive; growth has fallen to 2 1/4%, the lowest rate for 12 years; and registered unemployment has risen to record levels under the impact of the 50% appreciation of the Yen against the Dollar. This situation has led to pressure on purchasing power of workers in the export sector and, in addition, the government's tax reform proposals will have a negative impact on domestic consumption. The real challenge for Japan must be to raise the living standards of Japanese workers by reorientating its economy towards domestic production and services while opening its market wider so that it becomes better integrated in the international trading system.

12. Domestic purchasing power must be increased in Japan so as to achieve growth rates of 4%. This should be done through raising real wages and through replacing the tax reform proposal by measures to cut taxes so that average living standards can improve. The reduction of working time should play an important role in facilitating domestic growth. There is also an urgent need to increase investment in social and physical infrastructure to provide the basis for domestic growth. With a very high savings ratio action must be taken to mobilise existing financial resources to productive ends.

13. In Western Europe, governments must change policies to fulfill the commitment they made in adopting the European Communities' "Co-operative Growth Strategy" in 1985. That strategy stated that growth of more than 3.5% was necessary to bring down unemployment. In reality growth is little more than 2%. Some European countries are in a strong position to take action to deal with the underlying weakness in the economy and to develop new sources of employment growth. Germany, with declining growth rates, no inflation, high unemployment, and a very large payments surplus is in a particularly strong position to take action. The three priorities should be increased domestic purchasing power, increased infrastructure investment to encourage qualitative growth and the reduction of working time to strengthen the impact on employment. The proposed tax cuts are no substitute.

14. Action to increase domestic demand, employment and investment would also improve the room for manoeuvre for many other European countries, due to the close and growing interdependence of European economies. Conversely, failure to take action by countries in a stronger situation means that those European countries with trade deficits would be under increasing pressure to depress growth even further, with disastrous consequences for employment. Common priorities for action in Europe remain: increased purchasing power; increased infrastructure investment; lower real interest rates; and reduced working time.

15. The United States economy remains in a fragile state. Unemployment has remained at close to 7%. 70% of the unemployed



do not receive any kind of unemployment compensation. Despite the rapid growth between 1983 and 1985, 14% of Americans remain below the poverty line and real average hourly earnings have declined by 7% between 1973 and 1985. Structural imbalances in the US economy have grown with the process of deregulation and the absence of an investment policy. The trade deficit has reached an all time high and shows little sign of falling despite the drop in the dollar. There was too much adjustment to temporary and unsustainable developments when the dollar was over-valued. As a result, part of the industrial structure has now been destroyed. Investment in manufacturing capacity has been concentrated in sectors which have been associated with defence contracts with insignificant spin-off for the rest of the economy. With the growing specialisation of military technologies these sectors have become increasingly isolated from the economy as a whole.

16. As the United States represents more than 40% of the OECD economy, policies to improve its industrial structure and to reduce the twin deficits must aim at sustaining and improving growth not at cutting it back. The trade deficit cannot only be eased by faster growth of markets for US exports. Production for domestic markets must also be strengthened. Reviving the US manufacturing base is necessary through: investment policy with a regional dimension; increased targeted infrastructure investment on, for example roads, bridges and water systems (as recommended by the US Labor - Management Group in 'A Consensus on Rebuilding America's Vital Public Facilities'); and effective training and education programmes. Federal deficit reduction should not be achieved by reducing the already inadequate essential expenditures (e.g. vital social services) but by maintaining growth, improving the productivity of the economy and taxation. The reduction in the deficit also needs to go hand in hand with a better balance between fiscal and monetary policy. The Federal Reserve Board should therefore further lower real interest rates.

17. Developing countries are major victims of the current situation. Commodity price falls, austerity policies and the debt crisis have combined to lower per capita incomes. The flow of aid has in effect been reversed. Net capital outflows have been steadily increasing for a number of years with the debt problem acting as a brake on development. Eradicating poverty is an important goal in its own right. It could also be one major source of growth for the world economy. The resolution of the debt crisis requires solutions with a long-term perspective and a political will on the part of OECD governments. There should be a resumption of development through increased private and official resource flows and through debt repayments based on growth and productive investment rather than through continued austerity. The policies of the IMF and World Bank should reflect this and increased resources are necessary. Creditor banks should reduce the management fees charged and shoulder reasonable losses associated with debt restructuring. More resources for aid will have to be provided. Although it is



understood that aid flows cannot solve the debt crisis there is clearly a need for an increase in aid particularly from those countries which fall short of the 0.7% of GNP target. Consideration has to be given to methods of channeling countries' payments surpluses to uses compatible with development needs, and one such mechanism would be the integration into the international monetary and financial system of automatic additional contributions to multilateral development assistance by surplus countries. In addition if, as trade unions urge, international agreements are reached which reduce military expenditures, additional funds made thus available in all countries concerned must be devoted to more productive uses, particularly for development purposes.

#### V - Structural and Investment Policies

18. In the present situation for many workers "structural adjustment" means factory closures and job losses. With growth faltering, governments must be able to answer the question: where is the investment to provide new jobs? Rebuilding the industrial base and building a more productive and socially useful economy requires new productive investment to expand and replace capacity instead of just the closure of existing capacity. Achieving positive change depends upon the creation of new and good employment opportunities, and the training of people to enable them to take advantage of those opportunities.

19. The route from savings and profits to investment and job creation has become blocked. Profits have risen strongly yet since 1979 investment in the OECD has declined as a proportion of GDP. The stagnation or reduction of real wages and the rise of uninvested profits have depressed demand for goods and services. Low growth has been built into the economic policies of governments and into the strategies of firms. The protracted monetary chaos and exchange rate fluctuations have been one cause of inadequate productive investment and the unnecessary destruction of many millions of jobs in countries where industries have over-adjusted to unsustainable exchange rates. The liberalisation of financial markets has led to an excessive emphasis on short-term profits and has acted against longer-term investment. Resources are being wasted in predatory takeovers and in exchange rate, property and financial speculation. Privatisation and deregulation have led to private gains but collective losses, not improvements in economic structures. Tax reforms or cuts which have shifted taxes from companies or those on high incomes have not produced higher productive investment.

20. Governments cannot consider themselves just as innocent bystanders in the process of change. Investment policies are urgently required to transform profits into productive investment. Not only are lower interest rates and more stable exchange rates needed but governments must rebuild the relationship between the financial markets and the real



economy, and bridge the gap between the short-time scale of financial flows and the longer time frame of job creating investment. Governments also have a responsibility for the quality of growth and the direction of structural change. Achieving "qualitative growth" requires diversified policies particularly in the investment field. These cover: the orientation of private investment through investment policy; the quality of urban development and renewal through infrastructure investment; investment in energy conservation and in alternative sources of energy supply; the incorporation of high standards of environmental protection and health and safety in new investment projects undertaken; and investment in environmental services.

21. All OECD countries are becoming increasingly divided between areas of growth and areas of decline where overdependence on single industries and employers have hindered diversification. Governments must use regional policies to channel capital to depressed regions rather than relying solely on the mobility of people to reduce regional unemployment. Universities, research and education centres should be developed in depressed regions to attract additional investment and jobs in the industries using the results of research.

22. Governments have the direct responsibility for physical and social infrastructure investment. A major increase in infrastructure investment is urgently required. This would at the same time promote private investment and jobs. There are urgent needs to be met, as identified last Autumn in the communiqués of the OECD Labour Ministers and the OECD Urban Affairs Ministers. By concentrating on tax cuts for those on high incomes governments are throwing away their own ability to act directly on investment and jobs, and they are undermining the revenue base of essential ~~public~~ expenditures. Inadequate funding has led to a deterioration of the infrastructure. Delapidated buildings, homelessness and deteriorating social provision form part of a vicious circle of disinvestment. Local authorities, at the same time as having to cope with the social consequences of recession, are frequently under budgetary constraints including those imposed by central government. Reliance on market forces does not regenerate investment in depressed areas. Government must provide the lead.

23. Public action can mobilise private resources on a large scale. Infrastructure investment creates jobs in the still depressed construction industry, in supplying industries and in the economy as a whole. The patterns of investment can also be targeted so as to ensure that they have the maximum job-creating effect. Innovative methods of harnessing private savings, public funding and guarantees should be developed. OECD governments should survey infrastructure requirements, fix priorities and undertake the necessary work in conjunction with private financing as appropriate.



24. Investment policies require a greater commitment to basic research and development, and the dissemination of socially desirable new technologies throughout the economy. However, for the social and economic potential of new technology to be harnessed education, information and negotiation is required. The OECD Labour Ministers underlined in their Declaration on the Social Aspects of Technological Change that timely provision of information and consultation with unions constitutes good practice, and it is necessary for governments to ensure that, as a first step, such practice is implemented.

25. The disasters at Bhopal, Chernobyl and the Sandoz plant in Switzerland, are only the latest of a series of environmental catastrophes. These should be reminders of the responsibilities of companies and governments to ensure that environmental standards are enforced and improved on a national and international basis. International co-operation on environmental issues must not be undermined by competitive pressures. Improvement and protection of the environment can go hand in hand with faster economic and employment growth. There are positive direct and multiplier effects on jobs. The cost of improving the environment is greater the longer it is neglected. Investment which incorporate the latest environmentally safe technologies creates better quality structural change. Stronger environmental regulations and their enforcement both within and outside the plant are needed. Research and development in environmental areas needs to be stepped up.

#### VI - Active Manpower Policies: Training and Working Time

26. Active manpower policies are needed: to manage structural change in a way which meets social and economic goals; to raise the quality of jobs; and to ensure that growth leads to higher job creation. Policies should: improve employment services, particularly for the young and long-term unemployed; increase education, training and retraining; maintain and improve basic labour standards; reduce working time; develop trade adjustment policies; and coordinate manpower policies with other structural policies such as regional policy.

27. Governments must not seek solutions to economic problems by reducing wages, social standards and employment protection. Firms competing by cutting basic labour standards will not raise growth and employment but will set in train a chaotic downward spiral. More good quality jobs must be created which give access to a better standard of living. In some countries the total productivity of the economy has been slow growing which may look good for employment but which in reality is bad. The OECD area has a problem of polarisation and degeneration in the quality of employment, especially but not solely in those countries where the creation of jobs has been in low productivity, low wage and sub-standard enterprises. The growth of the underground economy which has become a serious problem in some countries has even been sanctioned by some governments.



28. Basic education, training and the life-long opportunity for retraining have to be expanded and access made available to all, as knowledge and skill are decisive for growth, employment and individual opportunity. Yet a severe shortfall has developed in the provision of education and training. In some countries the quality of basic education is deteriorating and the, already limited, access to higher education is being further restricted. Few employers invest sufficiently in the continuing education and training of their workforce especially those trapped in low-skilled, low-income jobs many of whom are women. There is unequal access to retraining, employers adopt a fire and hire approach, rather than retrain older workers or train young workers. Relying on widening wage differentials to poach skilled workers does not compensate for insufficient investment in training but reduces the incentive of employers to train.

29. Government regulation and as appropriate financing is necessary to widen access to training and retraining. Financial responsibility for improving the skills of workers is split between employers and governments in different proportions depending on the country. However, governments have the responsibility to ensure that the whole of the nation's workforce acquire the necessary skills, and individuals cannot and should not bear the cost. Where necessary, statutory rights need to be introduced to make access to training and retraining a reality, as in the case of paid educational leave. The possibility of training and retraining should be an integral part of job content. Technological and organisational changes raise the danger of deskilling and the standardisation of work tasks. This must be countered by ensuring that changes in work organisation are negotiated and linked to training and retraining so that the quality of new jobs is raised.

30. The geographical distribution of training and retraining opportunities is crucial. The aim must be to ensure that industries, employers and skill patterns are diversified at a local level. Combined approaches for retraining in conjunction with anticipatory labour market policies are required, with programmes for the long-term unemployed. An improved system cannot be achieved just at the level of the individual firm since sectoral changes present wider problems of skill incompatibility. Every effort should be made to seek solutions at the community, regional and national level by government authorities, employers and trade unions.

31. The reduction of working time is an important way of improving working and living conditions. The reduction of working time is also a useful method of building a closer link between employment and output by achieving a direct and socially desirable distribution of productivity gains. In Japan reductions in working time must be accelerated to spread the benefits arising from technological change for improved employment. In Europe some reduction of working time has been achieved and this has saved many jobs which would have



otherwise been lost during the last few years, and has increased employment in growing sectors. Further reductions in working time are essential. Changes in working time arrangements must be negotiated so as to be accompanied by suitable safeguards to protect and improve working conditions and by visible success in creating more employment. Governments should encourage and not hinder negotiations to achieve reduced working time and maximise the positive employment effects.

32. Systematic overtime is frequently linked with the serious problem of low basic rates of pay, so a reduction of overtime working must be accompanied by measures to convert overtime payments into basic pay, to accord compensatory time-off and to hire new workers. Some employers are much keener to impose flexibility of working time and an increase in overtime than to employ new workers. Increasingly, part-time work is the only work on offer because employers wish to avoid the application of employment protection legislation and social security contributions for their employees. Such involuntary part time work should be replaced with full time employment. The OECD Labour Ministers recognised last Autumn the inadequacy of legislative coverage for part-time workers. Governments have to extend the coverage of employment protection to part-time workers so that they are as protected as other groups in society.

#### VII - Trade and International Investment

33. The multilateral trading system is coming under increasing pressure due to the mismanagement of the world economy, failure to bring down unemployment and the imbalances in the world economy. A collapse of world trade would be a further blow to growth and employment. It must be avoided by international economic co-ordination so as to eliminate large trade imbalances through faster and more balanced growth and by maintaining stable and realistic exchange rates. Surplus countries must expand their domestic markets, and deficit countries must substitute for imports by improving their industrial structures through investment policies. Unless progress is made on this, the Uruguay Round of multilateral trade negotiations will not be able to prevent a "beggar my neighbour" trade war which would be to every country's disadvantage.

34. The growth of economic interdependence means that GATT cannot avoid considerations which are wider than the reduction of direct and hidden trade barriers. These must encompass economic and social conditions. A new framework for trade must be established which should ensure: minimum labour standards are observed everywhere; upward harmonisation of living and working conditions in countries of comparable economic development and strength; anticipatory adjustment policies for workers in sectors affected by change; the transparency of non-competitive trade (e.g. intra-firm trade, licencing,



barter, counter-trade and certain outward processing regulations); and the implementation of obligations of good practice on direct foreign investment by multinational enterprises.

35. The trading system must improve access to exports from developing countries. However, no government should be allowed to use its failure to implement internationally agreed minimum labour standards and trade union rights to capture export markets and to attract foreign investment. On the contrary, the benefits of greater participation in international trade must contribute to the social and economic progress of developing countries' populations as a whole. Some governments have incorporated reference to observance of these standards in bilateral trade and investment legislation. Governments should include a social clause in GATT, linking participation in the multilateral trading system to observation of minimum labour standards. These standards include: freedom of association; the right to collective bargaining; prohibition of forced labour; child labour; non-discrimination; and occupational health and safety. GATT should work closely with the International Labour Organisation and trade unions to this effect.

36. The Newly Industrialising Countries have a special responsibility in this respect. As recent significant exporters in selected products it is essential that they do not disrupt the multilateral trading system, but contribute to its development. Their national economies should become more broadly based with an increased emphasis on social provision and a fairer distribution of the fruits of productivity advances. In some cases, their export performance is restricted to a few sectors dominated by multinational enterprises which use the comparatively cheap labour to supply OECD markets without contributing to the market development of the countries in which their production is located.

37. Within the OECD countries themselves trade tensions arise amongst countries of comparable economic development and strength when the benefits of increased productivity are not translated into improvements in living standards. The maintenance of inferior working and living conditions at comparable levels of development is a protectionist device and puts downward pressures on those conditions in competing countries: it is a form of social dumping. The goal of increasing international trade must be to raise living standards not reduce them. OECD countries should seek to harmonise upwards their conditions covering for example wages, working time, pensions, social security benefits, working conditions, health and safety, and general social provision and living standards.

38. Governments should develop anticipatory adjustment policies for workers hit by movements in trade flows, and these should be fully integrated into other manpower, training and investment policies designed to address structural shifts in



economic activity. The OECD Labour Ministers meeting last Autumn recognised the importance of this issue and called for international co-operation to develop adjustment programmes for workers in sectors that have to adjust to international trade.

39. Agricultural policies are needed to eliminate hunger and guarantee food production, develop rural areas and promote the input supplying and food processing industries. However, current policies are unsustainable. They have raised food prices, created structural surpluses for some products and they have destabilised world markets with particularly damaging effects on developing countries. Moreover policies, including restructuring policies, have not benefited those in the agricultural sector in most need: the small farmers and agricultural workers. Change must be managed through structural policies designed to fight rural unemployment. Agricultural policies need to be linked to environmental policies and regional and rural development programmes.

40. The inclusion of services in the new GATT Round will provide new opportunities for multinational enterprises, as trade in services is dependent upon the freedom to establish operations in other countries. The services sector now employs large numbers of people who will be affected by structural changes arising from increased international flows of investment. Yet multinational enterprises benefit from the ability to invest and disinvest throughout the world and are not subject to the limits and obligations that face other companies. Strong principles, drawn from existing codes of conduct such as the OECD Guidelines and the ILO Tripartite Declaration of principles on multinational enterprises and social policy, should be included in GATT. This would balance the obligations of countries to give equal treatment and right of establishment for foreign investment. These internationally agreed codes of conduct specify good practice concerning, amongst other things, disclosure of information, industrial relations, and negotiations with trade unions on mitigating the adverse effects of changes in their operations.









FROM: A C S ALLAN

DATE: 29 April 1987

SIR G LITTLER

cc Sir P Middleton  
Sir T Burns**VENICE SUMMIT REPORT**

The Chancellor has been considering further the various papers on the report to the Venice Summit. He has the following additional points:-

- (i) He thought it was helpful, as in paragraph 3 of the Italian draft, to start the story with the dollar rise from 1980.
- (ii) The material on indicators in the original Italian draft will need updating to take on board the language of the paper agreed in Washington.
- (iii) It would be worth trying to say a little more about the development of indicators for the G7 as a whole - there is a brief reference in paragraph 8 of Mulford's draft.

A C S ALLAN





10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

30 April 1987

Dear Tim,

I enclose a copy of a brief message to the Prime Minister from Mr. Nakasone which was delivered to No.10 at 2 pm today. As you will see it covers a translation of the "comprehensive economic measures" announced by the Japanese Government. The Japanese Ambassador was anxious that the Prime Minister should be aware of the message before she sees the Japanese Trade and Industry Minister this afternoon.

I should be grateful for advice in due course on whether a reply is appropriate.

I am copying this letter and enclosures to Alex Allan (HM Treasury), Tony Galsworthy (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

Yours sincerely  
Charles Powell

(Charles Powell)

Timothy Walker, Esq.,  
Department of Trade and Industry.

CH/EXCHEQUER	
REC.	30 APR 1987 ✓ 30/4
ACTION	MR ILETT
COPIES TO	CST FST EST MST SIR P MIDDLETON SIR G LITTLE MR LAVELLE MR CASSIDY MRS LOMAX MR H.P. EVANS MR MOUNFIELD

MR PELETT  
MR CROPPER  
MR TYRRE  
MR ROSS WOODLEY



TEXT

CONFIDENTIAL

Dear Prime Minister Thatcher

I am writing to you at the moment when policy coordination among the major countries is becoming more and more important in the light of the difficult international economic situation today.

I am fully aware of the severe international economic situation now existing and of the significance that the measures Japan is going to take, including those for the expansion of domestic demand, have on the world economy. My government intends to carry out resolute measures, centering on the expansion of domestic demand, paying full respect to the "Outline of the Comprehensive Economic Measures" adopted by the Liberal Democratic Party on April 24, which involves, inter alia, measures for the expansion of domestic demand accompanied by fiscal measures amounting to more than 5 trillion yen. The text of the "Outline" in English translation is herewith attached for your reference.

I shall depart for the United States tomorrow, and have exchanges of views with President Reagan not only on Japanese-American relations but also on measures to bring about bright prospects for the world economy.



In order to cope with the current international economic situation, I attach great importance to concerted action with European countries, and I wish to continue working in close cooperation with you.

Looking forward to seeing you soon again in Venice.

Yours sincerely,

Yasuhiro Nakasone  
Prime Minister of Japan



Outline  
of  
the Comprehensive Economic Measures  
(Provisional Translation)

April 24, 1987  
Liberal Democratic Party

I. Economic Measures for the Expansion of Domestic Demand

There is an urgent need for Japan to do its best to rectify its external imbalances.

At the same time, forceful measures are also urgently needed to stimulate the economy in the face of economic stagnation, deteriorating employment, and other difficulties stemming from the yen's sharp appreciation.

Such economic policy actions will promote economic growth led by domestic demand while contributing to further progress in structural adjustment.

Accordingly, the party proposes, based on Basic Policy Guidelines for the Expansion of Domestic Demand decided earlier, that immediate steps be instituted for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥5 trillion and with particular emphasis on the following items.

1. Public works implementation will be front-loaded as never before. (The contract rate in the first half of this fiscal year should be at least 80%.) In the course



of the budgetary allocations, all due attention should be paid to the situation in depressed industries and areas.

2. A large-scale supplementary budget will be formulated, public works will be added through the acceleration of the long-term plan for public works and public investments will also be increased for the improvement of facilities used for such purposes as research and development and education. The priority will be given to those projects with lower land acquisition costs, quicker impact, and wider ripple effects.

3. Budget request guidelines for investment expenditures will be reviewed.

4. Tax reform will be achieved and income tax reductions implemented. Tax reductions to stimulate domestic demand-oriented capital investments such as research and development in the private sector will also be implemented.

5. Measures to promote housing-related investments including housing enlargement and rebuilding and the installation of housing-related equipment will be improved and reinforced.

6. Deregulation will continue to be promoted and drastic measures will be taken with a fixed time limit to promote the utilization of private-sector vitality and projects conducive to the revitalization of local economies.



7. Adjustment policies for small and medium-sized enterprises will be expanded through such measures as the lowering of interest rates of Government-related financial institutions and the designation of additional specified areas.

8. The reduction of working hours, such as the promotion of the five-day work week, will be pursued. Employment policies will be strengthened through such measures as the promotion of the Employment Development Programme for 300 Thousand People.

9. Passing along the benefits of yen appreciation will be vigorously continued.

10. Monetary policy will be implemented in an appropriate and timely manner through the reduction of the Trust Fund Bureau depository rate and other means.

## II. External Economic Measures

The international economic situation as it affects Japan, including Japan-U.S. bilateral relations, is extremely difficult, and there is an urgent need to make the utmost efforts to rectify external imbalances, to formulate harmonious external economic relations, and thus to contribute positively to the vitalization of world economy.



Accordingly, the Liberal Democratic Party proposes that the necessary measures be promptly taken with particular emphasis on the following items.

1. Import Expansion

- (1) The necessary measures will be taken, including earmarking a special emergency fund, to promote the government procurement of foreign manufactured goods.
- (2) Institutional improvements will be made in the field of government procurement. (These include enlarging the scope of coverage, and those concerning transparency and academic discounts in the procurement procedures for super-computers.)
- (3) Further efforts will be made to encourage the private sector to increase its imports of manufactured goods.
- (4) Import credit facilities for manufactures will be expanded.
- (5) Implementation of the Action Program will be further promoted.

2. Contributing to the International Society

- (1) Implementation of the third Medium-Term Target for ODA will be moved up (at least two years' advance implementation of the target to double the ODA amount in seven years).
- (2) A Financial Recycling Promotion Scheme will be set up for the developing countries (especially the debtor countries) with the combined financial resources of



the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, and the private sector.

- (3) Technical cooperation, including the dispatch of experts, and international research and development cooperation will be expanded.
- (4) The necessary measures will be taken to positively support Sub-Saharan African and other least developed countries.



Attached to RA → PM  
5/5

Porto Cervo, Thursday, April 30 1987

PROGRAMME OF THE VENICE ECONOMIC SUMMIT

(8-9-10 June 1987)

Monday, June 8 1987

14.30 hrs

Beginning of arrivals in reverse protocol order at "Marco Polo" Airport.

The Heads of Delegation are welcomed by the President of the Council of Ministers.

Brief encounter with the President of the Council of Ministers.

Transfer of Delegation to residential accomodation by motorboat.

18.30 hrs - 19.30 hrs

Reception for Heads of Delegation, Foreign Ministers, Finance Ministers and other members of the official Delegation hosted by the President of the Council of Ministers at Palazzo Ducale (Sala del Maggior Consiglio).

20.15 hrs

Separate working dinners:

Heads of Delegation (Ca' Corner)

20.25 hrs

Foreign Ministers (Palazzo Volpi)

20.35 hrs

Finance Ministers (Palazzo Volpi)

Personal Representatives  
(Ca' Corner)

22.15 hrs

End of working dinners

22.25 hrs

End of working dinners

22.35 hrs

End of working dinners



Tuesday, June 9 1987

09.00 hrs	Transfer to the Island of San Giorgio in reverse protocol order. The Heads of Delegation are welcomed by the President of the Council of Ministers.
09.30 hrs	Group photographs in the Palladian Cloister of the Cini Foundation.
09.45 hrs	Working Session for Heads of Delegation at the Cini Foundation (Biblioteca Longhena) Working Session for the Foreign Ministers (Sala Barbantini) Working Session for the Finance Ministers (Sala del Consiglio)
12.45 hrs	End of working session
13.00 hrs	Working lunches at the Cini Foundation: Heads of Delegation ("Foresteria") Foreign Ministers ("Sala del Chiostro dei Cipressi") Finance Ministers ("Sala del Capitolo")
15.00 hrs	Personal Representatives ("Sala del Soffitto") Plenary session for Heads of Delegation, Foreign Ministers and Finance Ministers
18.00 hrs	End of working session  The Heads of Delegation, Foreign Ministers, Finance Ministers leave the Island of San Giorgio in protocol order.
20.30 hrs	Working dinners: Heads of Delegation and Foreign Ministers (Palazzo Grassi) Finance Ministers (Palazzo Volpi) Personal Representatives (Palazzo Grassi)
22.30 hrs	End of working dinners

./..



Wednesday, June 10 1987

09.00 hrs Transfer to the Island of San Giorgio in reverse protocol order.

09.30 hrs Plenary session

12.30 hrs End of Plenary session

13.00-14.30 hrs Plenary working lunch ("Sala del Cenacolo Palladiano") at the Cini Foundation.

15.40 hrs Heads of Delegation are escorted to their seats in the "Sala degli Arazzi".

15.45 hrs The President of the Council of Ministers of Italy presents the Joint Declaration (Sala degli Arazzi).

20.00 hrs Dinner for Heads of Delegation and their spouses, Ministers and Personal Representatives (without spouses), hosted by the President of the Republic of Italy.

Thursday, June 11 1987

Departure of Heads of Delegation and Ministers.



Outline  
of  
the Comprehensive Economic Measures  
(Provisional Translation)

April 24, 1987  
Liberal Democratic Party

I. Economic Measures for the Expansion of Domestic Demand

There is an urgent need for Japan to do its best to rectify its external imbalances.

At the same time, forceful measures are also urgently needed to stimulate the economy in the face of economic stagnation, deteriorating employment, and other difficulties stemming from the yen's sharp appreciation.

Such economic policy actions will promote economic growth led by domestic demand while contributing to further progress in structural adjustment.

Accordingly, the party proposes, based on Basic Policy Guidelines for the Expansion of Domestic Demand decided earlier, that immediate steps be instituted for the expansion of domestic demand, accompanied by fiscal measures amounting to more than ¥5 trillion and with particular emphasis on the following items.

1. Public works implementation will be front-loaded as never before. (The contract rate in the first half of this fiscal year should be at least 80%.) In the course



of the budgetary allocations, all due attention should be paid to the situation in depressed industries and areas.

2. A large-scale supplementary budget will be formulated, public works will be added through the acceleration of the long-term plan for public works and public investments will also be increased for the improvement of facilities used for such purposes as research and development and education. The priority will be given to those projects with lower land acquisition costs, quicker impact, and wider ripple effects.

3. Budget request guidelines for investment expenditures will be reviewed.

4. Tax reform will be achieved and income tax reductions implemented. Tax reductions to stimulate domestic demand-oriented capital investments such as research and development in the private sector will also be implemented.

5. Measures to promote housing-related investments including housing enlargement and rebuilding and the installation of housing-related equipment will be improved and reinforced.

6. Deregulation will continue to be promoted and drastic measures will be taken with a fixed time limit to promote the utilization of private-sector vitality and projects conducive to the revitalization of local economies.



7. Adjustment policies for small and medium-sized enterprises will be expanded through such measures as the lowering of interest rates of Government-related financial institutions and the designation of additional specified areas.

8. The reduction of working hours, such as the promotion of the five-day work week, will be pursued. Employment policies will be strengthened through such measures as the promotion of the Employment Development Programme for 300 Thousand People.

9. Passing along the benefits of yen appreciation will be vigorously continued.

10. Monetary policy will be implemented in an appropriate and timely manner through the reduction of the Trust Fund Bureau depository rate and other means.

## II. External Economic Measures

The international economic situation as it affects Japan, including Japan-U.S. bilateral relations, is extremely difficult, and there is an urgent need to make the utmost efforts to rectify external imbalances, to formulate harmonious external economic relations, and thus to contribute positively to the vitalization of world economy.



Accordingly, the Liberal Democratic Party proposes that the necessary measures be promptly taken with particular emphasis on the following items.

1. Import Expansion

- (1) The necessary measures will be taken, including earmarking a special emergency fund, to promote the government procurement of foreign manufactured goods.
- (2) Institutional improvements will be made in the field of government procurement. (These include enlarging the scope of coverage, and those concerning transparency and academic discounts in the procurement procedures for super-computers.)
- (3) Further efforts will be made to encourage the private sector to increase its imports of manufactured goods.
- (4) Import credit facilities for manufactures will be expanded.
- (5) Implementation of the Action Program will be further promoted.

2. Contributing to the International Society

- (1) Implementation of the third Medium-Term Target for ODA will be moved up (at least two years' advance implementation of the target to double the ODA amount in seven years).
- (2) A Financial Recycling Promotion Scheme will be set up for the developing countries (especially the debtor countries) with the combined financial resources of



the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, and the private sector.

- (3) Technical cooperation, including the dispatch of experts, and international research and development cooperation will be expanded.
- (4) The necessary measures will be taken to positively support Sub-Saharan African and other least developed countries.



Major Progress in Economic Structural Adjustment --  
Follow Up of the Maekawa Report

April 27, 1987

1. Introduction

(1) The recommendations of the Maekawa Report (1986. 4. 7) have become basic policy guidelines for the Government as the Ministerial Conference on Economic Measures decided upon the Outline of Procedures for the Promotion of Economic Structural Adjustment in line with the report (1986. 5. 1). In particular, the Government set as "a national policy goal" to steadily reduce the nation's current account imbalance to one consistent with international harmony.

(2) Accordingly, the Government has implemented various concrete measures as described below.

Some of the Maekawa report recommendations can be implemented by the Government on its own discretion, but in major policy changes the Government is statutorily required to seek the views of the relevant councils which are composed of knowledgeable and experienced members. The Government may also need to ask the Diet for the amendment of the related laws, if it is required. These necessary steps are steadily being taken.



(3) Moreover, the report has had a significant educative effect on the Japanese people to impress on them the necessity of transformation of the Japanese economy to a domestic-demand oriented one.

(4) In addition, recent sharp appreciation of yen (by IMF formular, more than 70% appreciation since the Plaza announcement) seriously affected industries in various fields, urging them to make a drastic adjustment. Recent trade statistics clearly reflect the changes in the economic environment. Japan's export in 1986 decreased by 15.9% from the previous year in the yen terms (1.3% decrease in volume terms), and import increased by 12.5% in volume terms. In particular, manufactured imports increased drastically by 31.4% in dollar terms and by 24.4% in volume terms. The ratio of manufactured imports showed an unprecedented ratio of 41.8% (31% in 1985).

## 2. Economic growth led by domestic demand

(1) Since the Maekawa report was made public, the Government implemented a series of Comprehensive Economic Measures in April 1986 (front-loading of public works and passing along of the benefits of yen appreciation) and in September 1986 (total scale of projects amounted to ¥3.6 trillion, equivalent to 1.1% of GNP)

On April 24 this year, the Liberal Democratic Party decided upon the Outline of Comprehensive Economic Measures which include:



- o Domestic demand expansion measures accompanied by fiscal measures amounting more than ¥5 trillion.
- o Unprecedented front-end loading of public works implementation
- o Income tax reductions
- o Promotion of government procurement of foreign manufactures
- o Accelerated implementation of the third Medium-Term Target for ODA
- o A Financial Recycling Promotion Scheme for developing countries

(2) The official discount rate was reduced five times from 5.0% in January 1986 to 2.5% in January 1987, the lowest rate in history.

(3) As a result, Japan's real GNP growth rate in 1986 was 2.5% in which the growth of domestic demand (3.9%) compensated for the drop in net export (-1.4%). The Government economic outlook shows that the economic trend of domestic demand-led economic growth will continue also in 1987: 3.5% real GNP growth with 4.0% contribution of domestic demand and -0.5% net export.

(4) Improvement in Housing and Social Infrastructure

Five-year plans have been formulated and steadily implemented in such areas as housing, sewers systems, and



urban parks. In the housing field, for example, the Government has taken such measures as improving the tax treatment of housing acquisition and the relaxing the restrictions on construction and land use.

(5) Three public corporations have been denationalized and other regulations have been eased.

The former public corporations are: NTT, Japan Tobacco Inc. (both founded as joint stock companies on April 1, 1985), and the group of six Japan Railways companies and the Japan Freight Railway Company (privatized on April 1, 1987).

(6) Promoting new projects by mobilizing private sector vitality

The Tokyo Bay Bridge and Tunnel Project

The Akashi Straits Bridge

The Kansai International Airport

3. Tax reform proposal

The first comprehensive tax reform proposal since the Shaup Recommendation of 1949.

4. Reduction of domestic coal supply

Based on the report submitted by the Coal Mining Council, the Government is now taking concrete steps to reduce domestic coal supply from 18 million tons (the present level) to 10 million tons in FY 1991.



5. Agricultural policy reform

(1) Based on the report submitted by the Agricultural Policy Council entitled "Basic Direction of Agricultural Policies towards the 21st Century", the Government is now formulating new agricultural policies by adopting price policies more based upon the principles of market mechanism, and expanding the size of a farm as a production unit.

(2) Rice is the staple of the Japanese diet and a key product in Japanese agriculture. Nevertheless measures are being taken to reduce the area planted with rice; in fiscal 1987, stronger measures will be taken to reduce rice paddy hectarage by 770,000 ha, a figure corresponding to 27.1% of total paddy area. (The fiscal 1986 figure was 600,000 ha.)

6. Improving market access

The majority of points addressed in the three-year Action Program for Improved Market Access, adopted July 30, 1985, have now been implemented, some in advance of their implementation schedule.

(1) Customs tariffs affecting 1,853 items have been lowered or abolished; the average tariff rate has been reduced from 5.0% to 3.9%).

(2) 74 out of 91 changes in standards and certifications and import procedures scheduled to be implemented over three years between July 1985 and July 1988 have already been carried out.



7. Expanding direct investment

Direct overseas investment is undergoing rapid expansion.

Direct overseas investment trends

	Fiscal 1985	April 1986- February 1987
Value (billion dollars)	12.2	19.5
Percent growth with respect to same period of previous year	20.3%	84.6%

Note: Based on direct overseas investments reported to the Ministry of Finance.

8. Reduction of working hours

Employees of banks and other financial institutions and civil servants now have longer holidays. In addition, an amendment to the Labor Standards Law was put before the Diet on March 9, 1987, that sets the 40-hour week as an official target and seeks to shorten legal working hours in stages.

9. Liberalization of financial and capital markets

(1) The Tokyo Offshore Market was created on December 1, 1986.

(2) To promote financial deregulation, the minimum denomination of large denomination time deposit and MMC (Money Market Certificate) has been lowered and the ceiling on each bank's issue of CD (Certificate of Deposits) and MMC has been increased.



(3) 9 foreign banks are now in the trust banking activities and 36 foreign securities companies are now operating in Japan.

10. Official development aid (ODA) and recycling of funds to the developing countries

(1) ODA has been steadily increased in line with the existing mid-term ODA target of doubling before 1992 the level reached in 1985. In the fiscal 1987 budget, ¥658 billion were allocated to ODA in the ordinary account, an increase of 5.8% over the previous fiscal year's figure (US\$4.3 billion or a 9.4% increase over the previous fiscal year in dollar terms).

(2) Japan lent the IMF 3 billion SDRs through a loan contract signed December 24, 1986.

A special World Bank fund has been established and additional public and private funds totaling ¥330 billion over three years beginning in fiscal 1987 will be recycled to the developing countries (Basic Agreement on Establishment of a Special World Bank Fund, December 26, 1986).

11. The Report of the Economic Council's Special Committee on Economic Restructuring

This report, published on April 23, goes beyond Maekawa report in presenting future policy guidelines and has made concrete proposals for the policies which require concentrated work in the coming few years. The Government and the Liberal Democratic Party will study the proposals in the report.



AgricultureANNEX D

19. The joint report of the Trade and Agriculture Committees [C/MIN(87)4 Final] was approved. This important work clearly highlights the serious imbalances that prevail in the markets for the main agricultural products. Boosted by policies which have prevented an adequate transmission of market signals to farmers, supply substantially exceeds effective demand. The cost of agricultural policies is considerable, for government budgets, for consumers and for the economy as a whole. Moreover, excessive support policies entail an increasing distortion of competition on world markets; run counter to the principle of comparative advantage which is at the root of international trade; and severely damage the situation of many developing countries. This steady deterioration, compounded by technological change and other factors such as slow economic growth or wide exchange rate changes, creates serious difficulties in international trade, which risk going beyond the bounds of agricultural trade alone.



---

20. This deterioration must be halted. Some countries, or groups of countries, have begun to work in this direction. But, given the scope of the problems and their urgency, and given the shared responsibilities of all countries in the present situation, a concerted reform of agricultural policies will be implemented.



21. Reform will be based on the following principles:

a. The long-term objective is to allow market signals to determine, more directly and more freely, by way of progressive reduction of agricultural support, the orientation of agricultural production; this will bring about a better allocation of resources which will benefit consumers and the economy in general.



b. Agricultural policies take into consideration social and other concerns, such as food security or environment protection, which are not purely economic. The progressive correction of policies to achieve the long-term objective will thus require time; it is all the more necessary that this correction be started without delay.

c. The most pressing need is to avoid further deterioration of present market imbalances. It is necessary:

- on the demand side, to improve prospects as much as possible inside as well as outside the OECD area;
- on the supply side, to implement measures which, by reducing guaranteed prices and other types of production incentives, by imposing quantitative restrictions, or by any other means, will prevent an increase in excess supply. When support linked to production is granted to farmers, it should be set within specific limits.



---

d. When quotas are imposed or productive farming resources withdrawn by administrative decision, these steps should be taken in such a way as to minimise possible economic distortions and should be conceived and implemented in such a way as to permit better functioning of market mechanisms.

e. Rather than being provided exclusively through price guarantees or other measures linked to production or to factors of production, farm income support should increasingly be sought through direct income support designed to meet the needs of low-income farmers or those in particularly disadvantaged regions.



---

f. The adjustment of the agricultural sector will be facilitated if it is supported by comprehensive policies for the development of various activities in rural areas. Farmers and their families will thus be helped to find supplementary or alternative income.

g. In implementing the above principles Governments should have some flexibility in the choice of the means necessary for the fulfilment of their commitments.




22. The Uruguay Round is of decisive importance for agricultural reform. It will provide the framework for most of the necessary measures, especially with regard to a progressive reduction of assistance to and protection of agriculture on a multi-country and multi-commodity basis. Expeditious and comprehensive implementation of these negotiations based on the Ministerial Declaration of Punta del Este will be pursued vigorously and comprehensive negotiating proposals will be tabled by OECD Governments over the coming months.

|||



23. In order to permit a de-escalation of present tensions and thereby enhance prospects for the earliest possible progress in the Uruguay Round as a whole, OECD governments will carry out expeditiously their standstill and rollback commitments and, more generally, refrain from actions which would worsen the negotiating climate. They will, inter alia, avoid actions which would result in stimulating production in surplus agricultural commodities, in isolating the domestic market further from international markets, in pursuing aggressive trade practices, or in disruptive disposal of surplus stocks.





---

24. Agricultural reform is not solely in the interests of member countries. Developing countries which are agricultural exporters will benefit from a recovery on world markets. Developing countries which are importers of agricultural produce will be encouraged to base their economic development on more solid ground, by strengthening their own farm sector.



25. Agricultural reform poses vast and difficult problems for Member countries. Strengthened international co-operation is needed to overcome these problems. The OECD will continue to contribute to their solution by deepening further its work, by improving the analytical tools it has begun to develop and which will prove particularly valuable in many respects; by monitoring the implementation of the various actions and principles listed above. The Secretary-General is asked to submit a progress report to the Council at Ministerial level in 1988.



-7-

Proposed U.S. Thematic Paper on Agriculture  
for the Venice Summit

2.6 Concerning agriculture, Summit countries acknowledge that the structural imbalance between supply and demand is reflected in depressed world market prices and rising tensions among producing and exporting countries. They found that the primary cause of this situation is farm support policies tied to production. These policies overcommit resources to agriculture, shelter producers from market realities and prevent the necessary structural adjustments to stagnating demand and rapidly-increasing productivity. They have led to large inefficiencies, over production, high consumer prices and record government expenditures. The costs of these policies are estimated at over \$140 billion annually to the economies of the industrialized countries, and have become unsustainable and untenable. These policies also have inhibited the expansion of trade by developing countries and, consequently their economic growth and their ability to service their external obligations.

2.7 Summit countries should recognize that the agricultural support and trade policies of each country have contributed fundamentally to the present difficulties in agricultural markets and their collective responsibility for developing equitable solutions. They should agree that a durable improvement of the situation in international agricultural markets requires concerted adjustments of domestic agricultural policies worldwide to reduce incentives to production. Adjustments should aim at exposing increasingly producers more directly to market signals, with the international objective being the achievement of a market-oriented trading environment. These adjustments should consist primarily of a gradual, multilateral reduction in all forms of direct and indirect support, including import barriers, within a fixed timeframe. Other means, such as production control by quotas or set-aside programs, may serve as interim measures for controlling surpluses. Each country or group of countries should be able to retain flexibility with regard to the measures to be adopted.

2.10 Summit countries should appreciate the work on agriculture carried out by the OECD in the framework of the 1982 Ministerial Mandate. They believe it should be considered as an important basis for the Uruguay Round negotiations.



2.11 Summit countries should urge the GATT to update and further develop the OECD work as necessary and to expand it to cover other countries. Summit countries should underscore their commitment to work in concert to achieve the necessary adjustments of agricultural policies through comprehensive negotiations in the Uruguay Round of trade negotiations. They should urge Ministers responsible for the Uruguay Round to develop expeditiously the elements of a comprehensive approach to achieve the objectives set forth above. They agree to review at the 1988 Summit the progress achieved in developing that approach and to consider what further action should best be taken.

In the spirit of the Uruguay declaration and underlining the importance of the fact that some countries have already begun to implement adjustments to their agricultural policies, Summit countries should agree that credit should be given to recent and future unilateral adjustment efforts which are consistent with the objectives set forth above.

2.12 Recognizing the crisis situation marked by market imbalances and tension between countries, there is a need to achieve early agreement on the approach to be taken in adjusting domestic policies. Agreement on the approach will enable countries to identify additional steps that could be taken to reduce the market imbalances and international tensions.



PROPOSALS IN FAVOUR  
OF THE POOREST COUNTRIES

---oOo---

I - PROPOSALS IN CONNECTION WITH DEBT STRATEGY

The principles of the international debt strategy, based on cooperation and on a case by case approach should also be upheld as regards the poorest countries. In particular, the link between debt restructuring, or new financing on the one hand, and economic reforms of debtor countries, in the framework of IMF arrangements on the other hand, should be maintained.

Nevertheless, the current practice could be improved by three new provisions in favour of the poorest countries.

1/ Proposal applicable to the Paris Club : lengthening of the repayment period up to 15 or 20 years, including a proportional lengthening of the grace period, instead of a maximum of 10 years currently applied.

This should be envisaged only on a case by case approach and limited to those, among the poorest and most indebted countries, confronted with debt servicing exceeding their financial possibilities, which would have given clear indications of their will to reform their economies. Other debtor countries would remain in the classical framework (10 years maximum).

2/ Setting up of a special facility for development and debt reduction

The aim would be to refinance at highly concessional terms a significant part of the payments due under previous consolidation agreements, thereby leading to an actual reduction of the debt outstanding.

All IDA financed countries with protracted and serious balance of payments difficulties would be eligible to this facility, if they implement an IMF program (in the framework of a stand-by arrangement) and are committed to a continued and close relationship with this institution and with the World Bank.

Such an exceptional facility would have the advantage not to jeopardize the usual mechanisms of the Paris Club ; and above all, it would be tantamount to a partial write-off of debt, without entailing the substantial disadvantages pertaining to a real write-off.



The resources could be provided by voluntary bilateral contributions from creditor countries and made completed by contributions of multilateral institutions, including the World Bank, through a modest part of its benefits.

### 3/ Softening the terms of the compensatory financing facility in favour of the poorest countries

The CFF has proved to be an effective response to the problems created by the fluctuations of raw material prices. Its main features, with regard to eligibility, conditionality, and simplicity, should not be altered. However, a specific difficulty has arisen as regards the poorest countries, which cannot afford to pay the charges pertaining to the CFF, sometimes even more expensive than market conditions.

In order to restore the availability of the CFF for the poorest countries, it would be necessary to soften its financial terms for them, when they are committed to a medium-term program approved by the IMF within the framework of a SAF.

To achieve such a result, one of the simplest means would be, for the Fund, to gather concessional resources by adequate borrowing from voluntary member-States.

France would be prepared to take a share of this effort.

The Fund could be asked to submit to the Board a report along these lines, in view of a debate at the next interim committee.

## II - PROPOSALS IN ORDER TO STABILIZE COMMODITY PRICES

Primary commodity prices reached their lowest level in 1986 since the second World War. Many developing countries, in particular the poorest ones, have seriously suffered from such a drop in their export earnings.

The international community should take new initiatives to reverse a situation threatening the economic outlook of developing countries as well as their payment capacity towards their creditors.

Two means should be regarded :

### 1/ To secure a better running of commodity markets

International cooperation should endeavour to take into account the long term outlook of demand and supply. To this end, the setting-up of working groups on specific commodities would permit more transparency.

A case by case approach should also be sought in concluding commodity agreements which include price intervention measures.

The three agreements on cocoa, coffee and natural rubber, which contain sound economic provisions, can be regarded as a good basis of negotiations for other further commodity agreements.



2/ To strenghten aid mechanisms

As regards monoproducer countries (or nearly monoproducer countries), their specific situation should be better taken into account by the structural programs of both the IMF and the World Bank.

The World Bank, in particular, should devote a higher share of its ressources to diversify and streamline the output of those countries. To this aim, the World Bank should work in close cooperation with the regional development banks.

As far as the agricultural sector is concerned, a specific bilateral effort could be made in order to encourage rural development.



UK list  
1 May 87

ELEMENTS FOR A SUMMIT SEVEN STATEMENT ON TERRORISM, JUNE 1987

We, the Heads of State or Government of seven major democracies and the representatives of the European Community assembled here in Venice

- Recognise both the right of our citizens to enjoy and the obligations of our Governments to ensure protection from terrorism;
- Reiterate our belief that terrorism whatever its motives has no justification.
- In view of developments since we last met in Tokyo in May 1986 renew our determination to consolidate and extend international cooperation to deal with terrorism both amongst Summit Seven partners and with all other like minded countries concerned to eradicate the bane of terrorism.
- Affirm our commitment to the principle of making no substantive concessions under duress to terrorists or their sponsors.
- Remain determined to take all possible measures to counter the sponsorship of terrorism by states. We are prepared to examine the case for additional specific measures against such countries in the event of their involvement being proven
- Commit ourselves to maintain and support the rule of law in bringing terrorists to justice. In particular we reaffirm the principle of trying or extraditing those involved in these criminal acts.





*ES*

10 DOWNING STREET  
LONDON SW1A 2AA

CH/EXCHEQUER	
REC.	01 MAY 1987 ✓/s
ACTION	CST EST SIR P MIDDLETON
COPIES TO	SIR G LITTLE
	MR LAVELLE
	MR CASSELL
	MR MONICK
	MR MOUNTFIELD
	MRS LOMAX MR A EDWARDS
	MR BURTON
	MR H P EVANS

30 April 1987

MR JETT  
MR P DAVIS  
MR BONNET

MR S. MATTHEWS

From the Private Secretary

*See Tim,*

PRIME MINISTER'S MEETING WITH THE JAPANESE  
MINISTER FOR TRADE AND INDUSTRY

The Prime Minister held a brief meeting in her room at the House of Commons this afternoon with the Japanese Minister of International Trade and Industry. Mr. Tamura was accompanied by the Japanese Ambassador and another official. The Minister for Trade was also present.

Mr. Tamura said that he brought Mr. Nakasone's warm regards to the Prime Minister. He was visiting the United Kingdom on Mr. Nakasone's instructions to explain Japan's economic policies. He wanted to assure her that Japan was implementing the Maekawa Report and restructuring Japanese industry, with the aim of bringing Japan's imports and exports into a better balance. The process was painful and added to unemployment in Japan, but nonetheless the Japanese Government were seeing it through with determination. In the short term they were proposing to implement a domestic expansion programme amounting to some 5 trillion yen, details of which would be sent to the Prime Minister by Mr. Nakasone. The Government was also taking action to encourage imports. They had been in touch with some 300 major corporations and asked them to estimate their import growth for 1987. The initial response had averaged 8 per cent but, under pressure from the Government, had been revised to 21 per cent. The recent Quadripartite Trade Ministers meeting had agreed that balance should be achieved not by restricting exports but by expanding trade. Japan's trade with the United States and the United States' trade with the European Community were roughly similar in total. The Japanese Government wished to bring Japan/European Community trade up to the same level. He wanted to assure the Prime Minister that the Japanese Government were sincere in their desire to deal with the problem of their external surpluses. They wanted to gain the trust and confidence of other members of the international community and allay protectionist pressures.

The Prime Minister said that she had just received a letter from Mr. Nakasone explaining the domestic expansion programme for which she was grateful. The United Kingdom not only believed in free trade but practised it. Our markets were open and we had a very high level of manufactured imports. Our financial markets were also open and we probably had more foreign banks than in other countries. We wanted



other countries to be as open as we were. Opinion in Britain was adamant that we could not go on being open while others maintained barriers of one kind or another against us.

The Prime Minister continued that there were a number of specific points which she wished to mention briefly:

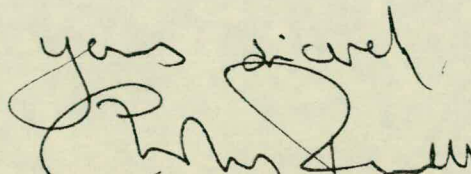
- the Cable and Wireless case was extremely important. Cable and Wireless had a tremendous reputation internationally. We were very grateful to those in Japan who recognised this and were supporting Cable and Wireless' efforts to have a fair share in telecommunications projects.
- we were anxious to keep our financial markets in London open. We asked very little in return but must insist that what we did ask was granted.
- as regards trade in goods, the fact was that there were still barriers against us in the Japanese market. We had resorted to the GATT on whisky and might have to do likewise on other products unless satisfactory arrangements could be made. But our objective was to settle these and other problems amicably. We did not want to set off down the road of protectionism which would only reduce the volume of world trade.

The Prime Minister said that she had mentioned these and similar issues at every Economic Summit which she had attended and had always received soothing assurances. But the situation never changed. Now it could not go on like this any more. She was aware of the significance of the increase in the value of the yen, even though the effect on Japan's external surplus was much less than expected.

The Prime Minister said that she wished to underline one particular point and that was how very well Japanese companies which invested in Britain performed. They were outstandingly successful and people liked working for them. We should like to see more Japanese companies here.

The Prime Minister concluded that she greatly appreciated Mr. Tamura's visit and wanted to express her enormous admiration for Mr. Nakasone personally. She looked forward to continuing to work with him. But she must once more underline that the problem of the trade imbalance really had got to be sorted out this time in the spirit of free and fair trade on both sides.

I am copying this letter to Alex Allan (H.M. Treasury), Robert Culshaw (Foreign and Commonwealth Office) and Trevor Woolley (Cabinet Office).

*yes direct*  
  
CHARLES POWELL

Timothy Walker, Esq.,  
Department of Trade and Industry.



~~blf 7/5 AT~~

Minister (Economic)

British Embassy

Washington DC 20008

RP



CHANCELLOR	
RE	01 MAY 1987
TO	
FROM	
SUBJECT	
CLASSIFICATION	
DATE	
TIME	
BY	
FOR	
REMARKS	

Sir Geoffrey Littler  
HM Treasury  
London, England

For Spk. bilateral  
PM  
TSE fix me a  
Baker Inaugural  
for OED (Paris).  
April 30 1987  
M.  
Tony X please

Dear Geoffrey

When I was in New York last Friday, I called on Henry Kauffman. He was fairly gloomy about the international conjuncture, and in particular about the willingness--or rather, unwillingness--of the three main players to deal effectively with their current imbalances. He wondered whether the Prime Minister, with her authority and prestige and particularly her excellent relations with President Reagan and Chancellor Kohl, might take the initiative at the Venice Summit and try to secure agreement for a firmer and more far-reaching action program on the part of the three countries than we have had so far. What he had in mind specifically was a faster reduction in the US budget deficit than presently seems likely and more expansionary fiscal and monetary policies in Germany and Japan.

I share Kauffman's general view--the more so in the light of the latest turbulence in the foreign exchange market, the marked hardening of US interest rates and the not unrelated growing protectionist sentiment here exemplified by the passage in the House yesterday of the infamous Gephardt amendment--that the world economy is heading for trouble unless the three countries can get their act together. An improved balance of domestic demand in the three economies is of course not the only thing that is required. Opening up the Japanese economy, a halt to and hopefully reversal of current protectionist trends (including reduction in agricultural subsidies) and structural or supply-side improvements are also required. Maybe some further dollar depreciation will be too. But I still believe that faster action on demand management is crucial. And here I include reduced absorption in the US economy, and not just the increased domestic demand in Japan and Germany which many politicians here seem to believe is all that is required. Indeed, the higher elasticity of demand with respect to imports in the US at least compared with Japan suggests that a larger contribution has to come from US demand management than from demand management elsewhere. The Chancellor said in his Interim Committee speech that we must be impatient for action but patient for results. My worry is that the markets, and less justifiably the American protectionists, are fast losing their patience.



PS / Ch ✓  
✓  
M. Havelle

12/2

Mr. H. Evans  
Mr. S. Matthews Mr. Walton

**VENICE SUMMIT PREPARATORY TALKS HELD IN SECRECY** NRNE

ROME, APRIL 30 - A MEETING TO PREPARE FOR THE COMING VENICE SUMMIT OF THE GROUP OF SEVEN INDUSTRIALISED NATIONS WAS DUE TO BEGIN IN SARDINIA TODAY BUT OFFICIALS SAID THE SESSION WOULD BE HELD IN TOTAL SECRECY.

AN ITALIAN FOREIGN MINISTRY SPOKESMAN SAID, "IT IS A RIGID RULE THAT NO INFORMATION IS RELEASED ... WE HAVE ALWAYS APPLIED THIS RULE."

HE SAID ABSOLUTELY NO DETAILS WOULD BE GIVEN ABOUT THE MEETING, NOT EVEN OF THE START AND END OF THE MEETING.

30-APR-1234 MON902 MONR

CONTINUED ON - NRNF

P

MONITOR-SEE INFO 0946

**VENICE SUMMIT =2 ROME** NRNF

SOURCES CLOSE TO THE FOREIGN MINISTRY SAID THIS WEEK THAT G-7 OFFICIALS, INCLUDING REPRESENTATIVES OF HEADS OF STATE, WOULD MEET IN THE EXCLUSIVE SARDINIAN RESORT OF PORTO CERVO FROM TODAY UNTIL MAY 2 TO DISCUSS THE AGENDA FOR THE JUNE SUMMIT.

THE MINISTRY HAS REFUSED TO COMMENT ON STATEMENTS BY JAPANESE OFFICIALS THIS WEEK THAT THE MEETING WOULD PROVIDE SENIOR GOVERNMENT OFFICIALS FROM G-7 WITH A CHANCE TO DISCUSS THE DOLLAR'S RECENT SHARP FALL.

THE FOREIGN MINISTRY SPOKESMAN SAID THE PORTO CERVO GATHERING WAS ONE OF A SERIES OF ROUTINE MEETINGS TO PREPARE FOR THE SUMMIT WHICH WILL BE HELD FROM JUNE 8 TO 10.

30-APR-1236 MON904 MONR

CONTINUED ON - NRNG

CONTINUED FROM - NRNE  
P

MONITOR-SEE INFO 0946

**VENICE SUMMIT =3 ROME** NRNG

G-7 REPRESENTATIVES PREPARING THE SUMMIT ARE LAST KNOWN TO HAVE MET IN FEBRUARY AT A VILLA ON THE OUTSKIRTS OF FLORENCE. NO OFFICIAL STATEMENT ON THE TALKS WAS RELEASED, AND DELEGATES DENIED REPORTS THAT CURRENCIES WERE AMONG TOPICS DISCUSSED.

AT A MEETING IN WASHINGTON EARLIER THIS MONTH, G-7 FINANCE MINISTERS REAFFIRMED A COMMITMENT TO COOPERATE CLOSELY TO STABILISE CURRENCIES.

30-APR-1237 MON905 MONR  
CONTINUED FROM - NRNF

REUTER

P

MONITOR-SEE INFO 0946